Analysis of BTG Hotel Mergers and Acquisitions of Home Inn

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Abstract. The past forty years have seen increasingly rapid developments in the field of economy and hotel industry in China. One of the most significant current discussions in the hotel industry is in merger and acquisition (M&A). However, the analysis of M&A cases in the Chinese hotel company is unexplored. On this basis, this study aimed at investigating the impacts of BTG Hotel company M&A Home Inn. Based on annual report and other open-source data, this paper analyzes the motivation, risks and relevant business data of BTG hotel. According to the evaluations, this M&A case helps BTG Hotel achieve the business goals and reap business benefits, but also bring some operating risk. In general terms, this case accomplishes the expected purpose and can be considered as a successful M&A. These results contribute to the present understanding of the Chinese hotel company M&A and shed light on guiding further exploration of the effect of M&A on business valuation and goodwill.

Keywords: Mergers and acquisitions; hotel industry mergers; BTG Hotel company; Home Inn.

1. Introduction

With the China's reform and opening-up, the economy of China has developed rapidly. Chinese government actives participation in the process of economic globalization and integration, and increased policy support to help and guide companies in overseas investment. On this occasion, Chinese companies actively participate in mergers and acquisitions (hereinafter referred to as M&A) abroad, according to their own future development plan and strategic objective. Over the past 20 years the standards of Chinese people living have risen significantly in terms of basic living expenses, education expenditure and recreational consumption.

In 2020, China's gross domestic cost of Chinese tourism was CNY2019.07 billion [1], and the prosperity of the tourist industry facilitates the development of the hotel industry. Furthermore, overseas M&A by Chinese enterprises increased sharply in 2016. The number of Chinese M&A rose 142% and the value of M&A increased over 242% [2]. In the meantime, M&A in the international hospitality industry are frequent.

Over the past few years, M&A in various industries has been attracting a lot of interest. First, research suggests that compared with the High-tech manufacturing industries and other operating department of tourism industries, the hotel industry is subject to a higher level of competition and have a higher leveraged and risk [3]. There is evidence that the operating leverage, financial leverage and firm size are significantly associated with unsystematic risk in hotel group [4]. Second, the hotel M&A transaction volume and the number of hotel M&A transactions has shown a steady upward trend compared with commercial M&As [5]. Individual hotels are restricted to capital, brand attractiveness and management mode, individual hoteliers are inclined to cooperate with international chain hotels [6]. Consequently, based on the hotel industry characteristics, it is essential for independent research of the hotel industry M&A case.

In order to explore the effect of M&As in the hotel industry, it is found Through the existing data analysis that copious M&As of asset have completed in the international hotel industry in 2016. For instance, Accor Hotels acquired Fairmont Raffles Hotels International for USD2.9 billion and Jinjiang Hotel acquired Plateno for CNY8.3 billion. To the best of the knowledge, despite the trend of hotel industry M&As have been rising steadily, too little work has been devoted to the analysis of the M&A case of a single Chinese chain hotel group. The existing research tend to concentrate on a single stage of M&A process, whereas the holistic case analysis is fundamental to hotel industry

M&A research. Therefore, this paper in accordance with existing data and uses methods of case analysis to analyze the M&A case of BTG Hotels acquired Home Inn. In addition, the present study aims to provide a reference for the future hotel M&As and support for future research efforts. The overall structure of this paper takes the form of four chapters including this introductory section. Sec. 2 begins by laying out data, case describe and analyze the motivation of this M&A case. The third section is probing into the effect of this M&A case on the market, the company's financial position, enterprise operation risk and offers suggestions for the future development of the company. The fourth section provides expounds the limitations and conclusions of the study.

2. Data & Case Descriptions

2.1 Acquiring Firm

The purchaser, BTG hotel, was established in February 12,1999 and went public on the Shanghai Stock Exchange in 2000. In the early days of the company's establishment, BTG hotel's key business includes hotel operation, travel agency operation and scenic areas management. With the development of the company, in order to adapt to the market, the management layer adjusted business strategic direction and replanned business structure. Since 2012, the company has shifted main business to hotel management by M&As many firms. Before this M&A case, BTG hotel owned several mid- and high-end brands.

2.2 Acquired Company

The acquired company, Home Inn, was established in 2002 by Nanpeng Shen, the co-founder of Ctrip, and has grown rapidly since its inception. The company was floated on Nasdaq in 2006, which was the first Chinese hotel enterprise listed overseas. On account of the financial supported, residents provided by Ctrip and scientific administration mode, Home Inn can quickly outperform other Chinese hotel brands. Before the M&A, Home Inn acquired Motel168 Hotel, Yitel Hotel and other budget hotel brands and had the biggest economy-chain hotel by market share.

2.3 Motivation of M&A

BTG hotel had completed several acquisitions before 2016, but business distribution of the company major concentrate in Beijing and area around the city. Low brand attractiveness and a few numbers of hotels are the important reasons of lower market occupancy and company lack of effective integration. A study by Dung et al. shows that brands complement M&As should be the company's first choice [7]. Since Home Inn had the biggest hotel market occupancy in China and possessed thousands budget hotels nationwide, Home Inn is a fine takeover target to fill market gaps for BTG hotel.

After Home Inn listed on Nasdaq, on account of the company's business was concentrated in China, American investors did not know the company's business operations situation, that led to Home Inn's share prices and market capitalization were undervalued and had the risk of short-selling. Meanwhile, Home Inn's rate of expansion had slowdown and faced huge competition. Therefore, the Home Inn delist could help the company break away from distress. Generally, the company be acquired and privatization could solve delist problem fundamentally [8].

2.4 M&A Process

On June 11,2015, BTG Hotel offered M&A proposal and Home Inn accepted the offer on June 12. BTG Hotel established two-tier special purpose corporations, BTG Hotel (Hong Kong) and BTG Hotel (Cayman), as takeover entity. This M&A process included three stages. Firstly, BTG Hotel paid USD1.124 billion cash to acquire 65.13% of the Home Inn's shareholding. Secondly, BTG Hotel acquired a 34.87% shareholding by issuing equities. Finally, in order to reduce debt pressure, BTG

Hotel raised counterpart found CNY3.87 billion by issuing private placement. After the M&A was completed, Home Inn Hotels were renamed BTG HOMEINNS Hotels.

3. Impact Analysis

3.1 Market Analysis

BTG Hotel achieves the purpose of industry integration and becomes to the top 10 hotels enterprise in the world by this M&A case. As shown in the Fig.1, since the Home Inn has numerous budget hotels, the BTG hotel has expanded quickly after the M&A, the number of hotels owned by BTG Hotel and market share of hotel industry in China have grown rapidly. Even with the impacts of COVID-19, the hotel industry has challenged the operational capacity, the BTG Hotel continues to expand. Despite corporate image is damaged by the attack on Yitel hotel, the BTG Hotel's brand has great influence and attractiveness and tourists are still willing to choose BTG Hotel. Furthermore, Home Inn Hotels has a better system of membership and huge number of members. The excellent membership system can build the foundation of emotional connections for customers [9]. After the M&A with the BTG hotel, the original membership systems of the two companies have also been merged.

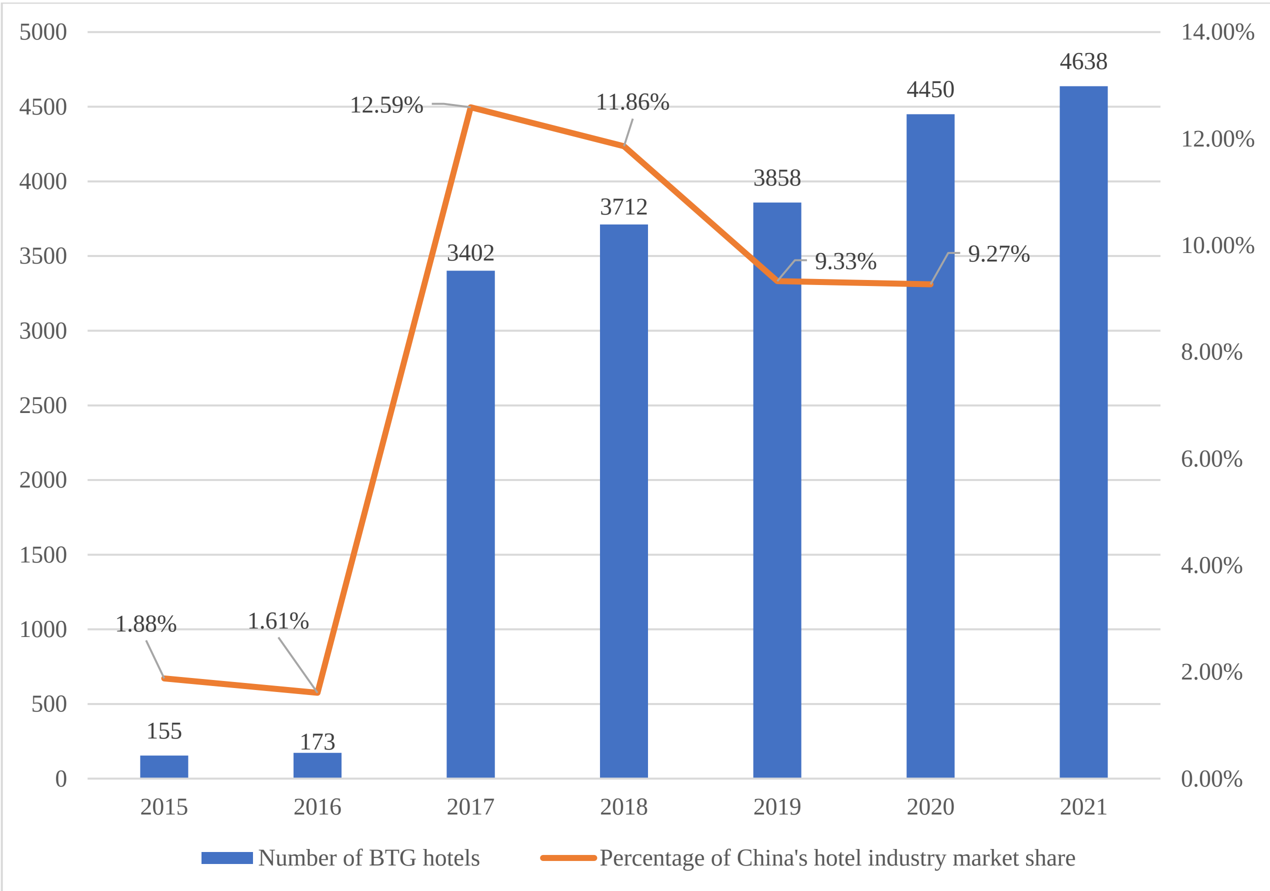

Fig. 1 BTG HOMEINNS Hotel market situation (Source: China hospitality association)

However, with the popularity of the internet, internet celebrity hotels have sprung up, youngster prefers to choose hotels with a distinctive style, rather than hotels with a uniform style. Besides, on account of effects of fierce competition from other brands and the M&As and expansions of other hotel chains, the company's market share then dropped subsequently with each passing year after reaching a peak in 2017 can be observed.

3.2 Financial Analysis

3.2.1 Analysis of profitability

With the expansion of the firm size after the M&A, BTG Hotel's performance is improved. Seen from Fig. 2, this M&A has brought growth rapidly in gross revenue and net profit. As summarized in the Table 1, BTG Hotel's income and profit have improved significantly since the M&A in 2016. Because of the M&A, the company's cost has substantial increased and result in a decrease in net profit ratio in 2016. Similarly, it should be paid attention to the increase in the company's net profit ratio is smaller than the gross profit ratio. Nevertheless, when the BTG Hotel's debt is reduced and costs are controlled, the net profit can be increased. While as been mentioned above, the COVID-19 has huge impacted the hotel industry. The BTG Hotel revenues had fallen drastically in 2020, but it rebounded in the second year. This demonstrates that the operating synergies of the BTG Hotel have enhanced by this M&A.

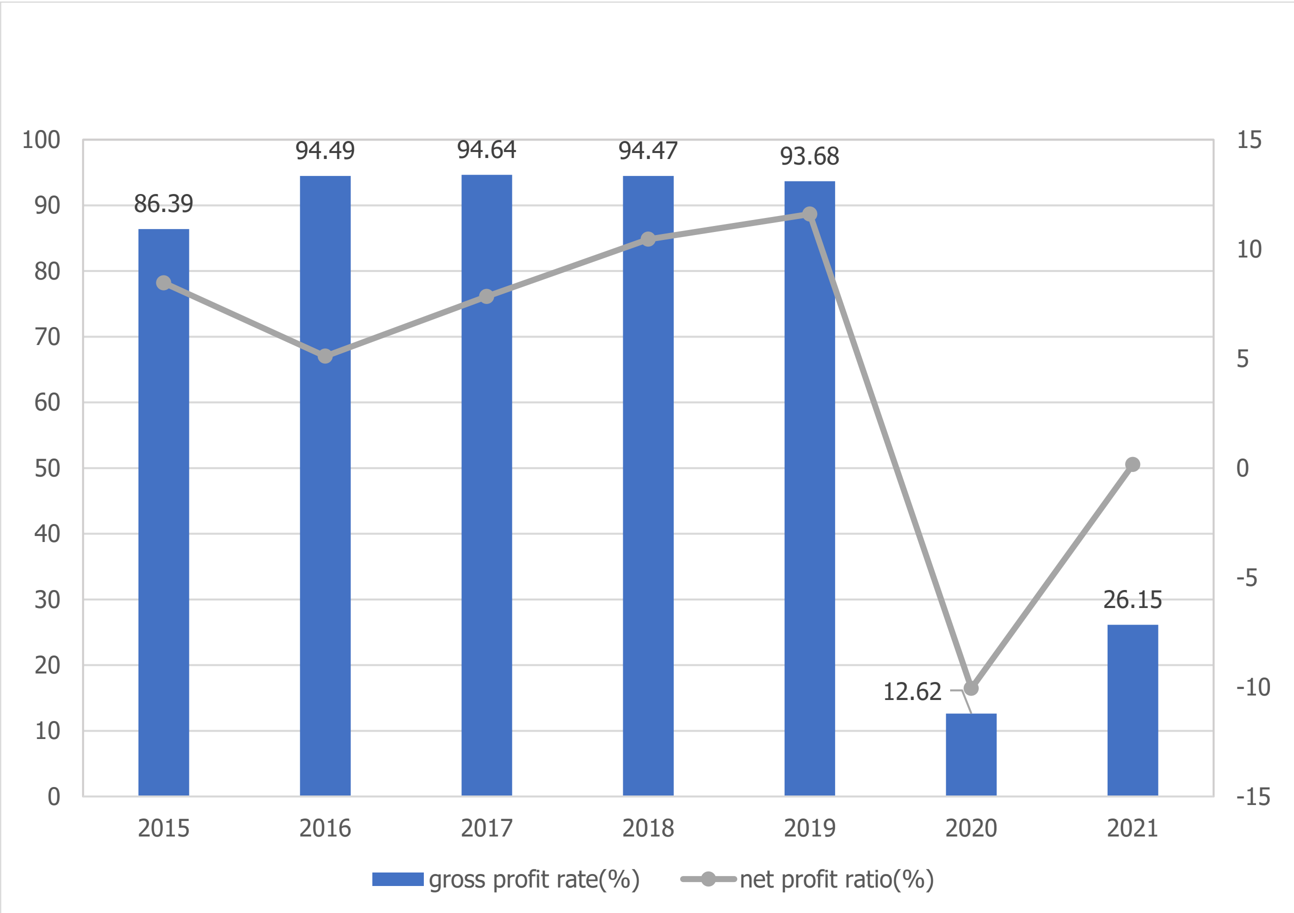

Fig. 2 BTG Hotel profit margins (Source: BTG Hotel earning report 2015-2021)

Table 1. BTG Hotel's profit indicators (billion CNY) (Source: BTG Hotel earning report 2015-2021).

	2015	2016	2017	2018	2019	2020	2021
gross revenue	1.33	6.52	8.41	8.53	8.31	5.28	6.15
net profit	0.10	0.21	0.63	0.85	0.88	0.49	0.05
gross profit rate (%)	86.39	94.49	94.64	94.47	93.68	12.62	26.15
net profit ratio (%)	8.46	5.11	7.83	10.45	11.6	-10.06	0.16

3.2.2 Analysis of liabilities

In order to pay equity transfer payment to Home Inn shareholders, BTG Hotel's liability increased dramatically in 2016. As illustrated in Fig. 3 and Table 2, the debt-to-assets ratio of the company has always been high, but the current ratio and the quick ratio have increased after the M&A. These data can represent that the short-term debt paying ability of the company enhancement. Despite the liability of the BTG Hotel has risen after COVID-19, the debt paying ability of the company still grow. Consequently, the BTG Hotel obtains financial synergies though this M&A.

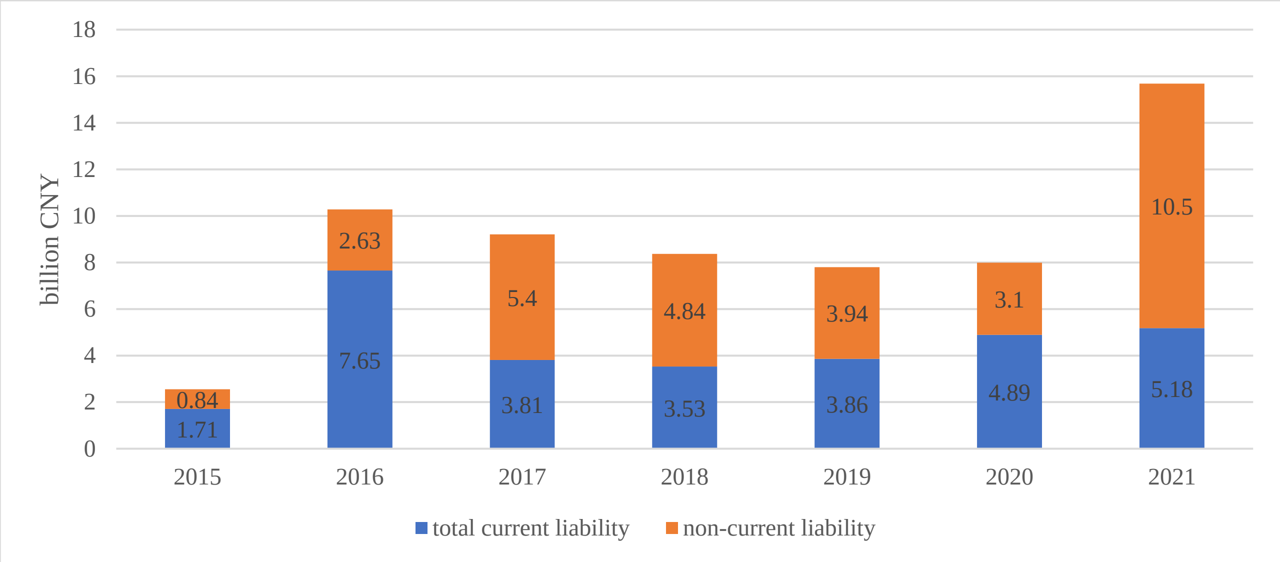

Fig. 3 BTG Hotel's debt structure (Source: BTG Hotel earning report 2015-2021).

Table 2. BTG Hotel liability information (Source: BTG Hotel earning report 2015-2021)

	2015	2016	2017	2018	2019	2020	2021
aggregate liabilities (billion CNY)	2.55	10.29	9.22	8.37	7.81	7.99	15.68
total current liability (billion CNY)	1.71	7.65	3.81	3.53	3.86	4.89	5.18
debt to assets ratio (%)	64.50	59.50	54.73	49.76	45.66	48.08	58.08
current ratio	0.220	0.229	0.515	0.660	0.657	0.482	0.763
quick ratio	0.207	0.222	0.503	0.646	0.645	0.473	0.754

3.3 Risk Analysis

3.3.1 Analysis of debt risk

It can be derived from the annual reports and announcements that the BTG Hotel paid a total of 11.05 CNY billion to acquire Home Inn. It puts a lot of pressure on the company on the operating side and on the debt side. These debts can lead to higher capital costs for enterprises and limited funds available [10]. Compared with other companies of approximate scale, the current ratio, and the quick ratio of the BTG Hotel is low. Although the short-term solvency of the BTG Hotel has been improved slightly, the company still has high debt repayment pressure. It is difficult for the company's cash and cash equivalent to repay all the debt of short-term.

3.3.2Risk of the impact of COVID-19

Operating cash flow of the BTG Hotel has fallen drastically in 2020. Because of a series of problems caused by COVID-19 and legacy debt problem, the short-term funding gap reached a high point. Although the BTG Hotel reduces the capital gap by issuing short-term commercial papers, the company's risk resistance capacity is still weak. If the BTG Hotel is affected by uncontrollable factors in the future, operations may encounter major challenges.

3.4 Suggestions

Hotel's quality, reliable, humanized services can make hotel guests have higher satisfaction and foster customer loyalty [11]. The BTG Hotel could expand the brand effect and establish a good corporate image to attract guests. Secondly, the BTG Hotel also can improve the management and enhance service quality of brand members to improve client retention going forward. In addition, it can be known that the M&A case jeopardizes the BTG Hotel's finances by analyze, and the ability to deal with operational risk may be decreased. Hence, in future M&As, the management in hotel industry ought to seek out the merger target discreetly and choose the appropriate time to M&A to mitigate the risk.

4. Conclusion

In summary, the BTG Hotel expands the market shares of hotel industry in China, especially in the market of budget hotels, and yield huge synergies by passing this M&A. In the meantime, this M&A also raises the firm's debt level and poses risks. In contrast to potential handicap to the operation of the company by the M&A Home Inn, the benefits are clear. On this basis, it can be concluded that the BTG Hotel is essentially achieving the anticipated M&A target. Nevertheless, this study has not only examined the motivation of this M&A, but also analyzed this case of M&A case, which has an impact on the financial, market and operational risk of the company. Thus, it has provided a deeper insight to hotel industry M&As. The findings of this study may be of assistance to provide some meaningful implications to other hotel companies as well. A limitation of this study is that the change in business valuation caused by M&A are not estimated. Being limited to lack information of the internal evaluation report, it is difficult to obtain the change of goodwill. These limitations should be addressed in future studies, and considerably more work will need to be done to determine the effect of M&A on shares and company evaluation in the hotel industry. Overall, these results offer a guideline for M&A for travelling industry.

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