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Case Analysis of Financial Performance After Asset Integration

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ABSTRACT
This article aims to conduct an in-depth research on the financial performance of listed companies after asset reorganization based on business integration. First, the author introduces the overall research background of the full text, and then combs and summarizes classic research theories and cutting-edge literature. In addition, based on public financial data and other information disclosed by listed companies, the author conducted an in-depth analysis of their financial performance, and finally reached the conclusion of this article. The research in this article is of great practical significance. Based on the analysis of financial performance, it conducts a more in-depth study on the asset restructuring of listed companies.

Keywords: *Financial Performance, Asset Reorganization, Business Integration*

1. INTRODUCTION

With the deepening of China's economic marketization, China's capital market has also become increasingly prosperous. The listing of new stocks, bond issuance and corporate asset restructuring have become the three main forces of the capital market. Asset reorganization itself has its own unique advantages. Asset reorganization is considered by the theorists to be an effective means for enterprises to become bigger and stronger, integrate superior resources, play complementary effects and improve comprehensive competitiveness. Through asset reorganization, enterprises can expand their scale, enter target fields, and obtain key technologies in a relatively short period of time. Compared with endogenous growth, asset reorganization has unparalleled advantages in the above-mentioned aspects.

Compared with general asset reorganization, the implementation of major asset reorganization is more complicated and standardized than the latter. On the other hand, the implementation of major asset reorganization will affect listed companies, shareholders of listed companies, and individual investors. And government departments have a major impact. When studying the impact of asset reorganization on the performance of listed companies, the theoretical circles in my country used more general sample selection and data analysis.

Research on the performance of major asset restructuring can prompt listed companies to conduct a comprehensive analysis of their own situation and carefully choose a restructuring model that suits their actual conditions. For listed companies, major asset restructuring will have a huge impact on the company's main business, assets, and income. Therefore, it should be particularly cautious in the choice of restructuring behavior mode. It enables listed companies to choose a more appropriate asset restructuring plan based on an objective analysis of their own situation, reducing the probability of restructuring failure, and thereby improving company performance.

2. LITERATURE REVIEW

2.1. Definition of Asset Reorganization

Due to the frequent occurrence of asset reorganization in the economic field, the diversification of reorganization methods with changes in asset types, and the constant changes in laws and regulations related to asset reorganization, the definition of asset reorganization has become very vague.

Zhao Jianzhong (2015) proposed that asset reorganization is an active reorganization, in which companies use asset purchases, asset sales and asset replacements to strip low-efficiency assets and non-core assets in exchange for assets that the company needs. It is emphasized that the complementary advantages of the assets of both parties in the reorganization may involve the strategic adjustment of the enterprise. [1]

Mergers and acquisitions are an important channel for modern businesses to integrate resources and expand their scale. It is an important manifestation of the optimization of capital market resource allocation and an important driving force for the development of the capital market. Zhao Jianzhong (2015) pointed out that M&A can be decomposed into two meanings: Merger and Acquisition. In terms of accounting, a merger refers to an absorption merger, which is usually a process in which a dominant company in a certain aspect absorbs other companies. The independent legal entity status of the absorbed company is eliminated and continues to exist in the name of the absorbing party. Acquisition generally means that the acquirer purchases the assets or equity of the target company with cash and its equivalents in order to control the purchased assets or obtain control of the target company. The core content of mergers and acquisitions is shareholder access, which mainly involves changes and adjustments in company equity and company control. He divided the concepts of mergers and acquisitions and asset restructuring. [1]

Other scholars such as Chen Rong (2019) believe that with the development of the market, a large number of crossovers have occurred between mergers and acquisitions and asset reorganizations, and the boundaries between asset reorganizations and mergers and acquisitions have also become blurred. It also makes it more difficult to define asset restructuring. Therefore, Chen Rong (2019) combined mergers and acquisitions and asset reorganization to redefine asset reorganization: a certain amount of assets of a company is adjusted through certain methods (mergers, acquisitions, replacements, sales, etc.), and then recombined allocation to achieve the goal of optimizing asset structure and improving operating conditions. [2]

2.2. Financial Performance Evaluation Method

2.2.1. Event research method and derivatives

Song Luoyue (2020) conducted a case study based on Suning Tesco's acquisition of Carrefour China, used the event research method to test the market performance of the merger in the short term, and analyzed the three aspects of operation, management and finance based on the financial indicator method. [3] Zhao Jianzhong (2015) uses the principal component analysis method while using the accounting event research method to empower the selected financial indicators to study the financial performance of asset restructuring. Zhao Jianzhong selected listed companies that had major asset restructuring activities in 2010 as a sample. After selecting the sample, he used the company's financial data for five years (2009-2013) in the previous year, current year, and three years after the asset reorganization occurred in the sample as the research basis. [1] Chen Rong (2019) selected A-share listed companies and major asset restructuring events that occurred during the five years from 2011 to 2015 as the research sample. The sample companies were selected one year before the reorganization, the year of the reorganization, the first year after the reorganization, and after the reorganization. The financial data of the second year for a total of 4 years, and the cumulative excess return on stock prices of the sample companies 5 days before and after the disclosure date of the first reorganization announcement of the sample companies are the subject of study. The single financial indicator research method (net profit growth rate) and the event research method use reorganization. The cumulative excess return (CAR) after the event announcement measures financial performance.[2]

2.2.2. Evaluation method based on a single financial indicator

Zheng Jiayi (2020) focused on ROE analysis, supplemented by analysis of other financial indicators, sorted out 1,039 reorganization cases of Shenzhen listed companies from 2014 to 2019, defined the year of reorganization as year t, and studied sample companies from the first two years of reorganization. (T-2 years) to three years after the reorganization (T+3 years) performance changes. [4] Chen Meilian (2020) put forward the basic idea of DuPont analysis method is to start from the company's highly comprehensive and most representative financial ratio-return on net assets, and decompose it step by step to reflect the company's profitability, operating capacity and capital, and the product of multiple financial ratios of the structure, comprehensively analyze and evaluate the financial status and operating results of the enterprise. [5] Li Zhixue (2020) uses EVA indicators to conduct an empirical analysis of the financial data of 99 new energy listed companies in my country from 2013 to 2015, to study the performance evaluation of new energy listed companies. Li Zhixue proposed that EVA is a further development of the concept of "residual income". It represents a company's return on capital (ROC) after deducting the cost of capital (COC), which can well reflect the business income and total cost of capital. [6]

2.2.3. Establish an evaluation system to obtain a comprehensive scoring method

Both Hou Yali (2020) and Wang Jianhua (2020) used factor analysis to select performance evaluation financial indicators, constructed a performance evaluation system that only included financial indicators, and obtained comprehensive performance scores. [7] [8] Yang Xiuqiong (2020) uses the financial data of five listed commercial banks from 2007 to 2017 to construct the input and output financial data into triangular fuzzy numbers, and then establishes a fuzzy DEA financial performance evaluation model for commercial listed banks. To evaluate the financial performance of listed commercial banks. [9] Cai Lixin (2020) takes 13 state-owned capital investment companies of state-owned enterprises as the research object, optimizes the financial performance evaluation system of state-owned enterprises, selects 20 financial performance indicators that are more suitable for state-owned capital investment companies, and uses entropy Value method, an objective weighting method, establishes a mathematical model to assign weights to various indicators of each company, and obtains the five types of capital return capabilities, capital safety capabilities, capital operation capabilities, value growth capabilities, and layout innovation capabilities for 13 companies. Dimensional score and comprehensive score of financial performance. [10]

2.2.4. Classification and evaluation of financial indicators and non-financial indicators

Tong Mengjie (2020) uses the empirical data of Shanghai and Shenzhen A-share listed companies from 2012 to 2017 as the research object to study the impact mechanism of non-financial index performance evaluation and intangible asset capitalization on corporate financial performance, and analyzes intangible asset capitalization and the impact of the interaction of financial index performance evaluation on corporate financial performance. It also proposes that traditional performance evaluation only incorporates financial indicators, ignoring the impact of non-financial information on business operations and financial management. Therefore, the effective implementation of non-financial indicator performance evaluation can better compensate for the incompleteness of financial indicator evaluation. [11] Ni Chaoyan (2020) analyzed the financial performance of mergers and acquisitions by combining the analysis of financial indicators and non-financial indicators using the Harvard framework through the continuous merger and acquisition case of Joyson Group. In terms of financial indicators, the four financial indicators of asset-liability ratio, current debt ratio, current ratio and quick ratio are used to measure the solvency of Joyson Group, and the total asset turnover rate, accounts receivable turnover days and inventory turnover days are used to measure all the operating capability of Joyson Group, selects ROE and gross profit margin to measure Joyson Group's profitability. [12]

It is also a case study of mergers and acquisitions. He Xu (2020) chooses the object of study. Company T is a company that has transformed from a manufacturing industry to a game industry. It has conducted frequent mergers and acquisitions a year after the transformation. He Xu used the financial analysis method to conduct a case study on the M&A performance of T company, and divided the financial indicators into four sub-projects of solvency, operating capacity, profitability, and development capacity. The solvency was divided into short-term solvency and long-term solvency. Debt capacity. Use current ratio and cash ratio to represent short-term solvency, and asset-liability ratio to represent long-term solvency. [13] A similar financial performance evaluation method is Niu Mengyao (2020) based on the grasp and analysis of the strategic information of Evergrande Group, which evaluates its operational ability, profitability, solvency and development ability and other four financial performance indicators. Use accounts receivable turnover rate, inventory turnover rate and total asset turnover rate to represent operating capacity; sales net profit margin, gross sales margin and return on net assets represent profitability; current ratio, quick ratio, and debt-to-asset ratio represent solvency; Sales growth rate, total assets growth rate, and net profit growth rate represent development capabilities. [14]

3. CASE STUDY

In June 2019, Midea Group issued shares to other shareholders of Wuxi Little Swan Group except Midea Group and its subsidiaries in exchange for the Little Swan stock held by these shareholders. After the completion of this share swap and merger, Little Swan's legal personality will be cancelled, and Midea Group will inherit and take over all of Little Swan's assets and liabilities. The Shenzhen Stock Exchange decided to terminate the listing of Little Swan's RMB common stocks from June 21, 2019.

Subject to be merged: The predecessor of Wuxi Little Swan Co., Ltd. was founded in 1958. From the birth of China's first fully automatic washing machine in 1978 to 2010, the brand value reached 15.016 billion yuan. At that time, Little Swan was one of the few in the world that could manufacture all kinds of fully automatic pulsator washing machines, drum washing machines, and agitator washing machines at the same time. The world's third largest washing machine manufacturer.

4. FINANCIAL PERFORMANCE ANALYSIS

4.1. Profitability Analysis

Table 1: Profitability Data

(Millions of RMBs)

	2020 9/30	2019 12/31	2018 12/31	2017 12/31	2016 12/31	2015 12/31
ROE	27.37	26.21	25.80	25.63	26.62	28.66
ROA	9.07	8.94	8.46	8.89	10.59	10.94
Total Asset Response Rate	10.01	9.55	9.50	10.35	12.21	12.63
Gross Profit Margin	25.29	28.86	27.54	25.03	27.31	25.84
Net Profit Margin on Sales	10.24	9.09	8.34	7.73	9.97	9.84

Note: ROE, ROA, Total Asset Response Rate are processed annually

First, analyze the company's profitability based on ROE. According to the data in Table1, the value of the combined 2020 quarterly report data is higher than the three years before the merger, indicating that the company's use of shareholder capital has increased. According to the change of ROA between 2019 and 2020 and the comparison of the value of 2018, it can be concluded that the company's asset utilization efficiency becomes higher and the capital utilization effect becomes better after the merger. In the case of an increase in average total assets, ROA is still rising, indicating that the annualized net profit in 2020 is higher than before the merger. With reference to the change in the return on total assets between 2018 and 2020, the company's overall profitability has improved compared with the previous merger, but there is still a gap between it and before 2017. A comprehensive analysis of the return on total assets and return on total assets shows that the profitability after the merger has been improved. Considering that 2017 may be affected by income tax, although the profitability is not as good as 2016 and 2015, it has a higher profitability compared to 2019 and 2018. Promoted.

Comparing the gross profit margin and the net sales margin, the gross profit margin after the merger between 2019 and 2020 has dropped significantly and is significantly lower than the pre-merger 2018 and 2016, but the net sales margin has increased and the value is higher than the all the value of 2015 to the end of 2019. It is speculated that due to the impact of the epidemic in the first half of 2020, products in various industries will be promoted to a certain extent and installation fees such as air conditioners will be included in the cost. The decline in gross profit margin is a normal range. More, it can be concluded that the company's true profit ratio is increasing, and the proportion of other expenses is decreasing, so the profitability is improved.

4.2 Analysis of Operating Capability

Table 2: Operational Capability Data

(Millions of RMBs)

	2020 9/30	2019 12/31	2018 12/31	2017 12/31	2016 12/31	2015 12/31
Inventory Turnover	5.72	6.38	6.37	8.01	8.87	8.06
Receivables Turnover Ratio	10.93	14.62	14.07	15.54	13.35	14.03
Fixed Assets Turnover	10.00	12.67	11.63	11.08	8.03	7.29
Current Assets Turnover	0.94	1.40	1.49	1.67	1.49	1.55
Total Assets Turnover	0.67	0.99	1.02	1.16	1.07	1.12

Between 2019 and 2020, the total asset turnover rate has also dropped significantly, which means that the overall asset operation capability of the company has declined, and the proportion of possible idle assets and underutilized assets has increased.

Further analysis of the inventory turnover rate shows that the company's production, inventory management level, and sales recovery ability have weakened, and the inventory asset liquidity ability has weakened. It is not ruled out that product price fluctuations caused by the epidemic in the first half of 2020, rather than the weakening of actual inventory liquidity. The same will also involve the turnover rate of current assets, due to the decline in the net income of the main business. If this influencing factor is excluded, from the data point of view, the company's ability to fully and effectively utilize liquid assets, such as mobilizing temporarily idle monetary funds for short-term investment to create income, has decreased and is at the lowest value between 2015 and 2020.

The fixed asset ratio has also declined compared to 2019, but it has not been lower than 2016 and 2015 before the merger. The utilization rate of fixed assets has become lower, and the company's operational management capabilities have declined. The company’s accounts receivable turnover rate has also been reduced accordingly. Compared with 2019 and all years before the merger, the company’s capital utilization efficiency has decreased and the proportion of credit sales has increased, or the account age has increased, and the possibility of bad debts has increased.

On the whole, the operational capabilities of the merged company as a whole and in all aspects have been reduced, but the factors affecting the new crown epidemic cannot be ruled out.

4.3 Analysis of Solvency and Capital Structure

Table 3: Data on Solvency and Capital Structure

(Millions of RMBs)

	2020 9/30	2019 12/31	2018 12/31	2017 12/31	2016 12/31	2015 12/31
Current Ratio	1.33	1.50	1.40	1.43	1.35	1.30
Quick Ratio	1.20	1.28	1.18	1.18	1.18	1.15
Cash Ratio	0.41	0.53	0.31	0.50	0.28	0.34
Debt Ratio	65.72	64.40	64.94	66.58	59.57	56.51
Cash Coverage Ratio	0.14	0.27	0.21	0.21	0.30	0.37
Equity Multiplier	2.92	2.81	2.85	2.99	2.47	2.30

According to the data in Table 3, from the perspective of the current ratio, the ratio has declined rapidly and is lower than the ratio before the merger, indicating that the solvency has deteriorated, which may be due to the need to invest funds for integrated business and other operations after the merger. It may also be caused by a decrease in inventory. Judging from the magnitude of the decline, the current ratio has declined faster, indicating that the company's products and materials have been reduced more quickly, but the rapidly realizing current assets and cash equivalents such as accounts receivable have not changed much. Looking at the quick ratio alone, the quick ratio after the merger has declined compared to 2019 but has improved compared to before 2018, and the value is higher than 1, indicating that the company still has a high short-term debt solvency and is relatively It has improved before 2018.

According to the cash ratio that best reflects the company's ability to directly pay current liabilities, although the ratio has declined compared with 2019. Generally speaking, it is better for the cash ratio to be higher than 0.2. Pay attention to the six cash ratio data of Midea. The combined value is at a relatively high level and has been in a state of low financial risk. Combined with the cash flow debt ratio, the net cash flow generated by the company's operating activities, the degree of guarantee for the repayment of current liabilities is not ideal, and it has decreased compared to 2019. However, referring to the fact that the cash-to-liability ratio in 2017-2019 has not been high, it is believed that the overall debt solvency has not weakened to the level of financial risk.

From the perspective of the debt-to-asset ratio, the proportion of assets raised through debt financing among the total assets of an enterprise is relatively reasonable and stable. According to the equity multiplier, the company's financial leverage becomes larger after the merger, that is, the debt ratio becomes higher, but combined with the previous analysis, the company is still able to repay the excess debt, and the financial risk is small. And through the previous analysis, the company's operating conditions are in an upward trend, and a higher equity multiplier can lead to more efficient capital operations and higher profits.

4.4 Analysis of Growth Ability

Table 4: Growth Capacity Data

(Millions of RMBs)

	2020 9/30	2019 12/31	2018 12/31	2017 12/31	2016 12/31	2015 12/31
Year-on-year growth rate of Operating	-1.88	7.14	7.87	51.35	14.88	-2.28

Income						
Earnings per share year-on-year Growth Rate	-0.36	16.88	15.79	16.16	14.50	20.08
Growth Rate of Net Profit attributable to shareholders of the Parent Company	3.29	19.68	17.05	17.70	15.56	20.99
Growth Rate of Net Assets per share	10.17	16.96	10.93	18.75	-17.93	23.16
Stockholders' Equity Growth Rate	11.03	22.39	12.66	20.63	24.24	24.65
Total Asset Growth Rate	16.06	14.51	6.29	45.43	32.41	7.11

Compared with 2019, the combined operating income has fallen, which has led to a negative growth in earnings per share. The growth rate of net profit attributable to shareholders of mu company declined but was still positive, indicating that the net profit attributable to shareholders of the parent company was increasing but the speed was significantly slower than before the merger. The growth rate of net assets per share is also positive. Compared with 2019, it has declined, but it is basically the same as 2018 before the merger. Compared with the large fluctuations in 2015-2017, the data in 2020 is at a normal level. The net assets per share are still growing, indicating that the company's net assets are expanding although the speed has slowed down compared to 2019. The same shareholder's equity is also growing at a slower rate, indicating that shareholders still have investment although the amount has decreased compared with the previous amount, which also shows that the company is in a state of expansion. The growth rate of shareholders' equity is lower than the growth rate of total assets, which indicates that the company is raising more debts at this stage. The total growth rate of assets in 2020 is higher than that of 2019 and is at a higher level than all years before the merger. The company is in a state of expansion at this stage.

4.5 Per Share Index

Table 5: Index data per share

(Millions of RMBs)

	2020/9/30	2019/12/31	2018/12/31	2017/12/31	2016/12/31	2015/12/31
Earnings Per Share	3.18	3.60	3.08	2.66		
Net Assets Per share	16.0664	14.5827	12.4676	11.2387		
Net Operating cash flow Per share	3.5604	5.5351	4.1814	3.7254		

Midea Group's per-share indicators have shown a steady upward trend. Earnings per share have risen significantly, and they have not been affected by the severe COVID-19 epidemic in 2020. The increase in net assets per share is relatively large, indicating the value of its equity. Expansion, in addition, Midea Group's net operating cash flow per share showed a relatively stable trend overall.

4.6 Cash Flow Analysis

Table 6: Cash flow analysis data

(Millions of RMBs)

	2020/9/30	2019/12/31	2018/12/31	2017/12/31	2016/12/31	2015/12/31
Net Operating cash flow	25,014.63	38,590.40	27,861.08	24,442.62	26,659.01	26,764.25
Net Investing cash flow	-32,098.58	-23,107.70	-18,642.29	-34,739.61	-19,781.08	-17,989.19

Net Financing cash flow	8,101.38	-3,273.60	-13,387.16	19,651.65	159.91	-8,876.65

The net cash flow generated by operations has decreased compared to 2019, which may be caused by some operational integration problems after the merger. Comparing the data from 2015 to 2018 before the merger, the data in the three quarterly reports for 2020 is at a normal level. Generally speaking, cash inflow from operating activities accounts for a significant proportion of total cash inflow, indicating that the company's operating conditions are relatively good, financial risks are low, and the cash inflow structure is more reasonable.

The net cash generated from financing, the return of funds in 2020 has increased significantly compared with 2019. And compared with before the merger, it is also at a higher level. Among them, the cash paid for the distribution of dividends, profits or interest payments has increased compared with 2019 and the four years before the merger. And the company issued bonds in 2020 to get cash. It shows that the company is in the strategic layout stage after expansion and merger.

5. CONCLUSION

From the perspective of financial situation, Midea Group's asset scale and sales scale have expanded year by year, the company has continued to expand, investment and financing activities are active, and idle funds are small. Although the main products have a relatively high market share, they have not taken full advantage of the acquired company, Little Swan, in the washing machine field. Mergers and acquisitions have little impact on the profitability of companies. Since the year of mergers and acquisitions, the increase in gross profit has decreased, and the impact of scale expansion on the marginal returns of commodities can be considered. From the perspective of current ratio, quick ratio, and cash ratio, mergers and acquisitions have a positive impact on the company's solvency, but they have failed to strengthen the company's operating capacity. The company's accounts receivable has always been at a relatively high level, and the total asset turnover rate has been showing year by year. Downtrend. The growth rate of corporate asset scale has fallen sharply since the merger, and it may be considered that due to the scale expansion reaching the bottleneck, the merger may have a negative impact on the growth ability of the company.

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