Analysis on Financing Efficiency of Small and Medium sized Enterprises in New OTC Market

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Abstract. This paper mainly elaborated the present situation of the development of the new OTC and analyzed the financing efficiency of the small and medium-sized enterprises. According to the current opportunities and challenges of the financing of small and medium-sized enterprises, the paper put forward the problems and strategies of the financing of small and medium-sized enterprises in the new OTC market.

Development Status of New Three Boards

Since 2014, the new OTC board by more and more enterprises concerned about the number of listed companies and the total market value of the new board has been experienced since the establishment of the fastest growing, the scale gradually expanded. According to the national SME share transfer system statistics show that as of December 17, 2015, the new three board listed companies a total of 4832, the total share capital of 278.57 billion shares, the total market capitalization has more than 500 billion yuan. Although the new OTC board companies in the scale is much smaller than the motherboard and the GEM company, but from the published 2014 annual report of the 2318 new OTC board listed companies to see the data, in line with the GEM IPO conditions of the enterprises have 908, net profit Speed up to 32%. In view of this, the new OTC board listed companies show higher growth rate and greater value-added space.

At the same time, the new OTC board listed companies are also sought after by many investors. Since the introduction of the market maker trading system in August 2014, compared with the past, the new OTC board flow deficiencies have been greatly improved, the issue of equity liquidity to a certain extent be resolved, the new three board listed companies stock trading activity outbreak Sexual growth. The size of the financing also showed explosive growth from less than 10 billion yuan in 2014 to expand the scale of financing to June 2015 close to 30 billion yuan.

The Present Situation of Financing of Small and Medium-sized Enterprises in China

China's large number of small and medium enterprises, according to the new "small and medium enterprises designated standards", small and medium enterprises accounted for more than 99% of the total number of enterprises. These small and medium enterprises for the national economy to create a large number of employment opportunities, technological innovation, government tax, contributed about 60% of the total economy. Therefore, the small and medium-sized enterprises is an important component of China's economic growth and driving forces to provide new employment and re-employment of the main channels, but also for China's innovation-driven strategy provides an important supporting force. However, China's small and medium-sized enterprises in China's independent innovation and macroeconomic made outstanding contributions to the same time, its own financing has become a major bottleneck restricting its development.

Small and Medium-sized Enterprises Mainly to Internal Financing

The internal financing sources of small and medium-sized enterprises mainly for the founder of the
initial investment, relatives and friends borrowed and the development process of accumulation of surplus reserves, capital reserves and undistributed profits. These internal financing has a lower threshold and capital costs, in the early stages of enterprise development to provide a major source of funding.

**Small and Medium-sized Enterprises are more Difficult to External Financing**

First, the small and medium-sized enterprises are small, the business model is not yet mature, the profitability is limited; the operating time is short, the lack of sufficient credit records; assets accounted for a higher proportion of intangible assets, the lack of fixed assets and other effective assets to ensure collateral security; Compared to mature large companies face greater non-systemic risk, credit demand is unstable, and difficult to determine the number and duration of loans. Therefore, in China's commercial banks and other financial institutions, high threshold of financing, complex procedures, high cost of capital, loans for mature large enterprises in the environment, small and medium enterprises is difficult to obtain adequate bank credit.

In addition, since small and medium-sized enterprises are generally held or held by family or a small number of individuals, they are more concerned with the control relationship established on the equity rather than the equity itself. And because the high-tech enterprises to grasp the survival of the key technology, once the public disclosure of these technologies, it is easy to be copied and used by competitive enterprises, and thus threaten its market position. Therefore, the proportion of small and medium enterprises to choose equity and other direct financing channels are also lower.

**Small and Medium-sized Enterprises Rely on Informal Channel Financing**

Because of the difficulty of relying on bank loans to obtain financing, when small and medium enterprises need external funds, private lending has become the way to raise funds. This approach threshold is low, simple and fast, in the short term for enterprises to raise the required capital. But this kind of financing method is usually very high, and may need to pay a considerable intermediary consulting fees. Which will greatly enhance the cost of capital, and bear a higher risk.

**Analysis on New OTC Board Market Financing**

A large number of small and medium enterprises due to the lack of effective financing channels, their own business and development constraints. The new OTC board at the beginning of the establishment of adherence to the "high-tech high-growth enterprises to provide financing platform", is committed to small and medium enterprises to solve the problem of financing difficulties. The new OTC board is not only for the unlisted stock company to build a platform to achieve circulation of shares, but also to strengthen the listing of corporate credit, improve corporate governance institutions, and promote private equity financing an important platform. The new OTC boards gradually become the motherboard, small plates and the basis of the GEM and the foreground, China's capital market is an important component.

**Liquidity Analysis**

From the turnover of the number of view, the new three board in 2006 a total turnover of 251 pen, is the lowest in the past few years, reaching a peak in 2014, 92,654 pen, during the turnover of the number of ups and downs; from the transaction shares, 2006 is still the lowest, For the 1593 million shares, the explosive growth in 2014, the number of shares traded in 2013 was 11 times; from the turnover point of view, in addition to 2010 slightly lower than 2009, the overall showing steady growth. From the above three data on the total point of view, the market transactions with the number of listed companies increased growth. However, the average number of view, the average number of transactions in each listed company in 2012, the amount of transactions and the number of transactions are the lowest in the past few years, mainly due to the number of new board companies in 2012, a substantial increase in the number of investors, There is a certain lag. But after 2012, the average indicators are rapidly rising, and the rate of increase is very optimistic. In addition, the
turnover rate in 2014 also showed explosive growth. This shows that after 2012, not only listed companies to increase the number of investors are more recognized the new OTC board of the capital market, investment transactions more active, the new three board liquidity has been greatly improved.

Table 1. Over the years the new three board stock transaction profile (2006-2014).

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of listed companies</th>
<th>Number of transactions (Million shares)</th>
<th>Turnover amount (ten thousand yuan)</th>
<th>Number of transactions</th>
<th>Turnover rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>10</td>
<td>1,592.63</td>
<td>8,340.71</td>
<td>251</td>
<td>-</td>
</tr>
<tr>
<td>2007</td>
<td>24</td>
<td>4,420.15</td>
<td>23,156.63</td>
<td>521</td>
<td>-</td>
</tr>
<tr>
<td>2008</td>
<td>41</td>
<td>5,407.86</td>
<td>29,527.82</td>
<td>484</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>59</td>
<td>10,735.76</td>
<td>48,342.53</td>
<td>878</td>
<td>-</td>
</tr>
<tr>
<td>2010</td>
<td>74</td>
<td>6,951.29</td>
<td>41,872.24</td>
<td>644</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>97</td>
<td>9,563.76</td>
<td>56,169.56</td>
<td>832</td>
<td>5.57%</td>
</tr>
<tr>
<td>2012</td>
<td>200</td>
<td>11,455.51</td>
<td>58,431.81</td>
<td>638</td>
<td>4.47%</td>
</tr>
<tr>
<td>2013</td>
<td>356</td>
<td>20,242.52</td>
<td>81,396.19</td>
<td>989</td>
<td>4.47%</td>
</tr>
<tr>
<td>2014</td>
<td>1572</td>
<td>228,212.40</td>
<td>1303,580.47</td>
<td>92654</td>
<td>19.67%</td>
</tr>
</tbody>
</table>

Source: National SME Share Transfer System

Figure 1. The number of transactions over the years and the average number of transactions (2006-2014).

Figure 2. Annual turnover and average transaction amount (2006-2014).
Figure 3. The number of transactions over the years and the average number of transactions (2006-2014).

### Directional Capital Increase Analysis

The new OTC board set up the original intention is to provide shares for small and medium enterprises to facilitate the transfer, so the transfer of shares should naturally become the core function of the new three boards. However, in practice, this market is more functional, cannot meet the financing needs of listed companies. As the new OTC board listed companies are non-listed companies, and the motherboard is different from the public offering of shares, only through the way to attract capital by way of strategic investors to enter, so the market naturally gave birth to this means of financing, and further recognized by the regulatory body and support.

The new OTC board listed companies are similar to the listed companies, that is, in a non-public way to minority investors to issue shares, but less limited. In China, the listed companies need to be funded by the two documents are bound by the "listed company securities issuance management approach" and "listed companies non-public offering of stock implementation details"; and the new OTC board listed enterprises to increase capital only in the "pilot approach" In Article 72 of the provisions of the listed companies to set the specific rules of capital increase by the Association to develop, subject to the constraints much less than the listed companies on the Main Board.

At the same time, due to the new OTC board does not limit the number of additional issuance and can apply for multiple times a flexible system, making investors involved in corporate private placement enthusiasm is even higher.

<table>
<thead>
<tr>
<th>year</th>
<th>Number of redirects (times)</th>
<th>Amount of private placement (100 million yuan)</th>
<th>Number of private placement shares (100 million shares)</th>
<th>P / E</th>
<th>P / E (times)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3</td>
<td>1.19</td>
<td>0.45</td>
<td>28.9</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>5</td>
<td>2.46</td>
<td>0.56</td>
<td>16.3</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>1</td>
<td>0.25</td>
<td>0.06</td>
<td>11.1</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>6</td>
<td>2.91</td>
<td>0.54</td>
<td>19.2</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>11</td>
<td>7.08</td>
<td>0.90</td>
<td>21.2</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>24</td>
<td>8.59</td>
<td>1.93</td>
<td>20.7</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>60</td>
<td>10.02</td>
<td>2.92</td>
<td>21.4</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>327</td>
<td>129.99</td>
<td>26.43</td>
<td>35.3</td>
<td></td>
</tr>
</tbody>
</table>

Source: CVSource hit the database

From the table can be seen, the new OTC board listed companies private placement since 2009, showing a steady growth trend in 2014 increased by 445%, and the amount of private placement also rose nearly 13 times the number of private placement also rose 13 Times The new OTC board will increase the scale of the significant increase in investment, financial integration of both sides to enhance, as the core functions of corporate financing to further strengthen.
At the same time, private placement price-earnings ratio since 2009, the same solid rise, 2010-2013 to maintain about 20 times in 2014 rose to 35.3 times. Overall, investors expect the new board is more rational, the market is more active, the overall market operation is relatively stable.

However, the new OTC board enterprises will increase the scale and the motherboard and the GEM is still a large gap compared to an average of each enterprise will raise additional funds of 023 million yuan in 2014, in addition to three companies total fund-raising more than 300 million yuan, the rest The top 10 for enterprises to increase the scale are 100 million yuan, indicating that the new OTC board market activity is still room for improvement.

Transfer Board and M & A Analysis

In addition to directional capital increase, the transfer board or mergers and acquisitions into the A shares is also the purpose of SMEs to achieve the two major ways to achieve financing. New three board listed companies can also be acquired as the acquisition of the subject of the enterprise, the industry consolidation and rapid growth, and then successfully listed through the transfer board.

However, due to the strict management of China's IPO, although eight new OTC board enterprises through the successful conversion of A shares of the market, but the eight conversion companies still need to follow the normal IPO procedures, and did not enjoy the listing from the new OTC board business Policy, strictly speaking, the new OTC-board transfer board approach is not really established, the real implementation of the transfer board system may be to be layered system and the establishment of multi-level capital market.

Different from the transfer board, in recent years the pace of mergers and acquisitions to speed up. When the company's business development to a certain scale, due to the vertical competition in the industrial chain and similar companies horizontal competition intensified, the enterprise's endogenous power to slow down, business growth bottlenecks, mergers and acquisitions will become the best way to extend the development of enterprises. Since 2014, the state in the financial sector in a number of reforms to relax the listing and non-listed companies in the M & A restrictions, coupled with a number of business in recent years, stable and qualified enterprises to join the new three board.

The Insufficiency of New OTC- plate Financing

Although the new OTC board into the threshold although significantly lower than the motherboard, but in practice, there are still many obstacles for the enterprise, the audit process is still more cumbersome. In addition, the new OTC board listed companies financing a more single scale, cannot issue shares, only through directional financing channels to finance. Moreover, although the enterprises have a strong look forward to the transfer board, but the new board is very low plate transfer rate, transfer mechanism is not mature, transfer board channel has not yet been fully established. Which will affect the new OTC board financing capacity, to combat the enthusiasm of the new landing OTC companies.

The new OTC board has the investor proper system, stipulates that only the institutional investors and the special natural person can participate in the transaction, the general natural person cannot participate in the transaction, and the transaction process there is a single entrusted shares, ups and downs, the number of directional capital increase and many other restrictions, This limits the enthusiasm of investors to a certain extent, and the size of investors is essential to the liquidity of the market.

Conclusion and Suggestion

First, improve the transfer mechanism. This will not only solve the enterprise from the OTC market to the motherboard market access issues for enterprises to provide a broader financing platform, but also to attract a number of outstanding development potential of small and medium enterprises to the new three board gathered to promote China's multi-level capital market Build. Second, make full use of the market maker system. Market makers through two-way offer, can effectively improve the market
liquidity defects, to provide the basis for accurate valuation of enterprises. Therefore, the full use of market maker system, whether it is listed companies or investors are of great significance. Third, optimize the trading system. Reduce the threshold of investors, only with a wide range of investors in order to have a more stable and stable market; improve the system, reduce the one or two market arbitrage behavior to protect the secondary market investors; strengthen the listed company compliance supervision, improve the company Of the regulatory system, increase the illegal listing of enterprises listed on the intensity.

**References**


