A brief analysis of the influence of overseas mergers and acquisitions on the economic consequences of enterprises -- taking BOGE as an example

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Abstract: Overseas M&A is an important way for domestic enterprises to realize internationalization and acquire new technologies and brands. Based on the leading position in the railway industry, Times New Material successfully acquired the German auto parts company BOGE, rapidly grew into a world-class auto parts supplier, this merger and acquisition case has profound theoretical and practical significance.

Key words: overseas merger and acquisition; Enterprise performance; Case analysis

This paper takes the acquisition of BOGE by Zhuzhou Times New Material Technology(hereinafter called Times New Material) as a case, explores the strategic motivation behind this merger case, and evaluates its impact on the financial and strategic aspects of Times New Material.

1, Background introduction

1. Macro-environment analysis

Thanks to the huge advantages of economies of scale, economic globalization has become an irreversible trend. Since its accession to the WTO, China has strictly abided by relevant agreements, achieved high-quality economic development, and gained an increasingly important voice. After years of accumulation, Chinese enterprises have begun to show their strength in overseas mergers and acquisitions.

Under the European debt crisis, Chinese enterprises ushered in a proper period for M&A. Due to the severe impact of the European economy, many European enterprises are faced with great debt repayment risk, which reduces the acquisition cost of the acquirer. In addition, with the proposal of the country's "One Belt, One Road" strategy, the rail transit industry has gradually gone global, constantly transforming and innovating, and China's high-speed rail has become the golden card of diplomacy. With the opportunity of high-speed rail "going out", the global market demand has been released, and the future growth space is still large. Time New Material undoubtedly need to seize this rare opportunity.

2. Internal-environment analysis

As early as 2011, Time New Material accumulated the experience of merger and acquisition from the merger and acquisition of Australian Delker Company. In 2013, the company's market share in its main business area of automobile and special equipment reached 474 million yuan, with a year-on-year growth of 26.06%, which further consolidated the power of discourse in the automobile and special equipment industry market. In addition, the company has also invested a lot of research and development in the field of eliminating low and high frequency noise. BOGE, the target of the acquisition, ranks 21st in the global non-tire rubber products company and third in the global automotive vibration reduction field. If the acquisition can be successful, it can largely help Time New Material to improve the strength of the enterprise. Since 2014, Time New Material has been constantly adjusting its market layout, focusing not only on the domestic market, but also on the broader international market. The need for leapfrog development of international business through mergers and acquisitions has become increasingly prominent.

2. Case Introduction

1. Introduction of Time New Material Company

Time New Materials originated from the Zhuzhou Electric Locomotive Research Institute of CRRC Group. The company was originally just a rubber laboratory, and later it was restructured internally and gradually developed into a leader in the industry. The company was listed successfully in 2012 with the stock code 600458 and the total share capital of 85.148 million yuan. The main products include rubber vibration reduction products, large wind turbine blades, engineering plastics and insulation products. Its brand "Times New Material" has been recognized by the State Administration for Industry and Commerce as a Chinese well-known trademark and enjoys a good reputation in both domestic and foreign markets.

2. Introduction of German BOGE Company

BOGE is a subsidiary of ZF Group, headquartered in Damme, Germany, with 10 production sites of varying sizes in 7 countries around the world. BOGE's R&D headquarters are located in Damme and Bonn, Germany, and the company is mainly responsible for product design, development, and communication with customers. BOGE R&D focuses on chassis vibration reduction and lightweight plastics technology, while Bonn R&D focuses on powertrain vibration reduction and commercial vehicle vibration reduction technology, in addition to a number of regional research and development centers, which have an excellent global market presence. In addition, BOGE also has high-quality downstream customers, with a revenue of more than 5 billion yuan in 2013, 80% of which are from the world's leading Automobile engine factory, such as Volkswagen, BMW, GM, Ford, Daimler, Geely, etc.

3. Analysis of M&A motivations

(1) Consolidate the domestic market and expand overseas territory.

Before the merger and acquisition, although Times New Material has great growth potential, its overall market share is less than 1%. Limited by the dual pressure of technology and brand, Time New Material has been unable to obtain the dialogue qualification with Volkswagen, GE and other international enterprises. However, through the acquisition of BOGE, Time New Material's brand and industry status will be rapidly improved, helping the company to obtain a higher market share.

(2) Seek ready-made assets and obtain synergies.

Time New Material is in the absolute leading position in the current rail transit rubber damping industry, with abundant capital, but facing the awkward situation of slowing growth. In order to solve this problem, Time New Material has been looking for the right investment target, trying to obtain new technology, market and brand, trying to achieve diversified development, in order to improve the profitability of the whole enterprise, generate 1+1>2 competitive advantages. Among the many investment targets, BOGE has gradually entered the list of senior executives of Times New Material. BOGE has a senior staff team and strong research and development ability. Through acquisition, it can realize the complementary advantages of technology, management and resources.

(3) To enhance the existing business scale and market share

As a leading enterprise in the automotive vibration reduction products industry, BOGE has a high market position and recognition, and strong competitiveness. If the merger can be successfully achieved, it will greatly enrich the company's product line in the rubber field, and further enhance the competitiveness of the automotive vibration reduction products business.

4. The M&A process

Since the 16th meeting of the sixth board of directors of the listed company reviewed and approved this transaction, the management began to focus on looking for investment targets. In 2012, the company set up a merger and acquisition team, which is specifically responsible for matters related to merger and acquisition, headed by the general manager himself. In order to gain a head start in the fierce market competition, executives of the company require strict confidentiality of all details related to the acquisition.

It's not a successful start, but it's an ambitious one. At the beginning, the "prey" of times new material is a company called AVIS, which manufactures and develops automobile shock absorbing elastic components. The company has a great influence in the industry, and its technology is in a leading position in the industry. But at the same time, in order to control the market share of its domestic rubber damping elastic components in the middle and high-end automobile market and maintain the original oligopolistic market situation of the industry, Japan's Donghai Rubber strongly intervened and acquired AVIS first.

It was a blessing in disguise. The death was a blessing in disguise, and the new prey was first shown. In the merger and acquisition of AVIS plan failed, a new "prey" appeared in the eyes of Time New Material, Germany ZF group in order to adjust the industrial structure, plans to sell the subsidiary BOGE. After a series of due diligence and management consulting and other preparatory work, Times New Material officially began to chase BOGE in March 2013.

Hard work pays off. With the continuous efforts of Times New Material, it finally achieved the merger and acquisition in September 2014, and this unusual overseas merger and acquisition became the largest case of a Chinese enterprise in the auto parts industry up to 2014.

3.. The influence of the merger on the financial performance of Time New Material

1. Analysis of the financial position after the transaction

(1) Changes in asset scale and structure

Since this merger and acquisition is a wholly-owned holding of BOGE by Times New Material, after the completion of the merger, BOGE needs to be included in the consolidated statements of Times New Material through a business combination not under the same control. At the same time, the acquisition consideration is full cash payment through bank financing, which will inevitably lead to a large amount of liabilities of the enterprise. From the perspective of capital structure, the ratio of current assets to non-current assets of Time New Material is 2.1:1, while that of BOGE is 1.38:1. It is obvious that after the completion of the transaction, as a new group of Time New Material, the proportion of non-current assets in consolidated financial statements will increase.

(2) A large amount of goodwill will be generated

Under the provisions of accounting standards for business enterprises, the difference between the purchase consideration and the share of the fair value of identifiable net assets is required to be recorded as goodwill. The acquisition consideration for this merger is RMB 2,476.6 million and the fair value of the identifiable net assets is approximately RMB 6,086.3 million. Therefore, a large amount of goodwill of 247,660 to 66,086.3 = 181,573.7 will be generated.

(3) Analysis of debt structure before and after the merger

The financial risks brought by the merger and acquisition of BOGE mainly include high asset-liability ratio and capital pressure. For the target enterprise BOGE, the asset-liability ratio is high, reaching 75.59%, while Times New Material will further increase the company's debt scale because of the payment consideration through bank loans. Therefore, Times New Material needs to carefully consider debt repayment risks to avoid cash flow breakage caused by the use of high leverage ratio. Moreover, after the merger, BOGE is separated from ZF Group, so it can no longer obtain cash financing from the old owner, so it lacks capital inflow. This urgent capital demand needs Times New Material to meet through equity investment and other ways. At the same time, BOGE cannot achieve further expansion without more capital investment. Times New Material needs to provide a certain degree of support, but it will also increase the financial pressure of the company. To sum up, after the merger and acquisition, Times New Material needs to take a number of measures to balance risk and capital pressure.

2. Financial security analysis after the completion of the merger

From the perspective of asset-liability ratio, current ratio and quick ratio, BOGE's debt paying ability is obviously inferior to that of Times New Material, especially the quick ratio of BOGE is only 0.83, indicating that the debt paying risk of the enterprise is relatively high. After the merger of the acquisition party, Times New Material is not under the same control. It is foreseeable that the financial risk of the company will inevitably be further increased, which puts forward new requirements for the risk management of the enterprise.

4. Analysis of competitive advantages and disadvantages after merger

1.Analysis of competitive advantages

Through this merger and acquisition, both parties will produce synergistic effect in customer resources, technology, products and other aspects, realize resource optimization and technology integration, and integrate their respective advantages, so as to better meet customer needs and improve market competitiveness.

(1) Sales advantage

After the completion of this merger, Times New Material can benefit from a large number of high-quality customer resources owned by BOGE. This means that Times New Material's downstream customers will be more reliable and stable. In addition, Time New Material has more diversified sales channels, not only limited to China, but also European automobile manufacturers will become new sales targets, which will have a positive impact on the company's business development. In view of this, the merger can effectively reduce the company's market risks and avoid the adverse factors encountered in the industry competition to weaken the company's business development. At the same time, it can also take advantage of the sales advantages formed after the merger to enhance the profitability of the company.

(2) Product advantage

BOGE plastic and rubber products have been praised by customers, in Germany, Japan and many other car companies to open the situation; The rail transit products of Time New Material are applied incisively and vividly in high-speed rail. The integration of technology can not only enhance the original advantages of each other, but also serve customers more widely. For example, Times New Material can apply its own technology to automobile products to improve their performance and safety, while BOGE can also apply its advanced technology to rail transit products to enhance its competitiveness in the international market.

(3) Technological advantage

Time New Material and BOGE, as the leading enterprises in the industry, have invested enough efforts in research and development to build a high technical barrier. By integrating the technology and research and development strength of both sides, Times New Material and BOGE can achieve a win-win effect. For example, in terms of technological innovation, the two sides can learn from each other's experience and technological advantages in cooperative research and development to launch products that better meet market demands. In terms of product promotion, the two companies can jointly carry out cooperative publicity and promotion activities targeting domestic and foreign markets to promote their products to gain a larger market share globally. In terms of post-maintenance, they can jointly carry out after-sales service and technical support to better meet customer needs and enhance brand image and customer loyalty.

2.Analysis of competitive disadvantages

After the completion of this merger and acquisition, the size of assets and personnel of the company will expand rapidly in a short period of time, and the requirements of internal control and risk management faced by managers will become more complex. In the face of such a huge and increasingly complex corporate network, it is necessary to have more efficient and excellent strategic management methods in order to operate normally and give play to the benefits of mergers and acquisitions. Managers must always be keen to grasp and cope with the challenges, and constantly strive to cope with the changes and challenges that may occur in the future, so as to avoid being seized by competitors.

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