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# Research on the Financing Structure of Overseas Merger and Acquisition of Chinese Medical Enterprises

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## Abstract

**With the rapid development of China's economy, more and more Chinese enterprises start to enter the world, including medical enterprises. However, the capital shortage is a common problem in the process of overseas expansion and merger. Therefore, financing has become one of the key issues for medical enterprises in overseas mergers and acquisitions. This paper focuses on the financing structure of Chinese medical enterprises in overseas mergers and acquisitions, by discusses the factors affecting the Chinese medical enterprises overseas mergers and acquisitions financing structure, including the size of the enterprise, industry competition, market environment, etc., put forward some Suggestions, hope to help Chinese medical enterprises in overseas mergers and acquisitions, in order to improve the success rate and efficiency.**

## Keywords

**Chinese Medical Enterprise; Overseas M & A; Financing Structure.**

## 1. Introduction

In recent years, with the development of China's medical industry and the opening of the international market, more and more Chinese medical enterprises began to conduct overseas mergers and acquisitions. Overseas mergers and acquisitions can not only help to improve the competitiveness and market position of enterprises, but also can expand the business scope and technical level of enterprises. However, overseas mergers and acquisitions are also facing financing difficulties, so it is particularly important to study the financing structure of overseas mergers and acquisitions of Chinese medical enterprises.

## 2. Status Quo and Reasons for Overseas Mergers and Acquisitions of Chinese Medical Enterprises

At present, Chinese medical companies are more active in overseas mergers and acquisitions. According to statistics, in 2019, the amount of overseas mergers and acquisitions of Chinese pharmaceutical enterprises reached 3.75 billion US dollars, up 48.6% year on year. Among them, medical device enterprises have achieved an outstanding performance in overseas mergers and acquisitions, accounting for more than 50% of the total amount. These mergers and acquisitions projects include medical devices, medical services, pharmaceuticals and other fields. The main reasons for Chinese medical enterprises to choose overseas mergers and acquisitions are as follows: First, the change of market demand. With the aging population and increasing health awareness and the increasing demand for medical services, Chinese medical enterprises hope to gain more market share through overseas acquisition; second, the improvement of technology level. Overseas acquisition can help enterprises acquire advanced technology and equipment, improve their technical level and competitiveness; third, reduce cost. Through overseas mergers and acquisitions can achieve scale effect and resource sharing, reduce production costs[1].

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According to the data, in recent years, the overseas investment and financing scale of China's medical enterprises shows a fluctuating and rising trend. In terms of cases, from 50 in 2010 to 410 in 2022, while the investment scale increased from RMB 1.625 billion in 2010 to RMB 53.44 billion in 2022. In the 12 months of 2023, the number of overseas investment and financing events of China's medical enterprises was 235, with a scale of more than 33 billion yuan. In 2020, the single investment scale of the medical industry reached the peak of 189 million yuan, in 2022, the single financing scale of overseas investment and financing of Chinese medical enterprises reached 130 million yuan, and the single investment in 2023 reached 140 million yuan. The main reasons for the fluctuation of these data are the impact of social and public health events, but they are more the adjustment of market economy structure, indicating that domestic enterprises also pay more attention to the development of overseas markets and the utilization of resources.

# 3. Analysis of the Financing Structure of Overseas Merger and Acquisition of Chinese Medical Enterprises

In the process of conducting overseas mergers and acquisitions, enterprises need a lot of financial support. At present, Chinese medical enterprises mainly adopt the following ways in overseas M & A financing: self-raised funds, bank loans, equity financing and debt financing.

## 3.1. Self-raised Funds

Self-raised funds refer to the means that an enterprise or organization using its own cash, deposits, investment or other forms of assets to make overseas acquisition or investment. Compared with traditional financing methods, such as bank loans or bond issuance, self-raised funds do not need to borrow money from external investors or issue new shares, thus reducing the debt pressure of enterprises to a certain extent. However, in the absence of support from external investors, self-raised funds also have some risks and challenges. Self-raised funds require enterprises to have a certain financial strength and management ability. This requires enterprises to have a high professional level and experience in financial management and investment decision-making. Only through scientific and reasonable financial planning and investment management, can we ensure the effective use of self-raised funds, reduce investment risks, and improve the rate of return on investment[2].

As the global economic environment and financial markets continue to change, various uncertainties may have an impact on enterprises' overseas investment. For example, international exchange rate fluctuations, political instability, declining market demand, increased competition and other problems may lead to losses for enterprises. Therefore, enterprises need to conduct in-depth analysis and research on the market, and formulate the corresponding risk management and countermeasures to reduce the possible risks and losses. Different laws and regulations, market environment and cultural background in different countries and regions. Enterprises need to understand local policies and regulations, respect local culture and social habits, and abide by local business ethics. If the enterprise violates local laws and regulations or business ethics in the process of overseas merger, it may face serious legal consequences and reputation loss[3].

To sum up, self-raised funds is a more flexible and independent investment method, which can effectively use the existing resources and advantages of enterprises, but there are also certain risks and challenges. Enterprises need to have sufficient financial strength and management ability, understand the local market environment and laws and regulations, and develop effective risk management strategies, in order to better achieve the goals and development vision of overseas mergers and acquisitions[4].

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## 3.2. Bank Loans

Bank loans are a common way of financing when medical enterprises conduct overseas mergers and acquisitions. The advantages of bank loans mainly lie in its low interest rate and long repayment term, which can reduce the capital pressure of enterprises. However, bank loans also have some risks. First, if corporate credit ratings fall, banks may refuse to provide loans, or demand higher interest rates and strings attached. Second, rising interest rates may also require companies to pay higher interest costs. In addition, in the process of overseas mergers and acquisitions, enterprises also need to face political, legal and other uncertain risks. These risks can cause companies to be unable to complete transactions as planned or to suffer significant economic losses. Therefore, when choosing financing methods, enterprises need to comprehensively consider various factors, including their own financial situation, market environment, industry competition, etc., in order to develop a reasonable financing strategy. In addition to bank loans, equity financing and bond financing are also common financing methods. Equity financing refers to the enterprise to raise funds by issuing shares, which can attract more investors to participate in trading and share the benefits brought by the growth of the enterprise. Bond financing is when companies issue bonds to raise funds, usually with higher interest rates and lower risk, but also with higher repayment obligations. When financing, enterprises need to choose appropriate financing methods according to their own conditions, so as to minimize financing costs and improve the return on investment[5]. At the same time, enterprises also need to pay attention to risk management and compliance operation, abide by relevant laws and regulations and ethics, and maintain their own reputation and reputation.

## 3.3. Equity Financing

Equity financing is an important financing method in the process of enterprise development. It can effectively solve the problem of shortage of funds and provide more capital sources and more flexible financing channels for enterprises. The main methods of equity financing include issuing shares and issuing additional shares. These methods can enable enterprises to obtain funds without increasing the debt burden, but also can make the shareholding structure of enterprises more diversified and attract more investors to participate in the development of enterprises. Through shares or additional shares, companies can directly obtain the required funds from the capital market, which is faster and more flexible than traditional bank channels such as loans[6]. At the same time, this way can also reduce the financing cost of enterprises and improve the overall profit level of enterprises. Under the background of the current unstable global economic situation, equity financing has become an important choice for the development of more and more enterprises.

By issuing shares or issuing additional shares to investors, enterprises can attract more investors' attention and participate in the development of enterprises. These investors can not only provide necessary financial support for the development of enterprises, but also provide valuable opinions and suggestions to help enterprises better cope with market changes and risks and challenges. At the same time, equity financing can also promote the optimization and improvement of corporate governance structure, and promote the expansion of the competitiveness and market position of enterprises. However, equity financing may also lead to the loss of control of enterprises and affect the development direction of enterprises. In equity financing, enterprises need to consider how to balance the relationship between the interests of investors and their own interests, so as to avoid management difficulties and decision-making mistakes caused by equity diversification. At the same time, enterprises also need to pay attention to the protection of their own core technology, brand image and other advantageous resources, to avoid excessive intervention and control by investors. Only by doing a good job in these aspects, can we ensure the long-term and stable development of the enterprise[7].

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### 3.4. Debt Financing

Debt financing is a common way of enterprise financing, through borrowing and other means to obtain financial support. Compared with equity financing, creditors usually have preferred control over the company, so debt financing usually requires companies to pay higher interest rates and have a shorter repayment period. Although debt financing has great financial pressure on enterprises, it also has many advantages, making it one of the preferred financing methods for many enterprises. Compared with equity financing, which takes a long time to complete the transaction and negotiation process, debt financing can realize the capital needs of enterprises more quickly, especially for the enterprises in urgent need of funds. Rapid access to a large amount of capital in a short period of time can help enterprises to deal with emergencies, expand their scale or make major investments.

Unlike stock price fluctuations, bondholders often make regular payments at a fixed interest rate, which makes companies more stable and predictable in terms of capital inflows. Moreover, if companies have financial difficulties or other financial problems, creditors are usually not affected, as shareholders do, because they have only a portion of the equity in the company's assets. This stability helps to reduce their financial risk and increase their long-term profitability. By repaying the principal and interest on time, the company can establish a good reputation and image, so as to attract more investors and partners. In addition, debt financing can help companies get lower interest rates and more favorable conditions in the market. These advantages will further improve the competitiveness and profitability of enterprises[8].

To sum up, despite the risks and challenges of debt financing, it is still a good choice for those enterprises that need quick access to capital support and can bear the high interest burden. Through rational planning and the layout of financing structure, enterprises can make full use of the advantages of various financing methods and maximize their potential, so as to achieve better development and growth. The state should also introduce active policy support to guide domestic medical enterprises to invest and make mergers and acquisitions overseas, introduce high-quality innovative products or technology platforms under research through international cooperation, improve the adjustment of domestic industrial structure, so as to ensure the core competitiveness of enterprises, so as to drive the growth of domestic economic output value.

## 4. Conclusion

This paper mainly studies the financing structure of Chinese medical enterprises in overseas acquisitions, and analyzes the factors affecting their financing structure. Through the comprehensive utilization of equity, debt and hybrid financing methods, the costs and risks can be effectively reduced, and the success rate and benefits of mergers and acquisitions can be improved. Therefore, in the future development, Chinese medical enterprises should actively explore the financing modes suitable for their own situation, so as to promote the further development of their overseas mergers and acquisitions.

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