

Analysis of M&A Performance of Internet Classified Information Enterprises

-A Case Study of 58.com

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Abstract—Taking the M&A of 58.com as an example, this paper studies the selection of M&A strategies and the financial synergies of M&A. The results show that the series of mergers and acquisitions in 2014 and 2015, including horizontal, vertical, diversified strategies and brand acquisitions, have declined in different degrees in the current period of profitability, operation ability, debt paying ability and development ability. After the merger and integration period, various financial indicators have been on the rise, and the financial synergistic effect of M&A is significant.

Keywords—*Internet Company; M&A; Performance; Financial Index*

At present, China's Internet classified information enterprises are facing the impact of new business forms of online and offline integrated services. On the one hand, classified information enterprises need to keep innovating to provide high-quality life information services and good communication channels to build an integrated life platform. On the other hand, in the face of the strong rise of O2O enterprises in the subdivided industry, a large number of mobile Internet users have been diverted. In the future, the biggest competitiveness of classified information industry is offline service ability, which needs a perfect closed-loop mode of online and offline services. In order to build the O2O platform of life service and start the transformation to offline development, 58.com has been involved in various mergers and acquisitions with the huge capital attracted by the listing.

I. SELECTION OF M&A STRATEGIES OF 58.COM

A. Horizontal Integration

In November 2014, 58.com wholly purchased 100% equity of "charm 91", a recruitment website. With a large number of users in 58.com, this acquisition can make up for the weakness of professional operation. In March 2015, acquired 100% equity of AnJuKe, a second-hand housing information network-AnJuKe, by means of cash 1.675 billion and stock. In April of the same year, we acquired 43.2% shares of GanJi.com through cash and stock (after full dilution), including 34 million shares of common stock and \$412.2 million in cash. In August, we indirectly acquired the remaining shares of GanJi.com through the fund. After the completion of the M&A, 58.com and the target enterprise's

business group reorganization and integration, forming a competitive advantage in a certain field.

B. Vertical Integration

In February 2015, 58.com fully purchased driving test platform driving school-YiDianTong.com, improving the O2O full chain of cars. Later, it invested another 100 million yuan to acquire leftbrain's 466.7 million shares at the price of 2.12 yuan per share, and became the controlling shareholder. In this way, a more complete information and content platform of 58.com will be built, and then resources will be integrated in multiple areas based on platform advantages to realize the sharing of content resources. This will not only help both parties to control costs, enhance synergies, but also improve profitability.

C. Diversification Strategy

In May 2015, 58.com completed the acquisition of the well-known recruitment website chinahr.com. The brand accumulation of chinahr.com helped 58.com get through the whole business of recruitment and achieve the coverage of the whole recruitment field. By taking the M&A to change the domestic online recruitment market pattern, 58.com makes changes from three aspects, namely system reconstruction, service platform construction and intensive O2O operation, and helps to expand in the high-end recruitment field, expand the whole business scale in the recruitment field, and realize the qualitative leap and diversification of enterprises.

D. Brand Acquisition

In October 2014, invested \$20 million to invest 7.8% of shares in e-DaiJia service platform of mobile Internet; With \$34 million in cash and resources, TuBaTu, an O2O company, acquired a minority stake. It further deepens the O2O layout, and realizes the two parties to share traffic and user resources, expand the platform volume, optimize business model and improve category and service capacity in relevant business areas. We should open up the offline transaction service link to form a complete ecological chain.

II. PERFORMANCE ANALYSIS OF 58.COM M&A

In 2014 and 2015, 58.com has acquired more than a dozen enterprises. 58.com's traffic ranks first among domestic classified information websites, and the number of visitors and

page visits are far ahead in the industry. But what about M&A performance? M&A performance is an important indicator of M&A behavior and a key basis for selecting M&A strategy [1]. Based on the financial indexes before and after the M&A of 58.com, this paper uses the financial index method to analyze

the synergistic effect of M&A. The data comes from the wind information financial terminal and 'an database.

A. Profitability

TABLE I. PROFITABILITY INDICATORS FOR 2013-2017

Financial Index	2013	2014	2015	2016	2017
Operating income (million yuan)	888.60	1621.40	4641.86	7592.13	10068.78
Net profit (million yuan)	119.24	138.56	-1629.47	-783.76	1285.07
ROA (%)	10.03	4.37	-10.52	-2.93	4.80
ROE (%)	18.83	6.22	-15.11	-4.21	6.89
Operating Profit Ratio (%)	10.03	2.52	-35.24	3.08	17.84
Net Profit Rate (%)	13.42	8.55	-36.91	-10.39	12.81
Total Return On Assets (%)	10.03	5.56	-11.01	-2.80	5.92

The distribution of the traditional superior products of 58.com has been blocked, which greatly increased the business pressure. Tongcheng has implemented the strategies of expanding market investment, launching M&A investment of life service enterprises, and incubating new projects. In 2014, the operating expenses increased significantly, reaching up to 244.5 million usd, up by 99.3% compared with 2013; The operating revenue increased by 732.8 million yuan, while the net profit increased by only 0.19 billion yuan. A situation of high revenue and low profit appeared, and two losses occurred in 2015 and 2016, as shown in table I. In addition, 58 families, 58 finance and other new projects started to incubate are required in the growth stage, leading to a substantial increase in operating costs.

From 2013 to 2016, the operating income of 58.com increased significantly, especially in 2015 when it began to grow rapidly, mainly including the consolidated statements after the merger and acquisition of anjuke, driving school and ganji.com. Operating margins and net profit margins are declining, which indicates that the enterprise is operating at a

loss and has poor control of revenue cost. The rate of return on total assets and net assets dropped to negative in 2015 and 2016, which also indicates that its profitability in capital investment operation is declining and shareholders' equity is impaired. In 2014, the M&A in cash was 91 charm, and in 2015, the M&A was mainly in the form of cash and stock. In 2015, the financial measurement index of profitability dropped to negative value, and the net profit was as low as -1629.47 million yuan, showing a downward trend in corporate profitability. It can be seen that the large amount of cash payment for m&a weakens the profitability of enterprises. After the completion of M&A, the equity loss begins to narrow in 2016, and the profitability index is positive in 2017. After the gradual completion of integration, the financial synergies of enterprises emerge. Generally speaking, M&A increases the input of enterprises, which makes the profitability of enterprises decline significantly in the short term. In the long term, the financial synergies of M&A are better.

B. Solvency

TABLE II. SOLVENCY INDICATORS FOR 2013-2017

Financial Index	2013	2014	2015	2016	2017
Asset-Liability Ratio (%)	33.92	27.94	30.24	29.5	23.75
Liquidity Ratio (%)	2.87	3.26	0.57	0.59	1.14
Conservative Quick Ratio (%)	0.65	0.72	0.53	0.29	0.50

Table II, after the merger of liquidity ratio down to 0.57 in 2015, less than 1, appear this kind of situation mainly because 58 city M&A companies pay a large amount of cash, current assets have been unable to repay current liabilities, need a long-term assets to supplement, the M&A has influence to the enterprise debt paying ability, a slight rise in 2016, rose to more than 1, 2017. The conservative quick-moving ratio shows a downward trend, and only slightly increases until the completion of M&A and integration in 2017. From these two indicators, it can be seen that the liquidity capacity of Internet classified information enterprises after M&A is not strong, and the pressure of short-term debt repayment increases. The asset-

liability ratio is stable on the whole, which is not affected by M&A events. There is a slight decline in 2017. Generally speaking, M&A events have a great impact on short-term solvency, and there is little pressure on solvency in the long run.

C. Operation Capability

TABLE III. OPERATIONAL CAPABILITY INDICATORS FOR 2013-2017

Financial Index	2013	2014	2015	2016	2017
TATO (%)	0.75	0.51	0.30	0.28	0.38
Receivable Turnover Ratio (%)	38.93	50.12	21.20	17.38	18.02
Turnover of Shareholder Equity (%)	0.66	0.52	0.25	0.44	0.45

As can be seen from table III, the turnover rate of accounts receivable from 2014 to 2016 has been decreasing year by year. In 2015, the turnover rate dropped by more than half compared with 2014, and in 2016, it dropped to 17.38. The turnover rate of shareholders' equity presents a v-type trend, indicating that M&A affects the operating efficiency and operating capacity of assets. From 2013 to 2016, the utilization rate of total assets decreased year by year, and only increased in 2017. This

reflects that the asset utilization rate of an enterprise is affected by the M&A in 2014 and 2015, and the M&A has a negative effect on the current operating capacity of the enterprise. In the medium and long term, the operating capacity of 58.com recovered gradually after the completion of M&A and integration, and the synergies of M&A were highlighted.

D. Development Ability

TABLE IV. DEVELOPMENT CAPABILITY INDICATORS FOR 2014-2017

Financial Index	2013	2014	2015	2016	2017
TAGR (%)	490.44	111.17	477.78	-10.24	11.61
Revenue Growth Rate (%)	67.29	81.81	185.11	69.54	32.62
Net Profit Growth Rate (%)	164.33	15.78	-1,268.64	50.19	263.96
Net Asset Growth Rate (%)	1,855.66	130.30	454.84	-9.36	10.71

According to the index data in table IV, the operating revenue of 58.com in 2013-2017 keeps increasing, and the total assets scale is expanding. Although the net profit in 2015 was negative, it was not until the second quarter of 2016 that it achieved its first profit for five consecutive quarters. However, the financial index data of 2017 after the completion of M&A and integration shows a significant improvement in development capacity, indicating that 58.com has improved the development capacity of enterprises to some extent through series of M&A.

To sum up, from the perspective of financial indicators, the M&A behaviors of 58.com in 2014 and 2015 have a great impact on the current performance of the enterprise, and the profitability, operation ability, debt paying ability and development ability have declined. In the medium and long-term perspective, it has improved the financial core competitiveness of enterprises, and has a positive effect on the medium and long-term performance of enterprises.

III. CONCLUSION

In general, the merger and acquisition behavior has increased the market share in the classified information field of 58.com, which not only reduces the marketing cost, but also realizes resource complementation, improves the business ecosystem and gives full play to the synergistic effect of M&A. In the environment of fierce competition in the industry,

Internet classified information enterprises integrate the resources needed for enterprise development through M&A, and quickly occupy the market leadership. In order to pursue profit maximization, the capital side also promotes the M&A at all costs. The monopolistic nature of the new Internet economy, based on the free economy and the attention economy, has led to many mergers and acquisitions [2]. We should integrate the core users and core technologies of enterprises, control the upstream and downstream suppliers, and establish a reasonable customer service evaluation system. We should prudently deal with the cultural differences between enterprises and do a good job in cultural integration. The corporate culture of Internet enterprises is different and has its own characteristics. We should make long-term planning and efforts and gradually shape common values so as to effectively prevent merger and acquisition risks.

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