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Research on Company Financial Performance After Asset Reorganization: Take Midea as an Example

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ABSTRACT
This article aims to analyze the company's financial performance after major asset reorganization based on the case of Midea Group. This article has conducted a detailed literature review. Besides, it actively explores related theoretical results and real cases and analyzes the financial performance based on the in-depth analysis of the cases. 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.

Keywords: *Financial Performance, Asset Reorganization, Mergers and Acquisitions*

1. INTRODUCTION

On July 1, 2014, Little Swan announced the "Report on the Tender Offer of Wuxi Little Swan Co., Ltd.". Midea Group announced that it will issue a portion to all the shareholders of Little Swan except Midea Group and TITONI from July 3, 2014. Offer to acquire Little Swan A shares held by him at a price of 10.75 yuan/share, and purchase Little Swan B shares held by him for HK$10.43/share. The planned tender offer is 126,497,553 shares, accounting for a small 20% of Swan's total equity. Since then, Midea has carried out a new round of mergers and acquisitions of Little Swan Company. This article uses this case study to analyze the financial performance of listed companies after asset reorganization.

According to the announcement of Midea Group, with the approval of the China Securities Regulatory Commission, Midea Group issued share swaps to absorb the merger of Little Swan. Trading of the company's shares began to be suspended on May 8, 2019. Thereafter, Midea Group's shares will be distributed, exercised, and executed Right liquidation and settlement stage, until the end of the acquisition claim right declaration period and fulfill the relevant information disclosure obligations, the trading will resume. In addition, Little Swan A announced that the stock was suspended from trading on May 8, 2019, until it was converted to Midea Group and listed for trading after the implementation of the share swap.

2. LITERATURE REVIEW

2.1. Major Asset Restructuring

Chen Jiangning and Zhou Jing (2020) pointed out that under the impact of the 2020 new crown pneumonia epidemic, the global financial and economic environment is harsh. Most companies are affected by investment difficulties and national security investment protectionism. The asset and capital supply chain of companies is destroyed, which makes companies produce Difficulties in business operations and even debts. In this economic environment, mergers and acquisitions based on industrial chain integration have become the mainstream of the financial market. [1] By reading the case analysis of Cai Yue (2020), Zhao Zhengchun (2020), and others, it is not difficult to find that companies generally hope to take advantage of the opportunities of mergers and acquisitions to make up for the synergies of expanding the company, improve technology and core competitiveness to expand market share. [2] Chen Jiangning and Zhou Jing (2020) analyzed from the current asset and capital side of the situation, it is found that all parties in the market prefer to merge and reorganize high-quality assets, that is, high-quality listed companies acquire high-quality projects. Affected by the global economic recession under the influence of the new crown epidemic, Chinese companies have begun to explore new development models on a large scale, focusing on the digital economy, and quickly realizing competitive advantages in the market and expanding living space through mergers, acquisitions, and reorganizations, thereby achieving industrial chain synergy, The benign ecological effect of market resource allocation.

However, in actual situations, Feng Genfu (2016), Li Shanmin (2019), and others found in domestic M&A case studies that the performance of M&A companies generally rises and then declines, or flats and then declines. However, domestic and foreign companies are still fairly Keen. [3] [4] Li Shanmin and Zhou Xiaochun (2018) analyzed this situation and pointed out that since mergers and acquisitions are a continuous and dynamic process when judging the value of mergers and acquisitions, we should not only look at the financial point of view but also consider post-merger integration. The impact of the synergy effect on M&A performance. [5] Regarding post-merger asset integration, Ma Bodong (2017) made a more detailed analysis. The success of mergers and acquisitions and restructuring activities depends on whether the post-merger asset integration is sound and reasonable. [6] At the same time, there are certain risks in mergers and acquisitions, and restructuring. Tang Huamao (2018) further explained the risks of the industry, the macroeconomic environment of the market, and the financial and financial risks of the merger company and the target company that may arise during the merger process. Risks and opportunities coexist in the merger and reorganization of listed companies, and risks should be avoided as much as possible. [7]

Hao Jingkun (2016) analyzed several key factors that affect the success of a company's mergers and acquisitions: the prerequisite for successful mergers and acquisitions is to formulate a suitable expansion strategy to select the appropriate way of mergers and acquisitions. The simplification of expansion strategies requires horizontal mergers and acquisitions; Evaluation is the basis for the success of mergers and acquisitions; whether synergy effects can be produced is the key to determining the success of mergers and acquisitions. The synergies of mergers and acquisitions are a complex process that takes some time to manifest. Reasonable planning of mergers and acquisitions integration is the guarantee for the success of mergers and acquisitions. The target company's business is in line with the development path of the merger company, and the combination of the two can produce positive synergy. For example, Midea's acquisition of Little Swan has achieved complementary advantages in product sales channels and market expansion and gave full play to scale effects and merger coordination effects. [8] Finally, reducing the financing risk of mergers and acquisitions is the fundamental guarantee for the success of mergers and acquisitions. Before mergers and acquisitions, companies should take into account the target company and the purpose of the merger and other relevant conditions, and formulate a reasonable financing plan. In this case, China and the United States absorbed and merged Wuxi Little Swan Co., Ltd. through the issuance of A shares to realize the asset integration of two listed companies and simultaneously solve the problem of Little Swan B shares, which greatly prevented M&A financing risks and reduced funds the possibility of chain breaks.

2.2. Financial Performance Research

Li Shanmin and Li Qi (2020) summarized the performance research of early domestic and foreign mergers and acquisitions cases. There are different financial performance measurement methods for different domestic and foreign market conditions. For well-developed capital markets, such as the developed capital markets represented by the United States, the ultra-long return method is mainly used to study the response of the securities market after the asset reorganization event. [9] Yu Guang, Yang Rong (2018), and others used the ultra-long income method to measure domestic restructuring performance and found that the effect is not obvious, and the value of mergers and acquisitions is unchanged. This is mainly since my country's securities market has a short history of a late start and has many shortcomings. Therefore, most of the country adopts a certain performance evaluation index system. [10] For example, Feng Genfu and Wu Linjiang (2019) select four indicators of main business income/total assets, net profit/total assets, earnings per share, and return on net assets as the index system to evaluate the performance of listed companies' mergers and acquisitions, and obtain the company's performance of mergers and acquisitions in one or two years has improved but then declined, and the advantages of hybrid mergers and acquisitions are not as good as horizontal mergers. [11] Wan Chaoling (2017), Wu Yuping (2018), and others also adopted the indicator system to measure company performance and got the same conclusion as above. [8]

Zhang Xin (2003) pointed out that mergers and acquisitions beyond the IPO market are the most important link in the allocation of resources in the securities market, and the value effect of mergers and acquisitions should be correctly understood. [6] The author selects examples of mergers and acquisitions of Chinese listed companies from 1993 to 2002 and uses event research and accounting research methods to find that mergers and acquisitions have created great value for the target company. The target company's financial indicators have improved but had a certain negative impact on the income and financial performance of the acquired company's shareholders. In addition, the author explains the reasons why mergers and acquisitions and restructuring in the Chinese market have improved the quality of listed companies, but the net effect on the whole society is uncertain from the perspectives of synergy, arrogant hypothesis, and agency motivation. Because mergers and acquisitions not only affect the securities market but also use a lot of social resources, which involves the redistribution of social resources among various related interest groups. Therefore, the author not only analyzes the performance of mergers and acquisitions from the perspective of the company but also analyzes the performance of mergers and acquisitions from the social perspective. The author suggests that domestic scholars comprehensively study the economic and non-economic impact of mergers and acquisitions from multiple perspectives when studying the performance of mergers and acquisitions. [7]

Song Xiliang (2008) and Liu Xiaoping (2009) et al. analyzed the performance of corporate mergers and acquisitions. Due to insufficient sample data, they used the event research method to evaluate performance by calculating the cumulative long-term return. [7] In the specific case analysis of M&A and reorganization with more detailed data, Liu Lijun (2020) used the M&A and reorganization of a listed pharmaceutical company as an example, using specific financial data such as asset liquidity ratio and accounts receivable, from debt repayment, Profitability, operation, and cash flow analysis of the performance after absorption and reorganization, the company can improve operating conditions based on the performance analysis, and maximize the advantages of mergers and acquisitions. [8] Since the theory of industrial organization believes that there is a transmission mechanism of "horizontal mergers and acquisitions-market structure-market performance" in the market industry, Zeng Jiejie and Cao Hao (2020) use economic value-added calculations to focus on analyzing horizontal mergers and acquisitions in listed companies The performance of the case, benign planned mergers and acquisitions can fully play its role, optimize the allocation of market resources, and improve core competitiveness to occupy more market shares. [11]

3. ANALYSIS OF M&A TRANSACTION PROCESS

3.1. Asset Restructuring Transaction Process

In June 2007, Little Swan transferred 24.01% of its total share capital to Wuxi Guolian Development (Group) Co., Ltd. to offset its debts. In April 2008, Wuxi Guolian Development (Group) Co., Ltd. transferred all of it to Midea Electric, Midea Electric is the largest shareholder of Little Swan. In December 2010, Little Swan privately issued shares to Midea Electric to purchase 69.74% of the Rongshida laundry equipment it held. After the transaction was completed, Midea Electric held 39.08% of Little Swan's shares. In September 2013, Midea Group exchanged shares to absorb and merge Midea Electric, inheriting 40.08% of Little Swan's shares and becoming the controlling shareholder of Little Swan. In July 2014, Midea Group issued a partial offer to Little Swan. After the offer was completed, Midea Group, directly and indirectly, held 52.67% of Little Swan's total share capital and remained the controlling shareholder of Little Swan. In 2018, Midea Group issued A shares and merged Little Swan through a share swap. The share swap ratios of Midea Group and Little Swan A and B shares are 1:1.2110 and 1:1.0007 respectively. Midea Group is a share swap merger, with a total of 342 million shares issued. After the completion of the share swap, absorption, and merger, the total share capital of the existing Midea Group has increased to 6.919 billion shares, and Little Swan will terminate its listing and cancel its legal personality.

3.2. Arrangements After Completion of Asset Reorganization

After the completion of Midea Group’s share swap and merger of Little Swan, Little Swan will terminate its listing and cancel its legal personality. The shareholders of Little Swan who accept the share swap will become shareholders of Midea Group. At the same time, in order to protect the legal rights and interests of small and medium shareholders, dissenting shareholders have the acquisition Claim or cash option. Midea Group will fully integrate Little Swan's business, especially leveraging Little Swan's development advantages in the washing machine industry, and exert synergies in terms of brand effect, scale bargaining, user demand mining, and R&D investment. Make Little Swan fully integrated into Midea's full-category smart home platform to solve the problems of related transactions and potential horizontal competition between Little Swan and Midea Group.

4. FINANCIAL PERFORMANCE ANAYLYSIS OF MAJOR ASSET RESTRUCTURING

4.1. Analysis of Operating Capability

Table 1: Midea Group's operating capability indicators for each year from 2015 to 2019 and the first three quarters of 2020

Year	2020-09-30	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
Accounts receivable turnover rate	10.39	14.62	14.07	15.54	13.35	14.03
Total asset turnover	0.67	0.99	1.02	1.16	1.07	1.12

Note: inventory turnover rate = operating cost/average inventory

Accounts receivable turnover rate = operating income/average accounts receivable

The turnover rate of total assets = operating income / total assets

The inventory turnover rate of enterprises has dropped sharply since 2017. In 2017, due to the rapid expansion of asset scale, large product production, and large inventory backlogs, although the domestic and foreign, online and offline sales channels are abundant, the inventory turnover rate is still greatly reduced. Mergers and acquisitions have not further expanded the company's sales channels, and sales resources have not been effectively used. Due to the significant increase in the sales scale of the company in 2017, the efficiency of corporate account collection is relatively high, and the account receivable turnover rate has reached the highest level in the past five years. Since the year of merger and acquisition, the annual increase in corporate operating income has not been large, but accounts receivable Accounts are always at a relatively high level, especially in 2020. The operating income of the company in the first three quarters is less than the operating income of 2017, 2018, and 2019, but the accounts receivable has reached the highest value in several years, or the company and customers the relationship between sales and the adjustment of the payment collection policy. The turnover rate of total assets of enterprises has also been declining year by year since the year of mergers and acquisitions. In terms of financial analysis, mergers and acquisitions have not strengthened the operational capabilities of enterprises. Enterprises should pay attention to the utilization efficiency of resources and assets after mergers and acquisitions.

4.2. Growth Ability Analysis

Table 2: 2015-2019 years and the first three quarters of 2020 Midea Group growth capacity (year-on-year/year-on-year growth rate) indicators

Year	2020-09-30	2019-12-31	2018-12-31	2017-12-31	2016-12-31	2015-12-31
Operating income (%)-YoY	-1.88	7.14	7.87	51.35	14.88	-2.28
Operating profit (%)-YoY	-0.89	16.11	18.20	24.04	16.89	10.90
Net profit (%)-YoY	-0.74	16.75	16.33	17.33	16.42	16.99
Total assets (%)-from the beginning of the year	16.06	14.51	6.29	45.43	32.41	7.11
Net assets (%)-from the beginning of the year	11.75	16.27	11.49	20.22	23.10	22.52

In 2017, the development momentum of Midea Group was good, and its sales ability, profitability, and asset scale all grew rapidly. Since the year of the merger, operating income and operating profit have continued to rise, but its pace of development has gradually slowed down. Although the year-on-year growth rate of net profit has rebounded slightly in 2019, the growth rate is still not as fast as before the merger. The operation in the first three quarters of 2020 the performance has fallen short of the same period last year. In addition, the scale of corporate assets has increased year by year. In 2017, the scale of the company expanded rapidly, and the year-on-year growth rate of total assets reached the highest in recent years. However, due to the strengthening of debt financing, the year-on-year growth rate of net assets was lower than the previous year. The growth rate of asset scale after mergers and acquisitions has dropped significantly. Although the growth rate of total assets and net assets have rebounded a year after the completion of mergers and acquisitions, they are still far below that before mergers and acquisitions. In 2020, due to the increase in the proportion of short-term debt by companies, the growth rate of net assets at the end of the quarter slowed again from the beginning of the year. Therefore, mergers and acquisitions may have a negative impact on the company's ability to grow, perhaps because of scale expansion.

4.3. Analysis of Per Share Indicators

Table 3: Midea Group's per-share indicators in the third quarter and the past three years

Year	2020-09-30	2019-12-31	2019-09-30	2018-12-31	2018-09-30	2017-12-31
Earnings per share (yuan/share)	3.18	3.60	3.20	3.08	2.72	2.66
Net assets per share (yuan/share)	16.07	14.58	14.11	12.47	12.47	11.24
Net cash flow per share (yuan/share)	0.12	1.79	0.98	-0.58	-1.75	1.42

Since the company's mergers and acquisitions in 2018, earnings per share and net assets per share have continued to rise. The earnings per share and net assets per share in the first three-quarters of the merger have exceeded the entire year of the previous year, and this phenomenon continued until one year after the completion of the merger. Earnings per share for the first three quarters of 2020 are slightly lower than the same period last year, but net assets per share are still on the rise. In the year of the merger, the company's net cash flow was negative due to substantial expansion. One year after the completion of the merger, due to the high recovery rate, the net cash flow per share reached the three-year maximum. As of the end of the third quarter of 2020, the company's net cash flow Continued expansion and active investment and financing activities have made the net cash flow per share lower than the same period last year. Therefore, from the perspective of Midea Group's financial indicators, mergers and acquisitions can have a positive impact on per-share indicators.

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 the 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. As far as per share indicators are concerned, due to the expansion of enterprises, the net cash flow per share is low, but earnings per share and net assets per share are on the rise, mergers, and acquisitions may have a positive impact on per-share indicators.

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