

An analysis of M & A business of investment banks in China

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ABSTRACT : *With the continuous improvement of China's capital market, more and more enterprises realize their own expansion by means of M & A. among them, investment banks, as participants, play an important role in M & A. Starting from the relationship between investment banks and M & A business, this paper analyzes the current situation and problems of M & A business of investment banks in China, and puts forward some suggestions to promote the development of M & A business of investment banks.*

KEYWORDS -*Investment bank, Enterprise merger and acquisition, Financing instruments, Government intervention*

I. Introduction

Investment bank plays an important role in modern market economy and financial system. In China, the main body of investment banking business is securities companies. In addition, commercial banks, insurance companies and other financial institutions are also involved. In this paper, China's investment banks refer to China's securities companies and other financial intermediaries engaged in M & A business with investment banking as the main business.

The M & A business of investment banks can be divided into two types: one is M & A planning and financial consulting business, in which investment banks only act as intermediaries to provide planning, consulting and corresponding financing services for the main body of M & A transactions; the other is property investment business, namely direct investment business. The M & A business mentioned in this paper includes the financial advisory services provided by investment banks for M & A, divestiture, defense, reorganization and separation of enterprises (hereinafter referred to as "M & A business"), excluding direct investment business.

Investment bank plays an important role in M & A. On the one hand, investment banks can reduce the transaction costs of enterprises and help enterprises avoid the risk of M & A. On the other hand, investment banks can help enterprises achieve scale effect while providing financing arrangements for enterprises. In addition, investment banks help to adjust the economic structure. Its intermediary role can make use of its flexible and innovative business, according to the operation principle of market economy, to make the right direction for enterprise merger and acquisition in line with the optimal allocation of market resources, so as to alleviate the problems of overcapacity and unscientific allocation of resources in some industries, and finally realize the optimization of economic structure.

II.M & A market and the status quo of financial advisory business of investment banks in China

According to the data of China Securities Industry Development Report 2016, benefited from the simplification of M & A audit mechanism and the optimization of supporting financing policies, in 2015, the number and scale of major asset restructuring transactions of China's listed companies reached a record high, M & A transactions were active, and helped the overdue reform.485 major asset restructuring transactions were disclosed for the first time, up 107.26% compared with 234 transactions in 2014;The scale of major asset restructuring transactions reached 1361.3 billion yuan, up 127.79% over 2014.Among them, China Securities Regulatory Commission approved 320 plus major asset restructuring, including 90 in Shanghai Stock Exchange and 230 in Shenzhen Stock Exchange.

In 2015, the investment bank's financial advisory business achieved a total revenue of 13.793 billion yuan, a year-on-year increase of 99.35%;The proportion of financial consulting business in the total revenue of the industry decreased slightly compared with 2014, about 2.4%.

However, among all the announced M & A events in 2015, 421 have completed the implementation, accounting for 28.8% of all the announced events. The above figures show that the completion efficiency of the reorganization in 2015 is relatively low. Then in 2016, the number of mergers and acquisitions failures also reached the highest level in the past years, and 20 listed companies failed to restructure in January alone.

Table1. Financial advisory bodies of mergers and acquisitions ranked by transaction amount from 2014 to 2015

| corporate name | 2015 | | 2014 | |
|-----------------------------|---|--------------------------------|---|--------------------------------|
| | M & A transaction amount (100 million yuan) | Number of consultancy projects | M & A transaction amount (100 million yuan) | Number of consultancy projects |
| Huatai United | 820.10 | 30 | 169.07 | 17 |
| GuotaiJunan | 600.33 | 16 | 373.32 | 7 |
| citic securities | 435.81 | 17 | 30.00 | 10 |
| CITIC construction | 427.61 | 18 | 100.38 | 10 |
| Haitong Securities | 405.49 | 10 | 79.42 | 8 |
| CICC securities | 335.70 | 5 | 25.45 | 3 |
| Southwest Securities | 198.67 | 18 | 174.35 | 21 |
| industrial securities | 163.78 | 12 | 16.77 | 4 |
| GF securities | 157.10 | 20 | 132.93 | 15 |
| Shen wanhongyuan securities | 117.68 | 6 | 22.60 | 2 |

Data source: according to the CSRC audit notice

III. The problems of M & A business of investment banks in China

The above situation shows that although the M & A business of investment banks in China has a broad development prospect, there are imbalances and mismatches between the scale and quantity of M & A business and the participation degree of investment banks. The number of the former has increased year by year, but the participation of the latter has not been followed up in time, and the business service mode of the former is relatively limited, and the service object is relatively single. The specific problems can be sorted out from the macro market, investment banks themselves and mergers and acquisitions enterprises.

3.1 Macro level issues

First of all, China's capital market is underdeveloped and the government intervenes too much. Compared with the developed countries, China's capital market is relatively young, in addition to the gap in scale, China's capital market system and regulations are not perfect, which makes the investment banks can not let go in the development of M & A business. The existence of lemon effect makes the information collection of investment banks incomplete, information asymmetry leads to the efficiency of M & A greatly reduced, and the effect of M & A is not satisfactory. In addition, the speculation of China's stock market is more serious, and there is a certain decoupling phenomenon between the stock price and the company value, which makes the investment banks can not complete the correct judgment of the target enterprise value through the single index of stock price. Moreover, the government intervenes too much in M & A, which makes the M & A business which should reflect the economic goal more government color, which deviates from the market economy leading and resource optimal allocation that M & A should have.

In addition, for the financing channels involved in M & A, the available financing tools are relatively limited. Among them, bank loans, corporate bonds and stock financing are mostly limited. Although the vitality of financial innovation has been greatly improved in recent years, the industry chaos caused by innovation is becoming more and more serious, which makes the financial supervision of China's capital market gradually strict and perfect. Generally speaking, in the choice of M & A financing tools, China's investment banks have less choices than foreign investment banks. In addition, the definition of investment bank in different countries is not completely consistent, and there are no corresponding laws and regulations in China's investment banking business, which makes it difficult to standardize the business of investment bank, and gives opportunities to some illegal business and illegal operation.

3.2 Problems of investment banks themselves

Strictly speaking, China's investment banks are not up to the standard of investment banks. In terms of business operation, they are still mainly engaged in the traditional business such as securities underwriting business, brokerage business and self-supporting business. The business income of merger and acquisition business is far less than the first three, and the income generating capacity and business proportion are far less than the traditional business. Therefore, M & A business is still a new business for China's investment banks.

Compared with the one-stop service of foreign investment banks, from the business consultation in the early stage of M & A to the implementation of M & A, and then to the relationship maintenance after M & A, the M & A service provided by China's investment banks is slightly insufficient. Of course, regardless of whether China's investment banks have the ability to provide this one-stop service, the excessive government intervention itself makes China's investment banks unable to go deep into the M & A activities of enterprises, which objectively hinders the development of their M & A business. Moreover, few investment banks in China are able to set up branches overseas to provide M & A services for large multinational companies. Most of their customers are domestic small and medium-sized listed companies. It can be seen that their service breadth is still confined to China, and there is still a large space for the development of overseas markets and the developers of large multinational companies.

These are mainly due to the weak comprehensive strength of China's investment banks. According to the data released by the China Securities Association, as of the end of 2017, 131 securities companies had total assets of 6.14 trillion yuan and net capital of 1.58 trillion yuan, of which 120 had achieved profitability at the end of the year, and the businesses such as securities underwriting, securities investment and asset management still accounted for a large proportion of business income. Compared with the banking industry, the capital strength of securities companies is still weak, and their influence on the domestic financial system is insufficient. Therefore, domestic investment banks can only allocate the limited capital. On the premise of meeting the development of related securities business, there are few cakes that can be allocated to the development of M & A business.

3.3 Problems of merger and acquisition enterprises

In recent years, the reform of state-owned enterprises has aroused the wave of mergers and acquisitions of Chinese enterprises by riding the great wheel of the development of the securities market. In the actual operation of M & A, the role of investment banks has not been taken seriously. There are two reasons from the aspect of M & A enterprises. First of all, the company has been regarded as a disgraceful title when it is merged. On the one hand, there is suspicion of the company's poor management in the society. On the other hand, the founding team will be labeled as making money to protect itself and transferring risks in disguised form. Secondly, most of the M & A executives think that it is more practical to form a M & A working group from within the company, without paying extra fees and relying on the power of investment banks to carry out M & A business.

In addition, many enterprises M & A strategic decisions are not accurate, the M & A objectives are not clear, and even the M & A positioning is wrong. This brings a lot of risks and difficulties to investment banks in the process of assisting enterprise mergers and acquisitions. If the situation is serious, it will lead to the failure of M & A.

IV. Suggestions on promoting the development of M & A business of investment banks in China

The positive role played by investment banks in M & A is affirmed. Therefore, in order to actively promote the development of M & A business of investment banks and maximize its positive role, this paper puts forward the following suggestions.

4.1 Reduce external barriers

First of all, in order to play the role of market economy, we should clarify the role of the government in M & A, reduce unnecessary government intervention, and return the M & A decision to the relevant enterprises themselves. The government should provide macro guidance and service support for M & A, and should not blindly intervene in the work of M & A in violation of the law of market operation by blindly pursuing their own interests. In particular, we should deal with the role of the government in state-owned enterprises; participation in M & A. For those enterprises that should be merged according to the law of market economy development but have difficulties in merger and acquisition, the government should provide relevant support, such as personnel placement, tax payment, cost sharing after merger and acquisition, so as to provide necessary guarantee for the development and subsequent improvement of merger and acquisition.

In addition, we should allow and encourage the innovation of financial instruments, so that M & A enterprises can choose more financing channels. Although convertible bonds, warrants and other instruments have been used more mature in foreign M & A business, they are still not commonly used financing instruments in China, and many financial derivatives are in vain, which can not be recognized by the regulatory authorities in actual operation. Of course, the development of the capital market needs a standardized environment, and

financial innovation can not be separated from the regulatory track. The establishment of relevant laws and regulations is urgent, and the regulatory gaps should be filled and improved in time. However, some financing tools that are mature in foreign applications, urgently needed in domestic environment, and can be followed up by regulatory capacity should be given development space, Let them timely replenish capital blood for the heart of M & A within the controllable range, and boost the smooth progress of M & A activities.

4.2 Improve the conditions of investment banks

Compared with foreign countries, China's investment banking business is still immature and has a long way to go in terms of operating years, business scale and profitability. First of all, from the perspective of the main body engaged in investment banking business, most of them are securities companies, trust companies, financial companies, etc., the number seems to be large, but the comprehensive strength is not ideal, and there is a significant gap compared with foreign investment banks specializing in the business. To become an investment bank in a real sense, it is impossible to rely on the strength of a certain financial body. We need to start with the integration of the whole industry. On the one hand, we need to carry out mergers and acquisitions among industries, concentrate high-quality resources, and improve the risk prevention and control mechanism. On the other hand, we need to actively seek opportunities for cooperation with international well-known investment banks. In cooperation, we learn more about the advanced operational experience and management methods of the other side, and carry out China Based Innovation Practice on the basis of taking the essence.

Training professionals is another way to improve the conditions of investment banks. In this intelligence intensive industry, talents are the core of competition and the driving force of development. At present, China has a relatively complete training and standard system for securities practitioners, fund practitioners and futures practitioners. It is these people, especially securities practitioners, who constitute the main operators of enterprise merger and acquisition business. Of course, their previous work experience and professional knowledge are essential for M & A business, but they can not meet the needs of cross industry and cross regional complex M & A trend. Therefore, investment banks need to shoulder the responsibility of personnel training, build a team that adapts to the development of the industry and has complete professional knowledge, strengthen foreign exchange and learning, and constantly strengthen the team's professional quality and practical ability. At the same time, the establishment of a suitable talent incentive mechanism can not only cultivate talents, but also keep talents, stimulate their inspiration and tap their potential to the maximum extent.

4.3 Merger and acquisition of enterprises

First of all, it is necessary to rectify the name of M & A. proper M & A behavior conforms to the law of market economy and is the progressive optimization and allocation of resources. Therefore, it is necessary to establish the professional manager system. On the one hand, the existence of professional manager system can avoid some business owners; prejudice against M & A business and improper M & A behavior for personal purposes. On the other hand, in the implementation of M & A policy, professional managers have more obvious professional advantages, and can make more correct judgments based on their rich experience and professional knowledge.

In addition, in the formulation of M & A plan, we should pay attention to the feasibility study of the project. In determining the target of M & A, we must conduct a comprehensive investigation and detailed analysis of the relevant enterprises. Only with complete information and scientific analysis can we fully grasp the advantages and risks of the target enterprise, make a correct judgment on the synergy effect after M & A, and make the M & A activities consistent with the long-term development goals of the enterprise.

V. Conclusion

Based on the analysis of the current situation of the M & A business of investment banks in China, this paper points out the existing problems and puts forward some suggestions: in the M & A business of investment banks, the degree of marketization needs to be improved, the role of market economy should be played, the role of government in M & A should be clarified, and unnecessary government intervention should be reduced; Investment banks should seek cooperation in the competition, learn from foreign advanced experience, and cultivate professional talents; In the setting of M & A plan, we should emphasize the combination of professionalism, scientificity and feasibility.

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