

# An Case Study of Directional Private Placement: Take San' an Optoelectronics for Example

Ting Wan

Guangzhou College of Commerce, Guangzhou, 511363, China

## Abstract

**Relying on the more standardized and rationalized stipulations formulated by the China Securities Regulatory Commission (CSRC), private placement has been gaining momentum. This study is conducted on the basis of literature research and data analysis, focusing on the five directional private placements of San' an Optoelectronics, which can offer certain reference for relative enterprises. This case study first provides an overview of private placement process and scheme carried out by San' an Optoelectronics, followed by the reason analysis at three levels, and subsequent influences from the perspective of financial index and corporate governance. Finally, it draws conclusions and proposed corresponding suggestions. As the leading company in the China's LED industry, San' an Optoelectronics has supplemented the required funds by means of directional additional issuance multiple times. Hence, the analysis of its motivation and implication can provide a reference for the fundraising methods of listed companies in China's LED industry.**

## Keywords

**Private Placement; San' an Optoelectronic; Empirical Analysis.**

## 1. Introduction

Foreign companies, since start relatively early in private placement, have developed more mature modes. There are also many discussions on the motivation of additional issuance among scholars, which is called private placement with various hypotheses.

One is the monitoring hypothesis. Wruck (1989) [1] put forward that the introduction of equity incentives from outside shareholders in listed companies can effectively reduce the agency expenses of the company's management level.

The second is the information hypothesis. Hertz and Smith (1993) proposed the intelligence hypothesis. It is assumed that the enterprises of greater the information asymmetry, especially those with insufficient capital and undervalued value, will be more inclined to adopt private financing in case of promising investment opportunities.

Third, managerial entrenchment hypothesis. Barclay et al. (2003) [2] pointed out when issuing shares, the managerial personnel would target at passive investors to prevent their intervention, so that ensure the status and control of the company.

The fourth is the control right hypothesis. According to Henrik and Mattias (2005), family control, moral hazard and adverse selection are the major reasons that affect whether a company chooses private equity or rationed shares. In a family-owned business, maintaining the family control is a crucial financial issue, thus the listed family companies tend to adopt private financing [3].

As private placement has gradually become a means of financing for listed companies in China, domestic scholars are also actively discussing this issue.

Huang Jianzhong (2006) holds that when a company conducts private placement, the stock price 20 trading days before the base date of the transaction is taken as the benchmark, so that

some listed companies can manipulate the stock price and transfer the benefits to related parties [4].

Zhu Hongjun (2008) made a case analysis in which is found that Chihong Zi&Ge Company exerted great pressure on its controlling shareholders and related parties in the process of private placement.

According to Zhang Weidong (2010), when conducting private placement for different types of institutional investors, the company will choose different distribution methods to realize benefit transfer to major shareholders.

Zhang Weidong et al. (2017) found that related shareholders can subscribe to the private placement shares issued by the company at a lower price through capitalization [5].

Scholars at home and abroad have discussed the research of directional private placement and developed different views. Foreign scholars point out that in China's capital market, there are motives for supervising management level, improving information transparency, achieving management entrenchment and family control. Compared with foreign countries, Chinese scholars generally believe that private placement aims to achieve interests transfer to the controlling shareholders and related persons.

Additional issuance, compared with the public offering, has become a kind of private placement that is similar to foreign private equity. It refers to the act of issuing shares by a limited number of specific investors. In 2020, China set new rules on refinancing, stipulating that the number of targeted issuance objects shall not exceed 35.

Directional private placement has three advantages as follows: first: relatively low threshold. In comparison with public offering and other refinancing means, private placement is more suitable for companies with poor profitability yet good prospects. Second, low cost and high efficiency. The process of private placement is simplified, and shares are issued to a specific number of investors, which lowers the cost of promotion and saves time, so that its efficiency is greatly enhanced. Third: optimized capital structure. Private placement can raise a company's debt level and optimize its capital structure. Besides, the issuance of shares to strategic investors will introduce more collateral resources, thus improving corporate governance. Hence, the advantages of private placement has made this financing mode been widely applied in the capital market as well as listed companies.

The theory of optimal capital structure refers to the degree to which the enterprise's value can be maximized with the lowest financing cost, in other words, the optimal capital structure. Based on the optimal capital structure of enterprise, this paper expounds the correlation between private placement and stock price. With San' an Optoelectronics as the example, the impacts and changes of private placement on enterprise value are further analyzed.

## 2. Empirical Analysis

### 2.1. The Statistics of San' an Optoelectronics Directional Private Placement

**Table 1.** Six directional private placement of San' an Optoelectronics

Year	Issuance price/(yuan/share)	Issuance quantity /(10,000 shares)	Total raised funds /(10,000 shares)	Total issue expenses /(10,000 shares)
2008	4.33	11,494.54	0.00	0.00
2009	26.00	3,150.00	81,900.00	1,921.80
2010	30.00	10,100.00	303,000.00	5,040.00
2014	21.80	15,137.61	330,000.00	6,300.14
2015	22.51	15,593.07	351,000.00	5,643.36
2019	17.46	40,091.64	700,000.00	3,391.22

The table below is the collated private placement data of San' an Optoelectronics since its listing.

**Table 2.** Subscribers of San' an Optoelectronics private placement

Year	Subscribers
2009	Zhonghang Xingang Guarantee Co., Ltd..
	Dacheng Fund Management Co., Ltd..
	Fullgoal Fund Management Co., Ltd..
	Chen Shimin
	Shanghai Tiandi Technology Investment&Development Co., Ltd..
2010	Dacheng Fund Management Co., Ltd..
	Wang Zhengrong
	Wang Wenbing
	Beijing Jiacheng Capital Investment Management Co., Ltd..
	HWABAO Trust Limited
2013	Guotai Asset Management Co., Ltd..
	Industrial Global Fund Management Co., Ltd.
	Southern Asset Management Co., Ltd.
	Yinhua Fund Management Co., Ltd.
	Minsheng Tonghui Asset Management Co. LTD
	China Asset Management Co., Ltd.
	Efonds Fund Management Co., Ltd.
	Guangdong Development Fund Management Co., Ltd.
	Dacheng Fund Management Co., Ltd..
	Jiangsu Ruihua Investment Holding Group
	Fullgoal Fund Management Co., Ltd..
	Pacific Investment Management LLC
	China Life Insurance Asset Management LTD
2015	Hua An Fund Management Co., Ltd.
	Caitong Fund Management Co., Ltd.
	China Securities Fund Management Co., Ltd.
	Guangdong Development Fund Management Co., Ltd.
	National Integrated Circuit Industry Investment Fund Co., Ltd.
2019	Xiandao Core
	Gree Electric Appliances Inc.

Since the listing of San' an Optoelectronics, it has a total of six directional private placement. Table 1 shows the subscribers of the private placement of San' an Optoelectronics. Table 2 depicts the share price, quantity, total raised funds and expenses for each private placement. As can be seen from the table, the amount of raised funds keeps rising, indicating the public's trust and preference. It also indicates that with the expansion of the company scale, more funds are required, which also proves its great prospect in the future.

## 2.2. Page Numbers the Rationality of Private Placement

In the process of private placement, it is possible for non-performing assets in benefit transfer and unreasonable issuing object. In terms of the non-public offering of San' an Optoelectronics in 2019, the subscription funds of the subscription objects all belong to self-owned fund and cash subscriptions. There is no external fundraising, entrustment or structured arrangement for the subscription funds; The subscription funds are not raised, entrusted or structured

externally; the subscription funds do not directly or indirectly use the funds of the listed company and its related parties, nor are they associated with the issuing object before. As for subscription funds, the directional private placement of San' an Optoelectronics is rational. With regard to issuing objects, the specific objects are CPIH Core and Gree Electric Appliances, without any additional issuance to the original shareholders. Therefore, it fully indicates that San' an Optoelectronics has no phenomenon of benefit transfer in directional additional issuance. The issuing object and process are both in line with the law, thus the rationality of its private placement can be affirmed.

### 3. The Reasons for Private Placement

#### 3.1. Fulfill Strategic Capital Demands

Since its listing, San' an Optoelectronics has been striving to become a leading enterprise in the LED industry and develop the layout of the compound semiconductor industry chain. The company made its first additional offering in 2008, which is used for a backdoor listing. Through the purchase of ST Tianyi non-public listed shares, it completed back-door listing, which means that San' an Optoelectronics officially entered the capital market. Later on, the five private placements are issued for the company's new products, base investment and research. This simple and efficient means of fund raising provides sufficient financial support for the company's production and development, and fulling its strategic capital demands.

#### 3.2. Optimize Business Structure

The company's major business is engaged in the R&D and application of compound semiconductor materials, with focus on LED products, research and development, production and sales. After each private placement, the company can expand the major business, extend market share, and enhance competitive advantage. For example, after the private placement in 2015, the full-color ultra-high brightness LED developed by the company is a new generation of energy-saving lighting products, with the benefits of high efficiency and energy saving, green and environmental protection, and long serving life. In this way, the company's business scale is expanded and the business structure is improved. After the private placement in 2019, the company has managed to enter the integrated circuit field and made substantial progress with then added products of integrated circuits. As a result, this offering has optimized the company's product mix and business structure.

**Table 3.** Capital use of five private placements of San' an Optoelectronics

Year	2009	2010	2013	2015	2019
Use of raised funds	Tianjin San' an Optoelectronics LED Industrialization Project	Anhui San' an Optoelectronics Wuhu Photoelectric Industrialization (Phase I) project	Supplemented working capital for Wuhu Photoelectric Industrialization (Phase II) project	Xiamen Optoelectronic Industrialization (Phase II) Project Communication Microelectronics Period (Phase I) Project	Semiconductor R&D and Industrialization (Phase I) Project

#### 3.3. Enhance Corporate Governance Structure

The issuance of new shares also has an impact on the company governance. According to the shareholding ratio and status of the shareholders before and after each private placement, the shareholding ratio of San' an Electronics and San' an Group, controlled by Lin Xiucheng, has decreased, but the actual controller did not change. Although the actual controller has not

actually changed, with each private placement, there are new shareholders. For example, in the private placement in 2020, the risk objects are Changsha Xiandao Core Investment Co., Ltd., and Zhuhai Gree Electric Appliances Co., Ltd., whose subscription amount is RMB 5 billion yuan and RMB 2 billion yuan respectively, accounting for 6.39% and 2.56% of the company's shares. Both companies are strong and successful in their respective fields. With the introduction of these two new shareholders, it can be useful for corporate governance and is of great benefit to the company. Therefore, with the introduction of new shareholders, the company's business structure can be improved, which is conducive to the optimization of the corporate governance structure.

### 3.4. Supplement Working Capital, Relieve Capital Turnover Pressure

**Table 4.** Capital use of five private placements of San' an Optoelectronics

Project item	Total investment (10,000 yuan)	Raised funds (10,000 yuan)
Wuhu Photoelectric Industrialization (Phase II) Project	407570	No more than 280000
Supplemented working capital	50000	No more than 50000
Total	457570	No more than 330000

Private placement is also a favorable approach to replenishing working capital. In 2013, it was stated that the raised funds were intended to supplement the working capital and invest in the Wuhu Photoelectric Industrialization (Phase II) project. In order to realize internationalization, San' an Optoelectronics in order to conquer the professional technology fortress, grasp advanced professional technology, and develop into a domestic and international LED industry leader, the company has acquired a number of overseas LED companies, SAN' an Optoelectronics calls for private placement to satisfy the needs of capital issuance, supplement the working capital, and relieve the pressure of capital turnover.

### 3.5. Improve Capital Structure

The latest five private placement of San' an Optoelectronics also took into account the factors of optimizing the company's capital structure. For instance, after the issuance of the private placement in 2013, the company's total assets and net assets have increased. After this issuance, the company's capacity to resist risks has been improved, and the company's assets have been continuously expanded, laying a good foundation for the development of the company. Moreover, after each subsequent issue, it can be seen that the quality of the company's capital has been boosted, the solvency has been improved, the financial situation has been more optimized with higher company's risk capability and better asset structure.

## 4. Conclusion

Through data analysis, this paper discusses the three reasons of the three private placement after San'an Optoelectronics. From the development level of the company to the level of capital risk and then to the level of financing mode, from large to small, the motivation of the five private placement after San'an Optoelectronics is analyzed.

The first is the company development. San'an photoelectric has been constantly expanding its company scale toward the all-around layout under steady progress. With private placement that meets the growth needs, the company has invested in a great many promising projects and R&D of pioneering technologies, so that enhance the company's strength, optimize the company's capital structure and governance structure, and become the leader of the LED industry.

The second is the capital risk. Faced by the potential financial risks, supplemented liquidity funds through private placement can relieve the pressure of capital turnover, thus, the company can improve its solvency, risk resistance, capital structure, so that has adequate funds to support the operation of the projects.

Finally, the financing methods. The analysis on the capital cost of financing indicates that the company can lower the expenses and financing cost through private placement and allocate the funds to other aspects to bring more benefits.

## References

- [1] Wasco Wruck, James Adj aye: Meta-analysis reveals up-regulation of cholesterol processes in non-alcoholic and down-regulation in alcoholic fatty liver disease, *World Journal of Hepatology*, Vol,9 (2017) No.08, p.443-454.
- [2] Barclay, M.J., Holderness, C. G., & Sheehan, D. P: Private Placements and Managerial Entrenchment, *Journal of Corporate Finance*, Vol,5(2007) No.13, p.461-484.
- [3] Henrik Cronqvista, Manias Nilssonb: The choice between right offerings and private equity placement, *Journal of Financial Economics*, Vol,78(2005) No.03, p.375-407.
- [4] Huang Jianzhong: Alert to Related Transaction in Private placement, *New Finance and Economics*, Vol,12 (2006) No.06, p.55.
- [5] Zhang Weidong: Information Asymmetry R&D Expenditure and Subscription of Private Placement Shares by Affiliated Shareholders-Empirical Data from Chinese Securities Market, *Accounting Research*, Vol.17 (2017) No.01, p.68-74+96.