A Case Study on The Failed IPO of Xi'an Xintong Pharmaceutical Research Co., Ltd. on The SSE STAR Market

Jiayi Cheng *

School of Accountancy, Henan University of Engineering, Zhengzhou, 451191, China

* Corresponding Author Email: 200130@yzpc.edu.cn

Abstract. In order to support the development of innovative enterprises and promote the transformation and upgrading of China's economy, the science and technology innovation board was officially opened on June 13 of 2019, and the first batch of companies were listed on July 22, with a total of 25 companies. China's securities market has entered a stage of reform and development from the approval system to the registration system. The registration system can lower the threshold for enterprises to go public, improve the speed of enterprise listing, and help enterprises quickly obtain capital and resources and expand the scale of enterprises. However, enterprises under the registration system need to pay more attention to corporate governance and information disclosure in order to bear more market risks and regulatory pressures. This paper takes Xi'an Xintong Pharmaceutical Research Co., Ltd. as the research object to explore the reasons behind the failure of its IPO on the Science and Technology Innovation Board, and summarizes the conclusions, which has certain research significance. This paper first uses the literature analysis method to conduct a detailed analysis of the literature related to the Science and Technology Innovation Board and IPO, which provides some theoretical support for the following paper. Then, the basic situation of the case company, the main business, financial data and the motivation for the IPO failure were introduced in detail. Finally, suggestions are given according to the reasons for failure and summarized.

Keywords: IPO Failure; Pharmaceutical Industry; STAR Market.

1. Introduction

With the development of economic globalization, China's economy has transformed from high-speed development to high-quality development. Due to the high listing threshold and long listing cycle, the existing capital market is difficult to meet the financing needs of most science and technology enterprises [1]. On June 13, 2019, the Science and Technology Innovation Board was officially launched. The positioning of the Science and Technology Innovation Board is reflected in three aspects: facing the world's frontier of science and technology, facing the main battlefield of the economy, and facing the major needs of the country, mainly serving scientific and technological innovation enterprises that are in line with national strategies, breaking through key core technologies, and having high market recognition, and focusing on supporting six strategic emerging industries, forming dislocation and complementarity with other sectors of A-shares. In the long run, the investment value of the STAR Market comes from the growth cycle of emerging industries and the cycle of domestic upgrading. On the one hand, there is still a bottleneck phenomenon in some key areas in China, and the domestic substitution rate of the corresponding links is not high, and independent brands have a high substitution space; On the other hand, emerging industries such as intelligent driving, AI, and the metaverse are emerging, and related technology companies on the STAR Market are expected to benefit from rapid penetration prompts. Under the superposition of dual cycles, the Science and Technology Innovation Board has high value [2].

The main questions asked by IPO companies are mostly focused on the attributes of scientific and technological innovation, sustainable profitability, standardized operation and information disclosure, among which it is not uncommon to ask about core technologies, followed by financial information and internal governance in standardized operation [3]. Therefore, it is of great reference value to discuss the reasons for the failure of the IPO of the research company to be listed.

As of April 30, 2024, all 571 companies on the STAR Market have disclosed information on their main operating results for 2023. According to the data, the total operating income of the science and technology innovation board companies for the whole year was 1,397.78 billion yuan, a year-on-year increase of 4.7%. Among them, more than sixty percent of the company achieved positive growth in operating income. In 2023, the average operating income of all listed companies on the GEM will be 2.89 billion yuan, with a year-on-year increase of 6.46% and an average net profit of 170 million yuan.

Since the establishment of the Science and Technology Innovation Board, there have been relatively few case studies on innovative sectors, and the state has vigorously supported high-tech enterprises in recent years, so it is of great significance to study the IPO failure cases of specific enterprises to improve the success rate of IPOs on the Science and Technology Innovation Board. In this paper, Xi'an Xintong Pharmaceutical Research Co., Ltd. (hereinafter referred to as Xintong Pharmaceutical) is selected as the research object, which is highly recognized and representative in its field with new drug research, development and technology transfer. It not only provides reference ideas for other scholars, but also provides lessons for other companies planning to go public, improves the possibility of successful IPOs, and also improves the quality of IPOs in China's capital market [4]. In this paper, literature analysis and case analysis are mainly used. By reviewing a large number of relevant literatures at home and abroad, and analyzing it, it lays a good theoretical foundation for case analysis. This paper uses Xintong Pharmaceutical as a case study to analyze the reasons for the failure of the company's IPO on the Science and Technology Innovation Board, and puts forward suggestions, and finally draws conclusions.

2. Case Analysis

Xintong Pharmaceutical is a high-tech enterprise focusing on drug research and development for more than 20 years, focusing on chronic hepatitis B, liver cancer, epilepsy and other major diseases, and is committed to the research and development of innovative drugs with independent intellectual property rights, safe and effective, and guided by clinical value. As of May 8, 2024, Xintong Pharmaceutical has a total of 50 patents worldwide, all of which are invention patents. The company's two Class 1 new drugs, paladefovir mesylate tablets and MB07133 for injection, have been continuously included in the "12th Five-Year Plan" and "13th Five-Year Plan" national major new drug development plans. The company focuses on the R&D and commercialization of innovative drugs, and at the same time introduces and develops an epilepsy drug with unmet clinical needs in China. Historically, the company's commissioned R&D has mainly been for generic drug R&D and will no longer undertake new R&D business of Chinese medicine and generic drugs after the completion of the signed TCM R&D and entrusted R&D contracts.

2.1. Financial Ratios

Table 1. Financial ratios of Xintong Pharmaceutical

Ratio	2022	2021	2020
Net profit margin	-78.78%	-75.74%	-82.35%
ROA	-25.91%	-22.76%	-29.18%
ROE	-38.47%	-31.39%	-34.78%
Core profit realization rate	0.53	0.95	0.83
Current ratio	3.55	5.22	6.04
Quick ratio	3.15	4.57	5.68

According to Table 1, the profit margin, ROA, and ROE are all negative, which means that the profitability of Xintong Pharmaceutical is weak, such as poor operation and unfavorable market environment, and cannot create positive returns for shareholders. Businesses need to re-evaluate their market positioning and product strategies to improve profitability. The core profit cash rate is generally lower than the normal range, indicating that the quality of the company's profit acquisition is not high, and the company may not have sufficient operating cash, and its profitability is relatively poor. The current ratio is higher than the normal value, indicating that the current assets are occupied, which will affect the efficiency and profitability of operating capital turnover. The high quick ratio indicates that Xintong Pharmaceutical's short-term solvency is relatively strong.

Table 2. Financial ratios of Xintong Pharmaceutical

Ratio	2022	2021	2020
Net profit margin	-78.78%	-75.74%	-82.35%
ROA	-25.91%	-22.76%	-29.18%
ROE	-38.47%	-31.39%	-34.78%
Core profit realization rate	0.53	0.95	0.83
Current ratio	3.55	5.22	6.04
Quick ratio	3.15	4.57	5.68

2.2. The Process and Outcome of Xintong Pharmaceutical's STAR Market IPO

In 2019, Xintong Pharmaceutical submitted a prospectus to the China Securities Regulatory Commission for the first time, proposing to issue no more than 45.56 million shares to the public, and to raise a total of 1.32 million yuan.

Table 3. Xintong Pharmaceutical's IPO information

Items	Content
Type of shares issued	RMB ordinary shares (A shares)
Number of shares issued	The number of shares to be issued is not more than 45.56 million shares (excluding the number of shares to be issued under the over-allotment option), representing 25 per cent of the total share capital after the issue. The shares to be issued are all new shares and do not involve any public offering of shares by the original shareholders. The Company and the lead underwriter may use the over-allotment option, and the number of shares to be issued under the over-allotment option shall not exceed 15 per cent of the number of shares to be issued in the initial public offering.
Stock Exchanges and Sectors to be Listed	Shanghai Stock Exchange Science and Technology Board
Sponsor (Lead Underwriter)	CITIC Securities Co.
The issuer's counsel	Guohao Law Firm (Shenzhen)
Auditing organization	Yung Shing Certified Public Accountants (Special General Partnership)

Data source: Xintong Pharmaceutical Prospectus

According to the information in Table 2, the issuer meets and applies the listing criteria (5) stipulated in Article 2.1.2 of the Rules Governing the Listing of Stocks on the Science and Technology Innovation Board of the Shanghai Stock Exchange: "The expected market capitalization is not less than RMB 4 billion, the main business or product is subject to the approval of the relevant state departments, the market space is large, and the phased results have been achieved." Enterprises in the pharmaceutical industry need to have at least one core product approved for phase II clinical trials, and other companies that meet the positioning of the Science and Technology Innovation Board must have obvious technical advantages and meet the corresponding conditions.”

The listing criteria selected by Xintong Pharmaceutical for this IPO are the fifth set of standards for the Science and Technology Innovation Board, and there are two main reasons for this: first, Xintong Pharmaceutical is a pharmaceutical innovation enterprise, which belongs to the field of biomedicine, meets the standards of high-tech industries and strategic emerging industries, and meets the industry requirements of the Science and Technology Innovation Board; Second, the operating income of Xintong Drug does not meet the requirements of the fourth conventional indicator of scientific and technological innovation attributes, while the fifth set of listing standards does not require operating income.

On December 6, 2021, the IPO of Xintong Pharmaceutical was accepted, the first round of inquiries was held on January 4, 2022, the first meeting on December 12, 2022, recorded a "suspended review", and the second meeting on January 12, 2023, was "approved", followed by the submission of registration on April 13, 2023, and the registration approval on April 25, 2023. The approval is valid for 12 months from the date of consent to registration, and the approval expires on April 25, 2024. On January 4, 2022, the Shanghai Stock Exchange launched the first round of inquiries on Xintong Pharmaceutical, and raised 20 questions, including the evolution of the main business, the source of the core pipeline, and the advancement of the core technology. On May 28 of the same year, the second round of inquiries was launched, and 9 questions were raised, mainly related to the pipeline under research, continuous R&D capabilities, revenue recognition, R&D expenses, etc.

3. Reasons for Xintong Pharmaceutical's IPO Failure

After an in-depth analysis of Xintong Pharmaceutical's IPO journey, combined with disclosed information from peer companies and other sources, four main reasons for the failure of Xintong Pharmaceutical's IPO have been summarized: poor operation capability, tightening of the fifth listing standards on the STAR Market, doubts about its own research and development capabilities, and insufficient internal control capacity.

3.1. Poor Operation Capability

Profitability refers to the ability of an enterprise to earn profits in economic activities and whether it can increase its capital, which represents the operating results of the enterprise and also reflects the management ability of the management. Whether it has strong profitability and whether it can achieve sustained profitability often affects investors' judgment.

Table 4. Xintong Pharmaceutical's cash flows

Cash flows	2022	2021	2020
Net cash flows from operating activities	-31,261,892.24	-65,470,970.66	-80,636,706.25
Net cash flows from investing activities	33,738,672.41	44,073,799.07	-45,584,241.30
Net cash flows from financing activities	-3,620,172.26	-10,769,284.86	150,630,825.03
Net increase in cash and cash equivalents	-1,032,257.34	-32,198,024.05	24,413,543.65

As shown in Table 3, Xintong Pharmaceutical's net cash flow from 2020 to 2022 continued to be sluggish, its net assets failed to effectively create appropriate profits, and the company's accumulated losses were huge and te losses will continue to expand.

3.2. Tightening of the Fifth Listing Standards

In June 2022, the Shanghai Stock Exchange issued the Guidelines for the Application of the Review Rules for the Issuance and Listing of the Shanghai Stock Exchange's Science and Technology Innovation Board No. 7 - The Fifth Set of Listing Standards for Medical Device Enterprises, which sets higher standards for enterprises applying for listing on the Science and Technology Innovation Board from four aspects: market space, phased achievements, core products and technological advantages, and focuses on the advancement, continuous innovation ability and sustainable profitability of the core technologies reflected in the intellectual property rights of enterprises [5].

On March 15 this year, the China Securities Regulatory Commission (CSRC) clearly stated in the "Opinions on Strictly Controlling the Access to Issuance and Listing and Improving the Quality of Listed Companies from the Source (Trial)": "Further strictly review unprofitable enterprises, require unprofitable enterprises to fully demonstrate their ability to continue operations, disclose the expected profitability, and listen to the opinions of relevant departments of the industry on the attributes of science and technology innovation one by one." So far, 16 companies that have adopted the "fifth set of standards" have terminated their IPOs on the STAR Market. Since the second half of 2023, the IPO process of 5 companies has been terminated.

3.3. Suspicious R&D Capability

The establishment of the Science and Technology Innovation Board is mainly to improve China's scientific and technological strength, so the enterprises facing it are also scientific and technological innovation enterprises and judging the scientific and technological innovation attributes of enterprises is the focus of the Shanghai Stock Exchange in the review process [6].

According to the prospectus disclosed by Xintong Pharmaceutical on April 13, 2023, it has 8 main products, of which 1 product has been approved for marketing, 1 product has completed the core clinical stage of phase III clinical trial and has completed Pre-NDA meeting communication, 1 product is in phase II clinical trial, 1 product is in phase IC/IIb clinical trial, and 1 product has started phase I clinical trial. The only marketed product of Xintong Pharmaceutical is CE-fosphenytoin sodium injection, which is used for the treatment of generalized tonic-clonic status epilepticus, the prevention and treatment of seizures caused by neurosurgery perioperative and intraoperative procedures. This product was introduced by Sedor in June 2017. According to the prospectus, only XTYW001 of the other 7 products under development of Xintong Pharmaceutical have been independently developed by Xintong Pharmaceutical, and the remaining ones are all authorized to be introduced. For example, the company's Radford Pavir mesylate tablets and MB07133 for injection, which have entered the clinical trial stage, are so on [7].

3.4. Insufficient Internal Control Capacity

Internal control plays an important role in solving IPO problems, making problem handling more prevention-oriented, improving the guiding role of enterprises, timely disclosing the problems existing in enterprises, and ensuring the effectiveness of enterprise development control. The objectives of internal control are to ensure the effectiveness and efficiency of the company's business activities, protect the safety and integrity of assets, and ensure the accuracy of financial reporting. The effective implementation of internal controls can reduce the operational risks of the enterprise, improve the efficiency of resource utilization, affect the economic performance of the enterprise, prevent errors, fraud, losses and non-compliance, and promote the achievement of the strategic objectives of the enterprise [8].

During the reporting period, Xintong Pharmaceutical had a total of seven pending litigation cases, most of which were defendants, and the types of litigation involved intellectual property disputes, scientific and technological achievement disputes, etc. Deficiencies in internal control will lead to IPO failure, which is not conducive to the long-term development of the enterprise. Internal control is related to the listing process of the enterprise, and it is necessary to adopt a standardized form of control to achieve a perfect form of control and ensure that the enterprise can conduct verification on key points [8].

4. Suggestions

4.1. Enhancing Operation Capability

The first is the problem of over-concentration of customers. If the operating income of the enterprise depends on a few or even a few large customers, it is uncertain and unstable, which is not conducive to the stable development of the company. Therefore, Xintong Pharmaceutical should not only maintain a stable relationship with existing customers, but also focus on expanding its business to enterprises and scientific research institutions and seek long-term cooperation with enterprises and scientific research institutions [9]. The second is the problem of failure to make a profit. Although the STAR Market allows unprofitable companies to go public, the ability of loss-making companies to continue to operate is unreliable. Xintong Drug needs to increase profit growth points through technological innovation and find profit sources by opening up the market and integrating into the industrial chain [9].

4.2. Strengthening Technological Innovation Attributes

The salient characteristics and core competitiveness of companies listed on the STAR Market are mainly reflected in whether they meet the attributes of science and technology. To a certain extent, the innovation ability of science and technology companies reveals their ability to develop in the future, and only companies with strong scientific research capabilities with both independence and innovation advantages can occupy a favorable position in market competition [3]. Xintong Pharmaceutical has a series of problems such as dependence on third parties for core technology and inability to effectively transform R&D results, so it is necessary to further improve the R&D and innovation capabilities of enterprises and enhance their core competitiveness. The company needs to develop and explore new technologies, and also optimize and upgrade existing technologies. The new technology will also bring new customers and new resources to the company, forming a new profit growth point for the company [9].

4.3. Improvement of Internal Control

According to the requirements of the China Securities Regulatory Commission on the management of the Science and Technology Innovation Board, enterprises on the Science and Technology Innovation Board must improve their internal control systems to ensure that they operate legally and compliantly [10]. Standardize the integrated management system of internal control, mainly focusing on the strengthening of system construction, awareness training and comprehensive quality training of employees. Xintong Pharmaceutical should learn from the existing experience according to the specific situation of the enterprise and establish a system of strengthening safety and environmental protection suitable for the enterprise in accordance with the existing laws, strengthen supervision in this regard, enhance the safety awareness of employees, and strengthen internal management [11].

5. Conclusion

This paper conducts an in-depth study on the case of the failed IPO of Xintong Pharmaceutical's Science and Technology Innovation Board. Firstly, the research background and significance of the IPO of the Science and Technology Innovation Board were introduced, and the case companies were briefly introduced. Then, the process and results of its IPO were sorted out; Finally, the reasons for the failure of the IPO are analyzed and suggestions are made. Through the data in the prospectus of Xintong Drug, it is found that there are major problems in its scientific and technological innovation attributes, sustained profitability, and insufficient internal control capabilities. This paper puts forward three suggestions in a targeted manner, namely: enhancing the ability to continue operations, strengthening the cultivation of scientific and technological innovation attributes, and improving the internal control ability of enterprises, which are conducive to the success rate of enterprises planning to IPO listed on the Science and Technology Innovation Board. Xintong Pharmaceutical chose to list on the fifth criterion because its profit did not meet the requirements of the fourth criterion of the Science and Technology Innovation Board. However, due to its continuous losses and insufficient independent research and development capabilities, it was ultimately unable to successfully go public. Companies planning to IPO should enhance their operational capabilities and internal control to improve the success rate of IPOs.

References

[1] Yang, S., Jiang, R., & Shen, Y. (2023). A study on the impact of the STAR Market opening on corporate financing and technological innovation efficiency. Soft Science, 37(02), 27-34.

[2] Gao, J., Xue, S., & Li, Z. (2023). The logic and improvement of the new stock pricing system under the comprehensive registration system. Finance & Accounting Monthly, 44(09), 133-140.

[3] Shang, Y. (2023). A case study of the failed IPO of Haihe Pharmaceuticals on the STAR Market, Jiangxi University of Finance and Economics.

[4] Zhang, X. (2021). Analysis of the reasons for the failure of BLWL Company's IPO on the STAR Market and countermeasures, Jiangxi University of Finance and Economics.

[5] Huang, Y. (2022). Innovation drive is strong for companies listed under the fifth set of standards on the STAR Market. China Securities Journal, A01.

[6] Huang, R. (2022). A study on the reasons and countermeasures for the rejection of IPO applications on the STAR Market, Anhui University of Technology.

[7] Ding, N. (2023). Innovation was questioned: Xintong Pharmaceutical's STAR Market IPO faces second review. Beijing Business Today, 006.

[8] Zhou, B. (2024). A study on the impact of internal control on corporate economic performance. China Collective Economy, (16), 37-40.

[9] Jiang, L., & Liu, T. (2022). A case study on the failed IPO of GeneTech on the STAR Market. Henan Science, 41(16), 117-120.

[10] Li, Y. (2023). Exploring audit risks and preventive measures for corporate IPOs on the STAR Market. Business News, (06), 104-107.

[11] Chen, G. (2023). A case study on the failed IPO of Company G on the STAR Market, Jilin International Studies University.