Differences Between Equity Merger and Asset Reorganization: Evidence from Jingao Technology and Wingtac Technology

Xicheng Fu[1, *, †], Weijie Xu[2, †] and Rong Zhou[2, †]

[1]Department of Humanities and Social Sciences, Beijing Institute of Technology, Beijing, China

[2]School of New Zealand UW, Zhejiang University city college, Hangzhou, China

*Corresponding author: 32011001@stu.zucc.edu.cn

[†]These authors contributed equally.

Abstract. Mergers and acquisitions (M&A) are an important process that companies may go through contemporarily, where there are mainly two aspects of M&A, i.e., equity M&A and asset M&A. This article will analyze the difference between equity M&A and asset M&A restructuring by comparing the events of the M&A of two companies, JA Technology and Wintel Technology. The nature and operational process of asset restructuring and equity acquisition are distinctly different, and the risks are different. In addition, it should be carefully planned and weighed in accordance with the actual situation of the company. In the capital markets, there are many different options for restructuring a company, and any one of them may affect the survival of the company. In this case, the choice of M&A is an important topic. It is hoped that the results in this paper will be utilized to company decision makers. These results shed light on guiding further exploration of how companies make decisions.

Keywords: equity merger; asset reorganization; corporate decision-making.

1. Introduction

M&A refers to mergers and acquisitions. The global M&A market has declined significantly due to the impact of the Newcastle pneumonia epidemic, and international trade activity has been sluggish. The US market has experienced a serious decline in deal volume, European M&A deals have declined due to the impact of the epidemic on M&A numbers. However, M&A deal value has increased rather than decreased, and the gap between China and mature European and US markets is gradually narrowing. 2021 has also seen a downward trend in the Chinese M&A market since the beginning of the year, with the financial sector leading the way in terms of M&A size. For M&A in China's financial sector, the trend shows that the number of M&A announcements and completed M&A events in the financial sector in 2020 is significantly lower than in 2019 due to the impact of the new crown pneumonia epidemic, with the peak in the number of completed M&A occurring in January 2020 and then gradually decreasing as the epidemic changes [1]. With stricter regulations on foreign investment in developed countries, Chinese overseas M&A has been heavily hindered and the value of overseas M&A deals has seen a significant decline. Although China's private listed companies have been affected by a number of adverse factors including restrictions on overseas investment, the economic downturn, and the new crown epidemic, the number of changes of control cases of privately held listed companies remain at a record high. Among them, equity M&A, capital M&A and bankruptcy restructuring are important means of corporate M&A.

In recent years, there have been a number of studies on asset restructuring and equity acquisition. In terms of asset restructuring, studies on how asset restructuring is practiced, how profit and loss can be reversed through asset restructuring, and accounting issues related to the process of asset restructuring are particularly prominent. For example, Li et al. explained the importance of information on asset restructuring of listed companies to investors' decision making and proposed improvements to the information disclosure system [1]. Zhao used accounting event research method and principal component analysis to investiagte the performance of asset restructuring of listed companies and made recommendations [2]. Chen et al. analyzed the impact of media reports and other factors on asset restructuring through case studies [3]. For equity acquisition, the relevant literature is more concerned with the taxation aspects of the equity acquisition process or uses a company as a case study to analyse the pros and cons of equity acquisitions. These studies explain in detail the specific modes of operation of different types of acquisitions and use methods, e.g., asset valuation to analyse the pros and cons of acquisition decisions. For example, Li explains the importance of equity acquisitions for companies and clarifies the importance of improving tax regulations in equity acquisitions[4]. Wang explains the process of equity acquisitions and discusses the tax and accounting issues in the process [5]. Liu also focuses on giving advice on income tax legislation in the process of equity acquisitions [6].

As mentioned above, there is more than enough research on asset restructuring and equity acquisitions, but less research comparing the advantages and disadvantages around different M&A methods. Therefore, this paper provides a comparative analysis of asset restructuring and equity acquisitions based on a thorough understanding of the two. In this paper, we will look at the differences that exist between the acquisition methods of both asset restructuring and equity acquisitions, by producing data collection for two cases in the same sector but with different acquisition methods. From the characteristics and apparent properties, we expect to suggest the optimal solution that should be taken for future acquisitions in this sector in the normalised epidemic era. The research framework of the DDC will be used in this paper. The paper will start with a definition of both means of acquisition. After understanding the concepts involved, we will examine the cases individually, using a comparative analysis approach to examine the relevant cases, and analyse the limitations of the current study and present an outlook on the expected future research. The remaining chapters of this paper are organised as follows. Sec. 2 analyses JA Technology as a case of equity acquisition and Wintel Technology as a case of asset restructuring. Sec. 3 compares asset restructuring with equity acquisition and makes recommendations. Sec. 4 compares asset restructuring with equity acquisition and makes recommendations, and the limitations of the acquisition approach are discussed and the outlook is provided in Sec. 5. Eventually, a brief summary will be given in Sec. 6.

2. Description case

2.1 Company Profile

JA Technology Case Description: On 29 November 2019, Qinhuangdao Tianye Tonglian Heavy Industry Co., Ltd. successfully acquired 100% of the equity interests in JA Solar held by Xingtai Jingjun Ningyu Enterprise Management Consulting Centre (Limited Partnership), Ningjin County Qichang Electronic Technology Co. Ltd. for a consideration of RMB7.5 billion. CITIC Capital Securities acted as the independent financial advisor to the restructuring project. Upon completion of the transaction, the de facto controller of the listed company will change to Jin Baofang, the listed company will hold 100% equity interest in JA Solar and the listed company will be engaged in the photovoltaic business as shown in Table. 1 [7].

Table. 1 Basic information on JA Technology and JA Solar

Acquirer	JA Technology	75 million Amount	100% shareholding
	2019-07-24 to 2019-11-29 Merger and acquisition time	Machinery Manufacturing Industry	Qinhuang City, Hebei Province Area
Acquired party	JA Solar	75 million Amount	100% shareholding
	Established in 2005, we are a manufacturer of high performance photovoltaic products	Semiconductor Electronics Industry	Xingtai City, Hebei Province Area

Based on the vertically integrated model of the photovoltaic industry chain, JA Solar's main business is the research and development, production and sales of silicon wafers, solar cells and solar modules, as well as the development, construction and operation of solar photovoltaic power plants. Founded in 2000, Qinhuangdao Tianye Tonglian Heavy Industry Co., Ltd. is a major equipment manufacturing backbone enterprise integrating R&D, design, manufacturing and installation, sales and service. The company has more than 1,000 employees, insisting on the concept of "strong enterprises shape strong talents, strong talents create strong enterprises", and has cultivated a high-level research and development team and a professional mechanic team. We have created a dynamic and highly innovative team with high efficiency.

2.2 Demonstration of the cases

Through this transaction, the listed company will inject high-quality assets in the photovoltaic industry with strong profitability and promising development prospects, fundamentally improve the operating conditions of the listed company, enhance the company's sustainable profitability and development potential, and improve the company's asset quality and profitability in order to maximize the interests of the shareholders of the listed company. The transaction highlights are summarized as follows:

- The first PV Chinese share return to A-share project. since 2005, Chinese PV giants have been listed in the U.S.. Nevertheless, owing to the low valuation of U.S. shares and difficulties in financing, a number of companies were subsequently delisted. In October 2018, the ssrc clearly indicated that it would support high-quality overseas-listed Chinese companies to participate in the M&A and restructuring of A-share listed companies. JA Solar became the first case of a successful return of a Chinese listed company to restructure and list after the policy was relaxed [8].
- JA Solar is one of the leading companies in the PV industry, which is one of China's most competitive industries in the world. in 2018, the global production scale of each link of the industry chain of silicon wafers, cells and modules in China accounted for over 70%. As one of the leading enterprises in the PV industry, the successful listing of JA Solar will further consolidate its dominant position in the industry, while continuing to improve its technology and reduce its production costs, which will have a positive effect on promoting the process of grid parity in China's PV industry, expanding the use of clean energy and promoting the development of environmental protection in China.

2.3 Data

Leveraging the A-share platform to reduce its debt ratio, JA Solar's gearing ratio increased from 62.54% to 68.06% from 2015 to 2017 as shown in Fig. 1. On September 30, 2018, JA Solar's gearing ratio rose further to 77%, as shown in Fig. 1. This compares to an industry average of 60.02% over the same period [9]. JA Technology released its annual report for 2019, reporting revenue of RMB21.16 billion, up 7.67% year-on-year; net profit attributable to shareholders of the listed company reached RMB1.25 billion, up 74.59% year-on-year. The operating of it is given in Fig. 2.

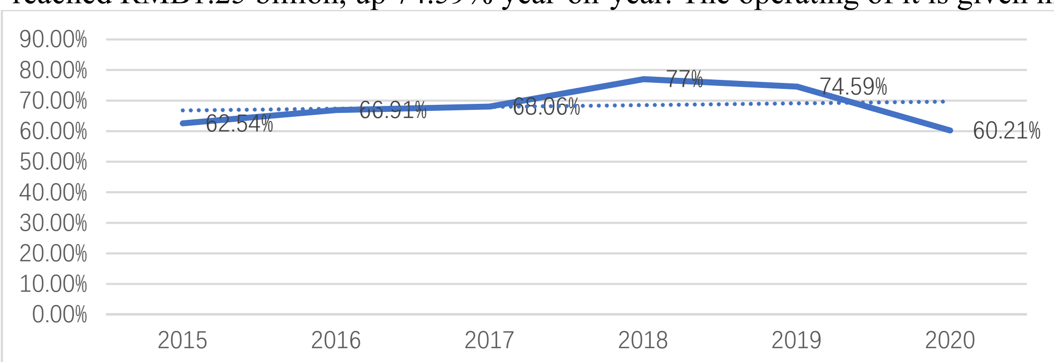

Fig. 1 JA Solar Gearing Ratio 2015-2020

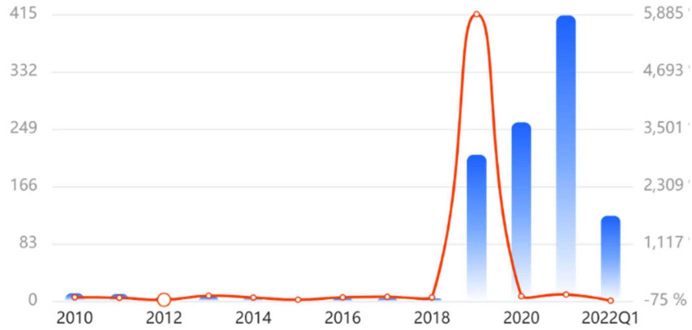

Fig. 2 JA Technology Operating Revenue and Growth Change 2010-2022.

3. Analysis

3.1 M & A

Wingtac Technology Co., Ltd. is a high-tech enterprise in China that provides R & D, design and manufacturing services for smart phones, laptops, smart hardware, automobiles and other products for global mainstream brands, including new product development, ID design, hardware R & D, software R & D, production and manufacturing services. It has its own intelligent production platform. Wingtac is a leading enterprise of ODM (original design manufacturer) in China and even the world. Nexperia was formerly the standard product division of NXP semiconductor company in the Netherlands. In 2016, it was officially separated from NXP and became an independent supplier of semiconductor devices. Its products are widely used in industrial, computer and other fields. Anson semiconductor is the world's largest semiconductor supplier of IDM standard devices.

On October 25, 2018, Wingtac announced that it would purchase part of Nexperia's shares for us $3.6 billion. On March 2, 2019, Wingtac chairman Zhang Xuezheng and his team completed the first acquisition of Nexperia. Finally, Wingtac technology acquired 100% of Nexperia's equity at a price of $5.3 billion, officially becoming Nexperia's largest shareholder. In this merger and acquisition, Wingtac has used a large amount of funds and at least two ways to acquire Nexperia in China and overseas. Its plans are diverse and exciting but accompanied by high risks.

In China, Wingtac technology formed a buyer's group to participate in the public auction of the limited partner shares of the largest fund shareholder of Anson semiconductor, and obtained the trading opportunity. Subsequently, Wingtac continued to introduce high-quality investors to acquire Nexperia's equity by issuing shares to purchase assets, supporting financing, overseas bank loans, etc. In 2018, Wingtac acquired all the property shares owned by 7 domestic fund limited partners of Hefei Yuxin by issuing shares and paying cash. In addition to the share-based payment, the cash payment for the above acquisition comes from the remaining 328 million yuan in the financing funds of Hefei Zhongwen Jintai, which is used to pay the advance payment required by the limited partners; On the other hand, it came from 3.254 billion yuan of supporting funds.

Overseas, Wingtac ingeniously designed the transaction structure, made full use of a variety of financing tools in the domestic and foreign capital markets, and adopted a financing scheme combining equity and bonds to convert bonds into equity, financing at Wingtac technology and the target level respectively. Related parties purchase all property shares and related interests owned by overseas fund Zhong Zhilu capital as general partner by paying cash. As for the limited partner shares of the overseas fund, after Wingtac acquired the control right of Nexperia's largest shareholder, Nexperia Holding B.V., Wingtac acquired or repurchased all the property shares owned by the limited partners of the overseas fund with the cash of RMB 5.632 billion obtained through overseas M & A loans. In addition, Wingtac also paid a total consideration of 26.713 billion yuan to domestic and foreign general partners and limited partners participating in the transaction twice in the form of differential pricing to meet the requirements of each partner and Nexperia Holding B.V. After the completion of the transaction, Wingtac held 79.98% of the equity of Nexperia Holding B.V., becoming the largest shareholder with absolute control. It can be seen from Fig. 3 and Fig. 4 that after the acquisition of Nexperia, the profit and share price of Wingtac have increased significantly since 2019. When Wingtac acquired Nexperia, it used a large amount of external funds, such as issuing shares to purchase assets and introducing bank debt financing [10]. The risk of doing so is extremely great, especially the asset liability ratio of Wingtac is as high as 66.41%, and the profit level is low. Once the acquisition fails, it means that Wingtac will bear huge debts and even face bankruptcy. At the same time, Nexperia, as a non-listed company, has many financial data whose authenticity needs to be examined. So, it may cause information asymmetry, which is a huge hidden danger for the success of the acquisition of Wingtac technology [11].

Fig. 3 Business and share price trend of Wingtac from 2003 to 2021.

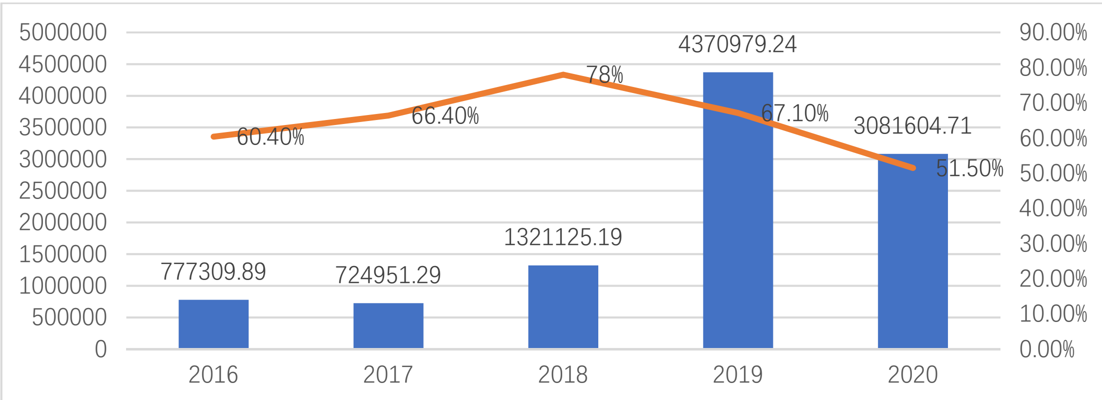

Fig. 4 Total assets, total liabilities and debt ratio of Wingtac technology from 2016 to 2020.

3.2 Reforming

Wingtac does not only acquire Nexperia, but also deals with the relationship between Nexperia and Wingtac after the acquisition. The production lines and main businesses of Wingtac and Nexperia are not simply parallel, but upstream and downstream of the industrial chain. Therefore, after the acquisition of Nexperia, the assets of the two enterprises need to be reorganized. Nexperia semiconductor is located in the upstream of the industrial chain and is a world-class supplier of semiconductor standard devices. Wingtac has the world's leading technology in the system design of downstream intelligent terminals. Zhang Xuezheng's purpose is to give play to the synergy between Nexperia and Wingtac. Therefore, he decided to retain Nexperia's European enterprise identity without changing all the original employees from the leadership to the operator under the uncertainty of the management mode. When deciding to make large-scale investment, Wingtac may pay more attention to the short-term performance of the group than how to strengthen the other two businesses, so as to improve the competitiveness of the whole group [12].

4. Comparison and suggestions:

In terms of nature, equity acquisition is an enterprise's direct acquisition of high-quality assets to inject economic vitality into the company. In reality, asset restructuring is the re-integration of enterprise assets through acquisition and other means, so as to enable the enterprise to have a more reasonable economic structure and improve the economic situation of the enterprise. From the process comparison, the listed company acquired all the shares of Jingao technology at one time. The transaction time was short and the speed was fast. It injected high-quality assets with strong profitability in a short time, which rapidly improved the company's operating conditions. The asset restructuring of Wingtac technology is a continuous and complex process, which requires continuous acquisition of shares of other companies, design of financing plans, issuance of shares, and introduction of high-quality investors. Only in this way can the company's economic situation be successfully improved. In the process of asset restructuring, it is necessary to investigate the economic conditions of the different companies acquired to avoid the introduction of non-performing assets, which is more complex. In addition, it is also necessary to design the transaction structure, carefully finance, and have various risks. From the comparison of results, a successful equity acquisition can enable enterprises to obtain high-quality assets, while asset restructuring improves the economic structure of enterprises, and both can strengthen the economic vitality of enterprises. However, to a certain extent, asset restructuring can more fundamentally integrate the industrial chain, improve the economic situation of enterprises and enhance competitiveness.

For equity acquisition, the quality of the acquired assets directly determines the success or failure of the equity acquisition. Hence, it is necessary to conduct a detailed investigation of the operating conditions of the acquired company and make a cautious acquisition. Moreover, the acquired company will complement the company's field as much as possible, which is conducive to improving the company's competitiveness. For asset restructuring, detailed calculation and planning should be carried out for the process of asset restructuring. While examining the operating conditions of the acquired company, the asset structure should be reasonably designed to avoid the situation of insolvency, leading to the break of capital flow. It is a complex process for enterprises to improve their economic conditions, which requires long-term planning and careful investigation. If necessary, multiple methods should be adopted together, and the advantages of different merger and acquisition methods should be absorbed, so as to improve the economic situation more effectively.

5. Limitations & Prospects

No matter which M & a method is adopted, there may be insufficient investigation of the acquired shares. Especially in the face of non-listed companies and overseas assets, the information asymmetry is more serious. Once the non-performing assets are acquired, it will cause direct losses and also have a negative impact on the company's subsequent operations. In addition, in the process of asset restructuring, many companies did not consider their own assets sufficiently and made high-risk investments. To be specific, Wingtac technology has used a large amount of external funds to acquire overseas assets. In the case of its poor profitability and high debt ratio, once the acquisition fails, it is very easy to face bankruptcy.

In the future capital market, we should strengthen the openness and transparency of the financial status of unlisted companies, so as to facilitate more accurate valuation of the acquired companies and reduce the risks of acquirers. Meanwhile, the use and supervision of financing instruments should be standardized to make the company's asset restructuring transactions more standardized. Basde on the case analysis of "Jingao technology" and "Wingtac technology", successful asset restructuring and equity acquisition are conducive to improving the company's profitability and operating conditions, but there are also risks such as non-transparency of information. Besides, it also compares the differences between the two M & A methods in process and results, and analyzes their risks, hoping to provide reference for the company's decision-making on how to choose M & A methods.

6. Conclusion

In conclusion, this paper analyzes the characteristics of asset restructuring and equity acquisition, and compares them. In general, as long as one has a good grasp of the company's operation and a sufficient understanding of the acquisition object, both asset restructuring and equity acquisition can play a positive role. However, the nature and operation process of asset restructuring and equity acquisition are obviously different, and the risks are different. Thus, careful planning, weighing and selection should be made according to the actual situation of the company. In the capital market, there are many choices for companies to adjust their structure, and any choice may affect the survival and development of companies. The way to choose M & A is an important topic. It is hoped this paper can provide reference for the decision-makers of the company. Nevertheless, this is only a rough comparison of the approaches without a rigorous calculation. When faced with specific choices, the company should judge according to the actual situation. In the future, the companies will have clearer thinking when making merger decisions. Overall, these results offer a guideline for how companies make decisions when faced with merger decisions .

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