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Research on the Financial Risks and Countermeasures in the Acquisition of Enterprise Stock Rights

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Abstract: In the current market competition is increasingly fierce, most listed enterprises are facing the needs of transformation and upgrading business transformation and expansion of production due to the weak growth of main industries. Therefore, equity acquisition is an effective way to help enterprises complete technological innovation and talent introduction and promote the vigorous development of enterprises. The development mode of the survival of fittest in equity acquisition promotes the distribution of market resources, and optimizes the market competition environment. Of course, the equity acquisition also accompanied with the corresponding risks. Because of the improper evaluation of the acquisition risk, the cases of acquisition failure are common. Therefore, this paper makes a deep analysis of the financial risks in the enterprise acquisition, and puts forward the solutions, in order to provide help for the real enterprise equity acquisition.

Keywords:Financial Risks; Equity Acquisition

1. Equity acquisition

The business behavior of acquiring the control right and the corresponding share income right of the target company is called the equity acquisition by acquiring the shares of the shareholders of the target company or by purchasing the shares issued by the target company [1].

With the rapid development of economy, the competition between enterprises is becoming more and more intense. With the natural law of survival of the fittest, the enterprises with poor management may face the crisis of being acquired by other enterprises. Of course, for the sake of economic profits, enterprises with excellent performance may also become the acquisition targets of other enterprises. But the various stages of equity acquisition also have different risks. For example: information asymmetry risk, financial risk, unified risk, etc. Whether these risks can be properly avoided and handled has an absolute impact on the success of the equity acquisition. Therefore, it is necessary to analyze the risk of stock acquisition and put forward corresponding countermeasures. This paper discusses and studies the financial risks in the stock acquisition of enterprises, in order to provide help for the stock acquisition of enterprises in reality.

2. The current situation of stock right acquisition of chinese enterprises

With the rapid development of economy, the market competition among enterprises is becoming more and more fierce. With the natural law of survival of the fittest, enterprises with poor management may face the crisis of being acquired by other enterprises. At the same time, for the sake of the economic profit of the enterprise, the enterprise with excellent performance may also become the acquisition target of other enterprises, in order to contribute to the long-term development of the enterprise. According to business changes and market price management requirements, the industry with excellent performance and popular market has become the target of equity acquisition. According to the data of China Financial Times, in 2015, 2669 companies listed on China's capital market merged and renovated, with a transaction scale of RMB 2.2 trillion, an increase of 52% over the previous year [2]. It can be seen that the volume of M & A transactions of Chinese companies is growing rapidly, because companies have more advantages in obtaining accurate information, which not only improves the resource allocation of the company, but also improves the resource allocation of the whole community. But at present, the equity acquisition in China's capital market is still in the stage of development, the relevant theory and practical experience are relatively lacking. The failure of enterprise equity acquisition will cause heavy damage to the acquired enterprises and waste of talents and materials. Therefore, this paper will study and analyze the financial risk of equity acquisition in order to solve the problem correctly.

In China's equity acquisition cases, it must be mentioned that in 2017, rongchuang China successfully acquired 13 cultural and tourism projects of Vanke Group, a leading real estate enterprise in China. This successful case is a brilliant one in China's equity acquisition cases. On July 10, 2017, Wanda Group and rongchuang China jointly announced that 91% equity of 13 cultural tourism projects and 100% equity of 76 hotels of Wanda Group were acquired by rongchuang China with a capital of 63.17 billion yuan and signed relevant agreements. Rongchuang China has completed seven equity acquisition cases before, and as much as 50% of its 2016 operating profits came from previously acquired enterprises. It can be seen from this that giving full play to the advantages of the acquired enterprises and making strong alliance among enterprises will generate one plus one more than two economic income. Grasping business opportunities, avoiding potential market risks, and correctly handling equity acquisition can help enterprises develop and grow, reach a higher platform, and move forward to a higher point of equity acquisition [3].

3. An analysis of financial risks in the acquisition of stock rights

With the rapid development of economy, the market competition among enterprises is becoming more and more fierce. With the natural law of survival of the fittest, enterprises with poor management may face the crisis of being acquired by other enterprises. At the same time, for the sake of the economic profit of the enterprise, the enterprise with excellent performance may also become the acquisition target of other enterprises, in order to contribute to the long-term development of the enterprise. Of course, the acquisition of equity is also accompanied by the corresponding risks. Due to the improper evaluation of the acquisition risk, the cases of acquisition failure are common. Therefore, this paper makes an in-depth analysis and Research on the financial risks existing in the enterprise acquisition, and puts forward the countermeasures, so as to provide help for the equity acquisition of enterprises in reality.

(1) The inaccurate evaluation of the value of the acquired enterprise aggravates the financial risk

According to the exact nature of many assets of the company, the wrong evaluation of the value of the company may lead to financial risks. The main problem is information symmetry. In reviewing and evaluating the acquired company, it is obvious that the company has obtained the financial status of the acquired company. The main way to achieve this goal is through the financial information provided by customers, including the company's financial statements and publicly available financial statements. Because the financial information comes from the organization receiving the information, the company receiving the information may provide false financial information and set up a "trap" to maintain its vitality and prosperity. If the financial statements are incomplete and the information is incorrect, it is incorrect to evaluate the value of the acquired company, which will increase the risk of the company.

At the same time, the regulatory system of equity acquisition has not been finalized, the accuracy, reliability and breadth of information have been seriously damaged, and its value analysis has not increased. In addition, the method of enterprise value analysis is the same, including payment method, cash flow method, market method, option payment method, etc. [4] Which can not be compared with the complex market environment and volatility. The lack of quantitative analysis makes the valuation more likely to be inaccurate.

(2) Financial risk in equity delivery

As we all know, equity acquisition is a complex process, involving many other factors and financial disputes. Therefore, it takes a long time to sign the acquisition contract and equity delivery. During this period, the market price of the stock purchase plan will change, and there is a significant difference between the purchase value and the present value, thus increasing the financial risk of the acquired company [5]. At the same time, if the company suffers serious financial crisis in operation due to the sharp decline of the organization's profit, then the financial risk brought by equity acquisition will be more. When acquiring the equity of the company, the property right must be transferred in accordance with the applicable laws and regulations. Before the national policies and regulations, if the requirements of fair delivery are not met, the financial risk will increase.

(3) Financial risks caused by the problems of acquiring Enterprises

As one of the main ways for the survival and development of enterprises, equity acquisition involves a lot of capital activities. In order to complete the equity acquisition, the purchaser needs to invest a lot of capital, including not only the capital owned by the enterprise itself, but also the capital raised by the enterprise through some financing channels. It can be seen that the capital cost involved is very large, so it is necessary to pay attention to it It is necessary to ensure the scientific rationality of equity acquisition decision.

Once the decision-making of equity acquisition does not conform to the actual financial situation of the enterprise, and the budget planning for the cost of capital is unreasonable, it is likely to directly lead to the failure of equity acquisition, and then affect its own operation status, and the current assets of the enterprise will be reduced, which will lead to a variety of financial risks.

4. Financial risks and Countermeasures of enterprise stock right acquisition

As far as enterprises are concerned, equity acquisition has both advantages and disadvantages, which need to be balanced. Although the company may gain more profits after purchasing shares, there are still financial risks that may affect the success of the acquisition. Therefore, companies need to solve the risks associated with the purchase of shares, deepen their understanding of how to prevent the sale of shares, strengthen the risk of equity acquisition, and formulate corresponding preventive measures. In the face of crisis, they can solve some problems in time, deal with them in time, and reduce unnecessary losses, which increases the chances of successful equity acquisition.

(1) Strengthen the value evaluation of the acquired enterprises to ensure the authenticity and reliability of the evaluation results

In order to avoid falling into the "acquisition trap" of the acquired enterprise and increase the financial risk, the acquiring company needs to strengthen the investigation and evaluation of the financial situation of the acquired enterprise, pay attention to it in the early stage of stock purchase, and strive to ensure that the valuation results have certain credibility and reference value. Therefore, in the process of inspection and evaluation, in addition to considering the business status, financial information (including capital structure and profits), assets and liabilities of the acquired company, it is important to verify that the assets acquired by the company are important, including their property rights and industry related information, such as the structure of the company's industrial development and the environmental information faced by the company in the previous stage Whether the shares are mortgaged, pledged or retained, and whether major litigation and arbitration cases are involved. At the same time, it can open up investigation channels, starting from commercial banks and some major loan platforms, in order to understand the credit status of the acquired company, and understand the quality, ability, credit quality and operation of enterprise executives. From senior managers of enterprise partners to enterprise culture, fully understand the market value chain, organizational structure, production capacity, management level, etc. [7]. Of course, it is necessary to make a thorough analysis of the information collected by the acquired company to distinguish the accuracy of the information, discard the incorrect and incorrect information, and review the information from different angles, especially from the financial point of view. We must pay attention to this situation, we must collect and analyze data and information thoroughly, we must reduce or eliminate the impact of the financial problems of the acquired company, reduce the possibility of our own financial risks due to the acquisition, and we must cover the financial decisions of the acquired company as far as possible.

(2) Pay more attention to the financial risk of equity delivery

After evaluating several stakeholders of the acquired company, it can determine whether its financial status is conducive to the long-term sustainable development of the company. You can then sign the power of attorney [7]. In order to avoid the delay between signing the contract and remittance due to purchase defects, we must inform both parties of their rights and obligations at this time, and professional legal adviser will provide help for you. Participate in poverty reduction measures. Legal risks at the time of purchase. If it fails to meet the relevant requirements of the government on stock purchase, the third party regulations can also be used to promote the business risk balance between the two parties, promote the business operation, and reduce the financial risk of the business by reducing the options.

(3) Improve the professional quality of assessors

Although equity acquisition can promote the survival and development of enterprises, it is based on the correct choice of the acquired enterprises. Once the enterprises with inaccurate financial information or unstable operation status are selected, it is not only difficult to bring vitality to the survival and development of enterprises, but also affect the reasonable effectiveness of equity acquisition in varying degrees. The choice of acquired enterprises not only reflects the accuracy of equity acquisition, but also reflects the rationality of enterprise acquisition strategy [8]. In order to reduce the financial risk in the process of equity acquisition as much as possible, the enterprise's capital acquisition needs to do a good job in basic financing and planning, and reasonably plan the scale of capital use and financing channels based on its own capital cost [9]. At the same time, in order to improve the rationality of the equity acquisition process, the acquisition enterprise should also assess the professional quality of the appraisers, so as to make the process of value evaluation more perfect and reasonable. It is necessary to take targeted measures to optimize the evaluation quality according to the actual situation of the acquired enterprise, and gradually improve the professional quality of the appraisers, so as to ensure that they can be competent for the current value Evaluation work. Due to the lack of their own appraisers, some enterprises directly choose the third-party appraisal institutions. When choosing the appraisal institutions, they should also try their best to choose the institutions with excellent professional ability and considerable appraisal experience, so as to make the whole value appraisal process more accurate and reasonable [10].

5. Summary

In a word, the current equity acquisition itself is very complex and involves quite a lot of links. Errors in different links will lead to the emergence of financial risks, especially the asymmetry of financial information, which is easy to bring greater obstacles to the development of enterprises. Enterprises should pay more attention to the financial risk of equity acquisition, take a variety of measures to deal with it scientifically, and comprehensively improve the rationality and effectiveness of equity acquisition.

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