



Insights for Chinese Enterprise Development from the Mergers and Acquisitions and Restructuring of the Global Top 500 Companies

Qian Zhang^{1,*}, Jiaping Han^{1,a}, Yuxi Zhang^{2,b}

¹State Grid Energy Research Institute Company Limited, Beijing, 102209, China

²China Electric Power Research Institute Co., LTD. Beijing, 100192, China

*zhangqian881111@163.com

^ahanjiaping@sgeri.sgcc.com.cn

^bzhangyuxi@epri.sgcc.com.cn

Abstract. Mergers and acquisitions (M&A), as an important means of promoting strategic transformation and achieving economies of scale for enterprises, play an irreplaceable role in improving the quality of listed companies. Affected by the severe and complex international environment and the escalation of geopolitical conflicts, and other factors beyond expectations, the downward pressure on the world economy is gradually increasing, and global M&A activities have experienced significant fluctuations. This article analyzes the situation and basic characteristics of M&A of the Global Top 500 companies, and on this basis, proposes relevant insights and suggestions for the development of Chinese enterprises.

Keywords: M&A, Strategic transformation, Corporate development.

1 Introduction

M&A and restructuring is a key way for enterprises to achieve strategic transformation and economies of scale, and plays an irreplaceable role in improving the quality of listed companies and promoting high-quality economic development. It effectively optimizes the economic structure and industrial layout by promoting the concentration of resources to emerging industries, enhancing the core competitiveness of enterprises, realizing capacity reduction and deleveraging, improving industrial concentration and economies of scale, activating the capital market, and supporting scientific and technological innovation and industrial upgrading. In terms of policy, by enhancing the inclusiveness of supervision, optimizing transaction efficiency and strengthening supervision in accordance with the law, the rights and interests of investors will be protected, the market vitality will be further stimulated, the economic structure will be optimized and industrial upgrading will be promoted, and new growth momentum will be injected into listed companies to achieve sustainable development.

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M&A refer to the consolidation, purchase, and reorganization of assets between enterprises. It is an activity where enterprises, for their own development needs, acquire, exchange, and reorganize the equity, assets, and liabilities they own during their operation. This is an important strategic business behavior in the development process of many enterprises. Global M&A transactions have experienced three phases in the past three years. Firstly, a significant decline at the beginning of 2020, followed by a gradual recovery by the end of the year. Secondly, explosive growth occurred in 2021. According to Refinitiv data, the number and value of global M&A transactions in 2021 set historical records, reaching 62,000 deals and \$5.8 trillion, respectively, representing increases of 24% and 64% compared to the same period in 2020. Thirdly, there was a fluctuating decline in 2022. According to the latest data from PwC showing that the level of global M&A activity in the first half of 2022 was lower compared to the previous six months. However, large group companies, in the face of a severe economic situation, still tend to enhance their core competitiveness and risk resistance through M&A.

2 Analysis of M&A of Companies on the Fortune Global 500

Looking at the M&A transactions of the Fortune Global 500 companies in 2023, there were more than 200 M&A transactions from 2022 to the first half of 2023, an increase of about 40% compared to the same period of the previous year.

In 2023, the M&A of the Fortune Global 500 companies mainly had the following three characteristics. Firstly, the M&A transactions of the Global 500 companies primarily took place in the United States, Europe, and China. Influenced by a tough financing and regulatory environment, U.S. companies mostly engaged in smaller, mid-sized M&A deals. After the pandemic, China's M&A market gradually recovered through encouraging foreign investment and promoting state-owned enterprise reforms. Secondly, the Fortune Global 500 companies closely focus on the industrial and supply chain to carry out M&A activities, advancing strategic adjustments and business transformations of the enterprises. Thirdly, M&A transactions of the Fortune Global 500 companies span a wide range of industries and are relatively dispersed, with the four most active sectors being biomedicine, banking, mining, and metals.

3 Analysis of the Characteristics of M&A and Restructuring of the Fortune Global 500 Companies

Regionally, the M&A and restructuring transactions of the Fortune Global 500 companies mainly took place in the United States, Europe, and China, accounting for approximately 83% of all M&A and restructuring transactions. Despite the uncertain market environment, which has led to a slowdown in the global M&A market, the volume of M&A transactions has decreased by 17% compared to 2022.

However, in the 2023 Fortune Global 500 list, the United States had 136 companies on the list, with nearly half of these companies engaging in merger and acquisition and

restructuring activities; China had 142 companies on the list, with nearly 50.4% of these companies engaging in merger and acquisition and restructuring activities; Europe had 83 companies on the list, with nearly 80% of these companies engaging in merger and acquisition and restructuring activities. This indicates that leading companies can accurately identify which areas and how to accelerate or expand innovation through M&A and restructuring. In the United States, influenced by a tough financing and regulatory environment, top U.S. companies mainly undertook smaller, mid-sized M&A deals (with transaction values of less than \$5 billion) in 2023. For instance, companies like Amazon, Walmart, Apple, ExxonMobil, and others have engaged in mid-sized M&A transactions between 2022 and 2023. In China, starting from November 2022, the Chinese government has been encouraging foreign investment in key industries. In August 2023, the government issued the ‘Opinions on Further Optimizing the Foreign Investment Environment and Increasing the Attractiveness of Foreign Investment’ prompting local governments across the country to ‘go global’ with initiatives to promote cross-border investment and trade development plans. In recent years, China has been vigorously promoting state-owned enterprise (SOE) reform by optimizing the layout of state capital through M&A of SOEs, increasing the securitization ratio of state-owned assets, and cultivating large enterprises with international competitiveness[1]. According to data from PwC, in 2022, China witnessed 54 M&A deals exceeding \$1 billion, with 35 of these transactions related to SOEs and SOE reform activities. Since the implementation of the three-year action plan for the reform of SOEs four groups of seven centrally-administered state-owned enterprises have undergone strategic reorganization, eight new centrally-administered state-owned enterprises have been established and acquired, and more than 30 key projects for the specialized integration of centrally-administered state-owned enterprises have been promoted. It can be seen that Chinese enterprises have been actively enhancing their core competitiveness and strengthening their core functions through M&A and reorganization under the guidance of national policies, and have achieved good results[2].

From the industry chain point of view, some companies are closely centered on the industry chain supply chain to carry out M&A, and promote corporate strategic adjustment and business transformation. For example, Johnson & Johnson will spin off its consumer health products division into an independent company for listing in 2022. The divestment of the consumer health business is conducive to improving the valuation of the medical devices as well as pharmaceuticals segments, and the newly established company can also bring sufficient cash flow to the group. After that, Johnson & Johnson acquired artificial heart maker Abiomed for US\$16.6 billion to consolidate its cardiovascular device business and improve the company's comprehensive strength in the medical and healthcare field. After BYD established BYD Insurance Brokerage Co., Ltd. in March 2022 to lay out its insurance intermediary business, its holding company acquired 100% of eAssurance in 2023 to further lay out its new energy auto insurance business and promote BYD's full chain business layout with auto insurance as the key. It can be seen that, affected by the accelerated restructuring of the global industrial chain and the instability of the geopolitical pattern, global enterprises are faced with the threat of industrial chain adjustment and the risk

of supply chain rupture[3]. The world's top 500 enterprises have mainly taken three measures to cope with the crisis. Firstly, through the asset reorganization of divestiture and spin-off, they have built core advantages around their main business. The second is to further optimize the business layout through M&A of upstream and downstream enterprises in the industrial chain, improve the ability of independent control of the industrial chain supply chain, and strengthen the business layout of the whole industrial chain. Third, through M&A transactions to obtain key technologies, and combined with its own technology base to increase independent research and development efforts to make up for the shortcomings of the enterprise's technology, strengthen the core technology capabilities, to create a leading edge in technology[4].

From the industry point of view, the world's top 500 companies involved in M&A transactions in a large number of industries, the distribution is relatively scattered, but the most active mergers and acquisitions. 2023 world's top 500 companies M&A restructuring is mainly distributed in 44 industries, of which the four most active M&A transaction activities in the industry are biomedical, banking, mining, metals. From the point of view of the reasons for mergers and acquisitions, the biomedical industry, on the one hand, has accumulated sufficient cash flow during the epidemic, according to Ernst & Young data, as of the end of November 2022, the biomedical industry has more than 1.4 trillion U.S. dollars of 'firepower' assets. On the other hand, with the gradual expiration of medical product patents, large pharmaceutical companies are facing the worry of weak growth, and need to layout more new products and technologies through M&A to enhance the competitiveness of enterprises[5]. There are two main reasons for the frequent M&A and restructuring activities in the mining and metals industry: First, under the current global environment of geopolitical instability and energy transition, the requirements of national and regional governments for localization of the supply chain have been further increased in an attempt to reduce the dependence on imports of key minerals under the circumstance of safeguarding domestic supply, and companies in the industry will also actively engage in industry consolidation through M&A and transaction activities. Secondly, carbon emission reduction targets will continue to drive global market demand for key minerals, copper, lithium and other minerals specialized in power batteries continue to attract investor interest, the industry's headline companies are not only actively looking for strategic partners, but also through the synergies generated by the M&A transactions on their portfolios[6]. In the future, industrial enterprises will also further cooperate with key mineral resource enterprises in order to ensure the security of supply of key minerals required by enterprises through equity participation or entering into stable cooperative off-take agreements.

4 Conclusion

The characteristics of the M&A and restructuring of the world's top 500 companies can provide the following insights into the development of Chinese enterprises.

First, strengthening international cooperation and promoting regional cooperation in mergers, acquisitions and restructuring. Taking the opportunity of vigorously implementing the "Belt and Road" major cooperation initiative and strengthening

foreign investment, encourage international cooperation on major projects, establish a new mode of regional M&A and investment cooperation, introduce advanced technology and high-end human resources, and carry out targeted innovation activities; in response to the increasingly strict antitrust scrutiny of the U.S. and Western countries, guide enterprises to make good foreign strategic planning and crisis management plans, provide commercial, legal, talent and other support and services for enterprises making cross-border investments, and explore high-level brand M&A in order to effectively prevent foreign investment. In response to the increasingly strict antitrust scrutiny by the U.S. and Western countries, it guides enterprises to make good external strategic planning and crisis management plans, provides support and services in the areas of commerce, law and talents for enterprises making cross-border investments, carries out exploration of high-level brand M&A.

Second, grasp the trend of global industrial chain restructuring and enhance the resilience of the industrial chain supply chain. Encourage leading enterprises in the industry chain to further strengthen their core technology advantages and market competitive advantages through domestic and overseas mergers and acquisitions, avoid inefficient M&A for the purpose of expanding enterprise scale or industry concentration, and through M&A and restructuring activities, further promote the transformation of leading enterprises from resource-based advantages to controlling the industry chain based on their independent innovation capabilities, promote the extension of the industry chain supply chain to high technology content and value-added, and construct an independent and controllable whole industry chain system. The whole industry chain system that is independent and controllable is constructed.

Thirdly, it is to clarify the key direction of future industrial development and promote high-energy development in key industrial areas. Focusing on the direction of key industrial fields such as new-generation mobile communications, artificial intelligence, biotechnology, new materials, etc., accelerating the layout and development of strategic emerging industries. Integrate high-quality assets and resources in the same or related industries to form greater scale advantages and synergistic effects, and improve industry concentration and competitiveness. Encourage SOEs to revitalize through mergers and acquisitions, asset reorganization and cross-market operation, or exit through gratuitous transfer or equity transfer, divest non-main business assets or inefficient assets, reduce liabilities and costs, and improve asset quality and profitability.

Fourthly, strengthen technological innovation and industrialization, and continue to enhance the innovation ability of enterprises. Facing the key directions of future industries, we will implement major national science and technology projects and major scientific and technological research projects, and accelerate breakthroughs in key core technologies. Give full play to the role of national laboratories, national key laboratories and other innovation carriers, and strengthen the supply of basic common technologies. Encourage leading enterprises to take the lead in forming innovation contortions, gather resources for production, education and research, and systematically promote technological research in key areas. Promote cross-domain technology cross-integration and innovation, accelerate disruptive technology breakthroughs, and create a source of original technology

Fifthly, cultivate a high-level enterprise echelon and build a characteristic industrial chain. Guide leading enterprises to plan a new track in a forward-looking manner, and cultivate new entities in future industries through internal entrepreneurship and investment incubation. Implement the action plan for the future industry of central enterprises, and accelerate the cultivation of new enterprises in the future industry. Build an incubation base for innovative small and medium-sized enterprises in the future industry, and gradually cultivate specialized, special and new small and medium-sized enterprises, high-tech enterprises and "little giant" enterprises. Support the rapid development of new R&D institutions and cultivate diversified future industry promotion forces.

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