



Research on the Motivation of Overseas M&A—Taking WingTech Acquired Allianz as an Example

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Abstract. Since Belt and Road Initiative policy proposed by China and the world become more globalized, the transaction with domestic companies gradually ingratiates the demand in the Chinese market, Chinese companies should cooperate with the foreign company, with the world to respond to the wave which brings by the globalization. So Chinese government and companies focus more on investment abroad and foreign Mergers and acquisitions. Especially in the semiconductor area, China started late in the field of semiconductors compared with western countries, and the product of semiconductors is very important as the part of many products, such as smartphones, automobiles, and television. It is so passive that China can not produce semiconductors by itself. So Chinese companies need to use mergers and acquisitions to solve this problem. In the article, we will discuss the motivation and influence of mergers and acquisitions in the semiconductor field, and we will mainly focus on the case of WingTech acquiring Allianz. We will use the changes in financial indicators from the beginning to the end of the acquisition in the research and use the previous information including paper, news, and research report to integrate and further complete the research.

Keywords: Motivation of acquisition · WingTech · Semiconductor · Allianz

1 Introduction

At the end of the last century, a lot of western developed countries choose to merge and acquire, it becomes a way for the enterprise to continue to expand or transform. It also includes some big companies like Microsoft and General Electric. The merger and acquisition help those companies rapid expansion and even become a giant in the industry. Since Belt and Road initiative was proposed by China, China has also stepped up its pace of overseas acquisitions. The data research, an overview of China's outbound investment of 2021 from EY, shows that in 2021, the announced value of China's overseas mergers and acquisitions reached US\$57 billion, which is a 19% increase from 2020[1]. With the rapid development of technology and electric cars, the semiconductor becomes more and more important to the current manufacturing industry. We will discuss the merger and

acquisition in the semiconductor area, and take the case of WingTech acquiring Allianz as an example, WingTech is a Chinese company whose main business is Semiconductor IDM, optical module, and communication product integration. In recent years, through overseas mergers and acquisitions, complete the industry line and complete expansion. Allianz is the most representative acquisition event for WinTech in recent years. We will discuss the motivation and the influence to WingTech and the semiconductor field after the acquisition. In the research, we will use the financial data of the period before and after the acquisition, the event study and the previous research to the Allianz acquired by WingTech. The research significance to the event is that, through the study of this event, we can know whether this merger and acquisition is helpful to the future development of WingTech, and whether overseas acquisitions in the semiconductor industry can help China's semiconductor industry to complete industrial changing and upgrading.

2 Recent Situation of Overseas M&A

M&A is the combination of merger and acquisition, merger means the two or more independent companies combine together and to form a new enterprise by entering into a merger agreement. Theoretically speaking, two merged companies are in an equal partnership. The acquisition means an independent company is purchased by another company; it will not form a new enterprise, and the company which is acquired will lose part or the total control. Many companies use the acquisition to expand rapidly. Nowadays, the boundary between merger and acquisition becomes more and more indistinct, many companies will sugar up the act of acquisition to the act of merger, because the act of merger is more positive than acquisition. For such behavior, we call M&A.

The overview of China's outbound investment by EY shows that the number of deals is decreasing every year from 2019 to 2021. However, the total value of China's overseas mergers and acquisitions decreased from 2019 to 2020 and increased from 2020 to 2021. The number of deals and the total value of China's overseas M&A shows a slightly negative correlation, we can figure out that the average volume of transactions for each deal increases. And the decline slowed down of the number of the deal shows that the bad influence like COVID-19 is decreasing in the Chinese overseas merger and acquisition market. By industry, the number of deal of TMT in 2021 is 144, YoY -1%, the total value of China's overseas merger and acquisition of 15.4 billion dollar, YoY -16%. The full name of TMT is Technology, media and Telecom. The semiconductor is also part of TMT. Even though the amount of overseas mergers and acquisitions in the TMT industry has been declining year by year, it still plays an important role in China's overseas mergers and acquisitions Fig. 1 and Fig. 2.

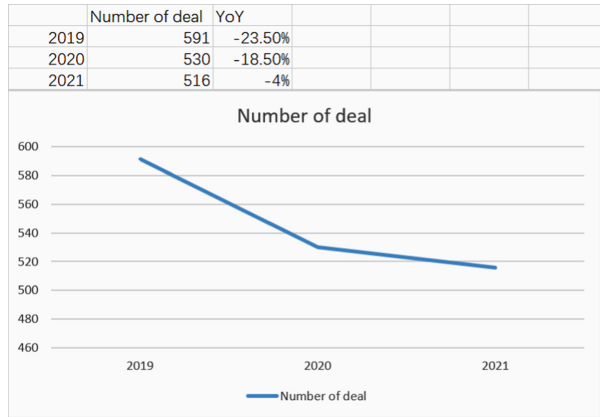


Fig. 1. Changes in the number of overseas M&A cases from 2019–2021

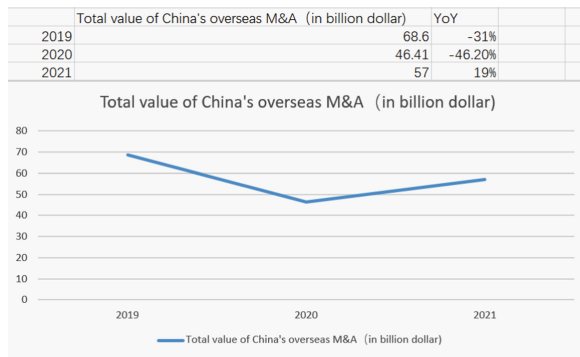


Fig. 2. Changes in total value of China's oversea M&A from 2019 to 2021

3 Motivation of M&A

For companies, mergers and acquisitions are often accompanied by a number of purposes. Based on analysis and past literature, this paper has summarized the main motivations for corporate mergers and acquisitions as follows.

3.1 Synergy Effect

The synergy effect means the value of the company after merger and acquisition is greater than the sum of two firms in some ways, and there are mainly four kinds of synergy effect: management synergy, operating synergy, financial synergy, and culture synergy [2]. Firstly, management synergy is the main point is the unfully utilized operation and management resources of the acquirer can be fully utilized in the merged enterprise. According to merger and acquisition, the efficiency of management can be higher, it can lead the enterprise to create more benefits. Secondly, operating synergy

means through mergers and acquisitions, enterprises can improve the efficiency of production and operating activities. And it often represents Economies of scale and vertical integration. Mergers and acquisitions can help businesses reduce operating costs and overcome scale barriers. Thirdly, Financial synergy refers to the financial bring to enterprises through mergers and acquisitions. For example, reasonable tax avoidance, and improved financial operation ability. After a merger and acquisition, companies can better allocate each other's money to avoid borrowing money from the outsider, it can help the enterprise to get a lower interest. If the market looks to further increase, this creates a secondary premium, thus increasing the value of the enterprise. It is also a purpose of merger and acquisition. Lastly, culture synergy means good corporate culture in the company that acquires other or acquired company can affect the whole company. For overseas mergers and acquisitions, culture can also avoid cultural conflict, and make the company better access to other countries or regions of the market. The culture synergy can improve the overall performance of the target enterprise.

3.2 Sustainable Development of Enterprises

Companies should be sustainable development to maintain their competitiveness in the market, and sustainable development can be divided into four different parts. The rapid expansion of the company, breaking through technical barriers, adapting to the market environment, and gaining by buying companies with low valuation [3]. Firstly, the rapid expansion of the company means the company can expand their company in a short term through mergers and acquisitions, the company can also acquire the competitor's company to annex the competitor's market share. Second, breaking through technical barriers demonstrates whether a company wishes to enter a market with a high technical barrier, indicating that the area has a high learning cost. Mergers and acquisitions can assist businesses in breaking down technical barriers, allowing them to enter the market at a lower cost and risk. Thirdly, adapting to the market environment illustrate some old-style enterprise can merge and acquire some emerging enterprises to adapt to the change in the market, it will also decrease the operating risk that some old-style company enters some new areas. Fourthly, gain by buying companies with low valuation means according to merger and acquisition, the company can buy the company that is undervalued by the market, do some adjustments, and resale it to others to gain some profit. Lastly, strengthening the core business capabilities of enterprises means through horizontal acquisition, the competitiveness of the core business of enterprises can be strengthened [6].

4 Wingtech Acquired Allianz

4.1 Introduction of WingTech and Allianz

WingTech is an enterprise which is founded on January 11st, 1993. After 2008, WingTech successfully transformed into an ODM company. ODM's full name is original design manufacture, which means that company A designs and produces products according to company B's specifications. The biggest advantage of doing so is that company B

reduces the time for its development. In 2015, a complete listing in the Chinese A-share market through a shell. WingTech is the first company of ODM that successfully IPO in the Chinese market.

Allianz is an enterprise that produces semiconductors. At that period, it is the leading enterprise in the semiconductor industry. The main clients of Allianz are the countries in European and America. Allianz mainly produces electronic components for automobiles, the transistors and semiconductor diodes of Allianz have the top status in the industry. In the part of financial data, in 2017 and 2018, the operating income of Allianz is 8.67 billion and 10.43 billion RMB, and the net income is 0.67 billion and 1.24 billion RMB, YoY 83%. With the rapid development of electronic vehicles. The demand for electronic components for automobiles become larger than before. WingTech acquired Allianz because WingTech wants to enter the semiconductor field.

4.2 Merger and Acquisition Process

WingTech is the top ODM supply in Chinese market. From the financial data, 2017, the profit of WingTech is 0.23 billion, YoY 1771.55% [5]. It shows the WingTech and ODM industry has a high future growth rate, and many people are optimistic about this company. However, in 2018, there is a big decrease in the profit and net income, the profit in 2018 is 0.06 billion. YoY -82.47%. WingTech analyzes this result, and they find that the cost of raw material rises sharply, and as the competition increases, the profit of the company decrease. Those negative factors will be permanent. WingTech believes that the ODM business will not grow as fast as before. So they decide to start a new business. They finally choose to acquire Allianz, the semiconductor company, because WingTech believes the experience of ODM will help in the semiconductor area.

In April 2018, WingTech acquire a 43.24% stake in Allianz through cash payment.

On April 22nd, WingTech let Second-tier Subsidiary identify and acquire the 43.24% stake of Allianz, the purchase amount is 11.44 billion [4]. And become the first majority shareholder of Allianz.

In December 2018, WingTech acquires a total 74.46% stake by using cash and issuing equity payments [4].

The total acquisition amount of this transaction is 20.14 billion, WingTech paid 8.89 billion in cash, and 11.26 billion by issuing equity[4].

In March 2020, WingTech acquires a total 98.23% stake by using cash and issuing equity payments. The merger and acquisition finished [4].

The total acquisition amount of this transaction is 6.33 billion, WingTech pay 0.15 billion in cash, and 61.84 billion by issuing equity. The rest of the 1.77% of the stock was held by the nation. As a result, WingTech was on the verge of purchasing Allianz [4].

4.3 The Motivation of WingTech Acquire Allianz

4.3.1 Access to Advanced Technology

It is the main reason why WingTech acquire Allianz, Allianz has advanced technology in semiconductor design and production, the WingTech try to enter a new area, semiconductors to expand and offset the decline in competitiveness and other negative impacts of increased competition in the ODM business.

4.3.2 Breaking the Technical Barriers

If WingTech enters the semiconductor field by starting R&D on its own, WingTech faces many costs and risks [4]. The upfront investment cost is huge for the semiconductor field, and the investment in research does not always yield a good result. It is also a kind of risk. While other research-based companies are making progress, WingTech is not necessarily outperforming other companies. So merger and acquisition are the best options for WingTech if they want to enter the semiconductor field.

4.3.3 Increase Visibility of WingTech

WingTech is an ODM company, which means WingTech designs and produces products according to other companies' specifications. After this acquisition, WingTech semiconductor technology will be greatly enhanced. And it will make foreign companies trust more to WingTech. It will be of great help to Wing Tech's future transactions with other foreign companies, future overseas mergers and acquisitions, and its goodwill.

4.3.4 Reduce the Cost of Production

WingTech is a ODM company, which means WingTech designs and produces products according to other company's specification. After the acquisition, the technology from Allianz can help WingTech to reduce the cost in the ODM business; it is a kind of vertical M&A, Allianz is also part of WingTech's upstream industry in a sense. As a result, the merger and acquisition can help WingTech increase its earning potential and establish a more comprehensive industrial line.

4.3.5 The Influence of WingTech Acquire Allianz

On a company level, WingTech's share price has risen significantly, from a pre-merger price of 27.39 to a high of 171.88. While this is not entirely attributable to the merger, the merger has had a positive impact on the company's share price. Operationally, in the years since the completion of the M&A, the company has seen a substantial increase in revenue and gross profit in the semiconductor sector while safeguarding the ODM business from serious revenue declines. In recent years, the gross margin of the ODM business has fluctuated up and down, while the gross margin of WingTech's semiconductor business has increased from 27.67% in 2019 to 37.17% in 2021, while semiconductor operating revenue has increased from \$1,590 million in 2019 to \$13,803 million in 2021. The proportion of semiconductor business to main business revenue is also increasing year by year, from 3.83% in 2019 to 26.18% in 2021 [6]. This all shows that for the company,

this is a successful M&A case worthy of future reference, and for the market, this M&A case also makes a successful example for future Chinese overseas M&A.

5 Conclusion

Throughout this article, we analyze the motivations for M&A, it can be subdivided into the following aspects: synergy effect, Sustainable development of enterprises, and Strengthening the core business capabilities of enterprises. The synergy effect can be divided into operating synergy, financial synergy, culture synergy, and management synergy. Sustainable development of enterprises can be divided into the rapid expansion of the company, breaking through technical barriers, adapting to the market environment, and gaining by buying companies with low valuations. We analyze the process of WingTech acquiring Allianz. Through the analysis, we find that the motivations of WingTech acquiring Allianz are: access to advanced technology, breaking the technical barriers, increasing the visibility of WingTech, and reducing the cost of production. A successful merger and acquisition will result in a clearer path for the industry's future development, as well as improved communication and trust between the semiconductor industry and foreign companies. However, since this merger happened in the last few years, it is difficult to predict the long-term impact of this merger, both for the industry and for WingTech. I think some of the analysis of the impact of the merger may change over time and as more financial metrics become available in the future. And there is relatively little research on Chinese state policy in this study, which could also lead to changes in the future of the industry if there is a change in the level of state support for the industry afterwards. For example, if China encourages companies to import semiconductor components and significantly reduces tariffs so that the cost of imports is much lower than the cost of manufacturing or R&D, the development of China's semiconductor industry will be significantly slower. In conclusion, with the current vigorous development of semiconductors in China, many semiconductor companies have chosen to go for overseas mergers and acquisitions. The motivation for overseas M&A is exactly what is lacking in these companies that want to develop semiconductors. For now, the M&A of semiconductor companies will have a good impact on the companies.

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