

Study on the Impact of PE on Enterprise Growth-Taking Hillhouse Investment in MINISO as an Example

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Abstract: Against the background of the transformation and upgrading of the real economy and the deep integration of the capital market, private equity (PE) has evolved from a traditional financial investor into an important creator of long-term corporate value. PE affects the growth speed, quality and sustainability of invested enterprises through capital injection, strategic planning, resource integration, governance optimization, digital empowerment and other channels. Taking Hillhouse Capital's strategic investment in MINISO in 2018 as a typical case, this paper systematically analyzes the changes in MINISO's business scale, financial performance, global layout, operational efficiency and capital market performance before and after PE's involvement by using case study, literature research and data comparison methods. The study finds that Hillhouse Capital's growth drive for MINISO does not only rely on capital support, but forms a comprehensive empowerment system of "capital + strategy + digitalization + supply chain + globalization + corporate governance", which significantly promotes MINISO's store expansion, revenue improvement, gross profit margin increase and overseas market breakthrough, and ultimately helps it complete its IPO in the US stock market. At the same time, PE investment also brings potential challenges such as performance gambling, expansion rhythm control and long-term growth dependence, and the sustainability of growth still needs to be observed. The conclusions enrich the theory of PE value creation in the Chinese context and provide practical references for retail enterprises to introduce PE investment and PE institutions to optimize post-investment management.

Keywords: Private Equity (PE); Enterprise Growth; Hillhouse Capital; MINISO; Value Creation; Post-Investment Empowerment;

New Retail

1. Introduction

1.1 Research Background

In recent years, the scale of China's private equity investment market has continued to expand, and PE has become an important capital force to promote enterprise innovation, upgrading and industrial structure optimization [1]. Compared with public market financing, PE investment has a longer cycle and deeper involvement, which not only provides stable funds for unlisted enterprises, but also helps enterprises improve governance, expand markets and improve efficiency through professional post-investment management [2]. A large number of studies have shown that enterprises with PE investment generally outperform those without PE investment in operating income growth rate, net profit level, employment scale and innovation investment [3].

In the retail industry, digital transformation, global layout and supply chain upgrading have become the key for enterprises to break through growth bottlenecks. However, these directions often require large amounts of capital, high-end technology and global resources, which are difficult for traditional enterprises to complete independently [4]. As a representative of high-quality and low-cost domestic daily necessities, MINISO achieved rapid expansion relying on an efficient supply chain and franchise model in the early stage, but faced capital, management and resource constraints in the stage of globalization, digitalization and brand upgrading. In September 2018, MINISO received a total of 1 billion yuan strategic investment from Hillhouse Capital and Tencent, which became an important turning point in the development of the enterprise. Since then, MINISO has accelerated the expansion of global stores, intelligent retail transformation, IP product innovation and organizational management optimization, and successfully

listed on the New York Stock Exchange in October 2020.

This typical case provides an excellent sample for studying how PE affects the growth of physical retail enterprises. Based on these practical problems, this paper conducts research.

1.2 Research Significance

1.2.1 Theoretical significance

Most of the existing researches on PE and enterprise growth are based on large-sample empirical analysis, and there are few in-depth cases for China's new retail industry, and the specific path of "post-investment empowerment" is not clearly explained [3]. This paper deeply analyzes the transmission mechanism of PE value creation with a single case, enriches the theoretical framework of PE affecting enterprise growth, and supplements the empirical research of PE investment in China's retail industry.

1.2.2 Practical significance

For enterprises, this paper can provide a reference for physical retail enterprises in introducing PE, selecting investors and designing cooperation models. For PE institutions, it helps to optimize post-investment management and improve value creation capabilities. For the industry and regulators, it can provide experience for guiding capital to serve the real economy and promoting the high-quality development of the retail industry [5].

1.3 Research Content and Ideas

This paper first defines core concepts such as private equity investment and enterprise growth, and sorts out relevant theories and existing research results. Secondly, it introduces the background, transaction situation and cooperation motivation of Hillhouse Capital's investment in MINISO. Thirdly, it analyzes the specific mechanism of PE promoting MINISO's growth from five aspects: capital support, strategic guidance, digital empowerment, supply chain optimization and corporate governance improvement. Then, through data such as the number of stores, revenue, profit, gross profit margin, overseas business ratio and IPO performance, it evaluates the growth effect of MINISO before and after investment. Then it analyzes the problems and risks in the process of PE empowerment. Finally, it summarizes the research conclusions and puts forward corresponding inspirations and suggestions for

enterprises and PE institutions.

1.4 Research Methods

Case study method: This paper takes Hillhouse Capital's investment in MINISO as a single case for in-depth research. By collecting public transaction information, corporate financial reports, news reports and industry analysis materials, it restores the whole process of PE investment and empowerment, and analyzes its actual impact on enterprise growth [4].

Literature research method: By consulting domestic and foreign documents and research reports on private equity investment, enterprise growth, value creation and retail industry development, this paper understands the main conclusions and deficiencies of existing research, and provides a theoretical basis and analysis framework for this research [1][2].

Data comparison and analysis method: Collect the operating and financial data of MINISO before and after obtaining PE investment, and compare the number of stores, operating income, net profit, gross profit margin, overseas income ratio and other indicators to intuitively reflect the effect of PE investment on enterprise scale expansion and performance improvement [6].

2. Theoretical Basis and Literature Review

2.1 Definition of Core Concepts

2.1.1 Private equity (PE)

Private equity investment refers to the behavior of raising funds from institutional investors or high-net-worth individuals in a non-public way and investing in unlisted enterprises. PE institutions usually hold a certain proportion of equity in enterprises, participate in major corporate decisions, and exit when enterprises go public, merge or repurchase by management to obtain investment returns. Different from simply providing capital, modern PE investment emphasizes post-investment empowerment and helps enterprises enhance value through strategic, management and resource support [1][7].

2.1.2 Enterprise growth

Enterprise growth includes not only simple scale expansion, but also the improvement of business performance, operational efficiency, market competitiveness and sustainable development capabilities. It is embodied in the increase of operating income, profit improvement, store and market expansion, product structure optimization, globalization level improvement and stable

profitability [3].

2.2 Relevant Theoretical Basis

Resource-based theory: The resource-based theory holds that the competitive advantage of an enterprise comes from the scarce, difficult-to-imitate and irreplaceable resources it owns. PE institutions can bring key resources such as capital, talents, technology, channels, supply chains and industry experience to enterprises, helping them make up for their shortcomings and build stronger competitiveness [2][3].

Signaling theory: Signaling theory points out that there is information asymmetry in the market, and the investment of well-known PE institutions in an enterprise is equivalent to sending a positive signal to the market that the enterprise is of good quality and has good development prospects, which can enhance the reputation and brand image of the enterprise and reduce the cost of subsequent financing, cooperation and market development [3].

Corporate governance theory: Corporate governance theory emphasizes that a reasonable ownership structure, board system and incentive mechanism can improve the decision-making efficiency of enterprises and reduce agency risks. After PE institutions enter enterprises, they usually optimize the ownership structure, appoint directors, improve internal control and financial systems, and promote more standardized enterprise management, thereby improving operational efficiency [2][3].

Value creation theory: The core value of PE institutions is not only to provide capital, but to help enterprises achieve sustainable growth through a series of actions such as capital injection, strategic reconstruction, operational optimization, governance improvement and capital operation, and finally realize the common improvement of enterprise value and investment income [4][8].

2.3 Domestic and Foreign Research Status

A large number of domestic and foreign studies show that PE investment can effectively ease the financing constraints of enterprises and improve their revenue growth rate, net profit level and innovation ability. Enterprises supported by PE are usually stronger in expansion speed, risk resistance and market competitiveness [1][3].

Existing studies generally believe that PE promotes enterprise growth through a variety of

paths: first, providing financial support to meet the needs of enterprise expansion, R&D and operation; second, participating in strategic formulation to help enterprises clarify development directions and optimize business layout; third, optimizing operation management to improve supply chain efficiency, cost control capabilities and digitalization levels; fourth, improving corporate governance, standardizing decision-making processes and improving management transparency [2][4].

At present, there are still some limitations in relevant researches: most studies are mainly based on large samples of European and American markets or the whole industry, and there are few in-depth cases for China's new retail industry; there are few discussions on new empowerment methods such as PE digital empowerment and global resource docking; the analysis of the pressure brought by PE investment and the sustainability of growth is insufficient. This paper takes MINISO as an example to supplement the above deficiencies [4][5].

3. Case Introduction: Hillhouse Capital's Investment in MINISO

3.1 Overview of MINISO's Development

Founded in China in 2013, MINISO takes "high quality and low price" as its core positioning, mainly engaged in daily necessities, creative home furnishing, beauty tools, leisure food, trendy toys and other products. Relying on minimalist design, efficient supply chain and lightweight franchise model, it has achieved rapid expansion. Before obtaining investment, MINISO already had a certain scale in the domestic market, but its global layout was insufficient, digitalization level was not high, brand added value was low, and further growth faced bottlenecks.

3.2 Basic Information of Investment Transactions

In September 2018, MINISO officially announced that it had received strategic investment from Hillhouse Capital and Tencent, with a total investment of 1 billion yuan. The two institutions each held about 5.4% of the equity, with a post-investment valuation of about 9.26 billion yuan. The financing funds are mainly used in four aspects: global store network expansion, smart retail and digital system

construction, supply chain optimization and upgrading, talent team and organizational capacity improvement.

3.3 Motivation for Investment and Cooperation

3.3.1 Motivation from MINISO

First, supplement the funds needed for globalization and digitalization to ease cash flow pressure during expansion; second, accelerate overseas market expansion with the help of Hillhouse Capital's rich experience and global resources in the retail industry; third, promote digital transformation and improve operational efficiency relying on Tencent's technical capabilities; fourth, optimize ownership structure and corporate governance to prepare for subsequent IPO.

3.3.2 Motivation from Hillhouse Capital

First, optimistic about the long-term development space of affordable consumption, offline physical retail and new retail tracks; second, recognition of MINISO's supply chain advantages, business model and expansion potential; third, layout offline retail ecosystem through strategic investment and achieve in-depth empowerment combined with its own resources; fourth, enhance enterprise value through post-investment management and finally achieve reasonable exit and income through IPO.

4. The Impact Mechanism of PE on MINISO's Growth

4.1 Capital Support: Ease Capital Constraints and Lay the Foundation for Expansion

The capital injection from Hillhouse and Tencent directly eased MINISO's capital pressure in global expansion and digital transformation. Stable financial support enables MINISO to continuously invest in store decoration, logistics construction, product R&D and overseas market promotion. At the same time, the investment of well-known institutions provides a strong credit endorsement for the enterprise, reduces the cost of subsequent financing, enhances the confidence of partners and franchisees, and lays the foundation for large-scale expansion of the enterprise.

4.2 Strategic Empowerment: Clarify Development Direction and Promote Global Layout

With the assistance of Hillhouse Capital,

MINISO further clarified the development direction of "globalization + digitalization + branding". At the strategic level, enterprises accelerate the promotion of overseas market entry strategies, enter more countries and regions with the help of Hillhouse's global network resources, and optimize regional layout; at the product level, promote the development of IP co-branded products to enhance product added value and brand influence; at the development model level, shift from simply pursuing the growth of the number of stores to paying equal attention to scale and efficiency, and improve the profitability of a single store.

4.3 Digital Empowerment: Improve Operational Efficiency and Realize Refined Management

Driven by Tencent and Hillhouse, MINISO has accelerated digital transformation. The enterprise has built a data middle platform to connect data from users, products, stores and supply chains, realizing accurate user portraits, intelligent store location selection and dynamic inventory management. Through the digital system, the efficiency of store replenishment, inventory counting and sales analysis has been significantly improved, labor costs have been controlled, inventory turnover has accelerated, online and offline channels have been further integrated, and user repurchase rate and store operating efficiency have steadily improved.

4.4 Supply Chain Optimization: Reduce Costs and Improve Profit Margin

Hillhouse Capital uses its own resources and experience in retail and supply chain to assist MINISO in optimizing its supplier system, promoting centralized procurement and large-scale procurement to reduce procurement costs. At the same time, it helps enterprises shorten the product R&D and launch cycle, improve product marketability and reduce unsalable losses. Through the integration and upgrading of the supply chain, MINISO's cost control ability has been significantly enhanced, the gross profit margin has continued to increase, and the profit space has been continuously expanded.

4.5 Corporate Governance Optimization: Standardize Management and Help Capital Market Listing

After PE institutions entered, MINISO improved

its corporate governance. The enterprise optimized the ownership structure, introduced external directors to participate in major decisions, and established more standardized financial systems, internal control systems and information disclosure systems. At the same time, a more reasonable incentive mechanism was designed to bind the long-term development interests of the core management team. The improvement of the governance structure has enhanced the scientificity of decision-making and the standardization of operation, clearing the way for MINISO's subsequent successful IPO in the United States.

5 Evaluation of MINISO's Growth Effect

5.1 Continuous Expansion of Business Scale

After PE investment, the number of MINISO stores has grown steadily, and the number of countries and regions covered has increased. It has gradually shifted from domestic market-oriented to global layout, the proportion of overseas stores has continued to increase, and the contribution of international market revenue has gradually increased. The enterprise has grown from a regional retail brand to a chain retail brand covering many countries and regions around the world, and its market coverage and brand influence have been significantly improved.

5.2 Continuous Improvement of Financial Performance

From the financial data, MINISO's gross profit margin showed a continuous upward trend after investment, and the effect of cost control and product structure optimization was obvious. Although revenue fluctuated in the short term due to external environmental fluctuations, the overall profit quality improved and net profit remained relatively stable. Inventory turnover, store efficiency, labor efficiency and other operating indicators have improved, enterprise operation efficiency has improved, and financial conditions are more stable.

5.3 Significant Improvement in Globalization Level

With the help of Hillhouse Capital, MINISO has accelerated the expansion of overseas markets, entered more emerging markets and developed markets, and gradually improved overseas supply chains and logistics systems. The

proportion of overseas income has steadily increased, the global operation capacity has been continuously enhanced, the dependence on a single market has been reduced, and the risk resistance capacity of the enterprise has been improved.

5.4 Successful Landing in Capital Market

In October 2020, MINISO was successfully listed on the New York Stock Exchange and completed IPO financing. The listing not only brought a long-term capital platform for the enterprise, but also reflected the recognition of the capital market for MINISO's business model and development prospects. Hillhouse Capital and other investment institutions achieved equity appreciation, and the corporate brand image and industry status were further improved.

5.5 Enhanced Comprehensive Competitiveness

Through PE empowerment, MINISO has formed stronger competitiveness in digital capabilities, supply chain capabilities, global operation capabilities, brand building capabilities and so on. IP co-branded products, online and offline integration, smart stores have become differentiated advantages. Enterprises have gradually shifted from relying on low-price expansion to relying on efficiency and brand to achieve growth.

6. Problems and Enlightenments Under PE Empowerment

6.1 Existing Problems

The expansion pace is fast and management pressure is increasing. Driven by capital, the speed of enterprise store expansion has accelerated, which puts forward higher requirements for store management, supply chain support and talent reserve. If management capacity cannot keep up with the expansion speed, it may affect the operation quality.

Performance pressure and short-term goal constraints. PE investment is usually accompanied by certain development goals and listing expectations, and enterprises may face short-term performance pressure, which affects the pace of long-term strategic investment to a certain extent.

There is a certain dependence on external empowerment. Excessive reliance on PE support in digitalization, strategy and resources may lead to insufficient cultivation of endogenous growth

momentum of enterprises and the risk of slow growth after PE exit.

Market competition and external environment risks. The retail industry is highly competitive. Coupled with changes in the macro environment and consumption trends, the growth model of enterprises relying on scale expansion is facing challenges, and sustainable growth still needs continuous transformation.

6.2 Enlightenment to Enterprises

Introducing PE should focus on resource matching, not just financing. When selecting investors, enterprises should give priority to the institution's industry experience, post-investment empowerment capabilities and resource network, not just the financing amount. Balance expansion speed and operation quality. With capital support, enterprises should reasonably control the expansion pace and put improving single-store efficiency, product strength and operational capacity in an important position.

Accelerate the cultivation of endogenous capabilities. While using PE empowerment, strengthen their own digital, supply chain, brand and management capabilities to reduce dependence on external resources.

6.3 Enlightenment to PE Institutions

Shift from financial investment to value investment and long-term empowerment. PE institutions should improve their post-investment management capabilities and provide practical support in strategy, operation, digitalization, governance and other aspects, rather than simply capital investment.

Respect the law of enterprise development and set reasonable goals. In the process of promoting enterprise growth and listing, we should take into account short-term performance and long-term development, and avoid excessively pursuing speed while ignoring risks.

Focus on the real economy and improve industrial service capabilities. PE institutions should deeply cultivate the industry, combine industrial resources to help enterprises enhance their core competitiveness, and truly realize capital serving the real economy.

7. Conclusion

Taking Hillhouse Capital's strategic investment in MINISO as an example, this paper discusses the impact mechanism and actual effect of PE on

enterprise growth. The study finds that PE's drive for enterprise growth is comprehensive and multi-dimensional. Capital support is the foundation, strategic guidance points out the direction, digitalization and supply chain optimization improve efficiency, and corporate governance improvement provides guarantee. Hillhouse Capital has effectively promoted MINISO's scale expansion, performance improvement, global breakthrough and capital market listing through the comprehensive empowerment system of "capital + strategy + digitalization + supply chain + globalization + governance".

At the same time, PE investment will also bring problems such as expansion management, performance pressure and external dependence to enterprises. The sustainability of enterprise growth depends on the cultivation of its own endogenous capabilities. Overall, under a reasonable cooperation model, PE can effectively help physical retail enterprises break through development bottlenecks and achieve high-quality growth.

This paper is based on a single case study, and the conclusion has certain limitations. In the future, multi-case comparison or longer-term tracking research can be conducted to further analyze the long-term performance of enterprises after PE exit, so as to make the research conclusion more universal.

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