

Analysis of Grand Pharmaceutical Co., Ltd.'s Successive Acquisitions of Two Companies Within Two Years

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Abstract: Since the 21st century, the phenomenon of acquisition and merger of enterprises has become more and more intense. The benefits of the enterprises' acquisitions include cost savings, increased revenue, and improved market competitiveness. However, there are risks involved, so it's critical to select the ideal acquisition company and execute an effective acquisition plan. In this paper, Grand Pharmaceutical has acquired two enterprises in the past two years as an example of analysis and research, using scientific valuation methods, to draw a successful conclusion of the acquisition, to provide experience for the future acquisition of enterprises. Grand Pharmaceutical Co., Ltd.'s acquisition is forward-looking, and no major company has committed to exploring the amino acid market before, thus filling the gap in the industry and market. In addition to interests, entrepreneurs must also be concerned with market rules and legal norms. When making acquisitions, an enterprise should design a solid development plan while also abiding by market regulations and engaging in competitive activity within appropriate bounds. These results shed light on guiding further exploratio of enterprises M&A.

Keywords: acquisition, biotechnology, pharmaceutical enterprises, expand the market

1. Introduction

Business acquisitions are a driving force for China's economic development and corporate restructuring, which helps achieve economies of scale, diversify enterprises, improve overall competitiveness, and break down barriers to entering new industries and markets. However, due to the impact of the COVID-19, many governments have restricted the economic behavior of enterprises, resulting in economic chaos, and many companies have been negatively affected. In the context of unstable economic environment, the acquisition of enterprises should be very cautious and consider multiple factors [1]. Corporate mergers and acquisitions are fraught with risk. According to the results of multiple surveys by well-known consulting firms around the world, the probability of failure of global corporate mergers and acquisitions is about 50%, which indicates that half of mergers and acquisitions are far from meeting expectations. According to Bain & Company's 2023 and 2022 global M&A market total deal size is \$3.8 trillion, drop 36% year-on-year. In China, the value and volume of strategic deals decreased by approximately 34% and 24%, respectively, compared to 2021 [2]. The current situation in the domestic market is that the demand in the domestic market is declining. In this case, it is difficult for enterprises to scale up

on their own. Through the acquisition and mergers and acquisitions of enterprises, risks can be diversified, market competitiveness can be improved and profits can be increased [3]. Therefore, it is valuable for Chinese companies to start thinking about mergers and acquisitions of their companies. Grand Pharmaceutical Group Limited is a well-known listed company in the Hong Kong stock market. Judging from the market situation in recent years, the Hong Kong stock market has become a mainstream listing destination [4].

To achieve the goals of acquisition and improvement development, enterprises need to choose suitable acquisition companies, choose the correct development direction, and persist. All of these are crucial. As far as the development of the industry itself is concerned, amino acids have a wide variety of applications, have great development potential, and the market prospect is very broad. According to the "analysis of the scale, demand, import and export of the global and Chinese amino acid industry in 2022", China's amino acids still have a lot of room for development and progress. Therefore, it is crucial to pick the appropriate method of valuation before conducting an effective study and making wise suggestions for the growth of the company. Jiang's research shows that among the current mainstream valuation methods, the DCF method and the PB method have great limitations, and the PE method and the PS method are more applicable in theory [5]. Therefore, the PE and PS methods were adopted in the acquisition analysis of Grand Pharmaceutical.

Owing to high market risk and competitive pressures, more and more companies are choosing to merge, it's essential for entrepreneurs to consider that mergers and acquisitions themselves are also a risky thing. Therefore, how to determine whether the valuation of potential M&A targets is reasonable and how to choose the appropriate valuation means is the key to dealing with risk [6]. In recent years, the number of mergers and acquisitions has increased. In this situation, it is necessary to first study the motivation of the acquisition and choose a scientific valuation method, which can better avoid errors in the acquisition and prevent the risks brought about by the acquisition.

This paper takes the acquisition cases of Grand Pharmaceutical Co., Ltd. successively acquiring Cangzhou Brilliance Biotechnology Co., Ltd. and Hubei Bafeng Pharmaceutical Co., Ltd. as examples. Comprehensive analysis of the success of the acquisition through case studies and literature surveys. Finally, the analysis of this typical and successful acquisition can serve as a reference for other companies making acquisitions.

2. Case Description

On April 26, 2023, Bain & Company released its 2023 Global Healthcare Private Equity Report. The report shows that the global healthcare industry has shown strong resilience through cycles. Looking back at 2022, the total investment transactions in the global healthcare industry reached about US\$90 billion, with both the number and total volume of transactions approaching all-time highs. The conclusion that can be drawn is that the health care sector is on the up and up and the future is looking good. The pharmaceutical industry and biotechnology are inseparable. The field of biotechnology is developing rapidly and has become one of the focal points of global technology competition. Recommendations for enhancing the growth of biotechnology innovation in China are listed below. Firstly, it can solidify the research base in superior areas and strengthen the research ability in frontier areas. Secondly, it will strengthen the cross integration of various disciplines and vigorously promote the cultivation of composite innovative talents. Thirdly, it can promote the development of Bioeconomy with biotechnology as the core to meet the needs of people's life and health [7]. The acquisition behavior of Grand Pharmaceutical has achieved these goals. This article focuses on the acquisition cases of Grand Pharmaceutical Co., Ltd. that successively acquired Cangzhou Brilliance Biotechnology Co., Ltd. and Hubei Bafeng Pharmaceutical Co., Ltd.

Grand Pharmaceutical Group Co., Ltd. is a technology innovative international pharmaceutical enterprise that integrates pharmaceutical technology, nuclear drug anti-tumor diagnosis and

treatment, precise cardiovascular and cerebrovascular intervention diagnosis and treatment technology, and biotechnology. In 2002, Grand Pharmaceutical completed a change in its equity structure and indirectly listed in Hong Kong. At present, Grand Pharmaceutical has more than 30 member companies, including the respiratory and severe infection sector, tumor sector, cardiovascular and cerebrovascular emergency care sector, ophthalmology sector, cardiovascular and cerebrovascular precise intervention diagnosis and treatment sector, nuclear drug anti-tumor diagnosis and treatment sector, and high-quality amino acid sector.

Cangzhou Huachen Biotechnology Co., Ltd. was established on October 31, 2017, located in the Cangzhou National Chemical Park. The company is established in the development and generation of amino acids and their derivatives and is committed to high-tech commercialization in the field of biomedical sciences. In October 2021, Cangzhou Huachen Biotechnology Co., Ltd. was invested and acquired by Grand Pharmaceutical Co., Ltd. Hubei Bafeng Pharmaceutical Co., Ltd. is a key high-tech enterprise in China, with its main products being amino acid derivatives. It is the largest production scale enterprise among similar products in China. On August 7, 2022, Grand Pharmaceutical signed an equity acquisition agreement with Hubei Bafeng to acquire 100% of its shares. Hence, Grand Pharmaceutical completed the acquisition of two amino acid research and development companies within two years.

3. Case Analysis

According to a report released by Guoyuan International Holdings Co., Ltd. on March 13, 2020, the revenue performance of the biotechnology sector of Grand Pharmaceutical in the first half of 2019 was not very good. The company's biotechnology and nutrition products cover Taurine, amino acids, biological drugs, biological feed additives and Steroid hormone products. This sector generated revenue of 940 million yuan, 121 million yuan, 136 million yuan, and 75 million yuan for the company in the first half of 2016/2017/2018/2019, with year-on-year growth rates of 28%, 28%, and 13%, respectively. On account of the continuous growth of market demand for amino acid products and the expansion of the company's international business, the economic growth rate slowed down in the first half of 2019. According to the performance of Grand Pharmaceutical in the 2019 fiscal year, the revenue from biotechnology and health products was 1.37 billion RMB, ranking second in terms of revenue contribution rate. Among them, the revenue from amino acid products reached 488 million RMB, which is considerable. In 2019, Grand Pharmaceutical had not yet acquired two amino acid companies. This shows that prior to the acquisition, Grand Pharmaceutical already had a level of strength and foundation in amino acid research and development. The increasing demand for amino acid products proves that the market is huge and shows that the company can capture more market share by improving its strengths. The following is a survey on the market situation.

From the current situation of the commercial market, according to the Analysis on the Scale, Demand, Import and Export of Global and Chinese Amino Acid Industry in 2022 released by Huajing Information Network, the global demand for amino acids is on the rise, especially lysine and Threonine. From a macro market perspective, the market demand for amino acids is constantly increasing. Western economics prioritizes "demand", and the greater the market demand, the broader the development prospects. From the present domestic market situation, the remarkable growth in feed production has pushed the overall industrial scale of feed amino acids in China to grow dramatically and the domestic feed amino acid market is extremely wide. From the perspective of export, the main export amino acid products of China are lysine and Threonine. According to the export situation of China's main amino acids from 2017 to September 2022, the export scale and amount of these two amino acids are constantly expanding and growing, and the export situation is good [8].

The above information indicates that the domestic and international markets for amino acid products are very broad. In 2021 and 2022, Grand Pharmaceutical successively acquired Huachen Biotechnology Co., Ltd. and Hubei Bafeng Pharmaceutical Co., Ltd., achieving an expansion of market share. The variation in the percentage of biotechnology and health products to which amino acid products are part is examined in terms of revenue structure. According to the performance income structure chart of Grand Pharmaceutical in its annual report from 2020 to 2022, it can be seen that the proportion of biotechnology products and health products is increasing year by year. The proportion from 2020 to 2022 is 23.7% (Figure 1), 26% (Figure 2), and 30% (Figure 3), respectively. The other two boards are pharmaceutical preparations and medical devices, high-quality raw materials, and other products, both of which have decreasing revenue. It can be seen that after the acquisition, the research and development strength of Grand Pharmaceutical's amino acid products has been improved, resulting in an increase in revenue.

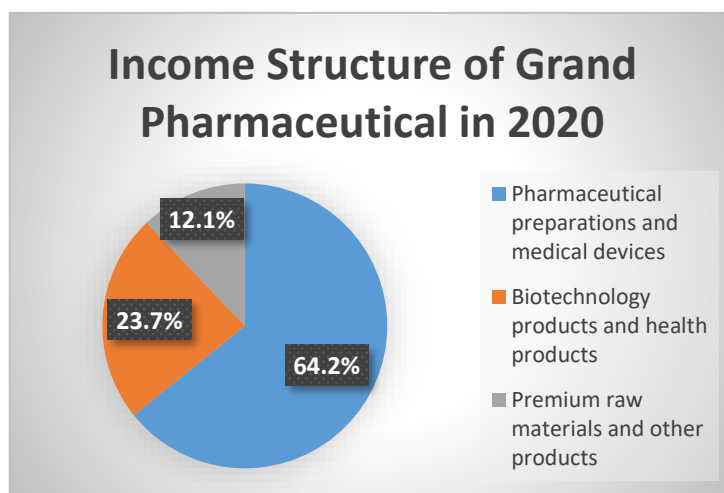


Figure 1: Income structure of grand pharmaceutical in 2020.

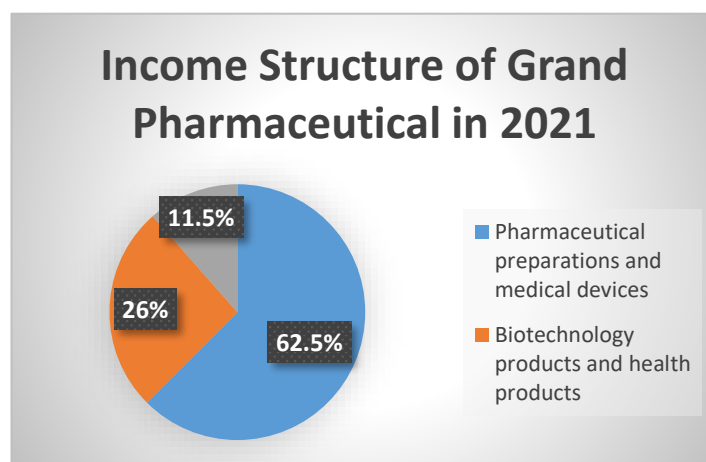


Figure 2: Income structure of grand pharmaceutical in 2021.

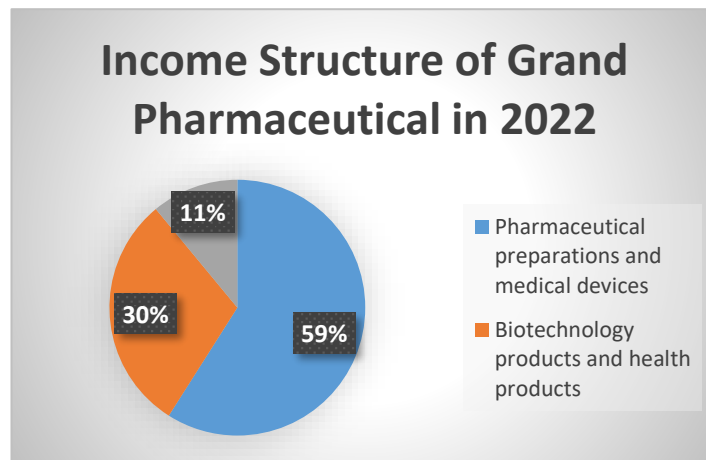


Figure 3: Income structure of grand pharmaceutical in 2022.

This is an inference which without enough scientific. Analyzing the financial situation of the enterprise after the acquisition is necessary. The financial integration after enterprise acquisition is of great significance, mainly in two aspects: it is conducive to the stability of enterprise operation and the improvement of enterprise economic efficiency [9]. So, this article chose scientific valuation methods to analyze the integrated financial situation. For the valuation of Grand Pharmaceutical, the PE valuation method and PS valuation method are adopted. The PE valuation method, also known as the P/E ratio valuation method, is one of the most commonly used valuation methods. The calculation formula is $P/E \text{ ratio} = \text{stock price} / \text{earnings per share} = \text{market value} / \text{net profit}$. According to the report (Table 1) released by Guoyuan International Holdings Co., Ltd. on the financial situation analysis and forecast of Far Eastern Pharmaceutical, the P/E ratios from 2020 to 2022 were 9.41, 7.02, and 8.11, respectively, with a slight increase in 2022. However, the predicted P/E ratios for 2023 to 2025 are continuously decreasing. The lower the P/E ratio, the higher the expected return of a company. This indicates that the investment payback period is getting shorter and the return on capital is getting higher. PS valuation method is the Price - sales ratio valuation method. The calculation formula is $\text{Price - sales ratio} = \text{share price} / \text{income per share} = \text{total market value} / \text{sales income}$. The PS value can be used as an indicator to observe the potential value of a company, in order to observe whether the company's future profitability can significantly increase. Generally speaking, as the scale of business revenue expands, the value of the enterprise increases, while PS tends to decrease. The smaller the PS, the higher the investment value is usually considered. According to Table 2, in the short term, the group's existing business is stable, with multiple innovative product launches and amino acid sector businesses contributing to sales growth; In the long run, the company's pipelines are becoming increasingly abundant, providing support for sustained and strong growth in the future.

Table 1: Report of guoyuan international holdings Co., Ltd. on the financial situation analysis and forecast of grand pharmaceutical.

RMB million	2020A	2021A	2022A	2023E	2024E	2025E
Turnover	6352.9	8598.0	9562.3	12078	15191	17869
Year-on-year growth (%)	-3.61%	35.34%	11.22%	26%	26%	18%
Net profit	1792.7	2402.6	2079.4	2953	3731	4326

Table 1: (continued).

Year-on-year growth (%)	55.76%	34.02%	-13.45%	42%	26%	16%
Net profit margin	27.88%	27.43%	21.47%	24%	25%	24%
Earnings per share(yuan)	0.52	0.68	0.59	0.83	1.05	1.22
PE@4.75HKD	9.41	7.02	8.11	5.71	4.52	3.90

Table 2: Anxin international securities published a report on the analysis and forecast of the financial situation of grand pharmaceutical.

Annual closing 31/12 (HKD million)	2020	2021	2022E	2023E	2024E
Sales revenue	6353	8598	9607	10561	12272
-Growth rate(%)	-4%	35%	12%	10%	16%
Net profit	1793	2403	2407	2460	2794
-Growth rate(%)	56%	34%	0.2%	2.2%	14%
Gross margin(%)	64%	61%	65%	65%	65%
Net profit margin(%)	28%	28%	25%	24%	23%
ROE,average(%)	18%	19%	16%	14%	14%
Earning per share(Hong Kong dollars)	0.52	0.68	0.68	0.69	0.79
Net assets per share(Hong Kong dollars)	3.20	3.79	4.47	5.17	5.97
P/E ratio(x)	8.19	6.29	6.28	0.14	5.41
Market to book ratio(x)	1.33	1.12	0.95	0.82	0.71
Dividend yield(%)	2.8	2.58	3.07	2.91	3.29

4. Suggestions and Inspirations

The phenomenon of mergers and acquisitions has become increasingly popular in recent years, with more and more companies choosing companies to develop themselves and reduce their risk. The investment proposal in the Report on the Development Status of the Medical and Health Industry/White Paper 2022 issued by Haitong International pointed out that the pharmaceutical industry will fall back in 2022 from the perspective of investment and financing, IPO and other aspects, but the long-term growth trend will not change in the short term, and the pharmaceutical industry will continue to maintain a high profile in the future. It suggests that companies require risk prevention but remain optimistic about long-term growth and develop the right growth strategy. The case of Grand Pharmaceutical's acquisition of Huachen Biotechnology and Hubei Bafeng shows that the acquisition can increase market share, increase business revenue and profitability, achieve economies of scale, reduce transaction costs, and business risks. The biomedical industry itself has the characteristics of high investment, high risk, long cycle, and high return [9]. Thus, analyzing the investment value of biomedical listed companies, gaining a deep understanding of the

actual development needs of biomedical listed companies, and quantitatively evaluating investment indicators can help improve the effectiveness of investment decision analysis and pharmaceutical companies successfully acquire [10].

5. Conclusions

Overall, the acquisition has been successful. From the perspective of companies choosing to acquire companies, Grand Pharmaceutical has chosen Cangzhou Huachen Biotechnology Co., Ltd. and Hubei Bafeng Pharmaceutical Co., Ltd. in order to open up the amino acid market. Previously, no large pharmaceutical company in China had chosen to develop from the amino acid market. Grand Pharmaceutical is committed to developing and expanding the amino acid market, filling the gap in the industry and market, and occupying a large market share.

From a corporate growth strategy perspective, the choice to acquire two companies that focus primarily on amino acid products is an exploration of the amino acid market. Amino acids have a wide variety of types and applications, with great development potential and broad market prospects. The main development sectors of Grand Pharmaceutical include four categories, namely facial medicine and instruments, cardiovascular and cerebrovascular drugs, biotechnology products and health products, high-quality raw materials and other products. Amino acid products have undoubtedly become a major part of biotechnology and health products, making a huge contribution to the company's performance and revenue.

From the perspective of enterprise value, mergers and acquisitions have improved the company's value and market competitiveness. At present, Grand Pharmaceutical has nearly 50 types of amino acid derivatives and 24 registration numbers for amino acid raw materials, covering over 70% of similar registration numbers. It has become the enterprise with the most registration numbers for amino acid raw materials in China. The company's amino acid products have a perfect quality certification system at home and abroad. Its sales network covers more than 140 countries and regions around the world, and its overseas business accounts for more than 50%. Among them, the market position and capacity scale of the core product cysteine series rank first in the world, and the capacity scale of Taurine ranks second in the world. From a financial perspective, the PE and PS valuation methods indicate that Grand Pharmaceutical's financial revenue is good, indicating that the acquisition has contributed to the company's profitability.

However, some limitations should be noted. One is the collection events that have occurred in the last two years, so there is precious little observable data, which may lead to inaccurate conclusions. The second limitation concerns the valuation method. Lots of valuation method can be used, making it hard to determine which is the best and scientific. It's also necessary to make prospects for future research. Enterprises should carefully consider, confirm their development direction, and formulate development plans when choosing to acquire companies. Despite the increasingly competitive market, the economic behavior of companies must still be based on compliance with market rules. The acquisition and merger market requires the rationality of the acquiring entity, the ability to adhere to the correct merger strategy, and the search for truly synergistic targets. In future development, it should be paid more attention to the improvement of technology and product research and development, consolidate our market position, and also comply with economic regulations and regulate corporate behavior.

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