

# The Impact of Asset Restructuring

Baifang Liu<sup>1\*</sup>, Angqi Li<sup>2</sup>, Meijie Du<sup>3</sup> and Liqiu Sui<sup>4</sup>

<sup>1</sup>Business School, Beijing Language and Culture University, Beijing, China

<sup>2</sup>Isenberg School of Management, University of Massachusetts, Amherst, USA

<sup>3</sup>Business School, Beijing Language and Culture University, Beijing, China

<sup>4</sup>WEI Fang Bank, WEI Fang, China

\*Corresponding author: liubaifang@blcu.edu.cn

**Abstracts:** *This paper studies the differences in market cognition between asset reorganization and production structure optimization and how the profit media variables affect the market's perception of asset structure optimization. The conclusions indicate that the market identifies asset structure differences between successful and failed companies. However, the market doesn't confirm them as effective value signals.*

**Keyword:** *Profitable Media, Asset Restructuring, Value Signal*

## 1. Introduction

In the Internet era, the information of asset restructuring, optimization, and adjustment of enterprises is no longer just a secret known by a few people. However, it will be rapidly disclosed to most investors. Can investors distinguish the asset structure differences caused by asset restructuring and accurately evaluate their value? The contribution of this paper is that it puts forward and tests a new view that the market can distinguish the asset structure differences between successful and firms in asset restructuring. However, it is not confirmed in the form of value signals.

## 2. Non- Profit Transmission Mechanism

The non-profit transmission mechanism is a direct mechanism to realize the value transmission of enterprises by directly influencing market expectations. The non-profit transmission mechanism is mainly the fluctuation of market expectations of future enterprise value caused by the adjustment of non-productive asset structure. China's securities law provides for twenty-one categories of significant issues to be disclosed, many of which relate to asset structure optimization. For example, significant changes in the company's business approach or scope of business, significant investment actions and major asset purchase decisions, necessary contracts affecting elements such as assets, closure or freezing of significant assets, access to substantial subsidies or additional benefits, and so on.

Disclosure of major events may cause fluctuations in market value. However, whether market value fluctuation can be attributed to significant asset adjustment disclosed by enterprises needs sufficient empirical support. The reason is that there is no causal relationship between the two timing correlation events. The non-profit transmission mechanism studies are timing correlation and causal events: asset structure adjustment correlates with corporate market value and a causal relationship.

## 3. Research Design and Empirical Analysis

### 3.1. Asset Reorganization and Market Fluctuation

This paper selects the data of asset restructuring of listed companies under the jurisdiction of central enterprises from 2012 to 2018 as samples to study whether the company obtains excess returns after the announcement of asset restructuring. The success of asset restructuring of listed companies will be accompanied by significant adjustment of asset structure, while failure will not cause significant adjustment of asset structure. First, we examine whether there is a difference in the asset structure of listed companies with successful and failed asset restructuring during the sample period.

Suppose there is a significant difference in the asset structure between the two. In that case, it indicates that asset restructuring leads to a significant adjustment in the asset structure of enterprises, which may affect corporate performance and market value. Therefore, it is necessary to determine whether there is an asset structure difference between the successful samples and the failed samples. If the difference is significant, the second step can be studied: whether asset structure difference leads to market value difference. If there is no significant difference, the correlation between asset structure and market value may not be further studied. Based on the above analysis, the following research hypotheses are established.

Hypothesis 1: There are differences in asset structure optimization strategies between successful and failed restructuring companies.

Hypothesis 2: The capital market can effectively recognize the strategic differences of asset structure optimization.

### 3.1.1. Analysis of Asset Structure Difference

From 2012 to 2018, there are 228 listed companies under the jurisdiction of central enterprises. During the sample period, 43 listed companies failed in asset restructuring, 185 successful asset restructuring. Current ratio (current assets / total assets), current / non-current assets to describe asset restructuring. Data selected from Guotai Junan database, Eviews10 statistical analysis. The results are in Table 1:

Table 1: Descriptive Statistical Analysis of Asset Structure Optimization

Classification	Company Amount	Mean	Median	Std. Dev.	SumSq. Dev.	Observations
Current Ratio						
Success	185	0.476145	0.490782	0.254780	768.0480	11833
Fail	43	0.494571	0.509395	0.219079	133.0444	2773
Current/Non-Current Asset						
Success	186	1.808829	0.963795	2.816291	93845.42	11833
Fail	43	1.943841	1.038298	3.774002	39481.84	2773

Table 1 shows that both the success and failure samples have similar statistical characteristics, whether the current ratio or the current / non-current assets. In the current ratio, the mean value of the two groups of samples is less than the Median. In current / non-current assets, the mean values of the two groups of samples are more significant than the Median. The successful and failed samples of asset restructuring have the opposite statistical characteristics in the substitution variables of the two asset structures, indicating that the success of asset restructuring may have different impacts on the samples. The following T-test is to examine whether the difference between the two groups is significant. The results are in Table 2.

Table 2: T-test Analysis of Asset Structure Adjustment

Variable Classification	Mean	Median	Variance
Current Ratio	-3.515917 (0.0004)	2.374522 (0.0176)	1.352468 (0.0000)
Current/Non-Current	-2.117901 (0.0342)	2.374527 (0.0176)	1.795764 (0.0000)

In the above table, the value in brackets is p, and the rest is value. Mean reported T-test results, Median reported Wilcoxon / Mann-Whitney test results, Variance reported F-test results. These test results are significantly different: whether for Mean, Median, or Variance, there are significant differences between the two data groups. The significant group differences can show that whether the current ratio or the asset structure adjustment behavior depicted by current / non-current assets, there are significant differences between the companies with successful asset restructuring and those with failed asset restructuring. Based on the above analysis, during the sample period, assumption one was accepted.

### 3.1.2. Signal Difference and Market Cognition

There is a difference in the asset structure between the successful sample and the failed sample. Whether this difference can be reflected in the market value of listed companies requires three key links of information transmission: announcement of asset restructuring information, the success of asset restructuring, and actual adjustment of asset structure.

This section focuses on the relationship between the market value of the real adjustment stage of the

successful sample of asset restructuring and its asset restructuring strategy.

This paper selects the annual stock report rates of asset restructuring success and asset restructuring failure from 2012 to 2018 to characterize the market value of listed companies. Among them, there are 1266 successful samples and 301 failed samples. After excluding invalid data, the remaining successful samples are 1124, and the failure samples are 300-data selected from the Guotai Junan database. Descriptive statistical analysis is shown in Table 3 below.

Table 3: Descriptive Statistical Analysis of Returns

Classification	Sample Number	Mean	Median	Std. Dev.	SumSq. dev.
<b>Success</b>					
Return Rate	1124	0.119107	-0.009528	0.543126	331.2687
Return Rate	1124	0.118158	-0.008751	0.540539	328.1213
<b>Fail</b>					
Return Rate	299	0.117494	-0.040057	0.518268	80.04334
Return Rate	300	0.119260	-0.022834	0.508264	77.24121

The mean difference between the two groups was less than 2%, and the median difference between the two groups was up to 3%. Based on this, it can be judged that there is no significant difference in annual stock returns between successful and failed asset restructuring samples.

To further determine whether there is a significant difference in the returns of the two groups of samples, the T-test is adopted to analyze the returns of the two groups of samples. Using Eviews10 as the test tool, the results are in Table 4.

Table 4. Annual Return T-Test

Variable Classification	Mean	Median	Variance
Return Rate Including Dividend Reinvestment	0.046052 (0.9633)	0.418201 (0.6758)	1.098226 (0.3226)
Return Rate	-0.031747 (0.9747)	0.129980 (0.8966)	1.131037 (0.1924)

Based on the results of descriptive statistical analysis, distribution graph and T-test, it can be determined that the success of asset restructuring has no significant impact on individual stock returns, and the market value does not fluctuate significantly due to the success of asset restructuring. The test results still show no significant difference in the returns between the two groups of samples. Therefore, in a short period, the success of asset restructuring has no significant market value. Therefore, in the selected sample period, Hypothesis 2 is rejected.

### 3.1.3. Conclusions

The above research shows that whether the asset restructuring of listed companies is successful or not has a significant impact on the adjustment of enterprise asset structure. There is a significant difference in the asset structure between the sample companies with successful asset restructuring and those with failed asset restructuring. However, in a long period, the difference signal of asset structure adjustment has no significant effect on the market value of listed companies. These situations show that the market does not confirm the asset structure difference between the successful and failed sample companies in effective value signals. The market value of listed companies with non-profit asset structure adjustment lacks a long-term stable foundation. Asset restructuring cannot cause significant changes in market value.

## 4. Research Conclusions

This paper analyzes the non-profit transmission mechanism of asset structure optimization value transmission. Asset reorganization of listed companies is an essential non-profit transmission mechanism. Asset restructuring has a significant impact on the adjustment of corporate asset structure. There are significant differences in the asset structure between companies with or without successful restructuring. However, this signal of asset structure difference has no significant impact on the market value of listed companies. Although the information on asset restructuring is open and transparent in the internet area, the market does not recognize it as an effective value signal. These studies show that asset restructuring

cannot lead to significant changes in market value due to the lack of a long-term stable profitability basis for non-profit asset restructuring.

### **Acknowledgment**

1. This Research findings is Supported by Science Foundation of Beijing Language and Cultural University (supported by the Fundamental Research Funds for the Central Universities. Approval number:18PT02).

2. This Research findings is supported by Cultivation plan of excellent professional courses and the special fund of the basic research of the Central University, project number: JPZ201907.

3. This research was supported by Online and Offline Hybrid Courses Project of Beijing Language and Culture University (Grant No. 202004)

4. This research was supported by 2020 ideological and political demonstration course construction project Beijing Language and Culture University (Grant No. SZ202012)

### **Reference**

- [1] V. K. Fal'tsman. *On the Structure, Dynamics, and Use of the Asset Share in the National Wealth, Studies on Russian Economic Development, 2018, Vol.29 (5), pp.462-469.*
- [2] Grace Xing Hu, Jun Pan & Jiang Wang. *Chinese Capital Market: An Empirical Overview, 2018*
- [3] G.M.. M. van Essen; P.M.J.. M.J. Van den Hof; J.D.. D. Jansen. *Hierarchical Long-Term and Short-Term Production Optimization, 2010*
- [4] Bent Jesper Christensen, Michel van der Wel. *An asset pricing approach to testing general term structure models, Journal of Financial Economics, 2019. (03)*
- [5] David Backus, Nina Boyarchenko, Mikhail Chernov. *Term structures of asset prices and returns, Journal of Financial Economics, 2018, Vol.(4), pp.1-23.*
- [6] Muhammad md husin. *Efficiency of monetary policy transmission mechanism via profit rate channel for islamic banks in Malaysia, 2013*
- [7] Yi Gang and Song Wang. *The Evolution of China's Financial Assets Structure:1991—2007*
- [8] SU Yan-li, ZHUANG Xin-tian, HA Min. *Analysis of Asset-Restructuring Performance and Influencing Factors on Chinese Listed Companies*
- [9] Alfred Lehar. *Restructuring Failure and Optimal Capital Structure, 2018*
- [10] M Shi. *Research on Company Financial Performance After Asset Reorganization: Take Midea as an Example*