

The Analysis of Domestic Growth Enterprise Market and Small & Medium-sided Enterprises Financing

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Abstract

The establishment of GEM is of great significance to the construction of China's multi-level capital market. Since the GEM of setup in October 2009, the number of companies listed and traded has grown rapidly. With the rapid development of the GEM, various problems will be exposed in the process of its development. Through the research on the current situation, this paper analyzes the characteristics and risks of GEM, and makes a multi-faceted discussion on its solutions.

Keywords

Gem , SME board ,Development model ,Market positioning.

1. Introduction

The purpose of gem is to provide more convenient financing channels for small and medium-sized enterprises and create a normal exit mechanism for venture capital; In the context of the global financial tsunami, China's huge innovative and technological small and medium-sized enterprises are facing a severe financing test. Some enterprises have died in the case of poor financing channels. The timely launch of gem will provide a platform for industrial upgrading for China's booming science and technology development zones. In addition, it can also solve the financing difficulties of small and medium-sized enterprises impacted by the financial crisis. Under the large-scale impact of international capitalist economy, the timely launch of China's gem is of great significance to further improve China's multi-level capital market system and promote the upgrading of China's industrial structure and economic system reform. China's growth enterprise market is positioned to serve growth oriented start-ups, focusing on supporting independent innovation enterprises. Gem listing is aimed at enterprises with two high and six new characteristics, namely, high growth, high scientific and technological content, new economy, new technology, new agriculture, new materials, new energy and new services. After ten years' preparation, the first batch of 28 enterprises in China's growth enterprise market have been listed and traded in Shenzhen Stock Exchange. This indicates that China's capital market is moving towards a higher level of development. Combine the main board market, small and medium-sized board market and OTC transfer market to form a multi-level and more stable capital market system. It makes the market serve a wider range of objects, widens the road of capital development for high-tech and independent innovation small and medium-sized enterprises, and enables them to better finance and develop.

Under the boundless and broad prospect of the launch of the domestic gem, we must also be aware of the various situations that may exist after the launch of the gem, analyze the GEM Listing resources, listing scale and issuance standards, market operation mechanism, market supervision and other issues, face up to the risks faced by the gem, explore effective countermeasures, and put forward corresponding countermeasures. In order to establish a fair, orderly, transparent and efficient gem, and ensure the healthy and stable development of the gem.

2. Review of Relevant Literature

2.1. Foreign literature research

Salmon and berry believe that the venture capital contract is divided into two aspects: one is the contractual relationship between venture capitalists and venture fund investors, and the other is the contractual relationship between venture capitalists and the enterprises they invest in.

Leland and Pyle believes that in the process of securities issuance, the problem of information asymmetry is particularly prominent. The most important reason is that the issuing company cannot provide the information about the company's operating conditions and specific project contents to the capital market without distortion. Welch (1989) and Allen Faulhaber (1989) put forward the signaling hypothesis of asymmetric information between issuers and investors. The issuers of high-quality companies, in order to distinguish the issuers of low-quality companies, sell their shares at a value lower than the company's valuation to ensure the issuance of shares, and their losses can be made up by means of additional issuance after listing. Rock (1986) put forward the "winner's Curse" theory of asymmetric information among investors, and divided the market participants into "informed participants" and "uninformed participants". The former has information advantage and can buy high underpriced stocks, while the latter will exit the market because it is difficult to buy high underpriced new stocks. Graman (1976) first put forward the term "securities trading mechanism". He believed that the determinant of price difference is not only "time structure", but also the trading system of expert market making itself. He proposed that the equilibrium price of the securities market is determined by the market maker's behavior of maximizing the profit per unit time in order to ensure that the market making function will not fail under the trading system of the market maker[1].

2.2. Domestic literature research

Liang huajun summarized the supervision of securities issuance into three aspects: the reasons, objectives and contents. The regulatory reasons for securities issuance in mature securities markets are divided into general reasons and root causes. The general reason is the subjectivity of the determination of securities value, and the failure of securities issuance market caused by asymmetric information; The fundamental reason is that the law of securities issuance is incomplete. The goal of securities issuance supervision is divided into three levels.

Zhang yujun believes that standardized operation is the premise and foundation for market development and maintaining sustained and vigorous vitality. Supervision is the key to the healthy operation and development of gem. Especially for the gem, as an all-round and highly market-oriented market with high-tech and small and medium-sized enterprises as the main body, if the supervision is relaxed, the market will become disordered and chaotic and cannot continue to survive.

Liu Yang analyzed the volatility characteristics of China's securities market since its establishment, paying special attention to the impact of the trading mechanism on the market volatility. Through empirical analysis, he found that the adoption of price stabilization measures and bidding methods in the securities trading mechanism had a significant impact on the market volatility, and put forward suggestions on how to enhance the market stability[2].

3. Market Positioning and Value Analysis of GEM

3.1. Development status of GEM

Within one year since the GEM was launched, the growth enterprise market in China has developed rapidly. At present, there are 78 listed enterprises on the gem in mainland China,

with a total market value of 308 billion yuan, a total share capital of 9.27 billion shares, a P / E ratio of 67.6 times and a P / B ratio of 7.74%. At present, the primary and secondary industries account for a large proportion of China's industrial structure, while the tertiary industry is relatively weak.

However, the enterprises listed on the gem in China have not formed a reasonable layout of high-tech industries. As of February 11, 2020, most of the 54 listed companies in China have been concentrated in four high-tech industries and sectors: information technology, biopharmaceutical, professional equipment manufacturing and electronics [3].

Among them, there are 16 start-up companies engaged in information technology industry, accounting for 29.63% of the total number of listed companies; There are 9 listed companies engaged in medicine, biotechnology and professional equipment manufacturing respectively, and their proportion has reached 16.68%; There are 8 listed companies engaged in the electronics industry, accounting for 14.80% of the total number of listed companies; There are 6 listed companies engaged in petrochemical industry, accounting for 11.11% of the total number of listed companies; However, there are only 6 listed companies engaged in social service industry, sports goods manufacturing industry and other industries, accounting for 11.10% of the total number of listed companies.

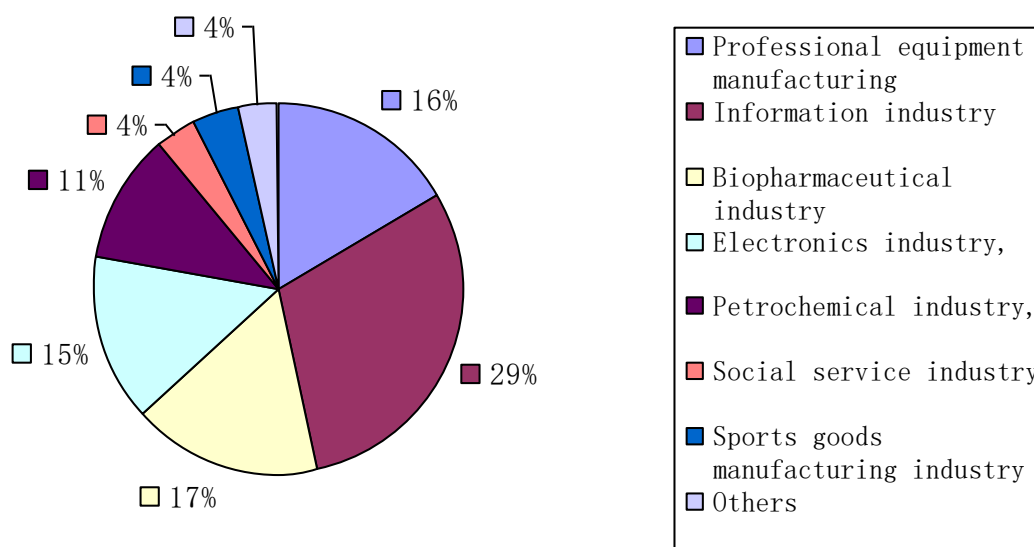


Figure 1: Industry analysis of GEM

3.2. On the development of foreign GEM

Since the 1960s, in order to solve the financing problems of small and medium-sized enterprises, North America and Europe, represented by the United States, began to vigorously create their own gem markets. So far, the development has roughly experienced four stages: start, prosperity, adjustment and recovery. Compared with the main board market, the foreign gem market has obvious characteristics, which can be summarized in the following aspects:

First of all, the growth enterprise market has great potential, especially the growth of Microsoft and Intel on the Nasdaq market. The GEM market has low requirements on the company's historical situation and performance. The market mainly focuses on the development prospects, growth space and other high growth of companies listed on the gem, which is the focus of investors in the GEM market. Secondly, the gem is a high-risk market. Compared with the main

board market, the listed companies on the gem are small in scale, new in business, and their products are in the initial stage[4].

They face a variety of risks. The probability and cases of bankruptcy of listed companies are much higher than those on the main board market. Thirdly, the gem has a low threshold for listing, is simple and flexible, and has lower requirements on the market size and profitability of listed companies than those on the main board market, GEM listed enterprises do not need approval.

They can be listed and traded only by registration. Compared with the main board, it is simple and flexible, and the cost is much lower. Finally, the risk tolerance of GEM investors is stronger than that of the main board market. Investment on the gem is very risky, so the main investors on the gem are institutional investors and individual investors who seek high investment returns, can afford high risks, and are familiar with investment knowledge and skills.

3.3. Analysis on the orientation of growth enterprise market based on foreign experience

Taking the Nasdaq market of the United States as an example, the overseas growth enterprise market is far superior to China's growth enterprise market in terms of industry distribution, resource allocation and market supervision system. As an emerging market, China's growth enterprise market should learn from overseas successful experience and improve the market.

The successful experience of overseas gem is mainly reflected in the following aspects: first, continuous institutional reform and innovation to adapt to the changes in the market situation; Second, pay attention to the quality of listed companies and the rationality of industry distribution; The third is to carry out effective sponsor system and improve market supervision. While learning from the successful experience, we also need to pay attention to the lessons brought by the failure of some overseas gem. These markets have only survived for a few years or even less due to their own defects.

The following Lessons learned was based on the successful experience of overseas gem. While lowering the listing standards, we will strengthen supervision and prevent the risk of market violation. As the foundation of the city, market supervision should not relax the requirements of supervision while expanding the market scale or gathering popularity. Some overseas gem markets often do not set financial indicators or constantly reduce the listing standards to obtain more listing resources. For example, in the absence of clear listing standards and audit procedures, the original German new market caused a large number of companies to go public only by packaging or concept speculation, coupled with weak supervision, and the market was finally forced to close down due to the integrity crisis caused by various false accounting scandals[5].

China's small and medium-sized enterprise board mainly provides convenient financing channels for small and medium-sized companies whose operating conditions meet the listing conditions of the main board but whose scale does not meet the standards. According to the requirements of the CSRC, the only difference between the main board and the small and medium-sized board market is the requirements for the capital stock after issuance. The main board listing requires that the total capital stock after issuance exceed 1billion shares, and companies with less than 1billion shares will be listed on the small and medium-sized board.

3.4. Investment value of gem

Around the gem, the "three highs" (high price issuance, high market positioning and high turnover rate) phenomenon has been regarded as the focus of the gem, and there have been many disputes in the market. The negative news and comments on the gem have not been calmed down, which is in great contrast to the good development trend of the gem.

Based on the actual situation of China's capital market, the criteria for determining the gem are relatively high. Although this ensures that the listed companies have relatively good quality, it also weakens the characteristics of the gem to a certain extent, giving investors the impression that the gem stock is high growth and high return. In fact, as a kind of venture capital, people must not ignore that its risk is far greater than that of other securities investment. If investors do not follow the rules of venture capital, then there is no way to have a real understanding of the gem. Behind the widespread criticism of the unfairness and injustice of the GEM market, there are in fact countless venture capital. Behind a successful GEM listed company, there are countless failed enterprises[6]. The investment in the new capital economy itself is based on high risk. We must put the perspective of venture capital investment in the first investors of GEM companies and recognize that they now have the right to enjoy risk return. Only in this way can we have a relatively peaceful attitude to correctly treat GEM companies and GEM stocks. Therefore, what is most needed is a rational spirit, which can view the development of GEM companies from a historical perspective. It should be admitted that in China, what is less now is the real venture capital culture, and what is more is the attitude of "getting rich overnight through speculation", which is the cognitive bias towards the gem. Many of them come from this.

4. Existing Problems and Countermeasures

4.1. Existing problems

Firstly, listed companies are not standardized enough and their growth is not high. Most of the companies listed on the gem are small and medium-sized innovative technology enterprises, with limited scale, lack of funds, nonstandard operation and management structure and weak internal control. Moreover, due to the low entry threshold of the gem and the imperfect issuance supervision system, a number of companies with poor quality have entered the GEM market. These companies that do not have high growth will have performance fluctuations after entering the gem. The problems of GEM companies are mainly reflected in the following situations: first, a large number of parasitic companies exist in the GEM market, and most of the business of such companies are dependent on other companies. Second, Some GEM companies are not growth oriented companies. China launched the gem with the intention of providing development funds for innovative enterprises in the development period. However, not all the companies listed now meet this condition. For example, the 28 companies listed in the first batch are actually mature enterprises, and there are also many gem companies listed in the later batches.

However, GEM companies have suffered losses in their main businesses after listing, and the phenomenon of declining profits is emerging one after another. In addition, some GEM companies have many problems in corporate governance, internal control, fund-raising use, etc., and even some companies do not even have the most basic corporate operations. The most typical representative is Aier ophthalmology company, which has serious management problems in the operation of the remuneration assessment committee of the board of directors and the general meeting of shareholders.

Secondly, imperfect market mechanism and high risk. The system of the gem is not optimized enough: China's gem implements a competitive trading system, under which the ability to handle large-scale transactions is weak. The overseas failed gem shows that the poor liquidity and inactive transactions of the gem are the important reasons for the failure. At the same time, the gem is small and easy to be manipulated, causing excessive speculation, which will not only affect the companies listed on the gem, but also affect the main board and even the entire stock market. Under the effect of excessive speculation, it will inevitably affect the normal operation of the securities market.

Thirdly, the handling of delisted companies is not perfect. The delisting system to promote the efficient operation of the market to achieve healthy and sustainable development has not yet been introduced, which makes the interests of investors unable to be effectively guaranteed.

According to the regulations of China's system, GEM listed companies can be delisted directly after the termination of listing, and do not need to enter the agency share transfer system like the main board market. Since the transfer system can allow investors of delisted companies to continue trading, after the delisting of GEM listed companies, investors will have no appropriate trading place to complete trading, which is not conducive to protecting the interests of investors.

4.2. Countermeasures on the development of GEM

On the basis of grasping the potential listing resources of China, China should strengthen the competition with other overseas gem markets, adopt effective marketing strategies and product innovation, and attract more listing resources. According to various research reports, 1183 enterprises meet the gem issuance standards within the statistical scope of the Ministry of science and technology alone, which can be used as a mature listing resource reserve. Moreover, China is in the period of economic transition. The number of enterprises with potential strength to be listed on the gem cannot be underestimated, and they should also be prepared to compete with overseas gem for these potential listing resources.

In formulating listing standards, we should learn from the situation of overseas markets, establish a rating system for listed enterprises, formulate relatively strict listing standards, evaluate the reputation, development potential, growth and other aspects of enterprises, select excellent companies and enhance the recognition of investors. Select a group of enterprises with large market value, stable operation and potential development as the market basis, and cultivate truly powerful market leading enterprises to stabilize the GEM market and enhance investor confidence. The formulation of financial standards and non-financial standards should be stricter, and at the same time, the market scale should be ensured. China's listing conditions have strict standards for the profits of enterprises, which is not available in other markets or even in the gem - Nasdaq market. China Securities Regulatory Commission stipulates that if an enterprise wants to be listed on the growth enterprise board of Shenzhen Stock Exchange, it must make continuous profits in the last two years, and the accumulated net profits in the last two years shall not be less than 10million yuan and continue to grow; Or it has made a profit in the latest year, and the net profit is not less than 5million yuan, the operating income in the latest year is not less than 50million yuan, and the growth rate of operating income in the last two years is not less than 30%. Although this standard seems too strict, investors will inevitably doubt the attractiveness of gem to listed resources, but a careful study shows that the above profit indicators are not difficult to achieve.

Small and medium-sized start-ups are a group of enterprises with high income and high risk. Their development process has the following three characteristics: high uncertainty, high growth and high information asymmetry. If the standards of listed companies are low, resulting in huge investment risks, it will affect the confidence of investors in the whole market.

Therefore, it is particularly important to supervise the listed companies and the whole gem. Improve legislation, formulate corresponding laws and regulations, and establish and improve the legal system. For stock market manipulation, we should strengthen supervision and management, supervise daily transactions, strictly implement the information disclosure system, and ensure the accuracy and timeliness of information. Law enforcement personnel should strictly enforce the law. For illegal acts, we should not only impose administrative and civil penalties, but also appropriate criminal penalties. At the same time, we should strengthen the education of ordinary investors, establish risk awareness, improve the professional skills of investors, and guide retail investors to make rational investment analysis.

4.3. Domestic development mode selection

Based on the improvement and innovation of various systems, the market level difference performance of gem and SME board has been maintained to a certain extent, but the relative homogeneity of its service objects determines that there is a strong correlation between the two markets. In view of the awkward position of the current SME board as a subsidiary market of the main board and its historical role as the transition of the gem, separating the SME board from the main board market and bringing it into the framework of the multi-level gem market system together with the gem will be more conducive to clarifying the level of China's capital market, so that the differences and commonalities between the gem and the SME board can be organically combined. Taking NASDAQ as an example, the Nasdaq market was originally composed of two levels of markets: the national market system and the small cap Market. Among them, the target of the small capital market is small and medium-sized enterprises with high growth, high-tech enterprises occupy a high proportion, and the target of the national market is large enterprises worldwide and enterprises developed through the small capital market. After decades of successful operation and experience, NASDAQ has further subdivided the two markets into NASDAQ Global Select market, NASDAQ Global Market and Nasdaq capital market. The latter two correspond to the original NASDAQ national market and small capital market respectively, so as to optimize the market structure and attract enterprises at different levels to go public.

5. Conclusion

With the rapid development of China's economy, enterprises that meet the requirements of venture capital continue to emerge on the basis of a good venture capital environment and conditions. The growing demand for domestic venture capital has promoted the rapid growth of venture capital in recent years. Under the large market economy, the development of the gem not only further optimizes the investment and financing structure, increases support for large and medium-sized enterprises, alleviates the financing difficulties of small and medium-sized enterprises, but also promotes the performance of joint-stock enterprises.

With the practical experience of NASDAQ's success in the United States, in the 1990s, many developed countries followed suit and set up their own gem, but the development was not smooth, leaving a lot of valuable experience and lessons. After the transition of the small and medium-sized enterprise board, the domestic gem needs to strengthen the market function of serving the growth, technological and innovative small and medium-sized enterprises, clarify the deep connotation between the small and medium-sized enterprise board and the gem, and on this basis, gradually and timely promote the gem and the SME board to be incorporated into the framework of the multi-level gem market system, so as to further improve the construction of China's multi-level capital market system.

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