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Merger and Acquisition and Firm Performance: An Analysis of Proton-Geely

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ABSTRACT

This study draws attention to a merger and acquisition case that involves Geely and Proton respectively, Chinese and Malaysian firms. The article mainly focuses on the financial performance of Geely before and after the acquisition. To achieve this, the paper adopted a qualitative research method by using archival data sources to analyze the single case of the acquisition of Proton by Geely. The sampling area is Asia being China and Malaysia describing a cross-border transaction in emerging markets. The paper performed ratio analysis to investigate the different indicators of Geely's financial performance before and after the acquisition. After documenting and analyzing this case, the paper argues that Geely performed well before and after the acquisition. The analysis can serve as evidence of a better financial performance of Chinese firms after cross-national M&A transactions.

As a qualitative research, this article benefits not only from the bibliometric analysis done through past research and official reports related to the case but also from the quality and validity required for a case study analysis. This study is an original attempt at presenting the case study of Geely's acquisition of Proton from the lens of the acquiring firm's performance before and after the acquisition. However, due to the limited information provided by financial ratios, the findings of the paper are not exhaustive.

Keywords: Firm Performance; Geely; Mergers & Acquisitions; Proton; Ratios Analysis.

INTRODUCTION

Since the opening of the Chinese economic reform, Chinese firms have been more and more reliant on the international market. One of the best ways to enter the international market is firms' act of mergers and acquisitions (M&A).

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M&A is known as strategic business decisions that firms undertake for diverse reasons among which we can cite market expansion and firm value creation. Several Chinese firms opted for this alternative to combine their expertise with that of others, and to acquire strategic assets necessary to impose their presence in foreign markets.

The objective of this paper is to analyze the acquisition of Proton, a Malaysian company by Geely, a Chinese company. The acquisition took place in May 2017 and attracted curiosity for the current research, which is aimed at a better understanding of the transaction and an (in-depth) analysis of the short-term performance of the acquirer. After a brief financial ratios analysis of the acquirer before and after the acquisition, the paper finds that the acquirer, Geely, maintained sound financial stability before and after the acquisition.

Furthermore, the paper tries to shed light on the questions regarding the performance of Chinese firms in the international market and provide some (non-exhaustive) evidence that Geely remained solvent and profitable throughout the observed period. The present paper is the result of a theoretical investigation of a Chinese firm's mergers and acquisitions activities in Asian countries under the boost of the "Belt and the Road" (B&R) initiative and the discussed results are primarily based on a case study and the secondary literature collected about the acquisition.

LITERATURE REVIEW

With the purpose of grasping the theoretical framework of this research, the literature review was designed to bring some understanding of the M&A features of the firm being studied mainly in reference to its motives, strategic fit, and M&A expectations, as well as its performance. Along with these, Chinese overseas M&A experience is also reviewed. The choice of these keywords in the literature review is intended to help us in analyzing the behavior of Proton and Geely in this international expansion transaction with an emphasis on the Chinese firm's internationalization behavior.

M&A motives

Among the classic motives of M&A combination, we can cite the expected positive net-present-value of the combined cash flows, earnings diversification (motives), tax reductions, mispricing motivations, market expansion motivations, better productivity and positive synergies effects on costs reductions, economies of scale and scope [1] [2]. Additionally, Reddy (2015) [3] emphasizes the fact that in the elaboration of their investment decision making, firms tend to opt for acquisition methods more than greenfield investments because of the quick market access and ownership benefits that immediately flow from them. Yet, depending on the background of the firms, institutional environment can also play a key role in the strategic decision-making of firms [4] .

A recent work [5] puts in evidence the contribution of the quality of the host country's institutional framework in attracting inward acquisitions and suggests that market size and weak institutional regime including corporate tax and capital gain tax can be a source of attraction of foreign investors and thus help overcoming the gaps of geopolitical distance, regulatory distance, and cultural distance between developed and developing economies.

The literature also deals with some motives other than value creation that can rely on the typical agency problem about the conflict of interests seen between managers and shareholders. Managers

may desire M&A for the purpose of higher managerial compensations and other selfish benefits that differ from stockholders' interests [1] [3].

Considering the M&A case of Daimler and Chrysler where two leaders of automobile markets, respectively in Europe and America with approximately 63% of market share for Daimler in Europe and 93% for Chrysler in North America, it is worth noting that the two companies decided to unite their strengths to build one of the world's largest automobile company. The motives of this transnational merger included the new market entrance and expansion, stronger market control in both markets, significant synergies in technology sharing, distribution, purchasing, know-how and potential long-term synergies in firm development and growth [1]. Yet, Chrysler Board openly stated the risks that could have been associated to this almost perfect combination dream. Such risks were detected as the result of merger integration, with which the expected merger benefits might not have been fully realized.

Conversely, while investigating the international success of British companies, Yip et al. (2006) [6] considered the global market share and the international share revenue as key indicators of such success. The authors viewed these two metrics as the managers' motives at the firm level in the conception of their strategic goals. To stand in a highly competitive global market, firms need to adopt strategies to increase their global market share, and consequently boost their international sales. This can be achieved by observing firms' exports or sales of firms' foreign subsidiaries. The authors associated the international success of the firms with the degree of their international activities.

Strategic fit and cultural fit effects on M&A

To be strategically fitting, the literature suggests that the target firm's business profile should be related to that of the acquirer in order to produce potential or expected future performance [7]. In addition, poor culture-fit or lack of cultural compatibility can also influence the M&A [7]. M&As may create a potential threat to workers' social and security need [7].

For Blaško et al. (2000) [1] who examined the merger case of Daimler-Benz and Chrysler, it is important to question to which level firms can truly enjoy globalization. In every market, developed or emerging, there are existing barriers that prevail domestic firms from M&A activities and these barriers are magnified at the international level. As suggested by the authors, corporate cultures differences, compensation policies, ownership structure and legal environment are serious challenges for international combinations and deserve to be well-considered and examined prior to M&A transactions. To conclude their work, the authors stressed the fact that mergers and international mergers are tricky transactions as their benefits and hidden costs associated are not always obvious in post-merger era.

Post M&A expectations and Post M&A firms' performance

Cartwright's (2006) [7] review on thirty years of M&A research stresses that, over years, acquisitions tend to produce negative average returns to acquiring firm stakeholders. The abnormal returns of the bidding or acquiring firms are negative or statistically tend to be zero in years following the acquisition. This shows that acquisitions do not always produce the expected returns to both companies.

Considered as a predominant motive of M&A, value creation is highly expected after business combinations, yet the literature reviewed for this paper is not conclusive on the issue. While some cases do create value, others destroy it. Value creation mechanisms within acquisitions can flow out of the resource sharing and knowledge transfer [7]. However, according to [1], the DaimlerChrysler merger case has not exhibited a very good post-merger performance as shown by the firm's market capitalization and stock price performance after the merger. Within the post-merger year, the firm under-performed and experienced a falling of stock price, thus providing evidence of poor initial post-merger firm performance in international synergies.

Chinese overseas M&A experience

In Asia, the acquisition of strategic assets through M&A is one of the key motives to address firms' competitive disadvantage [8] [4] . But it has been observed that Chinese firms in particular, under national institutional environment pressures, are eager to catch up with some big nations on the international level, therefore they multiply cross-border expansions by aggressive M&A [9] [4]. If institutional forces influence the firms' strategic decision making in general [3][4], in China in particular, national policies are strongly influencing the strategic behavior of Chinese firms especially in regard to internationalization.

The *Going Global* policy widely promoted in China in the early 2000s has triggered the openness of Chinese firms on the international marketplace [8] [4] [10] [11]. Since 2013, this policy has been replaced by the "Belt and the Road" (B&R) initiative that is expected to be a win-win initiative for all nations desiring to join. Among its goals, the B&R aims to promote and develop regional connectivity, economic openness, and efficient resource allocations as a means of common profits for all partakers [11]. Thus, the responsiveness of Chinese firms to national institutional incentives and pressures is shown by their increasing cross-border combinations not only in Asia, but also in the worldwide marketplace. Subsequently, this openness measure appears to benefit Chinese firms in the sense of allowing them establishing a certain legitimacy, social support and prestige through the acquisition of strategic assets, necessary to make them more competitive in the international marketplace [4].

Summary

In sum, the literature suggests that Chinese firms access foreign markets in order to achieve strategic asset-seeking goals [9] [4]. Following the firm internationalization logic, Chinese firms also reach international markets by seeking technological and brand assets in order to position their competitiveness in these markets [8] [12]. This allows them to catch back on the international field from their earlier lack of economic openness and thus possess an accrued market strength [8]. Although M&A has been identified as the most favored road of internationalization of Chinese firms, there are also challenges and risks associated with this alternative.

Considering the fact that Chinese firms have been for long out of the international field, their aggressive entry in international markets may require adequate experience and skills to increase the value of the acquired strategic assets. Child and Rodrigues (2005) [8] mentioned that the problems attached to the management of the acquired assets and the preservation of the equity of the acquired brands, along with the risk of over-paying are the challenges that Chinese firms can face in their international acquisition deals.

GEELY AND PROTON M&A BACKGROUND

Companies' profiles

The Zhejiang Geely Holding Group Co. Ltd. (Geely) was founded in 1986 in China. Initially, its main activity was manufacturing home appliance items such as refrigerators. Eventually, Geely expended its production, it started its motorcycles production activities in 1997 and launched its first car in 2002. The success of its new automobile operations allowed Geely to acquire Volvo, a Sweden automobile firm from Ford Motor Co. in 2010 [13] [14].

While Proton Holdings Bhd. (Proton) was founded by the Malaysian government in May 1983 with the purpose of establishing a national automobile brand. The first car, the Proton Saga, was launched in July 1985. At its early stage, Proton's production was already distributed in Asian countries as well as in Europe namely the United Kingdom. In 1996, Proton acquired Lotus, a British automaker. But the post-acquisition performance of this transaction did not exhibit the expected results. The newly reorganized firm was challenged by the tough growing competition of the market. Poor sales, poor quality and bland car designs were among the reported causes of their lowperformance. Later on, in 2012, Proton became a private entity allowing DRB-Hicom Berhad to own 100% equity of the firm. Since then, Proton kept struggling to maintain a positive growth of its market share and improving its customer experience in the highly competitive market dominated by Japanese brands.

In 2017, Geely, an independent Chinese automaker won the bid to purchase 49.9% of Proton's equity and in June of the same year, to mark the partnership, the freshly established combination launched Geely's Boyue sport utility vehicle (SUV) in the Malaysian market, [13] [15].

The choice of the two companies for the matter of the study was made on the basis of the analysis of Chinese firms' mergers and acquisitions in Malaysia. In the past years, a few M&A cases has taken place between the two countries. Geely and Proton successfully proceeded to their merger in 2017. The case is still recent and has brought intention for the current study considering the importance of the automobile sector in Malaysia. From its recent performance in the Chinese market as well as in European markets, Geely has showed its will and capability of setting up its branches in Asian markets. The acquisition of Proton appears then to be a great opportunity for Geely to extend its market in a competitive market such as Malaysia.

Acquisition process

Prior to M&A in 2016, while suffering from important sales declines, the Malaysian Government proceeded to capital injection up to $307 million into Proton to rescue the firm from the enormous debts it was submerged with. This move almost made the Government taking over the control of the firm it left in 2002 for about $412 million to DRB-Hicom, [16].

For long, Proton has expressed its desire to set a strategic partnership with a foreign collaborator in order to revitalize the firm's operation and optimize its production to its full capacity considering the long decline in market share it has experienced. Subsequently, in February, 2017, the choice of the suitable partner became a critical goal for Proton. In the process of looking for the right fit, Proton was keeping in mind to match strategic, operational and cultural goals with a foreign partner. What partnership that will contribute to the enhancement of its brand equity as it was in the 1980s and 1990s. Beside the benefits that Proton could get from this partnership, Proton was

also ready to offer a range of benefits to the potential partner such as its own in-house research and development team, a better production capacity-building through the optimization of Proton's production plant, and an access to Proton's products manufactured at high globally recognized production standards, [17].

The bid was published and in May 2017, a partnership agreement was made between Geely and Proton. Few months later, in June 2017, the agreement was conclusively set and signed allowing Geely to be the second main owner of Proton Group with 49.9% of the shares. The venture is considered as a historical event for Proton, which had been fully owned by Malaysia from its foundation till this date. The venture was made upon juicy expectations that would benefit both parties.

Table 1. Summary of the main M&A activities of Geely and Proton

Reported events, conditions	M&A motives and expectations	Source
On February, 2017, DRBHICOM Berhad (DRB-Hicom) considers the need for international cooperation through foreign strategic partnership.	To revitalize Proton's market share and brand through the access to new platforms, see wider Asian markets and global arena, obtain power trains and technologies. To improve Proton's range of products and its quality. Achieve economies of scale from domestic production.	[17]
On May 2017, Geely agreed to own 49.9% of the Malaysian automaker, Proton; the remaining 50.1% belongs to DRB-Hicom, a Malaysian company. Geely Holding Group Co. Ltd. also acquired 51% of Lotus from Proton for 51 million pounds ($66.2 million).	Allowing Geely to expand its market in Southeast Asia. Offering a distribution channel in Southeast Asia to Geely. From Geely, Proton obtains a strong financial support as well as more advanced and innovative technology. Geely Group expects to strengthen its global footprint and develop a beachhead in Southeast Asia. Geely expects to increase the car production capacity of Proton by 2020 for Southeast Asian market. Proton will acquire the opportunity and technology to assemble Volvo cars and diversify its car designs by launching Geely's mid-sized sport utility cars for the Malaysian market. From the deal, Geely expects a boost in its market share in Southeast Asia automobile market dominated by Japanese brands. Enable Proton to access Geely's platforms, power trains and existing markets both in China and in Southeast Asia. Strengthening Proton's brand, revitalization of Proton's nameplate.	[13] [15]
On June, 2017, the conclusive agreement was signed and, from then on, Geely officially owns 49.9% equity of Proton Group.	Maintain Proton's national status and increase domestic market share. Improve the products design and quality in order to meet market preferences. Target to position Proton at the top independent automobile brand in Malaysia and one of the top three in Southeast Asia.	[18]
On September 2017, both parties were still working at finalizing the details of the transaction and getting new executive team established.	Establish a solid business plan for Proton Group including development strategies for both companies. Ensure the venture providing return of investment to both companies' shareholders. From Geely, Proton expects to benefit from its production, manufacturing operations and marketing expertise. Establish a new company structure allowing Chinese partners to join Proton Group leading board and executive team. The objective being to achieve the revitalization of Proton brand.	[19] [20]

From the data gathered in Table 1, it is possible to observe that the strategic acquisition of 49.9% of Proton Group by Geely possesses great expectations from both parties. Currently, the deal allows a market expansion for both companies, extends the distribution network, creates a synergy in the production capacity and thus promises to offer a better position of Proton in the local automobile market as well as in the Southeast Asian market.

Strategic fit and M&A structure

About the corporate culture, it could be said that both companies are keen to learn from each other and share experiences. On this, official press releases from both firms reported that Proton considers Geely's customer service standards similar to top automakers' services and that Proton is considerably learning from its partner.

On the staff integration side, while finalizing the deal in September 2017, Proton Board of Directors and Senior Management Team have been re-organized in order to integrate their Chinese partners. The ownership structure of the M&A of Geely and Proton is not a total equity M&A, both firms maintain a considerable level of equity in Proton Group keeping Proton a Malaysian firm with the 50.1% of shares owned by DRB-Hicom. The ownership structure of the combined firm allows Geely and Proton to remain independent in their contributions to the firm.

This also eases the synergy in all sectors of production, operations, marketing and research and development highly expected from the combination. This structure indeed reduces market entry barriers and other additional market integration efforts by Geely in Malaysia and by Proton in China, for both firms can equivalently benefit from their partner's distribution channels to introduce their independent products as well as their joint-production benefits in their respective markets.

In sum, Geely's activities' proximity to Malaysia, its brand reputation and success in owning Volvo and the London Taxi Company positioned the company as one of the best partners for Proton in its search for a foreign collaboration. Both firms were longing for expanding their operations within the ASEAN regional market, thus this deal agreement appears to be strategically suitable for both companies. Proton's shareholders remain positive towards the venture and maintain high expectations of a brighter future of the firm.

CASE STUDY ANALYSIS

Methodology

In this paper a combined cross-sectional and time-series analyses is performed to provide the most informative approach to ratio analysis. Though industry average comparison is very popular, key competitors ratios average is used as a benchmark to evaluate the performance of Geely in the periods before and after the acquisition of Proton. Benchmarking is described as a type of crosssectional analysis in which the firm's ratio values are compared to those of a key competitor or group of competitors. And the financial ratios time-series analysis is conducted for the evaluation of the firm's financial performance over time.

The paper analyzed the different ratios from two perspectives. First, a pre-acquisition ratios analysis is presented, then a post-acquisition. For each of these analyses, an average ratio of the key competitors is also presented allowing a comparison. The average ratio of the key competitors was computed by adding up the ratios and dividing them by three for each ratio. The competitors' ratios

being computed were for the years 2016 and 2017 for the reason that the current analysis is aiming at comparing Geely and its competitors right before and after the acquisition. Since annual reports of the year 2018 were still not fully available at the moment of the research for all companies, the paper only included data for 2016 and 2017 for the key competitors. The three key competitors selected for the benchmark cross-sectional analysis are: Chongqing Chang'an Automobile Company Limited (ChangAn), Dongfeng Motor Group Company Limited (Dongfeng) and BAIC Motor Corporation Limited (BAIC). They also represent the top ranked car manufacturers in China. The data used were collected from the annually consolidated financial statements of Geely and the three competitors companies from 2012 to 2018. The 2018 reports are the interim financial statements of June 30, 2018.

Geely Financial Ratios Analysis

A financial ratios analysis is conducted in order to investigate the performance of Geely before and after the acquisition. We examined Geely's key performance ratios such as liquidity, activity, debt, and profitability ratios.

Liquidity Ratios

To evaluate the liquidity of Geely before and after the acquisition, the current and quick ratios from 2012 to 2018 were computed. Besides, these ratios were compared to those of the key competitors as a benchmark. The liquidity of Geely in the two periods are presented in the following tables.

Table 2. Geely's Pre-acquisition Liquidity Ratios: 2012-2016

	2012	2013	2014	2015	2016	Key competitors' average, 2016
Current ratio	1.19	1.29	1.42	1.24	1.16	1.08
Quick ratio	1.08	1.19	1.33	1.18	1.09	0.94

Source: Geely's Annual Financial Reports of 2012-2016 and the Key Competitors' Annual Reports of 2016.

During the pre-acquisition era, from 2012 to 2014, the ratio of Geely showed a gradual evolution from 1.19 to 1.42, yet it dropped from 2015 to 2016, up to 1.16 lower than it was in 2012. As a general consensus, the current ratios are acceptable, between 1.5 and 3 for efficient management. From this point of view, it could be deduced that Geely's current ratio is a bit lower than the generally accepted average, yet compared to its key competitors' average of 1.08 in 2016, Geely shows a better ability to cover its short-term liabilities.

Including the effects of the firm's inventories, the analysis of the quick ratio also shows the same patterns as those of the current ratio. From 2012 to 2016, Geely exhibited a positive and higher than 1 quick ratio that displays the full capacity of Geely to meet its financial obligations with the available assets. In 2016, the key competitors' average was lower than 0.94 while Geely is at 1.09. In comparison to its competitors, Geely also shows a better and quicker solvency pattern.

Table 3. Geely's Post-acquisition Liquidity Ratios: 2017-2018

	2017	2018	Key competitors' average, 2017
Current ratio	1.06	1.09	1.10
Quick ratio	0.94	0.95	0.97

Source: Geely's Annual Financial Report of 2017-2018 and the Key Competitors' Annual Reports of 2017.

A quick look at Geely's solvency after the acquisition shows a lower liquidity pattern. Both ratios are lower than the key competitors' average in 2017, year of the acquisition. However, a slight increase was observed from the interim results of 2018. The drop in the liquidity of Geely after the acquisition could be justified by the important investment injected into the acquired company, Proton, in 2017. However, as an overall view, Geely presented the characteristics of a solvent firm being able to cover its short-term liabilities even after the acquisition.

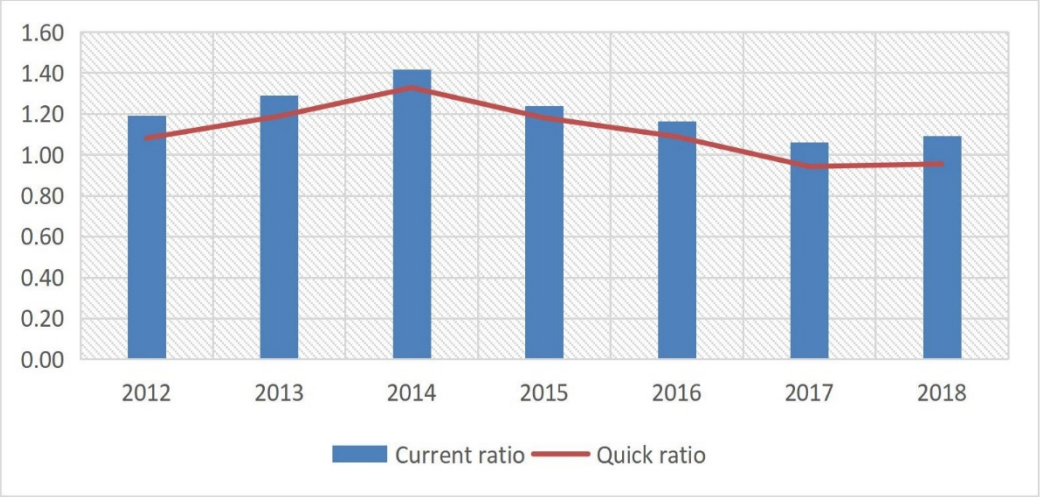

Figure 1. Geely's Liquidity Ratios: 2012-2018

This short-term observation brings evidence that Chinese companies are acquiring a lot of experience in performing cross-national M&A activities, and can maintain a good liquidity performance after the M&A.

Activity Ratios

To evaluate the activity performance of Geely before and after the acquisition, the inventory turnover and the total assets turnover ratios from 2012 to 2018 of Geely were computed, examined and compared to the key competitors' ratios. The activity performance of Geely in the two periods is presented in the following tables.

Table 4. Geely's Pre-acquisition Activity Ratios: 2012-2016

	2012	2013	2014	2015	2016	Key competitors' average, 2016
Inventory turnover	11.01	12.86	10.98	20.12	14.31	8.59
Total assets turnover	0.78	0.85	0.51	0.71	0.79	0.69

Source: Geely's Annual Financial Reports of 2012-2016 and the Key Competitors' Annual Reports of 2016.

The sales performance of Geely before the acquisition had been varying over years. As for the inventory turnover compared to the key competitors average in 2016, Geely's inventory appeared to turn 14 times before it sold and replaced the inventory. This is higher than the average of the key competitors of 8.59. The inventory turnover is an indicator of a strong sales performance, but can also exhibit an insufficient inventory.

For the case of Geely, it can also indicate an increased demand for Geely's cars in the market making the inventory turn many times a year. A very high inventory turnover was observed in 2015, that dropped in 2016, yet quite higher than the key competitors' average.

The general efficiency of Geely's assets was evaluated in reference to the company's total assets turnover. The highest assets turnover was observed for 2013. As compared to its key competitors in 2016, 0.79 for Geely against 0.69 in average for the competitors were observed. This indicates a better performance of Geely's assets to generate revenues in the period before the acquisition.

Table 5. Geely's Post-acquisition Activity Ratios: 2017-2018

	2017	2018	Key competitors' average, 2017
Inventory turnover	12.41	6.59	8.72
Total assets turnover	1.09	0.60	0.70

Source: Geely's Annual Financial Report of 2017-2018 and Key Competitors Annual Reports of 2017.

After the acquisition, the inventory turnover has kept dropping. Considering the interim results of 2018, a drop of half was observed from 2017 to 2019. Yet, as compared to the key competitors' average, Geely's sales appear to perform well. As for the total assets turnover, Geely's assets have performed well at generating revenues in 2016. It was the highest assets turnover performance through the whole observed period.

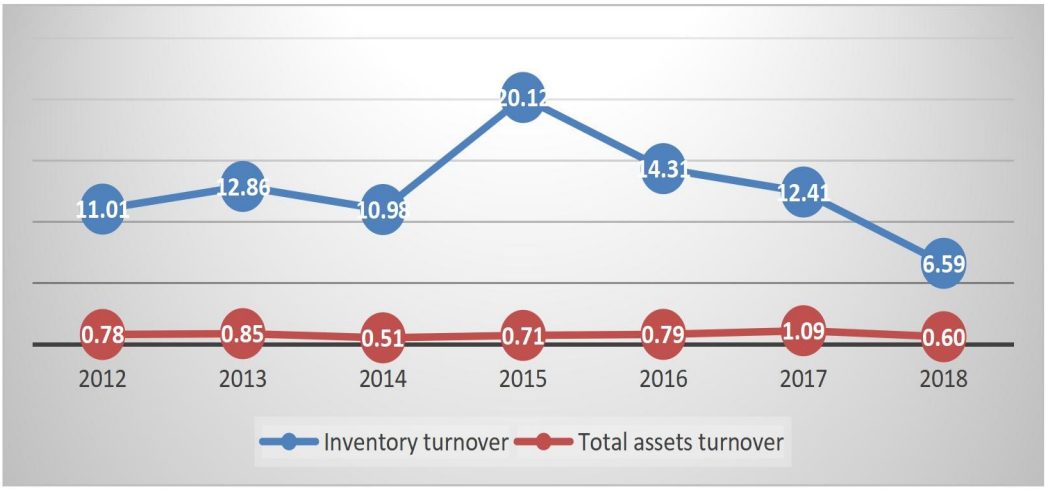

Figure 2. Geely's Activity Ratios: 2012-2018

The analysis of Geely's activity performance from 2012 to 2018 shows an outstanding accomplishment over the period, and this can serve as an evidence to show a better performance of Chinese firms after M&A activities.

Debt Ratios

A company's debt ratio can be understood as the proportion of its assets that are financed by debt. Total liabilities divided by total assets were used to observe the debt ratio of Geely for the two periods, before and after the acquisition, and the results are as follows.

Table 6. Geely's Pre-acquisition Debt Ratio: 2012-2016

	2012	2013	2014	2015	2016	Key competitors' average, 2016
Debt ratio	0.58	0.52	0.53	0.53	0.63	0.55

Source: Geely's Annual Financial Reports of 2012-2016 and Key Competitors Annual Reports of 2016.

The debt ratio can also show the financing structure of the firm. As observed before the acquisition, Geely's debt ratio appears to have an average of half of its liabilities over its assets. This shows that approximately half of Geely's assets are financed by debt rather than equity. In the year prior to the acquisition, we can observe a higher debt ratio of Geely and it is also higher than the key competitors' average of 2016. It indicates that more than 60% of the assets were financed by debt, it is also an indicator of risk.

Table 7. Geely's Post-acquisition Debt Ratio: 2017-2018

	2017	2018	Key competitors' average, 2017
Debt ratio	0.59	0.56	0.48

Source: Geely Annual Financial Report of 2017-2018 and Key Competitors' Annual Reports of 2017.

In the post-acquisition era, the debt ratio dropped, but were still higher than the average of the key competitors'.

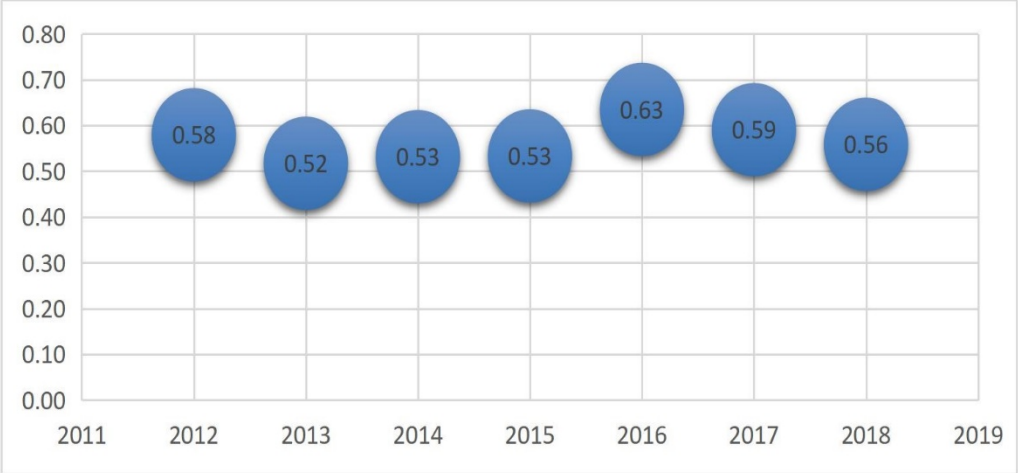

Figure 3. Geely's Debt Ratio: 2012-2018

Throughout the observed period, Geely appears to be a firm with a quite high degree of indebtedness, yet this level is not an alarming one.

Profitability Ratios

Geely's profitability is herein evaluated by computing and examining the gross profit margin, the return on total assets (ROA), the return on total equity (ROE), and the value of the earning per share (EPS) from 2012-2018. The results are presented as follows:

Table 8. Geely's Pre-acquisition Profitability Ratios: 2012-2016

	2012	2013	2014	2015	2016	Key competitors' average, 2016
Gross Profit Margin	0.19	0.20	0.18	0.18	0.18	0.18
Return on total assets (ROA)	7%	8%	4%	6%	9%	9%
Return On Equity (ROE)	18%	17%	9%	12%	23%	19%
Earnings Per Share (EPS) in RMB	0.27	0.32	0.26	0.26	0.58	1.53

Source: Geely Annual Financial Reports of 2012-2016 and Key Competitors Annual Reports of 2016.

The gross profit margin appears to be similar with the competitors' average. All companies show an average of 0.18 gross profit margin, which indicates a quite low gross profit margin for all firms, but acceptable.

The important level of the companies' assets makes the ROA ratio be among the lowest of the profitability ratios in terms of percentage. The lowest ROA for Geely was in 2014 with 4% of return over the assets, and the highest was shown in 2016 with 9%. The latter is similar to the competitors' average of 2016.

The ROE ratio was computed by dividing net income by total equity in order to evaluate the firms' ability to generate profit through equity. In 2016, Geely achieved its highest ROE percentage up to 23%, rate that is higher than the competitors' average. Accordingly, it can be said that Geely's investors financial input generate efficient returns over their investments.

Concerning the EPS expressed in Chinese currency (RMB), Geely's performance is very low as compared to the competitors' average in the pre-acquisition period. Geely's investors receive a quite low earning per share compared to its competitors' average.

Table 9. Geely's Post-acquisition Profitability Ratios: 2017-2018

	2017	2018	Key competitors' average, 2017
Gross Profit Margin	0.19	0.20	0.18
Return on total assets (ROA)	14%	8%	7%
Return On Equity (ROE)	36%	18%	15%
Earnings Per Share (EPS) in RMB	1.19	0.74	1.14

Source: Geely Annual Financial Report of 2017-2018 and Key Competitors Annual Reports of 2017.

During the post-acquisition period, the average gross profit margin remained the same for all firms as well, though a slight improvement was shown in 2018.

For the ROA ratio, a rise was observed in 2017 for Geely, while it dropped for the key competitors' average. The return over Geely's assets after the acquisition was up to 14%, the highest ROA performance throughout the observed period.

There was an even high boost of the ROE rate in 2017, the year of the acquisition for Geely. The computed ROE percentage rose from 23% in 2016 up to 36% in 2017. Comparing to the

competitors' average ROE of 15%, we can argue that Geely, once more, exhibits a good profitability performance for its investors.

Contrary to the pre-acquisition era, Geely's EPS value has increased after the acquisition, and it got even higher than the competitors' average.

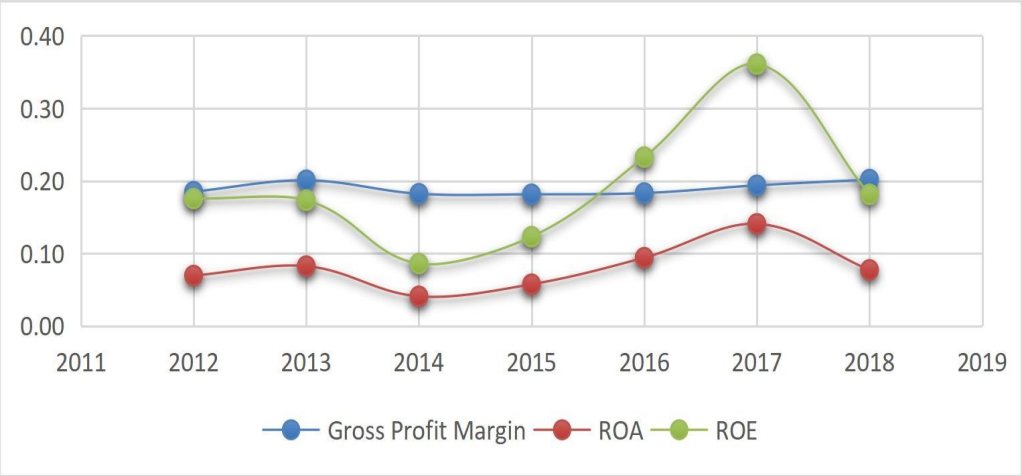

Figure 4. Geely's Profitability Ratios: 2012-2018
Source: Author's computation

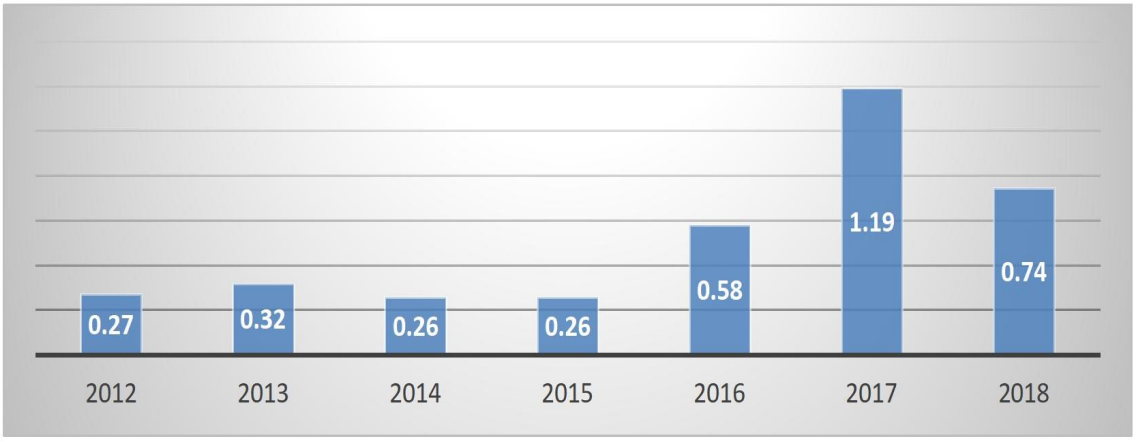

Figure 5. Geely's Earnings Per Share (EPS) Values in RMB: 2012-2018
Source: Author's computation

In sum, it can be observed from the profitability ratios that, Geely has depicted an overall sound profitability pattern over years. These results can also stand as evidence to show that Chinese firms can be profitable in the short-term after M&A transactions.

CONCLUSION

This paper is an original attempt to examine the motives of the M&A case of Geely and Proton and the strategic fit of the two companies, along with a short-term analysis of the acquiring firm's financial ratios.

At this early phase of the post-acquisition era of this cross-national transaction, after documenting and analyzing the case, the paper suggests that Geely and Proton are compatible in terms of industry activities, and Geely's short-term post-acquisition performance is relatively good to strengthen its investors' credibility, especially knowing that Proton was facing critical financial issues at the time of the acquisition. Further, the paper finds that Geely has remained solvent and profitable with strong sales and efficient assets before and after the acquisition though faced with some credit risk from its gearing ratio. Geely's financial stability reassures Proton with the credibility of the choice of its international partner.

Future expectations are very positive from both parties. This is supported by the independent assets brought by both firms into the combination. That being the case, Proton investors and management are confident about the increase of the firm value as well as the improvement of the quality of their products in terms of design and customer service. Moreover, the revitalization of Proton's brand remains one of the main objectives of this combination. Admittedly, from the ratios analysis, Geely's good performance even after the acquisition, gives a sign that the acquisition has brought and is still bringing positive returns to Geely's investors as the rise of the EPS value was observed in 2017.

Finally, the paper's contribution can be defined by its provision of evidence on the good performance of Chinese firms in international markets through M&A transactions. The results of this paper may bring encouragement to Chinese firms which are willing to increase their portfolio investment capacity in overseas markets.

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APPENDIX 1: EVALUATION OF GEELY'S PRE-ACQUISITION RATIOS 2012-2016

As a summary, the paper combined the cross-sectional and time-series evaluations of Geely's ratios to provide a better examination of its performance before and after the acquisition.

	2012	2013	2014	2015	2016	Competitors Average 2016	Cross-sectional 2016	Time-series 2012-2016	Overall
				Liquidity Ratios					
Current ratio	1.19	1.29	1.42	1.24	1.16	1.08	Good	Good	Solvent
Quick ratio	1.08	1.19	1.33	1.18	1.09	0.94	Good	Good	Solvent
				Activity Ratios					
Inventory turnover	11.01	12.86	10.98	20.12	14.31	8.59	Good	Good	Strong sales
Total assets turnover	0.78	0.85	0.51	0.71	0.79	0.69	Good	Good	Efficient assets
				Debt Ratio					
Debt ratio	0.58	0.52	0.53	0.53	0.63	0.55	A bit riskier	Acceptable	Averagely risky but not alarming
				Profitability Ratios					
Gross Profit Margin	0.19	0.20	0.18	0.18	0.18	0.18	Good	Good	Profitable
ROA	7%	8%	4%	6%	9%	9%	Good	Good	Profitable
ROE	18%	17%	9%	12%	23%	19%	Good	Good	Profitable
EPS Basic in RMB	0.27	0.32	0.26	0.26	0.58	1.53	Quite low	Good	Profitable

APPENDIX 2: EVALUATION OF GEELY'S POST-ACQUISITION RATIOS 2012-2016

	2017	**2018*** Interim Report	**Competitors Average 2017**	**Cross-sectional 2017**	**Time-series 2017-2018**	**Overall**
			Liquidity Ratios			
Current ratio	1.06	1.09	1.10	Good	Good	Solvent
Quick ratio	0.94	0.95	0.97	Good	Good	Solvent
			Activity Ratios			
Inventory turnover	12.41	6.59	8.72	Good	Good	Strong sales
Total assets turnover	1.09	0.60	0.70	Good	Good	Efficient assets
			Debt Ratio			
Debt ratio	0.59	0.56	0.48	A bit riskier	Acceptable	Averagely risky but not alarming
			Profitability Ratios			
Gross Profit Margin	0.19	0.20	0.18	Good	Good	Profitable
ROA	14%	8%	7%	Good	Good	Profitable
ROE	36%	18%	15%	Good	Good	Profitable
EPS Basic in RMB	1.19	0.74	1.14	Good	Good	Profitable

APPENDIX 3: COMPUTATION OF GEELY'S FINANCIAL RATIOS 2012-2018 IN RMB'000

RATIOS	2012	2013	2014	2015	2016	2017	2018* Interim Report
			Liquidity Ratios				
Current ratio	***1.19***	***1.29***	***1.42***	***1.24***	***1.16***	***1.06***	***1.09***
Current assets	19,854,952	22,251,347	25,303,099	25,347,852	47,249,001	53,008,183	51,886,651
Current liabilities	16,693,116	17,237,101	17,844,927	20,449,254	40,630,199	49,901,947	47,560,752
Quick ratio	***1.08***	***1.19***	***1.33***	***1.18***	***1.09***	***0.94***	***0.95***
Current assets	19,854,952	22,251,347	25,303,099	25,347,852	47,249,001	53,008,183	51,886,651
Current liabilities	16,693,116	17,237,101	17,844,927	20,449,254	40,630,199	49,901,947	47,560,752
Inventory	1,822,287	1,783,692	1,619,505	1,226,169	3,065,807	6,027,312	6,505,599
			Activity Ratios				
Inventory turnover	***11.01***	***12.86***	***10.98***	***20.12***	***14.31***	***12.41***	***6.59***
Cost of goods sold	20,069,092	22,941,904	17,775,723	24,667,603	43,879,859	74,779,337	42,871,336
Inventory	1,822,287	1,783,692	1,619,505	1,226,169	3,065,807	6,027,312	6,505,599
Total asset turnover	***0.78***	***0.85***	***0.51***	***0.71***	***0.79***	***1.09***	***0.60***
Sales /Revenue	24,627,913	28,707,571	21,738,358	30,138,256	53,721,576	92,760,718	53,708,605
Total assets	31,379,826	33,599,308	37,280,150	42,292,460	67,582,836	84,980,752	89,274,699
			Debt Ratios				
Debt ratio	***0.58***	***0.52***	***0.53***	***0.53***	***0.63***	***0.59***	***0.56***
Total liabilities	18,175,802	17,369,617	19,813,800	22,552,937	42,896,587	50,169,918	49,846,448
Total assets	31,379,826	33,599,308	37,280,150	42,292,460	67,582,836	84,980,752	89,274,699
			Profitability Ratios				

Gross Profit Margin	***0.19***	***0.20***	***0.18***	***0.18***	***0.18***	***0.19***	***0.20***
Gross Profit	4,558,821	5,765,667	3,962,635	5,470,653	9,841,717	17,981,381	10,837,269
Sales /Revenue	24,627,913	28,707,571	21,738,358	30,138,256	53,721,576	92,760,718	53,708,605
EPS Basic (RMB)	***0.27***	***0.32***	***0.26***	***0.26***	***0.58***	***1.19***	***0.74***
Profit attributable to equity holders-RMB	2,039,969	2,663,136	1,430,588	2,260,529	5,112,398	10,633,715	6,670,023
Weighted average number of ordinary shares	7,541,269,744	8,391,650,767	8,801,446,540	8,801,663,773	8,820,613,787	8,932,151,751	8,974,042,761
ROA	***7%***	***8%***	***4%***	***6%***	***9%***	***14%***	***8%***
Net Income	2,049,786	2,680,248	1,449,128	2,288,662	5,170,188	10,735,389	6,735,898
Average Total Assets	***29,488,292***	***32,489,567***	***35,439,729***	***39,786,305***	***54,937,648***	***76,281,794***	***87,127,726***

Beginning Total assets Year N-1	27,596,758	31,379,826	33,599,308	37,280,150	42,292,460	67,582,836	84,980,752
End Total Assets Year N	31,379,826	33,599,308	37,280,150	42,292,460	67,582,836	84,980,752	89,274,699
ROE	***18%***	***17%***	***9%***	***12%***	***23%***	***36%***	***18%***
Net Income	2,049,786	2,680,248	1,449,128	2,288,662	5,170,188	10,735,389	6,735,898
Average Holders' equity	***11,677,070***	***15,458,201***	***16,848,021***	***18,602,937***	***22,212,886***	***29,748,542***	***37,119,543***
Beginning Holders' equity	10,150,115	14,686,710	16,229,691	17,466,350	19,739,523	24,686,249	34,810,834
End Holders' equity	13,204,024	16,229,691	17,466,350	19,739,523	24,686,249	34,810,834	39,428,251

APPENDIX 4: KEY COMPETITORS' FINANCIAL RATIOS 2016-2017 IN RMB'000

RATIOS	Competitors Average 2016	Chang'an Automobile Group	Dongfeng Motor Group	BAIC Group	Competitors Average 2017	Chang'an Automobile Group	Dongfeng Motor Group	BAIC Group
Liquidity Ratios								
Current ratio	***1.08***	1.10	1.35	0.87	***1.10***	1.15	1.27	0.91
Current assets	81,877,528	65,997,575	94,662,000	84,973,008	85,469,174	62,756,619	114,857,000	78,793,903
Current liabilities	76,113,616	59,994,283	70,186,000	98,160,565	77,448,519	54,602,700	90,682,000	87,060,857
Quick ratio	***0.94***	0.98	1.22	0.72	***0.97***	1.06	1.15	0.71
Current assets	81,877,528	65,997,575	94,662,000	84,973,008	85,469,174	62,756,619	114,857,000	78,793,903
Current liabilities	76,113,616	59,994,283	70,186,000	98,160,565	77,448,519	54,602,700	90,682,000	87,060,857
Inventory	10,068,678	7,304,107	8,735,000	14,166,927	10,583,018	4,666,183	10,207,000	16,875,871
Activity Ratios								
Inventory turnover	***8.59***	8.83	12.02	6.35	***8.72***	14.87	10.67	5.85
Cost of goods sold	86,491,645	64,487,606	105,020,000	89,967,328	92,308,773	69,363,033	108,904,000	98,659,286
Inventory	10,068,678	7,304,107	8,735,000	14,166,927	10,583,018	4,666,183	10,207,000	16,875,871
Total asset turnover	***0.69***	0.74	0.66	0.69	***0.70***	0.75	0.59	0.80
Sales	105,758,808	78,542,442	122,535,000	116,198,983	113,062,249	80,012,205	125,016,000	134,158,541
Total assets	153,496,620	106,510,474	185,079,000	168,900,386	162,006,697	106,125,115	212,492,000	167,402,976
Debt Ratios								
Debt ratio	***0.55***	0.59	0.44	0.66	***0.48***	0.55	0.46	0.64
Total liabilities	85,155,126	63,157,314	81,441,000	110,867,065	77,448,519	58,661,935	97,496,000	107,762,054
Total assets	153,496,620	106,510,474	185,079,000	168,900,386	162,006,697	106,125,115	212,492,000	167,402,976

Profitability Ratios								
Gross Profit Margin	***0.18***	0.18	0.14	0.23	**0.18**	0.13	0.13	0.26
Gross Profit	19,267,164	14,054,836	17,515,000	26,231,655	20,753,476	10,649,172	16,112,000	35,499,255
Sales	105,758,808	78,542,442	122,535,000	116,198,983	113,062,249	80,012,205	125,016,000	134,158,541
EPS Basic (RMB)	***1.53***	2.19	1.55	0.84	***1.14***	1.49	1.63	0.3
ROA	***9%***	10%	8%	8%	***7%***	7%	7%	7%
Net Income	12,089,250	10,276,595	14,455,000	11,536,155	10,946,913	7,208,437	14,634,000	10,998,301
Average Total Assets	139,680,489	97,962,231	172,932,500	148,146,737	157,751,658	106,317,794	198,785,500	168,151,681
Beginning Total assets	125,864,359	89,413,989	160,786,000	127,393,088	153,496,620	106,510,474	185,079,000	168,900,386
End Total Assets	153,496,620	106,510,474	185,079,000	168,900,386	162,006,697	106,125,115	212,492,000	167,402,976
ROE	***19%***	27%	15%	22%	***15%***	16%	13%	19%
Net Income	12,089,250	10,276,595	14,455,000	11,536,155	10,946,913	7,208,437	14,634,000	10,998,301
Average Holders' equity	***62,958,584***	38,763,391	97,561,000	52,551,362	***71,187,430***	45,408,169	109,317,000	58,837,122
Beginning Holders' equity	57,575,675	34,173,623	91,484,000	47,069,402	68,341,494	43,353,160	103,638,000	58,033,321
End Holders' equity	68,341,494	43,353,160	103,638,000	58,033,321	74,033,367	47,463,179	114,996,000	59,640,922