

A Business Analysis of Cross-Border M&A in the Context of Sustainable Development Strategy——A Case Study of ANTA & FILA

Yijia Tang^{1, †}, Yiding Yao^{2, *, †}

¹Nantong University, Jiangsu, China

²School of Essex, Colchester, UK.

*Corresponding author: yy18088@essex.ac.uk

[†]These authors contributed equally.

Abstract. Transnational mergers and acquisitions are an essential part of economic globalization. In recent years, it has also become a new trend in corporate development. More and more companies seek international sustainable development through cross-border mergers and acquisitions. However, cross-border mergers and acquisitions obtain more efficient income and bear a certain degree of risk. Making a suitable merger and acquisition plan, selecting the merger and acquisition target, and the enterprise's operation and development after merger and acquisition have essential research value. This article uses quantitative analysis and qualitative analysis methods to study the case of ANTA's purchase of FILA, starting from the initial stage of the merger, the status quo and the development forecast. After the merger and acquisition, according to the indicators of Revenue Share, Return on Equity (ROE), Current assets turnover rate in the financial data, the results show that both FILA and ANTA have significant improvement in profitability and operating capacity, and have long-term development potential. On the other hand, from the point of the business model and brand positioning, this paper analyzes the positive impact of the acquisition on brand management and brand development. Thus, this Sub-cross-border mergers and acquisitions case has a positive impact and promotes a win-win result. Finally, this article will combine the topic itself, and according to the status quo of brand development and market trends, some views and recommendations are also put forward for the further development and operation of enterprises. It is hoped that the case study can provide useful case references for more entrepreneurs and academic researchers.

Keywords: Cross-border M&A; Quantitative analysis method; Qualitative analysis method.

1. Introduction

From 2006 to 2008, to optimize its brand structure and open up new markets, Anta Sporting Goods Co., Ltd. (Abbreviated by ANTA in the following paper) acted as an agent for Adidas, Kappa, Reebok and other international brands. Its share of revenue fell from 6.1% in 2007 to 3.02% in 2008, losing market share consistently in 2006-2007 years. In 2008, ANTA finally sold Adidas, Reebok, and Kappa's retail business for 5.974 million yuan. Meanwhile, FILA lost \$5.43 million and \$6.99 million respectively in two years after being bought by BAILI Group for \$370 million in 2007. In this context, ANTA purchased the trademark rights and operating rights of FILA in China from Belle for 325 million yuan in 2009 and has worked in a relatively independent way since then.

Cross-border mergers and acquisitions refer to the fact that multinational companies obtain more advanced technology and experience through specific channels and currency support in a country to purchase an individual share of equity in another global company or even the entire enterprise. This behavior usually involves two or more countries and companies [1]. Most of these mergers and acquisitions occur in developed and developing countries, and the cultural and political differences between developed and developing economies can make them more susceptible to the market size of the target country [2]. In recent years, according to the trend of global economic integration, under the guidance of the government's "going out" strategy, the number of mergers and acquisitions by multinational companies has increased, and the number has increased as well. Merger and Acquisition

(M&A) performance, according to the survey of China's cross-border mergers and acquisitions, only 20% are successful, which is not all smooth sailing. From an economic perspective, cross-border mergers and acquisitions are accompanied by corporate assessment risks [3]. The core of the successful mergers and investments based on the companies' determination on both sides is the value of the target company, which is accompanied by some quantitative financial indicators [4], such as the revenue ratio and profitability evaluation.

Many academic scholars in the literature have conducted theoretical research regarding the performance analysis of cross-border mergers and acquisitions. Still, almost no literature describes whether cross-border mergers and acquisitions can achieve mutual benefit and win-win results. This article uses qualitative and quantitative research methods to study the case of ANTA's acquisition of FILA. From the perspective of the initial stage of the merger, the status quo and the development forecast, it is concluded that this cross-border merger and acquisition is a case with a positive impact and a win-win result. And according to the status quo of brand development and market trends, this article also puts forward some opinions and suggestions for the further development and operation of enterprises; and it hopes that this case study can provide effective case references for more entrepreneurs and academic researchers

2. Data and Method

2.1 Data

This paper's financial data are all from the annual reports and semi-annual reports published by ANTA, combining with some network data. ANTA and FILA's data is taken as research samples to analyze the metrics of the financial data with the quantitative research method. Considering that we mainly research the impact and the development of the M&A of FILA in the paper, the sample period is from 2008 January to 2021 January. There are two main types of data involved in the research: the second-hand data obtained through the Internet, mainly for network participation. The other is the company's financial data, including operating sales, current assets, total assets, revenue share and so on.

2.2 Method

This paper uses Quantitative analysis and qualitative analysis methods.

2.2.1 Quantitative Analysis Method

This paper uses the following financial metrics:

Revenue Share = revenue of a certain brand / the total revenue of all brands of the parent company.

Return of Equity (ROE) = net profit / owners' equity. It is a measure that reflects the level of return on shareholders' equity to evaluate the ability of a business to make a profit on its assets. The higher the number is, the more the investment return is.

Current Assets Turnover Rate: It refers to the ratio of net main operating income to average total current assets in a certain period of time.

2.2.2 Qualitative Analysis Method:

This article uses a qualitative case study method to analyze the behavior of corporate cross-border mergers and acquisitions (The case of ANTA purchase of FILA). The reasons are as follows. First, the purpose of this article is whether successful cross-border mergers and acquisitions can enable both companies to achieve a mutually beneficial and win-win situation. It is also appropriate to use the method of case study to describe the entire process of the initial stage, current status and later prediction of a company's cross-border M&A. Secondly, the purpose of this research is to systematically explore the business mechanism of the entire process of cross-border mergers and acquisitions. Its follow-up long-term development strategy to propose new concepts. The research on cross-border mergers and acquisitions is complex and diverse, making it not enough to analyze the

behavior of cross-border mergers and acquisitions using only quantitative methods and financial data analysis. Third, academic research on companies' behavior in cross-border mergers focuses on cultural integration and is in the exploratory stage [5]. This study explores whether ANTA can achieve a mutually beneficial and win-win situation after corporate mergers and acquisitions. Exploratory case studies are especially suitable for developing new understandings of things or academic fields that have not been explored by limited research [6].

ANTA, as the case study's object, is based on the following three criteria. One is the principle of importance and representativeness. ANTA is a leading Chinese company engaged in sport's shoes, apparel, and other sports goods under the ANTA. Its successful business model and brand positioning experience have expanded the brand awareness of ANTA and established itself in the industry. Therefore, choosing ANTA as the case study company followed the importance and representative principles of case selection. The second is the principle of studying the nature of the problem. The choice of case study method is based on the limitations of the existing literature, which is insufficient to explain the current situation or a theoretical blank point, to the in-depth study of the case and specific data analysis [7]. Although previous studies have considered the importance of cultural integration of corporate cross-border mergers and acquisitions for sustainable development, some researchers have discussed academic analysis on cross-border mergers and acquisitions. Many of them are theoretical explanations and lack strategic analysis of corporate behavior after cross-border mergers. Understanding. This research takes the ANTA M&A FILA as the research object, opening up a new perspective for companies to achieve mutual benefit and win-win situation after cross-border mergers and acquisitions and expand the strategic behavioral analysis cross-border mergers and acquisitions, which helps to improve the relevant theories. The third is the consistency of the theoretical and practical goals of the enterprise. ANTA has achieved significant success in acquiring the brand FILA due to its key capabilities and actions in brand strategy and business model operations. ANTA develops its abilities in different brand strategies and business model operations; this is consistent with the theoretical goal that cross-border mergers and acquisitions can achieve a mutually beneficial and win-win scenario.

3. Results and Discussion

3.1 Analysis of Preliminary Period of M&A

3.1.1 Revenue Share

With the addition of FILA, the diversification of ANTA gradually appeared after 2009. The brand Anta's (The brand's name is abbreviated by Anta in the following paper) revenue's leading brand fell to 79.97% in 2013, and, from 2014, FILA gradually became the achievement driver of ANTA. Since the fourth quarter of 2017, three consecutive quarters of high growth above 80%, to bring a sustainable positive impact for ANTA, as shown in Figure 1.

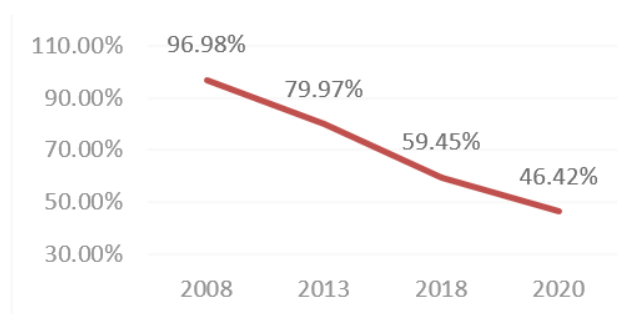


Fig 1. Anta's Revenue Share (Data source: collated according to the data on the Internet)

As can be seen from Figure 1, Anta's revenue share has gradually decreased. From the pre-acquisition period (2008) to the initial M&A period (2013) to the present. It means that FILA, as one

of the essential operating brands, Its revenue share of ANTA is far greater than that of the ANTA agent of the well-known international brand before M&A happening.

3.1.2 Business Model.

At the initial stage of the M&A, in the business model's relevant operational adjustments, the most notable change of ANTA's was the channel. ANTA spent three years recovering nearly all of FILA's stores from Chinese dealers and switching to direct sales. Data shows that FILA in the Chinese market has a direct proportion of more than 80%, indicating flat management from headquarters to the retail terminal. The flat direct marketing model's advantage is to respond quickly to market trends, which is critical for a sports brand positioning fashion. The increase in the proportion of direct sales has brought a rise in gross profit margin. ANTA's 2014 annual report showed a significant improvement in its gross margin from 2013 due to the higher margin of FILA.

3.2 M & A Status Analysis

3.2.1 Revenue Share

3.2.1.1 Revenues Shares of Main Brands

Figure 1. Revenue of ANTA's Major Brands (a)2018 annual report; (b)2019 mid-year report; (c)2019 annual report; (d)2020 mid-year report. (Data source: the annual reports and semi-annual reports published by ANTA).

As shown in Figure 2, since ANTA first disclosed the core data of FILA in 2019, ANTA's business revenue had increased by 40.3% to 14.8 billion yuan in the first half of 2019. FILA also achieved business revenue of 6.538 billion yuan, year-on-year growth of 79.9%, accounting for 44.1% of total revenue. In 2020, FILA's revenue share reached 48.76%, surpassing Anta's 46.20% for the first time.

According to data on revenues and the share of brands, FILA's Share of payment has been rising and will surpass Anta's for the first time in 2020; it can be seen that FILA in ANTA has been in a neck-and-neck position with the original leading brand. The brand itself has a higher value than the initial price of pre-acquisition and makes ANTA get massive profits.

3.2.1.2 ROE of ANTA

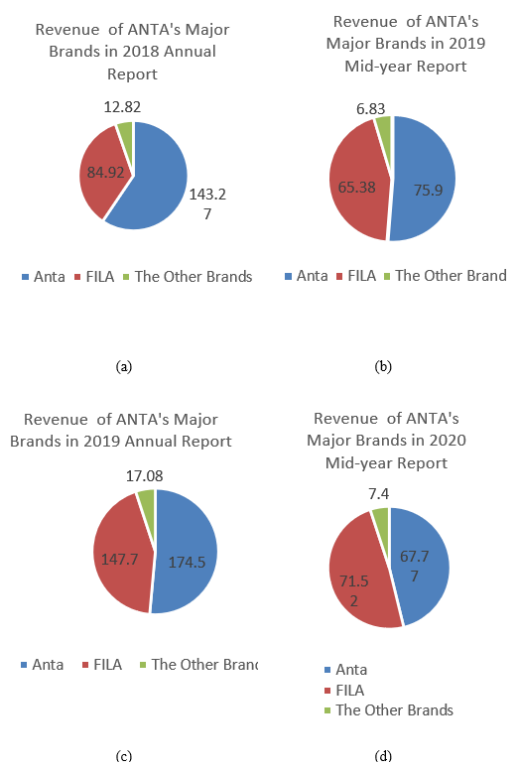


Fig 2. 2015—2019 ROE. (Data source: the annual reports and semi-annual reports published by ANTA)

As shown in Figure 3, the overall trend for ROE has been up over the past five years. There is a slight fluctuation in 2017, but it has not had a significant impact and continues to show an overall upward trend after 2017. This data reflects the return on investment of the company's owners' equity and is an important reference for the company's profitability. Therefore, it can be seen that , the overall profitability of ANTA has shown an upward trend in recent years after the M&A of FILA.

3.2.2 Operating Capability.

3.2.2.1 Business Performance

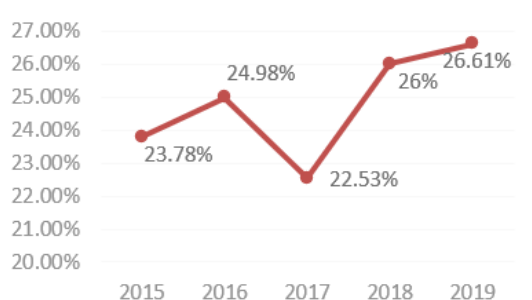


Fig 3. 2015—2019 the number of Anta and FILA stores (Data source: the annual reports and semi-annual reports published by ANTA)

As shown in Figure 4, the number of stores of Anta and FILA, the two main operating brands of ANTA have been increasing in the past five years, which can reflect their good operating conditions and good long-term operating capacity.

3.2.2.2 Current Asset Turnover Rate

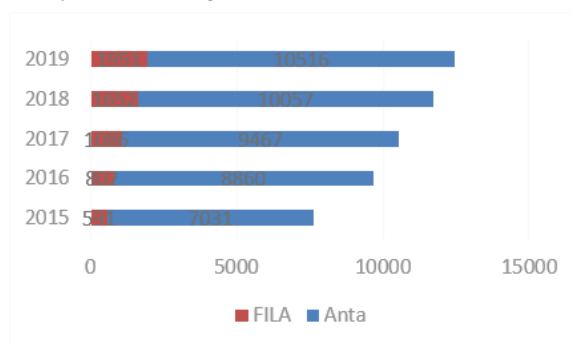


Fig 4. 2015—2019 current asset turnover rate (Data source: the annual reports and semi-annual reports published by ANTA)

As shown in Figure 5, from 2015 to 2019, the turnover rate of the current assets of ANTA has generally shown an upward trend. In particular, after 2017, the company has established a steady and high-speed growth trend, which shows that the company's efficiency in using current assets increases, that is to say, the more revenue a company earns per unit of existing assets. At the same time, the turnover rate of current assets has a more significant impact on the short-term solvency of enterprises. With the increase of the turnover rate of existing assets, the risk of financial flow will be reduced, which is helpful to maintain the liquidity of assets structure, improve the ability to pay debts, and keep the credit of enterprises. Besides, the indicator can also reflect the level of enterprise management. The increase of the data demonstrates the improvement of enterprise management capacity and ensures the smooth operation of enterprise production and administration. It can be seen that in the past two years, ANTA operation capacity is rising step by step in the background of M&A and successful operation.

3.2.2.3 Brand Positioning

In the early days of the acquisition, FILA represented the most luxurious sports brands. However, it is such a brand positioning that makes Fila lose its brand competitiveness in a sense. It has significantly been questioned by the industry and is in a backward position in the international market. For this reason, in 2017, FILA was in ANTA, making a change with the company's help and re-establishing the brand positioning.

Due to mergers and acquisitions, the expansion of China's market shares also increased sales opportunities, but there has been no excellent improvement in the past eight years. A brand's success in the market largely depends on the realization of the development quality and positioning strategy [8]. Nowadays, in a new consumerism era, sports products focus on comfort and function, and product categories are almost the same, making a high appearance level the most core market competitiveness. Artistic sports brands have always represented FILA. On this basis, it has innovated products, added popular elements that consumers love, mass-produced, and compared with high-end brands, the price is more affordable. During the Tmall 618 period, the transaction rate skyrocketed within one day, representing that FILA after the policy change is successful in the market. At the same time, ANTA ranks first in the domestic sporting goods industry. After confirming that cross-border mergers and acquisitions have achieved a win-win situation.

3.3 M&A Prediction Analysis

3.3.1 Summary of Past Data

Based on the presentation and analysis of the data in parts 1,3.1 and 3.2, it is clear to show the whole process from ANTA had been losing money continuously before the M&A of FILA, to the period of finding the right and suitable business model for FILA and gradually finding a balance point at the beginning of the M&A and end with the data showing a steady upward trend after 2017, symbolizing the win-win in stage for ANTA and FILA. ANTA paid \$325m for FILA in 2009, and today, FILA's half-year operating profit is up to 1.89 billion yuan. According to the data trend, we can reasonably predict that FILA still has ample development space, and can lead ANTA to attract a larger consumer market. FILA's revenue share will also be further increased to become ANTA's leading revenue brand.

3.3.2 New Policies

In the Chinese market, the two established sports brands, ANTA and Li Ning, have gradually won a more extensive call through the label of Fashion Sports, and now face competition from international brands such as Nike and Adidas. Because consumers increasingly pursue functionality, developing product technology is the mainline to polish the brand. Only to enhance the professionalism of the product, ANTA is expected to catch up with international brands.

To dealing with the dumping phenomenon that the revenue share of FILA has been more extensive than that of the leading brand Anta, ANTA in 2020 also proposed a new operating model of Anta: the top brand from "Wholesale and distribution of retail model" to "Direct consumer retail model" transformation. As the first phase of the transformation, Anta plans to operate about 60 percent of its stores in 11 provinces and cities, including Changchun, Changsha, Chengdu, Chongqing, Guangdong, Kunming, Nanjing, Shanghai, Wuhan, Xi'an, and Zhejiang. According to the plan, about 60% of the program is managed by its direct operations, while 40% is controlled by franchisees following Anta operating standards. On the one hand, FILA has accumulated a wealth of direct retail experience in the past ten years; this has provided support from six dimensions, including retail, channel, commodity, finance, human resources, logistics, etc. On the other hand, by restructuring the retail model, Anta can strengthen its connection and interaction with consumers online and offline to enhance brand stickiness and consumer experience. It is beneficial to change its huge membership group from 'Consumer thinking' to 'User thinking'.

ANTA's strategic decision to acquire FILA was a huge success, launching its 'Multi-brand Strategy'. Except for FILA, ANTA has developed such brands as DESCENT, Arc'teryx, Salomon,

and Wilson as its reserve in recent years. For example, DESCENT, which is positioned as a sports brand with high-end professional functions, has already made a profit in 2019 after three retail distribution years. Its annual sales volume reached 1 billion yuan, an increase of 75% from last year. The brand is expected to become a new example of ANTA's multi-brand strategy, as FILA did with the M&A.

3.3.3 Long-term Development Capabilities

FILA according to sensitive to the change of the market and the perception of consumer demand, and has obtained a certain degree of market competitiveness. Combined with the acquisition, the parent company ANTA can manufacture, wholesale and overseas sneaker Original Equipment Manufacturer (OEM) factories. Fila quickly owns its production line, realizes its own production and sales, reduces the production cost, and allows the product to follow development quickly. It changed its original development strategy to expand the brand's own awareness. After a large number of products are sold, consumers will remember FILA and increase their love for FILA. Cross-border mergers and acquisitions bring about more diversified cultural collisions between enterprises, enrich the brand cultures of ANTA and FILA, cater to the consumer trend, and realize the long-term growth of excellent performance for both parties.

4 Conclusion

According to the results of the Quantitative analysis, which is based on the company's financial report, no matter from the perspective of its subsidiary or parent company, there has been a considerable improvement in both profitability and operational capacity since the M&A happened. Especially after 2017, the numbers of ROE and turnover of current assets show that the company is in a sound stage of operation, with profitable growth and development potential. Overall, the M&A of FILA by ANTA is a win-win case in terms of financial data.

In summary, we must first focus on the impact of companies' cross-border M&A, and combine with the initial stage of ANTA's acquisition of FILA, the current situation and the prediction of the future development of qualitative judgment, to produce a new concept for the realization of successful cross-border mergers and acquisitions-the companies of both parties can achieve a win-win situation.

Secondly, the development of a company's subsidiaries depends on sales in the short term, products in the medium term, and culture in a long time. The initial direct marketing model allows FILA to quickly integrate consumer market trends and make it compatible with its assets and operating conditions. In the mid-term, the strategy of changing the corporate brand structure will enable products to have greater core competitiveness in the industry due to corporate M&A, thereby maximizing the proportion of brand revenue and non-financial performance. Finally, according to the strategy of sustainable development, expand the company's international business, continuously integrate the corporate culture, realize the diversification of cross-border mergers and acquisitions, reduce the risk of corporate assessment in corporate M&A, and achieve the goal that both parties are satisfied.

If ANTA wants to maintain FILA's existing sales data and stock prices for a long time, FILA must adjust its subsequent development strategy.

For the sports product industry, many fast fashion brands are mainly selling consumers. The items with the highest attention, such as sports shoes and sportswear, some of the fashion industries that have emerged in the past two years, are far from internationally humanistic enough to support existing asset returns. For the sports product industry, many fast fashion brands are mainly selling items that consumers pay the most attention, such as sports shoes and sportswear. Because of the follower effect generated by fashion trends and celebrity endorsements, young consumers will flock to buy. However, single products will be forgotten by consumers over time. Therefore, it is necessary to change the current "selling single product" to realize the real "brand selling". It is recommended to let the brand have a brand image spokesperson who has no negative influence and has high popularity; the brand can also be used for cooperation with some public welfare projects or branded Give love to the

poverty-stricken areas in name, so as to enhance brand awareness and value, truly achieve sustainable development. Therefore, enterprises after transnational M&A can achieve a win-win trend.

References

- [1] Yu Xin. Research on the performance of cross-border mergers and acquisitions [J]. Modern Marketing (Business Edition), (2020) No.09, p.206-207.
- [2] Xie E, Reddy K S, Liang J. Country-specific determinants of cross-border mergers and acquisitions: A comprehensive review and future research directions[J]. Journal of World Business, Vol.52(2017) No.2, p. 127-183.
- [3] Li Qiaoqiang, Liu Jilu. Research on the Impact of Cross-border Mergers and Acquisitions of Chinese Enterprises on Business Performance -- Based on the PSM Method [J]. Friends of Accounting, (2018), No.20, p.70-75.
- [4] Wu Ruyue. Research on Financial Risk Control in Cross-border Merger and Acquisition Strategy -- Based on the Case of China Mobile's Merger and Acquisition of Pakistan Paktel Company [J]. Research on Financial and Economic Issues, Vol.S1(2013), No. S1, p.103-103.
- [5] Wang Zijing." Cultural Integration in Cross-border Mergers and Acquisitions." [J]. China Business Theory. (2018), p.70-71
- [6] Tang Quan, Yang Lihua. On the property, type, function and research design of case study method [J]. Science & Technology Progress and Countermeasures. Vol.33(2016) No.9, p.117-121
- [7] Wu Jinxi, Yu Yongda. Brief Discussion on Case Study Method in Management -- Discussion on Characteristics, Method Design and Effectiveness [J]. Studies in Science of Science, Vol.22(2004), No.0Z1, p.105-111.
- [8] Fayvishenko D. Formation of brand positioning strategy[J]. Baltic Journal of Economic Studies, Vol.4(2018) No.2, p. 245-248.