



Reasons for the Impact of Different Acquisitions Take Kindred Healthcare and Susquehanna Bancshares as an Example

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Abstract. The acquisition means that one company purchases all or part of the assets or property rights of another company, thereby influencing and controlling the acquired company. The acquisition can enhance the competitive advantage of the enterprise and realize the behavior of the enterprise's business goals. Acquisitions facilitate economies of scale and increase corporate share. In addition, there are advantages such as improving enterprise productivity and reducing enterprise production costs. This paper takes the two acquisitions from 2010 to 2014 as analysis to study the reasons for the different acquisition consequences. Through data analysis of the two companies' operating conditions, financial statistics, comparative observation, and other methods, I found the negative and positive effects of things. These factors include cash flow, payment methods, size of the acquisition target, and company goodwill. This study identifies the factors that influence the outcome of the acquisition and summarizes the analysis of the acquisition and the judgment of whether to proceed with the acquisition.

Keywords: acquisition · post-acquisition impact · payment · cash flow · goodwill · size of the target company · hostile target

1 Introduction

After a preliminary understanding of the acquisition from acquiring and acquirer by professor ludo, in order to conduct further research, the paper found two stocks which are Susquehanna Bancshares and Kindred Healthcare.

By analyzing the stock price, equity, and profit of the two stocks, there is a difference between the two after acquisition. Susquehanna Bancshares got a positive result and Kindred Healthcare did the opposite. Consequently, the paper analyzes the difference in some aspects. Through literature review and asset analysis, this paper finds some reasons for the differences and draws some conclusions that the acquisition has a positive impact.

The result shows that there are some different factors including the cash flow of acquirer and target company, the size of the company, the relationship between acquirer and target, and so on. Additionally, there also includes a theory called Synergy.

The paper is about to start with the introduction of those company's acquisition events. After that, the paper will analyze the difference, reason, and impact of acquisition.

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2 Company Introduction

2.1 Susquehanna Bancshares and Tower Bancorp

Susquehanna Bancshares is a single bank financial hold company incorporated under the federal laws of Pennsylvania in 1982. Susquehanna Bancshares operates mainly through its commercial banking subsidiary, Susquehanna bank, and provides various kinds of retail, commercial banking, and financial products and services through other subsidiaries in the Central Atlantic region. Additionally, Susquehanna bank, the company operates trust and investment companies, asset management companies (providing investment consultants, management of asset, brokerage, and retirement plan business), property and accident insurance broker, and a car rental company. The company's non-bank subsidiaries provide a series of banking services that complement its core financial business to expand its customer base and diversify its sources of income. The company also produces steel alloys used inside guns and sells them to unrelated third-party customers.

Tower Bancorp is Graystone tower bank's parent company and it's also a community bank with full service and operates 49 branches in central and southeastern Pennsylvania and Maryland through Graystone bank, tower bank, and 1n bank. The total asset of Tower Bancorp has about 2.7billion and its unparalleled competitive advantage lies in its 550 + employees, strong corporate culture, and clear vision to provide uncompromising service and personalized solutions to meet various needs. The common stock of Tower Bancorp is listed on Nasdaq's global select market under the code name "TOBC" and provides wealth management and trust services through Greystones, a unit of the Greystones.

2.1.1 Financial Analysis of Susquehanna and Tower

By December 31, 2012, Susquehanna Bank, the company's commercial banking subsidiary, a Pennsylvania chartered commercial bank operated 261 banking offices, providing various kinds of retail banking services, including savings, checks and club accounts, debit cards, check cards, certificates of deposit, money market accounts, personal retirement accounts, home equity credit lines, residential mortgage loans, home decoration loans, automobile loans, Personal loans, online and mobile banking services. And the total equity of Susquehanna after acquisition profit and return is greater than the sum of those two companies. As for the tower, there is a rapid rise after the announcement and before the acquisition. Therefore, the acquisition is successful and is a benefit to the acquirer's development.

2.2 Kindred Healthcare and Centerre Healthcare

Kindred Healthcare provides related recovery services. In a more comfortable environment to help patients recover physical health. Its Kindred rehabilitation Services division is one of the largest providers of rehabilitation therapy in the country which delivers high-quality patient outcomes in some 300 hospital-based acute rehabs united. Different therapeutic Settings are available for people with different needs. For example, there are assisted living facilities for people with mild illness, nursing facilities for people with paralysis, independent living facilities for people with disabilities, retirement

care units, and outpatient settings. In order to expand its company and business, this company have some acquisitions from 2002 to 2022. And this analysis is the acquisition of Centerre Healthcare in 2014.

Centerre Healthcare Corporation is a healthcare services company that develops and operates rehabilitation hospitals. Centerre Healthcare Corporation has 11 rehabilitation hospitals that provide 612 beds for patients. At the same time, it has partnered with some of America's best-known companies to help develop the acute care system. Kindred and Centerre invest in a portfolio of five inpatient hospitals, and Kindred manages the acute rehabilitation departments of 102 other hospitals. Through these partnerships, kindred has become one of the nation's leading inpatient rehabilitation hospitals.

2.2.1 Financial Analysis of Kindred

According to Table 2, total assets fluctuated between 4500 and 6000million in the four years before and after the acquisition. From 2010 to 2014, total liabilities showed a slow-growth trend and grew faster after the acquisition. Annual growth rose from 7% to 16%, and even to 30% in 2014. Current assets change more steadily than liabilities. The increase in current assets is mainly intangible assets. The company's operating profit is generally on the rise. And it has increased significantly after 2014. Profits are generated mainly in the main business and continuing operations.

2.2.2 Financial Analysis of Centerre Healthcare

According to Table 4. Total assets surged by 50% in 2010, mainly from short-term and long-term investment gains. Net profit showed a downward trend from 2009 to 2012, and gradually recovered from 2012 to 2014. Centerre has fewer fixed assets than Kindred. Worse, total debt rose steadily between 2009 and 2014. Only after it was acquired did it return to normal. On the plus side, the company's current assets are stable, including cash flow, working capital, and net interbank changes.

2.3 Acquisition Introduction

2.3.1 Positive Influence on the Acquisition

Susquehanna Bancshares Inc. (Nasdaq: SUSQ) finished acquiring Tower Bancorp Inc. (Nasdaq: TOBC) and created Pennsylvania's largest community bank on February 17, 2012, The two central Pennsylvania-based banks announced the merger plans. Under the terms of the deal, Susquehanna will acquire all remarkable shares of Tower common stock by cash transaction and stock. The transaction which was approved by the boards of directors of both companies in unison, will strengthen Susquehanna's presence in central and southeastern Pennsylvania, and increase its market share in Chester, Dauphin, and Franklin counties. Additionally, Susquehanna will set branch company in Lebanon, Fulton, and Centre counties after this acquisition. Before the acquisition, the stock price of tower Bancorp was stable and its net profit maintain a very low level, while the stock price of SUS showed a downward trend. After the announcement, those two stocks show an upward trend. Meanwhile, the net profit and equity of Susquehanna Bancshares rise rapidly. With the acquisition, the total asset of Susquehanna is \$17.5 billion and there

Table 1. Financial Situation of Susquehanna Bancshares Inc.

Susquehanna Bancshares Inc.(SUSQ US)				
Unit: MILLION USD per share	FY 2002	FY 2003	FY 2004	FY 2005
At the end of 12 months	12/31/2002	12/31/2003	12/31/2004	12/31/2005
Total assets	5544.65	5953.11	7475.07	7466.01
Net cash flow	61.72	62.37	70.18	79.56
Total liabilities	5010.79	5405.73	6723.38	6685.54
	FY 2006	FY 2007	FY 2008	FY 2009
	12/31/2006	12/31/2007	12/31/2008	12/31/2009
Total assets	8225.85	13077.99	13682.99	13689.26
Net cash flow	83.64	69.09	82.61	12.68
Total liabilities	7288.85	11348.96	11737.07	11708.18
	FY 2010	FY 2011	FY 2012	
	12/31/2010	12/31/2011	12/31/2012	
Total assets	13954.08	14974.79	18037.67	
Net cash flow	31.85	54.91	141.17	
Total liabilities	11969.28	12785.16	15441.76	

are 261 offices in Pennsylvania, Maryland, New Jersey, and West Virginia. The deposit and loans of the bank are about \$12.4 billion and \$12.5 billion.

2.3.2 Negative Influence on the Acquisition

According to Table 5. On November 4, 2015, Kindred Healthcare Inc publicly disclosed online that it had completed the acquisition of Ceterre Healthcera Corporation. Centerre Healthcare Corporation is a provider of inpatient rehabilitation services. The acquisition was completed in cash for a total of \$195 million. Centerre's 2014 revenue projection is \$200 million. Net income, income tax, rental profit, depreciation facilities, and amortization are approximately \$48 million. This figure does not take into account the total of \$14 million spent by the hospital's partners on minority rights. Ceterre, as an operating company, only serves the rehabilitation sector. The cost of the leased space was approximately \$20 million in 2014. The 2014 forecast excludes the three newly opened hospitals. Kindred expects the Centerre acquisition to add \$0.04 to \$0.06 to its earnings and operating cash flow.

3 Influence After Acquisition

3.1 Susquehanna Bancshares Inc.

Susquehanna Bancshares Inc. 's shares fell and then rose during the deal. The overall trend in the stock price over the 15 months following the acquisition was steady upward.

Table 2. Financial Situation of Kindred Healthcare(2004–2014)

KINDRED HEALTHCARE Inc.(KND US)				
Unit: MILLION USD per share	FY 2004	FY 2005	FY 2006	FY 2007
At the end of 12 months	12/31/2004	12/31/2005	12/31/2006	12/31/2007
Total assets	1,593.29	1,760.56	2,016.13	2,079.55
Net cash flow	70.58	144.91	78.71	-46.87
Total liabilities	873.51	890.03	1,020.55	1,217.43
	FY 2008	FY 2009	FY 2010	FY 2011
	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Total assets	2,181.76	2,022.22	2,337.42	4,138.49
Net cash flow	36.28	40.11	56.49	-53.48
Total liabilities	1,266.79	1,055.63	1,305.66	2,817.95
	FY 2012	FY 2013	FY 2014	
	12/31/2012	12/31/2013	12/31/2014	
Total assets	4,237.95	3,945.87	5,652.96	
Net cash flow	-40.37	-168.49	-79.84	
Total liabilities	2,945.10	2,824.65	4,166.99	

The company's total assets rose 28% after the acquisition and remained stable for two to three years. Most notably, according to Table 1, the company's net profit rose from 54.91million to 141.71million after the acquisition, and the total profit doubled. The total debt level rose rapidly from 2009 to 2014.

3.2 Kindred Healthcare Corporation

Kindred shares declined between the announcement and closing. Sharped growth trend showed in the quarter after acquisition (2015Q1). Between 2014 and 2015, the company's total assets rose about 10%. It continued to fall in 2016 and 2017, but total assets are still higher than before the acquisition. Compared total assets did not change significantly after the acquisition but increased gradually over the three years after the acquisition. The company's total debt level is basically stable.

4 Result Analysis

4.1 Positive Impact Analysis

Christian Tuch and Noel O'Sullivan think that hostile takeover targets, cash-for-cash deals, and bigger targets are related to strong (or at very least not so bad) performance, while the evidence of the value of acquisitions is mixed [1]. Susquehanna Bancshares is financial services which hold company with assets of US \$17.5 billion, as its subsidiary,

Table 3. Financial Situation of Ceterre Healthcare

Tower Bancorp Inc.(US)				
Unit: MILLION USD per share	FY 2001	FY 2002	FY 2003	FY 2004
At the end of 10 months	12/31/2001	12/31/2002	12/31/2003	12/31/2004
Total assets	245.57	262.59	300.74	316.89
Net cash flow	4.00	4.85	4.95	4.72
Total liabilities	217.06	229.72	260.30	272.82
	FY 2005	FY 2006	FY 2007	FY 2008
	12/31/2005	12/31/2006	12/31/2007	12/31/2008
Total assets	352.22	542.17	561.64	556.53
Net cash flow	5.03	6.13	7.04	3.18
Total liabilities	303.83	460.61	483.22	485.77
	FY 2009	FY 2010		
	12/31/2009	12/31/2010		
Total assets	1470.58	2747.29		
Net cash flow	3.71	1.16		
Total liabilities	1306.69	2489.40		

Table 4. Financial Situation of Ceterre Healthcare (2008–2014)

CENTERRE HEALTHCARE Inc. (CEN US)				
Unit: MILLION USD per share	FY 2008	FY 2009	FY 2010	FY 2011
At the end of 12 months	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Total assets	0.00	3,385.20	6,552.37	7,975.87
Net income	0.00	0.00	0.00	9.04
Net cash flow	-912.26	-155.18	94.62	-468.83
Total liabilities	0.00	2,086.09	3,470.95	5,327.55
	FY 2012	FY 2013	FY 2014	
	12/31/2012	12/31/2013	12/31/2014	
Total assets	20,636.86	22,477.98	23,172.79	
Net income	0.73	1.04	2.05	
Net cash flow	310.96	659.39	168.23	
Total liabilities	14,933.48	15,789.26	17,229.33	

Susquehanna bank is one of the top three banks in terms of market share in those counties served by it. Tower Bancorp Inc, is Graystone tower bank's parent company and a

Table 5. Financial Situation of Kindred Healthcare (2012–2017)

KINDRED HEALTHCARE Inc.(KND US)				
Unit: MILLION USD per share	FY 2012	FY 2013	FY 2014	FY 2015
At the end of 12 months	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Total assets	4,237.95	3,945.87	5,652.96	6,518.94
Net cash flow	-40.37	-168.49	-79.84	-93.38
Total liabilities	2,945.10	2,824.65	4,166.99	4,812.89
	FY 2016	FY 2017	Now	
	12/31/2016	12/31/2017	04/08/2022	
Total assets	6,112.72	5,232.72	5,206.36	
Net cash flow	-664.23	-698.35		
Total liabilities	5,071.20	4,884.96	4,880.97	

full-service community bank that operates 49 branches in central and southeastern Pennsylvania and Maryland through 1n bank, tower bank, and Graystone bank. Susquehanna Bancshares acquired tower Bancorp which can be a potentially hostile target, so the acquisition is beneficial for the financial performance of the acquirer and the result is the same as the idea. The stock price of Susquehanna Bancshares rises after the acquisition. Muhammad Syukur and Fauziah A. Fitri show that there is some motivation behind the acquisition, as it is part of the company's strategy and can bring some benefits to the company. Wilde et Al. [2] say that acquisitions can improve a company's image, the potential for growth, benefits, and profits. Acquisitions can also be a solution against mobility risk[3]. Synergy is a strategy that makes assets belonging to other companies healthier and more efficient in order to achieve synergies[4]. Synergy refers to the total value of the merged enterprise being greater than the total value of each enterprise. Put simply, the acquisition is intended to influence the company's performance. The acquiring company shall ensure the financial performance of both before making the acquisition[5]. According to the data from the Bloomberg database, before the acquisition happened, the equity of Susquehanna Bancshares and tower Bancorp is 14975.79 and 2747.29. And equity of Susquehanna Bancshares is 18037.67 which is greater than the sum of the above two stocks. Therefore, it conforms to the theory of synergy and the stock gets increasing profit after acquisition.

4.2 Negative Impact Analysis

Acquisitions have a negative impact on companies for four main reasons. This paper analyzes each of these four reasons in this section.

M. Martynova, S. Oosting, and Luc Renneboog in their paper, "Companies with higher cash flows are more likely to have cash problems, leading to worse acquisitions" [6]. Therefore, this article analyzes the impact of the corporate acquisition effect the

first reason is the level of cash assets. According to the data available in the company's annual report, Kindred Healthcare Corporation's cash assets increased steadily during the first five years of the acquisition. The free cash flow theory and statistical method proposed by Jensen [7] are used in the references to prove that the acquisition of cash-rich companies will lead to serious degradation of the business performance of merged companies.

This analysis believes that the second reason affecting the effect of acquisition is the method of payment. Payment methods are often considered a benchmark for the quality of a target company. A cash payment indicates that the acquirers are more willing to pay shareholders of the target company to avoid sharing in the benefits of the merger. Equity payments indicate that the acquirer wants shareholders of the target company to remain involved in the combined company and share the risk. Thus, when the acquirer is willing to pay cash, the shareholders who are in the target company view the acquirers as more favorable. This is also a semaphore to the information market. For this reason, an acquirer's share price can fluctuate depending on the method of payment. Looking at the share price movement during the announcement, it rose from 19.4 to 20.8 at the time of the initial announcement of the cash offer. But one piece of positive news alone is not enough to sustain a share price rally. So in the end, the purchase caused the Kindred's stock price to fall. But we can see from the temporary spike that the payment method does affect the acquisition effect. Deals in Europe point to steeper falls in acquirers' shares for deals involving equity payments[8]. The amicable merger mentioned in the article also confirms this view.

The third reason paper consider is the impact of changes in goodwill. "Through the systematic amortization comparison of capitalized business evaluation, goodwill and market value show a positive correlation trend. Goodwill goes down, the market value goes down. At the same time, the market is also sensitive to changes in the value of goodwill" [9]. This analysis is based on the conclusions of the article. Changes in goodwill value are related to market value. The value of goodwill is calculated by capitalization of income. Refer to formula (1) below. In the annual reports of Kindred Healthcare Corporation from 2011 to 2014, it was clearly pointed out that there was no impairment of the company's goodwill value and intangible assets, and from the stock price, the paper can see that the company's announcements did not have a negative impact on the market value. But the market reaction to the acquisition, Centerre Corporation, was negative. The declining profit level and the rising total assets and liabilities may be the important reasons leading to the decline of goodwill. The results show that the completion of the Centerre acquisition resulted in a decline in Kindred's economic profit, which implies a decline in the value of goodwill after the acquisition. This analysis suggests that the acquisition of a company with poor goodwill will also have a bad effect on the goodwill of the acquirer. Shareholders will react negatively to the acquisition when they see the target company's past analysis and reports. At the same time, the market will also react to this acquisition behavior, specifically reflected in the announcement period of the acquirer's share price showing a downward trend. This analysis is the same as that of Kevin Li et al. So the paper considers goodwill as the third factor that affects post-acquisition performance.

The final factor in this analysis essay is the size of the target company. Paper referenced another Kindred acquisition from the same period as an auxiliary analysis. Similar time periods reduce the interference of other factors. Prior documentation indicates that Kindred completed the acquisition of Gentiva Health Services between October 2014 and January 2015. Like Cetrerre, Gentiva is also a smaller company. The exact revenue data of the target companies of these two acquisitions does not exceed 500million. As a healthcare services company, both acquisitions add to Kindred's inpatient rehabilitation facilities. However, because the target company is limited in size, it can bring limited profits and growth. That may be why share prices fell after both deals. Shareholders would think it would be better to buy a bigger company. And the articles we found showed the same idea. "The size of the acquisition target is related to the profitability of the combined company. The profitability of acquiring larger targets is greater than that of acquiring smaller targets." At the same time, the author also used the data of sample analysis to confirm the viewpoint again. "Profitability increased by 3.36% after acquiring larger targets and decreased by 1.35% after acquiring smaller targets. [6]"

$$\text{Goodwill value} = \text{annual average economic profit} \div \text{industry average profit margin} \quad (1)$$

5 Conclusion

This paper analyzes the acquisitions of the two companies. These two acquisitions have brought positive and negative effects to the company respectively. Summarize the situation of the two companies through data analysis and financial status analysis introduce the company background and the acquirer and acquire of the two acquisitions. After the completion of the acquisition changes in the stock price and assets show the impact of the acquisition.

Through the comparative analysis of the two companies and the comparison before and after the acquisition alone. The article summarizes some factors that will influence the outcome of the acquisition. This includes the cash flow of the acquirer, how the acquisition will be paid for, the size of the acquirer's company, and the business reputation of both the acquirer and the acquirer. With the help of existing articles for analysis and summary, the rationalization of the selected case analysis results again verifies the positive and negative effects of factors.

Obviously, there are only four design companies in this article, and the years analyzed are in the first 10 years or so. The buyer of the analysis has also delisted. These are the limitations of the article. In future studies, we will try to increase the number of analysis objects and extend the timeline of analysis. Make the analysis as useful as possible to the current market and acquisition. There are many things to discover about acquisitions and their impact.

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