

Research on Private Equity Investment Funds and Financing of Small and Medium-sized Enterprises

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Abstract

The use of private equity investment fund financing by enterprises has become the third largest financing tool after commercial bank financing and public stock market financing. Private equity investment fund financing provides a new capital guarantee for the growth of small and Medium-sized enterprises. This paper starts from expounding the theoretical content, through the analysis of the current situation of SME financing, this paper finds that the use of private equity investment funds for financing by SMEs effectively solves the financing problems of SMEs, and private equity investment fund financing provides a platform for enterprises to grow rapidly. However, enterprises should also pay attention to the operation process and mechanism of private equity investment funds, and enterprises need to focus on their development strategies and market prospects.

Keywords

Private Equity Investment Fund; Small and Medium-sized Enterprises; Financing; Current Situation Analysis.

1. Introduction

Small and Medium-sized enterprises are also called small and micro enterprises. Small and Medium-sized enterprises refer to enterprises with relatively small personnel, assets and operation scale. Different industries have different classification standards for small and Medium-sized enterprises. The overall scale of SMEs is small, and the resources of SMEs in terms of human, financial and material are relatively limited [1], and they usually focus on a certain segment of products and markets. Compared with large enterprises, SMEs contribute more than 60% of GDP (data From the WIND database)[2], at the same time, small and Medium-sized enterprises contribute more than 50% of the tax revenue to the national economy, accounting for more than 90% of the real enterprises, and they are an important source of income for the national economy.

With the rapid development of small and Medium-sized enterprises, there are also a series of problems. Due to the small operating scale and low registered capital of small and Medium-sized enterprises, small and Medium-sized enterprises often need to turn to external funds to expand their scale and further improve their economic benefits. For SMEs, the key to "financing difficulty" lies in the lack of sufficient collateral, and the key to "expensive financing" lies in the lack of ability[3] to provide credit guarantees. Therefore, there are still some problems worthy of our in-depth discussion in the financing of SMEs, and whether they can be healthy and sustainable has become the focus of attention from the outside world. This paper analyzes the financing problems of small and Medium-sized enterprises from the perspective of the combination of private equity investment funds and the financing status of small and Medium-sized enterprises and puts forward some suggestions.

2. One Way of Financing: Private Equity Investment Funds

Private equity investment funds (PE) refer to investment funds that raise funds for specific objects in a non-public form, make equity investments in non-listed companies with great development potential, and provide corresponding value-added services. PE institutions obtain investment returns through exit methods such as listing, sale, repurchase, and liquidation. Among them, listing is the ultimate goal of private equity investment, and PE can help companies IPO[4].

Private equity investment funds generally have the following characteristics: First, non-public methods and specific objects. PE raises funds from specific institutions or individual investors in a non-public form. Private equity investment funds are a form of private equity; second, private equity investment funds have a long investment cycle and high risk. Usually the duration is 10 years. PE provides[5] financing needs for non-listed companies with better development prospects, but such companies may not be profitable at the moment, so PE institutions must make corresponding efforts and wait to obtain profits. Third, private equity investment funds have a professional investment management mechanism. PE's investment in a company does not only hold the company's equity, but also provides value-added services for the invested company to make profits. Therefore, the personnel engaged in the PE industry have sufficient reserves of professional knowledge and rich experience in corporate management. At the same time, it helps enterprises to improve their business management models. Fourth, the diversification of exit channels for private equity investment funds. The investment philosophy that PE emphasizes is "advance by retreat and buy for sale". Only when an exit channel is found, a PE institution will choose to invest in the company. The PE institution has formulated a series of exit mechanisms: listing, selling equity, restructuring, management acquisition, etc.

In China, private equity investment funds started late and have a lot of room for development. During the period from 2013 to 2014, the state has greatly clarified the supervision system of private equity funds, and private equity funds have developed rapidly. With the characteristics of low cost and few restrictions, private equity funds have met the needs of small and Medium-sized enterprises with unsmooth financing channels, and private equity funds have been favored by enterprises. Private equity funds began to explode in 2015, with the number of institutions and the size of the market growing. Since 2018, under the background of the new regulations on "financial deleveraging" issued by the state, the development of the private equity industry has adjusted somewhat, but its return on investment is still considerable.

3. Analysis of the Current Situation of Financing of Small and Medium-sized Enterprises

According to the data report of the National Bureau of Statistics, in 2020, 8,187 companies were listed on the National Equities Exchange and Quotations (NEEQ), and the listed companies raised a total of 33.9 billion yuan in stock financing throughout the year. This shows that the number of small and Medium-sized enterprises in my country is huge. Under the impact of the government's request to extend the period of business closure and shorten the business hours, the operation of small and Medium-sized enterprises has been seriously affected, and many problems and difficulties have arisen in the production and operation of small and Medium-sized enterprises. Slow payment, difficulty in recruiting and other phenomena, some enterprises are directly facing the situation of bankruptcy, in order to help enterprises to smoothly tide over the difficulties and stabilize economic development, the state has successively issued a series of measures to aid enterprises, and the government has clearly proposed to further increase the support for small and Medium-sized enterprises. financial

support. However, the government's financial assistance to small and Medium-sized enterprises requires a solid understanding of the current financing situation of enterprises, and the government can timely discover the difficulties encountered by enterprises in the financing process.

3.1. From the Perspective of Smes Themselves

At present, the scale of small and Medium-sized enterprises is showing a growing trend, and most of the small and Medium-sized enterprises in my country are engaged in traditional industries, especially labor-intensive industries. There is a big gap between small and Medium-sized enterprises and large enterprises. Small and Medium-sized enterprises invest less capital in the initial stage of entrepreneurship, and the capital flow is relatively tight. When small and Medium-sized enterprises reach the development stage and mature stage, although the initial accumulation of the enterprise will make the capital situation more comfortable than that in the start-up period, once the enterprise hopes to continue to expand in scale or It is technological innovation, etc., which often lead to insufficient financing funds and technology. The financing market of small and Medium-sized enterprises is not mature enough. Therefore, it is relatively difficult to issue equity and bonds in my country's open market for financing. At this time, most enterprises They will choose commercial bank loans as a financing channel, but due to the goodwill and credit of small and Medium-sized enterprises and the weak guarantee capacity provided by them, the entry threshold for banks to provide loans to small and Medium-sized enterprises is high, and the loan requires the enterprise to have sufficient funds. Therefore, for small-scale enterprises, it will obviously increase the difficulty of applying for loans, and even lead to the breakage of the capital chain of some enterprises.

3.2. From the Perspective of Commercial Banks

In the past few years, the interest spread income obtained by commercial banks from providing lending business is a large part of commercial banks' profits, but banks have also experienced non-performing loans. If the amount will increase the burden on banks, commercial banks are providing When making a loan, the solvency of the borrower will be considered, and commercial banks will be more cautious in choosing lenders. Considering safety and profitability, commercial banks tend to provide loans to state-owned enterprises or large non-state-owned enterprises, and most banks give less consideration to small and Medium-sized enterprises. At the same time, with the development of business, the banking industry has expanded many other business operations in recent years, which has balanced the income brought by the bank's deposit and loan business to a certain extent, and does not require loans to small and Medium-sized enterprises to maintain performance growth.

3.3. From the Perspective of the Government

Although the government is constantly improving the financial service system, the government still lacks the establishment of a social credit system at the SME level, and the market lacks an effective SME credit guarantee institution. The financing burden of small and Medium-sized enterprises cannot be effectively reduced. However, if small and Medium-sized enterprises want to develop in a virtuous circle and deal with the financing difficulties of small and Medium-sized enterprises, the government needs to increase its efforts to unblock the financial service system. Secondly, the government provides few direct financing channels for SMEs in the capital market, and most SMEs have no choice but to choose bank loans to obtain funding sources. The government has yet to improve in creating the most basic market environment for SMEs to participate in fair competition.

4. The Financing Effect of Private Equity Investment Funds in SMEs

According to the 2019 data from the National Bureau of Statistics, the number of listed companies is 3,777, that is, only about 0.018% of the companies are listed on the stock exchange. Due to the high entry barriers, the use of OTC financing transactions has become the main choice for small and Medium-sized enterprises, among which private equity investment funds are a relatively common financing method.

4.1. Effectively Solve the Financing Problems of Smes

Private equity investment is a direct and convenient financing method for enterprises, and enterprises are also willing to choose this financing method. When a PE institution decides to invest in an enterprise, the PE institution considers the future profitability of the enterprise. The capital investment of the enterprise is medium and long-term, which is very important for the enterprise. It can ensure that the enterprise has no pressure to repay the funds for a long period of time, and the funds will also flow into the enterprise within the agreed period, which will greatly solve the problem of the broken capital chain of the enterprise. problems and reduce the burden of corporate refinancing.

4.2. Improve the Internal Governance of the Enterprise

The introduction of private equity investment has improved the company's equity allocation, and the introduction of private equity investment is also conducive to the restraint and supervision of the internal management of the enterprise. At the same time, after the PE institution invests in small and Medium-sized enterprises, it will select professionals to provide help for corporate governance and standardize the internal organization of the enterprise structure to promote the efficient operation of the enterprise.

4.3. Provide a Platform for Enterprises to Grow Rapidly

As an investment intermediary, private equity investment funds cover a wide range of businesses. Private equity investment funds have rich investment experience. PE institutions and investors have established long-term cooperative relationships. The quality of business operations is related to their own interests. PE While investors grasp the internal information of the enterprise, PE investors can use their own resource advantages to seek new market opportunities and business partners for the enterprise, and improve the operation efficiency of the enterprise. Furthermore, a good PE institution can establish a good brand and reputation for the enterprise, and can help the enterprise to go public successfully.

Due to the limited business model of small and Medium-sized enterprises, especially family-owned enterprises, they often have doubts about the financing methods of private equity investment funds. Therefore, small and Medium-sized enterprises need to fully understand the operation process and mechanism of private equity investment funds. Development strategies and market prospects, small and Medium-sized enterprises fully consider the real needs of investors, in order to "sell" themselves successfully; at the same time, enterprises must seek truth from facts, and small and Medium-sized enterprises provide real information to obtain investors' support, which will be beneficial to the long-term business of the enterprise. developing.

5. Conclusion

In the process of globalization, my country's financial market is also accelerating its pace. Private equity investment funds are gradually standardizing the operation of the capital market. The government also realizes that the development of private equity is an inevitable trend of the times. The financing difficulties of enterprises, the government has introduced many policies and measures to promote its development. By September 2020, the State Council has

issued preferential tax policies for venture capital enterprises, the government has further standardized the fiscal and taxation support policies for private equity funds, and the government has made partnership private equity funds no longer subject to double taxation. In December 2020, with the approval of the China Securities Regulatory Commission, Beijing Equity Exchange launched the first pilot fund share transfer. There is no doubt that China's private equity investment funds have good development prospects, and the scale of private equity investment funds is constantly expanding. As shown in Figure 1, the capital scale of private equity investment funds is on a linear upward trend, and its future linear forecast will also be It is a positive development. Although the growth rate of private equity investment funds has slowed down in recent years, there will still be a growth rate of 11% in 2020, and private equity investment funds will still maintain a positive growth rate.

Affected by the sudden outbreak of the epidemic in the past two years, the economies of many countries in the world have fallen into a sluggish state, and many small and Medium-sized enterprises are in a state of loss. The government has gradually opened up and expanded the financial market, and the government has helped SMEs to tide over the difficulties, and the investment industry is no exception, which will bring a new development opportunity to private equity investment funds.

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