Proceedings of Finance in the Age of Environmental Risks and Sustainability - ICFTBA 2024
DOI: 10.54254/2754-1169/94/2024OX0102

Analysing the Motivation and Effect of Cross-border Mergers and Acquisitions: A Case Study of the Acquisition of YOUJIUSHIDAI by SHANGHAI ACE CO., LTD.

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Abstract: Under the background of globalisation and information technology revolution, cross-border mergers and acquisitions (M&A) have become a key strategy for corporate strategic transformation and market expansion. Taking the acquisition of YOUJIUSHIDAI by SACE as an example, this study adopts the methods of literature review, case study analysis and AMPS model to explore in depth the motives, effects and impacts of cross-border M&A on corporate performance. This study finds that although M&A enhances shareholder wealth in the short term, long-term profitability falls short of expectations, which is mainly limited by the lack of R&D capability and market alignment problems. This study emphasises the importance of synergies and points out that high-premium M&As may lead to goodwill impairment risk, thus affecting the financial status of the firms and the interests of shareholders, and puts forward suggestions to optimise M&A strategies and strengthen regulation, in order to protect the interests of small and medium-sized investors and to promote the healthy development of the capital market.

Keywords: Cross-border mergers and acquisitions, High premium mergers and acquisitions, shell listing, Synergy effect, Performance commitment.

1. Introduction

1.1. Background and Significance of the Study

In the wave of economic globalization, cross-border mergers and acquisitions (M&A) have become a new path for enterprises to pursue resource optimization, market expansion and competitiveness enhancement for their strategic development. Cross-border M&A refers to a company's entry into an industry or market different from its existing business by purchasing or merging with another company. This study focuses on the drivers and performance of cross-border M&A, aiming to reveal how companies achieve innovation and growth through M&A activities. Taking the acquisition of Youjiu Times by SACE as a case study, this paper analyses in-depth the drivers and performance of M&A, and explores its impact on corporate strategic development, industrial layout and resource integration, as well as the long-term significance of the effects of M&A. By analysing this case in depth, it can improve the theoretical framework of cross-border M&A and provide new perspectives for subsequent related research. At the realistic level, this study can provide traditional industry enterprises with reference for transformation strategies, how to achieve sustainable development and competitiveness enhancement of enterprises through M&A of emerging industries.

1.2. Research Methods

This study adopts the methods of literature review, case analysis and AMPS model. This paper chooses to take the acquisition of YOUJIUSHIDAI by SACE as a typical case, summarises the relevant rules through the combing of cross-border M&A related results, and chooses AMPS model for detailed description.

Ask the Question: This paper puts forward what is the motivation of the cross-border M&A of SACE and what is the impact of this M&A on the financial and operational performance of the enterprise as the primary data analysis question.

Master the Data: Financial reports, M&A announcements, policy documents, market analyses, and related news reports of SACE and Yujiu Times are collected and analysed.

Perform the Analysis: Analyse the data through the textual data obtained on the drivers and effects.

Share the Story: Summarise and visualise the results of the M&A, and provide integration optimisation suggestions for cross-border M&A

1.3. Literature Review

The phenomenon of high-premium M&A is particularly evident in the case of SACE, which usually points to the fact that enterprises hold high expectations for the future performance of the M&A target and are optimistic about potential synergies [1]. This high premium may be based on the importance attached to Youjiu Times' position in the gaming industry and its future profitability, and also hints at the market's recognition of the potential value of this type of M&A [2]. Shell listing, as a strategy for companies to go public indirectly, has become an alternative in the case of Initial Public Offerings (IPOs) where the audit is strict or the queue is too long [3]. By acquiring YOUJIU, SACE not only achieves control over it, but may also be seeking to use this control relationship to achieve a shell listing as a means of circumventing the uncertainty and long waiting time of a direct IPO [4]. The realisation of synergies is another important motive for cross-border M&A. By integrating resources and sharing technology and markets, companies expect to improve overall operational efficiency and enhance market competitiveness and profitability [5]. It may be based on this expectation that SACE acquired Yujiu Times with the hope of realising strategic complementarity and value-added through synergies between businesses. In order to reduce the risk of M&A, performance commitments play an important role in M&A agreements. In the case of SACE, performance commitments may be used as a means of safeguarding performance in the short term after the M&A, as well as a way of maintaining investor confidence and helping to stabilise the market's expectations of the performance of the firm after the M&A [6].

However, the integration after cross-border M&A is the key to achieving M&A success [7]. SACE may face various challenges such as cultural integration, management coordination, and market integration after the M&A of Yujiu Times. Whether these challenges are overcome or not will directly affect the final effect of the M&A and determine whether the M&A can achieve the expected strategic objectives [8]. By analysing the case of the acquisition of YOUJIU by SACE, the author can gain an in-depth understanding of the motivations and effects of cross-border M&A [9]. The financial performance, market reaction and long-term strategic impact before and after the M&A are assessed to optimise the future M&A strategy and execution process [10].

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2. Case Description

2.1. Basic Overview of the Merger and Acquisition (M&A) Party

SHANGHAI ACE CO., LTD.(SACE), founded in December 1984 and listed on the Shanghai Stock Exchange in December 1990, is one of the famous "old eight stocks" in China's securities market, and all of its shares are outstanding. Due to the unstable circulation of its shares and the lack of concentration of its shareholding, its business varies with the change of its controlling shareholder. In 2005, Tiantian Technology Co., Ltd. became its largest shareholder. Prior to the merger and acquisition, the main business of SACE was historically focused on the coal industry, but due to the downturn of the coal industry and the state's emphasis on environmental protection, etc., the pressure on the coal industry has been increasing year by year, and the company's non-profit deduction has been negative for five consecutive years from 2011 to 2015, which has put the company's main business under tremendous pressure

2.2. Basic Profile of the Acquired Party

YOUJIUSHIDAI, founded in March 2012, is an emerging online game company. The company's main business is the research and development and operation of online games, and has a well-known domestic game information website - Youjiu.com. The company's shareholders before the merger and acquisition are: Liu Liang holds 43.5% of the equity, Dai Lin holds 50%, and Dalian Zhuo Hao Trading Company Limited holds 7.5%. YOUJIU has strong R&D and operation capabilities in the field of handheld games and has launched a number of popular game products.

Its operating revenue in 2012 and 2013 reached RMB65.33 million and RMB202.64 million. In particular, it successfully launched its first handheld game "Goddess of Blade and Tower" in 2013, which has gained high recognition in the market, with a solid player base, superior market prospects and huge potential.

2.3. M&A Process

In this merger and acquisition, SACE decided to acquire 100% equity of YOUJIU at a price of RMB 11.8 billion, which is nearly 41 times more than the audited book value of the net assets of YOUJIU. In order to complete this transaction, SACE adopted a two-step strategy: firstly, it purchased all the shares of YOUJIUSHIDAI from Liu Liang, Dai Lin and Dalian Zhuo Hao by issuing new shares and paying cash; secondly, in order to raise the cash portion required in the transaction, SACE made a directed issue of shares to its controlling shareholder, Tiantian Science & Technology, in order to raise matching funds.

After the successful conclusion of the transaction, Tiantian Technology still maintained its position as the ultimate de facto controller of the Company. The company transferred its stake in the coal business, which was in a loss-making state, to the first largest shareholder, Tiantian Technology, thus getting rid of the situation of continuous slump in its main business and rapidly transforming into an enterprise with game business as its core.

3. Analysis of M&A Motivation

3.1. Analysis of the Motivation of SACE

The motive analysis of the merger and acquisition of the time can be elaborated from the synergistic effect, strategic transformation and risk diversification, and the market potential of the time of the time of the time of the time of the time of the time of the time of the time of the time of the time of the synergistic effect

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3.1.1. Synergy Effect

First, financial synergies: SACE significantly improves its financial health through M&A; YOUJIUobtains M&A funds to provide a financial basis for market expansion.

Second, operational synergies: SACE shifted its core business to the gaming field, utilising the resources and advantages of both parties to the merger and strengthening the company's market competitiveness.

Thirdly, management synergy: SACE introduces rich management experience and modern management mechanism into YOUJIU, which promotes the improvement of the quality of management, and at the same time, brings the innovation of management level for itself.

3.1.2. Strategic Transformation and Risk Diversification

SACE is facing the downturn in the coal industry, which has brought greater operational pressure to the company. Through the acquisition of YOUJIU, SACE is able to realise its strategic transformation into the online game industry, which is an emerging industry with high growth potential, thus diversifying the risk of a single business.

3.1.3. Utilising the Market Potential of YOUJIU

SACE's merger and acquisition of YOUJIU is not only based on its appreciation of the market potential, but also thanks to the support of national policies and market opportunities. Through the M&A, SACE is able to quickly utilise YOUJIU's existing position and resources in the gaming industry, especially in the rapid development phase of the handheld game market, to achieve rapid business expansion and market share capture.

3.2. Motivation Analysis of YOUJIU M&A

3.2.1. Industry Background and Company Strategy

As an online game company, it faces fierce market competition and pressure from industry regulation. Through the merger and acquisition with SACE, YOUJIU can leverage the platform and resources of a listed company to achieve rapid expansion and brand enhancement. Meanwhile, through the shell listing, YOUJIU avoids the regulatory risks and market uncertainties that may be faced by a direct IPO.

3.2.2. Financial and Market Performance

YOUJIU's financial performance fluctuated before and after the merger and acquisition, especially after the end of the performance commitment period, when it suffered a large loss. This indicates financial pressure and the need for M&A to improve its financial position and obtain financial support to maintain operations.

3.2.3. Shareholders' Interests and Market Sentiment

For YOUJIU's shareholders, high premium M&A may mean wealth growth in the short term, as M&A usually leads to an increase in share price. And high premium mergers and acquisitions may attract attention and discussion in the market, which may have a short-term positive impact on the share price.

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4. Merger and Acquisition Effectiveness

4.1. Market Performance

4.1.1. Analysis of Market Share and Operating Income

From 2014 to 2019, the operating income of SACE shows a significant downward trend. In 2014, the operating income was 1.675 billion yuan, while in 2019, this figure dropped to 167 million yuan. This decline is related to the company's transition from the coal business and the Internet game business.The decline in market share may reflect the company's lack of competitiveness in the field of Internet games, as well as the possible problems with market positioning and product strategy . In the same timeframe, the total revenue of the Internet industry has shown a significant growth trend. from $70.6 billion in 2014 to $329.8 billion in 2019 (according to Table 1). This indicates that the Internet industry as a whole is in a stage of rapid development, while SACE has failed to effectively capitalise on this trend to enhance its market position.

Table 1: SACE Market Share.

	2014	2015	2016	2017	2018	2019
SACE Operating Revenue (RMB billion)	16.75	14.20	3.08	1.77	0.85	1.67
Internet operating income (RMB billion)	706	1075	1724	2189	2742	3298
SACE market share (%)	2.37	1.32	0.18	0.08	0.03	0.05

4.1.2. Analysis of Market Status

As shown in Table 2, the sales revenue and user scale of China's game market have grown significantly, indicating the booming development of the industry. Combined with Table 1, it can be seen that the operating income of AIIC has fallen against the trend, from 1.675 billion yuan to 167 million yuan. This reflects its competitiveness in new areas.

Table 2: Actual Sales Revenue as well as User Size of China's Game Market, 2014-2019.

	2014	2015	2016	2017	2018	2019
Actual Sales Revenue of China's Game Market (RMB billion)	1144.81	1407.02	1655.66	2036.07	2144.43	2308.77
Scale of Chinese game users (RMB million)	517.31	533.96	565.51	583.18	625.66	641.08

4.2. Financial Performance

4.2.1. Profitability of Main Business

From Table 3, it can be seen that the coal business of SACE before the transformation has shown certain stability and profitability. From 2010 to 2013, the company's operating income and operating profit showed a fluctuating upward trend, in which the operating income increased from 1.786 billion yuan to 2.016 billion yuan, and the operating profit also increased from 831 million yuan to 835 million yuan. This indicates that before the introduction of the Internet game business, the coal business was the main source of the company's revenue and profit.

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However, from 2014 onwards, the operating revenue and operating profit of the coal business showed a significant decline, with the operating revenue falling to 1.761 billion yuan and the operating profit dropping even more sharply to 365 million yuan. This change was related to the overall market environment and macroeconomic factors of the coal industry. After the merger and acquisition, the company's main business transformed from coal to end-game, hand game and advertising business. Although the hand game business became the main source of profit, its profitability did not exceed that of the advertising business. In 2017, the profitability of both the end game and hand game declined significantly, which was related to the company's insufficient research and development capability, untimely product updates and insufficient market docking, resulting in an increase in operating costs.

Table 3: SACE Coal Revenue Data.

	2010	2012	2013	2014
Operating Revenue (RMB billion)	17.86	19.76	20.16	17.61
Operating Profit (RMB billion)	8.31	8.35	7.91	6.17
Gross Profit Rate (%)	46.56	42.25	39.23	35.05

4.2.2. Financial Situation

Table 4 shows that after the merger and acquisition, the company's gearing ratio has decreased, showing that the company has stronger financing ability and sufficient funds, which is conducive to supporting the development of game research and development and advertising business. The increase in return on net assets indicates that the Company's asset utilisation efficiency has improved and resource allocation has been optimised. However, the net sales margin fluctuated significantly in 2017, reflecting the challenges encountered in the development of new business, and the lack of product development or delay in marketing affected the Company's profitability, which was also reflected in the decrease in earnings per share.

Table 4: Post-merger key financial indicators.

	Pre-merger 2013	Post-merger 2014	Post-merger 2015	Post-merger 2016	Post-merger 2017
Gearing ratio	46.62	40.32	15.19	12.62	14.95
Return on net assets	0.66	1.92	1.95	-21.71	1.41
Net sales margin	0.19	-12.66	-1.51	38.08	-239.2
Earnings per share	0.01	-0.23	0.09	0.14	-0.51

4.2.3. Performance Commitments and Goodwill

In the merger and acquisition of YOUJIU in 2014, the original shareholders made a commitment to the future performance of the company and successfully achieved the performance target during the period from 2014 to 2016. However, after the end of the performance commitment period, the Company suffered a large net loss in 2017, which may be related to the high premium at the time of the merger and acquisition, leading to an increase in goodwill. As the old products declined and the new products were not yet mature, the value of goodwill dropped significantly, further weakening the company's profitability. In addition, as can be seen from Table 5, the net cash flow from operating activities of YOUJIU showed a downward trend from 2014 to 2019, especially the negative value for three consecutive years from 2017 to 2019, reflecting the deterioration of the company's cash flow position. Although mergers and acquisitions have increased shareholder wealth in the short term, shareholder wealth has suffered in the long term due to the failure to realise the expected synergies.

Table 5: Cash flow after expiry of SACE performance commitments.

	2014	2015	2016	2017	2018	2019
Net cash flows from operating activities (in billions of dollars)	1.09	3.57	0.9	-0.07	-0.64	-0.40
Net cash flow from operating activities per share	0.13	0.43	0.11	-0.01	-0.08	-0.05

5. Conclusion

This study takes the acquisition of YOUJIU by SACE as an example, and finds that although M&A enhances shareholders' wealth in the short term, the long-term profitability fails to meet expectations, which is mainly limited by the lack of R&D capability and market docking problems. The study emphasises the importance of synergies, points out that high premium M&A may lead to the risk of goodwill impairment, which affects the financial status of enterprises and shareholders' interests, and draws the following conclusions and recommendations. First, the relationship between M&A premium and synergy effect. M&A premium is the portion paid to the target company in excess of its market value, usually based on the magnitude of expected synergies. Excessive premiums may impose a heavy burden on the acquirer and lead to the failure of the M&A. Therefore, it is crucial to reasonably assess the synergies and determine the M&A premium accordingly. The analysis of the financial performance of SACE how that despite the decrease in gearing ratio and the increase in return on net assets after the M&A, the net sales margin fluctuated significantly in 2017, which may be related to the poor integration effect after the M&A. This further emphasises the importance of a reasonable assessment of synergies and the risks that may arise from reliance on performance promises during the M&A process. Second, high premium M&A results. A high premium M&A implies a high expectation of the future profitability of the acquired company, which may lead to a significant increase in goodwill. In the case of the acquisition of Yujiu Times by SACE, the high-premium M&A enhanced the market performance of the enterprise in the short term, but in the long term, the poor integration effect after the M&A led to goodwill impairment, which negatively impacted the enterprise's financial position and shareholders' interests. Regulators should strengthen their supervision of M&A activities to protect the interests of small and medium-sized investors, who often lack sufficient information and influence. Third, M&A motivation. Enterprises may engage in cross-border M&A for the purposes of seeking new profit growth points, reducing operational risks, and enhancing core competitiveness. Policy promotion and market opportunities are also important factors that prompt enterprises to conduct cross-border M&A. The cross-border merger and acquisition of YOUJIU by SACE is to get rid of the difficulties in the coal business and seek high profits in the gaming industry.

As SACE shares triggered the delisting condition of Shanghai Stock Exchange in 2021 and delisted in 2022, the data of performance analysis in this paper is far away from now, but the research results presented have provided a unique perspective to understand the complexity and challenge of cross-border M&A. Future research could further explore the long-term effects of post-merger corporate integration, and the impact of cross-border M&As on corporate culture and organisational structure.

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