

The Motivation and Performance Analysis of Geely's Cross-Border Merger and Acquisition of Daimler

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Abstract: In recent years, cross-border mergers and acquisitions in the automotive industry have emerged, and the total amount of global mergers and acquisitions in the automotive industry has shown an upward trend in 2018. At present, compared with the automobile enterprises in developed countries, China's automobile enterprises have been relatively backward. Geely's acquisition of Daimler is a typical case of overseas M&A in China's automobile industry. This paper discusses the motivation of its M&A and puts forward suggestions on performance analysis, which can provide references for Chinese enterprises to conduct overseas M&A in the future, and is conducive to reducing the risks of Chinese enterprises' overseas M&A and improving the efficiency of M&A.

Keywords: Cross-Border Mergers and Acquisitions; Performance Analysis; Motivation

1. Geely's acquisition of Daimler case overview

1.1 Merger and acquisition process

In 2017, Geely began planning to acquire Daimler. In November 2017, Geely Auto planned to acquire 3% to 5% of Daimler's shares, at which time Daimler did not accept Geely Auto's acquisition proposal. Daimler believed that Geely could acquire Daimler shares in the secondary market, so it rejected Geely Auto's request.

By December 2017, Geely Auto had requested a \$2 billion loan from Industrial Bank in order to acquire a larger stake in Daimler.

At the beginning of 2018, Geely Auto officially implemented the overseas acquisition strategy, and the government announced that Geely Auto would purchase about 9.69% of Daimler's shares with about 9 billion US dollars, becoming Daimler's largest shareholder and holding Daimler's shares for a long time.

2. Case study of Geely Auto's acquisition of Daimler

2.1 Motivation analysis of Geely's merger and acquisition of Daimler

2.1.1 Access to new energy technologies

Daimler as a global automotive leader, in electrification, intelligent, driverless technology are leading position, which coincides with the expectation of the future development direction of the automotive industry Geely. If successful hand Daimler, Geely can through the introduction of technology to strengthen the new energy vehicle plate, successfully occupy the technological high ground; secondly, Daimler and Geely's strong combination, conducive to the expansion of the enterprise scale, which produces a scale effect, reduce costs, to achieve the effect of synergy of the operation; furthermore, in the merger and acquisition of Daimler's shareholding before the composition of Daimler's share share of all shares of the shareholders of Daimler by the control of the four companies, whose proportions are respectively 6.8%, 3.1%, 15.3% and 74.8%, Geely Automobile, according to Daimler's ownership structure, uses the secondary market as its acquisition strategy, and through the occurrence of merger and acquisition activities, combines Geely's possession of sufficient cash flow and Daimler's rich investment choices, reduces the cost of raising funds for the enterprise, and maximizes its financial synergy.

2.1.2 Increase market share

Lacking overseas sales channels, Geely needs to open the door to overseas markets through mergers and acquisitions. Geely's acquisition of Daimler is to rely on Daimler's technology and strong competitiveness in overseas markets, strive to expand overseas markets, in-

crease market share, and occupy a place in the increasingly fierce international automobile competition.

The merger of Geely and Daimler is a horizontal merger in the automobile industry, which can improve the layout of the whole industrial chain of Geely Auto, change the current situation of Geely Auto's lack in the new energy vehicle sector, promote a more reasonable industrial structure of Geely Auto and improve the production efficiency of the enterprise. From the "going out" of a single product trade to the "coming in" of deep participation in local industrialization, Geely Group will be further promoted in the "Belt and Road" to taste connectivity, common prosperity, and realize the strategic layout of globalization. At the same time, this change will also consolidate Geely Auto's position as the leader of domestic auto brands and greatly enhance its market power.

2.2 Performance analysis of Geely's acquisition of Daimler

2.2.1 Repayment analysis

① Short-term solvency

Table 1 Geely's short-term solvency data, 2015-2020

	2020	2019	2018	2017	2016	2015
Liquidity ratio	1.216	1.031	0.978	1.062	1.163	1.240
Quick ratio	1.128	0.931	0.884	0.942	1.087	1.180

Data source: Oriental Fortune

Through the above table, it can be seen that before Geely's acquisition of Daimler, between 2016-2018, the enterprise's current ratio showed a continuous downward trend, and the current ratio once fell from 1.240 to 0.978, at this time, the current ratio is less than 1; the quick ratio and the current ratio have a similar characteristic, and it continued to fall in 2015-2018. At this time, the current ratio and quick ratio are both less than 1, indicating that by 2018, Geely's short-term solvency is weak.

After Geely's acquisition of Daimler, that is, in the period of 2019-2020, the current ratio and quick ratio both show a clear upward trend, in which the current ratio rises from 0.978 to 1.216 in 2018, and the quick ratio rises from 0.884 to 1.128. The simultaneous rise of the current ratio and quick ratio indicates that Geely's this acquisition has enhanced the short-term solvency of the enterprise, and the rights and interests of creditors are more secure, and the risk of loss is smaller.

② Long-term solvency

The assessment of Geely's long-term solvency is mainly reflected by Geely's gearing ratio, as shown in Table 2.

Table 2 Geely's gearing ratio, 2015-2020

	2020	2019	2018	2017	2016	2015
Gearing	42.05%	49.11%	50.39%	59.04%	63.47%	53.33%

Data source: Oriental Fortune

As can be seen through Table 2 Geely Automobile 2015-2020 gearing ratio changes, from 2015 to 2020, Geely Automobile's gearing ratio situation shows an overall downward trend, indicating that Geely Automobile's degree of debt servicing assurance is enhanced and long-term debt servicing ability is improved.

Overall, Geely Auto's short-term solvency and long-term solvency have been improved.

2.2.2 Profitability analysis

Profitability analysis is mainly selected to measure the three main indicators of gross profit margin, net profit margin and return on equity (ROE), and the data from 2015 to 2020 are selected, as shown in Table 3.

Table 3 Geely Automobile Profitability Indicators, 2015-2020

	2020	2019	2018	2017	2016	2015
Gross margin (%)	16.00	17.37	20.18	19.38	18.32	18.15
Net interest rate(%)	6.05	8.48	11.89	11.57	9.62	7.59
ROE(%)	9.14	16.48	31.62	36.11	23.26	12.28

As can be seen through Table 3, Geely's gross profit margin and net profit margin have no obvious changes from 2015 to 2020, but its return on net assets has obvious fluctuations. During the period of 2015-2017, Geely's return on net assets showed a significant upward trend, to 2017 to 2020, its return on net assets continued to decline, and finally its return on net assets decreased to 9.14%. After Geely's acquisition of Daimler, the corporate return on net assets still shows a downward trend, the lower the corporate return on net assets, the weaker the ability of own capital to obtain income, the lower the degree of guarantee for the interests of corporate investors and creditors, and the profitability is reduced.

2.2.3 Analysis of cost containment capabilities

Table 4 Geely Cost Control Indicators, 2016-2019 (in billions of yuan)

	2016	2017	2018	2019
Financial cost	-0.30	-0.35	-0.79	-0.49
Administrative expenses	25.60	29.23	37.77	24.55
Total costs for the period	50.33	69.44	82.21	46.62
Revenues	537.22	927.61	1065.95	475.59
Period cost ratio	9.37%	7.49%	7.71%	9.80%
Selling and distribution costs	25.03	40.56	45.23	22.56

Data source: Flush.com

As shown in Table 4, in 2018 after Geely's acquisition of Daimler, both financial expenses, administrative expenses and selling and distribution costs were higher than those in 2017, while the period expense ratio also showed an upward trend. It is understood that in 2018, the amount of Geely automobile research and development investment increased by 30% compared with the previous year, reaching 1.926 billion yuan, while this is less than half of Geely Enterprises' sales and distribution costs in 2018. These figures show that Geely Enterprises spent a lot of money on the acquisition of Daimler, while at the same time, Geely Automobile, which has always practiced low prices and high cost performance, had to rely on more marketing. These two reasons, however, have led to another drop in Geely's sales and a decline in its core figures, causing the enterprise to enter a vicious cycle of high selling costs and low R&D investment.

3. Conclusion

This paper analyzes the M&A motivation and performance of Geely's merger and acquisition of Daimler and obtains the following conclusions:

First, Geely M&A is to occupy the technological high ground. Geely chose cross-border merger and acquisition of Daimler, because it is in the leading position of new energy technology, seeking strategic cooperation with Daimler, and ultimately make Geely and Daimler synergistic effect, which is a major important reason for Geely's acquisition of Daimler.

Secondly, Geely's acquisition of Daimler has improved Geely's corporate performance. Geely automobile financial data in the acquisition of Daimler after the more obvious changes, especially its short-term solvency has significantly strengthened, operating capacity has also been improved, the current profitability shows a downward trend, but in general, Geely automobile mergers and acquisitions after the financial performance of the good, showing an upward trend.

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