

## Factors Affecting the M & A Payment Options

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**Abstract:**A reasonable choice of payment method is not only related to the success of mergers and acquisitions, but also to the benefits of both acquisitions, changes in the structure of business interests and the company's financial arrangements. This paper describes the M & A reasonable payment utility in the enterprise, analyze the pros and cons of various choice of payment method and choose the main factors in the choice of payment method, and payment of a reasonable choice merger.

### 1 Introduction

Mergers and acquisitions enable both companies to improve management, reduce costs, improve economic efficiency, enhance technological and market competitiveness,M&A has become an important strategy for future development of enterprises. Mergers and acquisitions reasonable manner largely determines the success of M&A. So factors affecting M & A Payment great significance.

### 2 M & A Payment utility in the enterprise

M & A payment is a form of M & A transactions, not only is the final step in M & A transactions, but also a key link, deciding whether the deal got success, So M &A Paymentplays an important role. Corporate mergers and acquisitions will affect the financial performance, corporate equity structure and corporate finance activities.

#### 2.1 Payment of corporate M & A financial performance utility

In merger activity, the design and selection of payment for M & A of both shareholder returns, as well as the formation of choice M & A business financing strategy and prices have a direct impact, thus affecting the company's financial performance. For example, after the payment of the stock acquired businesses may result in excessive dilution of share prices fluctuate, shareholder control, reduce shareholder returns, but stock to pay part of the acquisition of the equity financing for acquisitions, the financial risk is relatively low.

#### 2.2 M & A payment of utility companies' equity structure

According to MM theory, we can conclude that no matter what business mergers and acquisitions will not affect the value of the acquired business, which is the result of an ideal market environment in order to get. In the real market, Choice of payment has an impact in the capitalstructure. For example, stock payment will issue stock complete the M & A, will inevitably involve changes in the ownership structure of the company, have a significant impact on the original stake, and may even make the original shareholders lose control of the business.

#### 2.3 Payment of corporate M & A financial activities utility

Financial activities are activities related funds by the business process, including the mobilization of funds and the use of funds allocation of funds and a series of activities. M & A payment will affect

certain types of funding changes that can affect the use and allocation of corporate funds and other financial activities.

### **3 Comparison of M & A Payment**

M & A payment played a pivotal role in M & A transactions, M & A of different payment methods for different types of transactions. Payment is generally used in M & A transactions are mainly cash and stock payments and pay mix (combination of cash, stocks, bonds, warrants,) and Special Payments four ways.

#### **3.1 Cash payment**

Cash payment is a way that acquirer got business assets or control power of the target company by cash. Cash advantage: the use of cash can quickly and directly reach M & A; cash M & A valued simple way to reduce the M & A business decision time; stable control of corporate mergers and acquisitions will not result in the transfer of corporate control; Cash Cons: acquirer must have a considerable amount of money in determining the date, instant cash on pressure; cross-border M & A may face currency convertibility risk and exchange rate risk.

#### **3.2 share-based payment**

Stock M & A is a way issuing and changing share to achieve the target property, or to obtain control of the company. Advantages of stock acquisitions: stock deal size is relatively large, is not eligible for existing capacity constraints; after the completion of the stock M & A transaction, shareholders of the target company does not lose its ownership interest; shareholders of the acquired company to enjoy tax deferral and low tax concessions; The disadvantage stock M & A: the acquirer to make an existing shareholding structure changes, may face the risk of losing control of the company; issuing new shares may make equity and net asset value per share decreased.

#### **3.3 Mixed payment**

Mixed mergers and acquisitions is the use of a combination of a variety of payment instruments, to obtain payment deal control over the target company. These tools include not only the aforementioned payment in cash and stock, including corporate bonds, preferred stock, warrants and convertible bonds and other forms. Mixed payment advantages: You can either pay less cash and avoid the deterioration of the financial situation of the company, but also can prevent the transfer of a controlling interest; shortcomings of mixed payment: acquisitions transactions become so complicated, increasing the risk arbitrage more difficult.

#### **3.4 Special Payment**

Special payments have two ways, one is the replacement of assets, refers to M & A transactions in the acquiring physical assets or equity assets they own as a trading party to obtain ownership of the acquired part of the assets. This M & Advantages: Payment is simple, saving cash acquired; rapid improvement of the acquiring party asset quality and improve profitability. main problem is acquirer may be accept non-performing assets. Second, the free transfer, generally refers to the country by administrative means controlling stake in a state-owned enterprise directly allocated to another state-owned assets management body.

### **4 Factors Affecting the M & A Payment Options**

In currently market environment and institutional context, the choice of payment method have many complex factors. This paper analyzes the main factors are: financial position and capital structure, mergers and acquisitions purposes, shareholders and management considerations, financing capabilities, tax planning and M & A market maturity.

#### **4.1 Financial situation and capital structure**

Generally the higher the current ratio, have sufficient own funds and a stable cash flow, the stock market has been seriously undervalued companies appropriateness of using cash, because if you take equity payment, issuing stock only shareholders will be diluted earnings per share, and the company stock will be undervalued and underestimated the market shares determined on the basis of price and exchange ratio of new shares, the acquiring party need to pay more for stocks. In the asset-liability ratio is higher, less own cash, assets illiquid and stock is overvalued situation, you should choose equity or cash payments relatively small mixing payments.

#### **4.2 The purpose of acquisition**

In China, the main purpose of M & A can be divided into RTO, financial restructuring, strategic restructuring. If the main purpose is to RTO, the best choice is change assets to pay, because the company RTO often poor financing, changing high quality assets acquisition often able to achieve a win-win both mergers and acquisitions. If the main purpose of the acquirer is a financial reorganization, the best option is to pay cash due to financial restructuring aimed at improving the quality of financial and avoid financial risks, optimize the capital structure, only cash M & A to meet these requirements. The optimal choice is share-based payments for the strategic reorganization, such payments can make the target company to increase their investment and control power of acquired company

#### **4.3 shareholders and management considerations**

Since then shareholders and management will consider what payment methods to their advantage, so shareholders and management considerations and requirements will affect their payment method of choice. M & A's shareholders concern is to maintain control and increase earnings per share, if the M & A side shares dispersed, corporate shareholders will choose cash payment, because in this way does not affect the controlling position as a major shareholder. If management companies hold shares, the share-based payment issuance of new shares will dilute their ownership of the business, so they are willing to choose cash payment.

#### **4.4 financing capacity**

Our M & A are mostly internal financing surplus was mainly due to the current financial system lacks strong support for M & A, corporate M & A financing channels for small, high financing costs, lack of financing capacity. Due to limited financing capacity, corporate mergers and acquisitions Payment Options are also affected. The larger the company, with more tangible assets as collateral for business, often a strong financing capability, they use more cash.

#### **4.5 Tax arrangements**

For acquirer, to borrow or issue bonds to raise money to pay for the M & A price, the cost of which may be charged interest before tax, while the cost of equity capital is only charged tax. So they may be more inclined to pay cash to reduce tax costs. For the shareholders acquired, if cash payment, it must pay income tax immediately. So they may be more inclined to issue stock.

#### **4.6 M & A market maturity**

The level of M & A market development and legal sophistication can influence the way of payment. Mature M & A market, it may be more inclined to the use of stock payment. But our M & A market started late, immature securities companies, investment banks, accounting firms and other intermediaries in the M & A market limits the choice of payment method of choice.

## 5 Conclusions

With the maturing of innovative financial instruments and capital markets, M & A of financial instruments available and alternative payment methods more and more. In front of many choices, companies must understand and master the various factors that influence the choice of payment method and the advantages and disadvantages of the various M & A payment and considering their company capital and external operating environment factors, design good M & A payment scheme, to complete acquisition of strategic objectives.

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