

Analysis on the Motivation and Effect Evaluation of Assets Divestiture of Listed Companies

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Abstract: Asset divestiture has become an important means for listed companies to improve their overall performance, optimize resource allocation, adjust industrial layout and increase their core competitiveness. This paper selects the listed company International Medical as the case company, analyzes and evaluates the motivation and effect of international medical assets divestiture, and uses the financial index method to evaluate and analyze the implementation effect of international medical assets divestiture, and draws relevant conclusions and inspirations specifically. Through the study of the divestiture events of the case company, it is found that the divestiture activities have obvious positive announcement effect on the case company, and the company generally presents a trend of good long-term market performance. Through the research and analysis of the company's financial indicators, it is found that after the implementation of asset stripping, the company's debt burden is reduced, its profitability is improved, its growth capacity is increased and its operating capacity is maintained at a reasonable level although weakened.

Keywords: international medicine; divestment of assets; performance management; core competence

1. Introduction

1.1. Research Background and Significance

1.1.1. Research background

With the continuous enhancement of China's economic strength, global economic integration has brought more opportunities for the development of Chinese companies. In this context, in order to seek better development, the company began to follow the industry hot spots to blindly expand the industry and scale of the company, resulting in difficulties in overall planning, lack of core competitiveness and other problems after the company went public in the later stage. In order to solve this dilemma, the company's leadership has adopted the way of asset divestiture to readjust the company's resources, and use the way of asset divestiture to build new core competitiveness in line with the company's new development strategy [1].

1.1.2. Research significance

The study and analysis of international medical asset divestiture cases is of great academic significance, which enriches the analysis and research of listed companies' asset divestiture methods and the research of related theories in asset divestiture activities [2].

It is also of great practical significance to study and analyze the cases of international medical asset divestiture activities in this paper, which is mainly reflected in the following aspects: First, focus on the selection of the timing of asset divestiture activities. Asset divestiture activities cannot be carried out only when assets are idle or bad. Seizing the right time can not only avoid unnecessary losses to the company, but also earn some profits for the company by selling the divestiture assets. Second, it provides successful experience and reference for other listed companies in China to carry out asset-stripping activities [3].

2. Introduction of International Medical Asset Divestiture Cases

2.1. Basic Information of International Medicine

Xi'an International Medical Investment Company Limited (hereinafter referred to as "International Medical") was founded in 1956 and listed on the Shenzhen Stock Exchange on August 9th, 1993 with the stock code "000516" [4]. The business scope of international medicine mainly includes two parts, the first is the investment in medicine, medical treatment and related high-tech life science, and hospital management. Second, the retail business sector, with New Century business as the main business, forms a store layout of "four cities and five stores" in Shaanxi Province [5].

2.2. Implementation Process of International Medical Asset Divestiture

2.2.1. Announcement of suspension of trading of major events

On January 2, 2018, due to the great possibility of major events to have a great impact on the stock price of the company, in order to reduce the investment risk of

investors, National Medical issued a notice to suspend the trading of major events for no more than 10 trading days.

2.2.2. Audit the transaction plan and submit it for approval

In the process of reviewing and submitting for approval of this transaction plan, International Medical needs to issue a notice of continuing the suspension due to the expiry of the suspension, and then sign an equity transfer agreement with Yintai department store and BBB0 department store. After the agreement is signed, the board of directors of International Medical shall be held to review the proposal on the reorganization of the material assets, and the report on the sale of the material assets shall be released to the public. At the same time, relevant matters shall be submitted to the stock exchange for approval.

2.2.3. Complete the transfer of the underlying asset

On April 27, 2018, New Century Business completed the registration procedure of 100% equity transfer from International Medical to Yintai department store. At this point, international medical listed companies no longer hold the equity of New Century business.

3. Motivation Analysis of International Medical Asset Divestiture

3.1. Internal Motivation Analysis

3.1.1. Strategic transformation to build a medical and health group in the western region

International Medical was strategically transformed into a pure medical services company after divesting its retail department store assets in April 2018. In the future, the company also plans to carry out regional expansion with the support of government policies, so as to build a medical industry group with large reputation and strong core competitiveness in western China.

3.1.2. Optimize resource allocation and enhance core competitiveness

In recent years, with increasingly fierce competition in the traditional department store industry, retail industry profits decline, the international medical decided to adjust the development strategy, on the basis of the theory of "refocusing strategy", pooling resources to build the medical service business core competitiveness, promote the company's industrial structure transformation, in order to optimize enterprise resource configuration, improve the profitability of the company.

3.1.3. Activate assets to increase the company's cash flow

When it is difficult for the company to come up with effective management methods to make full use of idle assets, it will choose to sell these assets for asset divestiture, so as to revitalize the idle assets and invest the funds gained into new businesses, thus improving the profitability and overall operating effect of the company.

3.2. External Motivation Analysis

3.2.1. The development of traditional department store retail industry is hindered

In recent years, with the slowdown of macroeconomic growth and the rapid development of e-commerce, the traditional department store retail industry has been greatly impacted. Nowadays, the business model combining online and offline has become a normal condition. It is a difficult problem for New Century Shopping Mall to reform its business model according to its actual development situation.

3.2.2. Private medical services are facing development opportunities in the industry

With the national attention to the medical service industry, the national government has created a good environment for social capital to enter the medical and health service industry. International medicine has a huge opportunity for development, so it is a more sensible choice to grasp the preferential policies and continuously develop the medical service business.

3.2.3. Internet development promotes the transformation of medical and health service mode

Based on the industrial transformation and upgrading, make Internet hospital, international medical teamed up with ali using ali health information resources and the Internet technology, jointly establish ali health xi 'an high-tech Internet hospital, and to build a hospital internal unified platform for information sharing, through the way of combining online, greatly improving hospital efficiency.4. Evaluation and analysis of the effect of international medical asset divestiture [6].

4. Financial Effect Evaluation

4.1. Solvency Analysis

Quick ratio is a commonly used index to evaluate short-term debt paying ability. In this paper, quick ratio is selected as the comparison between International Medical and Aier Ophthalmology, a listed company in the same industry, and the average value of the industry to analyze the short-term debt paying ability of listed companies, as shown in Figure 1.

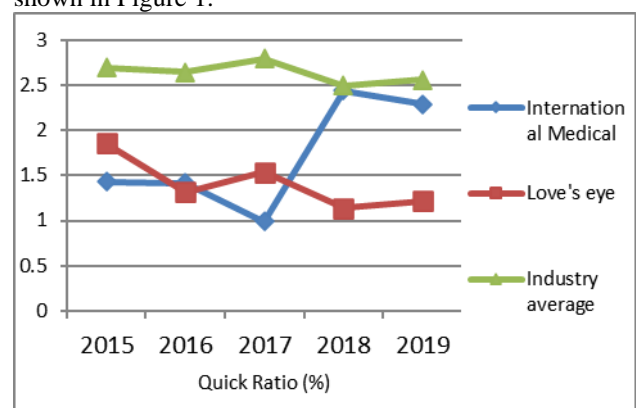


Figure 1. Comparative analysis of short-term solvency of listed companies (2015 -- 2019). Data source: according to the listed company announcement and Juling financial data collation.

As you can see from Figure 1, 2015 to 2019, eye quick ratio in the industry development of listed companies are relatively stable, and the international medical quick ratio have risen sharply in 2018, mainly because of the transaction before the international medical short-term borrowings of retail business is more, the deal after stripping retail business sector, the international medical company's short-term borrowing less, lead to quick numerical ratio was bigger, but is still lower than the industry average, international medical company through the assets reduced their short-term debt, improve the short-term debt paying ability.

4.2. Profitability Analysis

Gross sales margin is a financial index to evaluate the profitability of a company. In this paper, gross sales margin is selected to compare and analyze the case company with Aier Ophthalmology, a listed company in the same industry, and the average profitability of the industry, as shown in Figure 2.

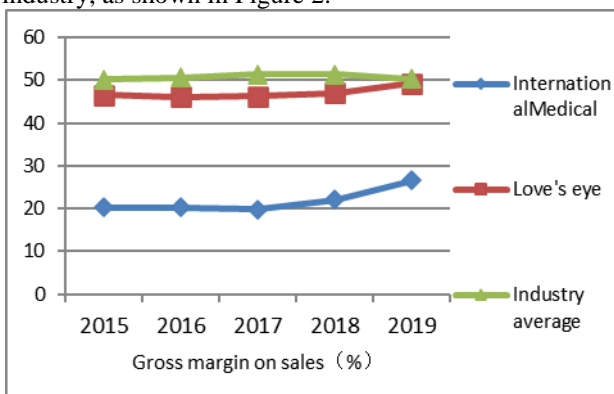


Figure 2. Comparative Analysis of Profitability of Listed Companies (2015 -- 2019). Data source: according to the listed company announcement and Juling financial data collation

You can see from the above, five years from 2015 to 2019, the international medical gross margin is far lower than the love, eye of the listed company and the industry average, but in 2018 and 2019, there have been obvious rising trend, that international medical before assets by the retail business sector drag on profitability has been is not high, but in the industrial optimization after the retail business, stripped of their low profitability, the company's overall profitability has increased significantly, the future with international medical invest more funds to the medical industry, the company's earnings will continue to rise, catch up eye of listed companies.

4.3. Growth Ability Analysis

In this paper, the growth rate of total assets is selected as the financial index for the analysis of the average growth ability of the case company and Aier Ophthalmology, a listed company in the same industry, and the specific situation is shown in Figure 3.

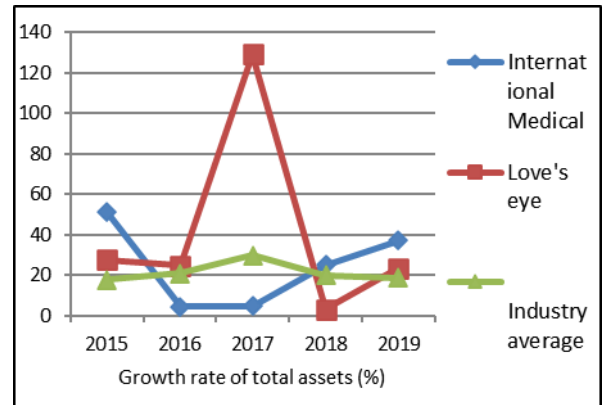


Figure 3. Comparative Analysis of Growth Capability of Listed Companies (2015 -- 2019). Data source: according to the listed company announcement and Juling financial data collation

As can be seen from Figure 3, the growth rate of the total international medical assets showed a downward trend from 2015 to 2017 and an upward trend from 2017 to 2019. Moreover, during the two years from 2017 to 2019, the gap between the growth rate of total assets of International Medical and Aier Ophthalmology is narrowing, indicating that the overall growth ability of International Medical is improving and strengthening, and the divestiture activities have brought positive effects to the listed companies. In the future, with the continuous operation of Xi 'an International Medical Center, Shangluo International Medical Center, Reproductive Medicine Center and other industries, a first-class private medical industry group will be formed, which will continuously improve the core competitiveness and growth ability of international medicine.

4.4. Operation Capacity Analysis

In this paper, the total asset turnover ratio is selected as the index of operation capacity of international medicine and Aier Eye, a listed company in the same industry, as well as the comparative analysis of the industry. The specific analysis is shown in Figure 4.

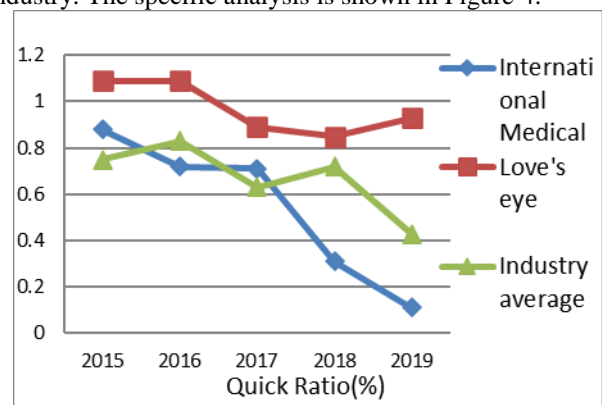


Figure 4. Comparative Analysis of Operating Capabilities of Listed Companies (2015 -- 2019). Data source: according to the listed company announcement and Juling financial data collation

As can be seen from Figure 4, although the turnover of the total assets of International Medical has been on a downward trend from 2015 to 2019, it is not much different from the average level of Aier Eye and the

industry, indicating that after the transformation of International Medical into a pure medical service company, the company's operating capacity has been reduced, but it is at a reasonable level in the medical industry.

5. Research Conclusions and Implications

5.1. Research Conclusions

5.1.1. *Asset divestiture can improve the company's operating performance*

After the completion of this transaction, International Medical divests the department store retail business with a high asset-liability ratio, reduces the debt burden of the company and improves the overall solvency of the company. Although the divestiture of the retail industry has weakened the operating capacity of the company's assets, it still remains within the reasonable range of the normal operation of the medical company after the weakening. In conclusion, after the separation of the retail business of the department store sector, International Medical focuses on the strategic direction of developing the medical service industry, which is conducive to improving the company's business performance.

5.1.2. *Optimizing the asset structure can enhance the company's core competitiveness*

After the transaction, international medical company is committed to the service of human health career a strategic choice in the core position, more use of endogenous growth and extension development and advance the medical industry layout, efforts to expand the scale of medical services, we will continue to increase in medical services and high-tech investment in the field of life science and technology, build collaborative big medical industry chain, the health of the development of the industry chain, enhance the company's core competitiveness.

5.1.3. *The sale of some assets can provide financial support for the development of the company's core business*

International Medical will sell 100% of the equity of the retail department store assets of New Century Business to Yintai Department Store at a transaction price of 3.362 billion yuan (tax included). The payment consideration for this transaction is all cash. After the completion of this transaction, International Medical has obtained sufficient cash flow.

5.2. Research Enlightenment

5.2.1. *Based on the actual situation of the company, appropriate timing and method of asset divestiture should be selected*

When a listed company considers whether to implement asset divestiture, on the one hand, it should proceed from the actual situation of the company and select the appropriate time for asset divestiture. The manager of the company should have the vision of strategic development and choose the appropriate time for asset divestiture. On the other hand, the company should choose the appropriate way of divestiture based on its actual situation.

5.2.2. *Scientific, reasonable and operable scheme is the guarantee of successful asset stripping*

The implementation of asset divestiture plan is the key step to the success of the company's asset divestiture. In the process of asset divestiture, International Medical fully disclosed the specific plan of asset divestiture. In order to avoid the cross-shareholding phenomenon after the transaction, International Medical and Yintai Department Store signed an equity transfer agreement, which achieved fairness and openness and avoided subsequent economic disputes.

5.2.3. *It is necessary to pay attention to resource reorganization, integration and evaluation after asset divestiture*

Asset divestiture is an important strategic choice, we should pay attention to the reorganization of company resources after asset divestiture and the effect evaluation of asset divestiture, and formulate specific reorganization plan and effect evaluation plan to promote the long-term and stable development of the enterprise.

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