Financial Risks in the Process of Merger and Acquisition

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Abstract- With the continuous development of China's social economy, merger and acquisition of enterprises has grown into a form of development for enterprises to expand the scale and improve economic efficiency. This paper mainly discusses the financial risks before, during and after M & A, as well as the factors influencing financial risks. And put forward some corresponding solutions and measures to improve the success rate of Merger and acquisition.

Keywords- Merger and Acquisition, Financial Risk

I. INTRODUCTION

At present, mergers and acquisitions are a major form of enterprise expansion to enhance market price competitiveness. Compared with the development of the enterprise itself, company mergers and acquisitions have a clear time advantage, which can enable enterprises to rapidly expand their scale. According to the data [1], there are a large number of domestic and foreign mergers and acquisitions every year, but can these companies be developed to achieve the expected goals? Research results show that there are also a large number of corporate mergers and acquisitions in the process of increasing transaction value during corporate mergers and acquisitions the case of failure and ultimate bankruptcy. With the development of China's economy, corporate mergers and acquisitions have become an independent topic in China's socialist market economy.

II. FINANCIAL RISKS IN THE PROCESS OF CORPORATE MERGERS AND ACQUISITIONS

A. Financial Risks in the Early Stages of M&A

At the initial stage of the merger and acquisition process of the enterprise, combined with China's relevant laws and policies, it is necessary to conduct a comprehensive valuation of the enterprise, which is a key stage of enterprise merger and acquisition [2]. Valuation of the target company not only affects the post-merger estimation, but also affects the development of the merger process. The valuation of the enterprise determines whether the merger and acquisition of the enterprise can proceed smoothly [3]. However, in most cases, if no actual investigation is carried out, the M & A party cannot accurately obtain the information of the M & A party, resulting in an overvaluation or failure of the target company. Moreover, for some emerging enterprises, such as the cultural industry, the valuation of their intangible assets and patented technology is particularly important. Finally, the use of different valuation methods for different people will also produce large deviations in the valuation of enterprises. For example, using the cash flow method to evaluate an enterprise, although it can effectively reflect the benefits of the enterprise, it requires the subjective selection of the discount rate by the valuer and the investigation of the cash flow, which leads to errors in the valuation of the enterprise [4]. The book value method has a small deviation in the valuation of its enterprises, but it does not truly reflect the future benefits of the target enterprises.

B. Financial Risks in the Process of Corporate Mergers and Acquisitions

In the process of corporate mergers and acquisitions, the main risks faced include two aspects, one is payment risk, and the other is financing risk [5]. If the target company conducts bank loans and other activities due to insufficient funds before the merger and acquisition, the merger will be delayed or even cancelled. The use of cash payment as a payment method for corporate mergers and acquisitions will occupy the company's working capital, and capital turnover becomes difficult, further increasing the risk of the enterprise. The use of diluted stocks for M & A payments will affect managers 'control of stocks, and if the stocks are cashed out over a period of time, it will also harm the company's interests. The method of leveraged buyout is the most risky. Once this kind of payment method has no repayment ability, it will cause huge pressure on the company's funds.

C. Financial Risks Existing after Mergers and Acquisitions

It mainly includes two aspects [6]: First, if a new competitive company is created after the merger and acquisition, if the company manager does not adopt the corresponding measures, it will cause the company's operating efficiency to decline and bring losses to the company. Second, after the merger and acquisition, the company's funds are facing relatively small pressures. In the short term, it is impossible to carry out effective financing. In addition, uncertain external factors have caused the company's resilience to deteriorate.
III. THE MAIN INFLUENCING FACTORS OF CORPORATE FINANCIAL RISK

A. Information Asymmetry on both Sides

This phenomenon refers to the fact that during the negotiation process of mergers and acquisitions, the two parties 'enterprises obtained asymmetric financial information due to various reasons. In the current social and economic environment, the two companies' Some of the financial information of the company does not have a true and comprehensive understanding, and its financial status cannot be well grasped [7], so that the M & A enterprise cannot effectively predict its future operating status and profitability, which will be generated after the merger. Greater financial risk.

B. There is an Unreasonable Financing Structure

Single financing as a payment method for mergers and acquisitions does not meet the requirements. In the process of mergers and acquisitions, enterprises will use a combination of many financing methods. Financing with multiple financing methods will increase the risk of financing, resulting in an unreasonable structure, financial risks [9].

C. Many Uncertain Factors

Many uncertain factors often exist in the process of enterprise mergers and acquisitions. Mainly divided into macro factors and micro factors. Macro factors mainly include new government policies issued during the M & A process, changes in bank interest rates, fluctuations in the economic cycle, etc. [10]. The micro factors mainly include the change of the operation mode of the target company during the M & A process, the change of liquidity, and the change of the purchase price. In addition to these two main factors, there are many factors that affect mergers and acquisitions, such as the quality of the relevant staff, the company's proprietary technology, the composition of assets, etc. These many factors will bring in the process of corporate mergers and acquisitions Greater financial risks.

D. Internal Financial Integration Issues

After the completion of the enterprise merger and acquisition, if there is no clear division of financial work, there will be a problem of confusion of the relevant personnel's power. Second, improper distribution of rights, responsibilities, and benefits may also lead to excessive concentration, decentralization, or lack of internal control systems, affecting the company's normal financial activities. As a core issue after mergers and acquisitions, mergers and acquisitions companies must integrate resources and financial integration with each other. In this process, if a series of financial problems occur, it will lead to difficulty in working capital turnover, increase financial risks, and affect the company's future operating benefits.

IV. PREVENTIVE MEASURES AGAINST FINANCIAL RISKS IN THE PROCESS OF CORPORATE MERGERS AND ACQUISITIONS

A. A Reasonable Valuation of the Target Company

Before corporate mergers and acquisitions, a scientific evaluation system should be used to make reasonable valuations of target companies at appropriate time points [11]. In the process of mergers and acquisitions, the phenomenon of information asymmetry generally exists. If the merger company does not have professional personnel to evaluate the target company, you can hire professional personnel from outside the company to participate in the estimated project. Effectively improve the accuracy of the target company's valuation. This can reduce the financial risk caused by information asymmetry.

B. Choose Scientific Financing Methods

In the process of mergers and acquisitions, the use of scientific financing methods can reduce the financial risks caused by financing. First of all, it is necessary to formulate a reasonable financing structure according to the company's own situation, to reduce the pressure on the company due to the unreasonable financing structure, resulting in difficulties in capital turnover. During this process, if there is no professional staff inside the company to adjust the financing structure, you can consult with professionals outside the company. This can help companies design a variety of financing structures, reduce financial risks, and increase stability in the M & A process.

C. Use Appropriate Payment Methods

In the process of mergers and acquisitions, according to the actual situation of the company, different payment methods are used to merge and acquire enterprises. At present, the most widely used payment methods are cash payment and stock payment [12]. The main consideration in choosing a payment method is whether the company is suitable. If the cash payment method is adopted, it is necessary to consider whether the capital of the enterprise can continue to flow normally after the merger and acquisition, which will not bring pressure to the company in the short term. You can also use a variety of cash payment methods, such as installment payments and other effective methods. If the stock payment method is adopted, it is necessary to ensure that the proportion of stocks after the merger is not excessively diluted. Thereby reducing the financial risk caused by capital pressure after the merger and acquisition.

D. Do a Good Job of Financial Integration after M & A

After the merger and acquisition of the enterprise, the first thing to do is to redistribute the work of the enterprise, and do a good job of re-integrating the financial work and human resources. Formulate the company's future development goals and business strategy. Restructure the entire enterprise. Formulate a new management system according to the current market situation. Improve the internal execution ability of the enterprise and its competitiveness in the market.

V. CONCLUSION

Enterprises will encounter many influences in the process of management and operation, and more problems are encountered in the process of mergers and acquisitions. It can be seen that in the process of mergers and acquisitions, there are many factors that will increase financial risks. Larger risks are often accompanied by great opportunities. As long as comprehensive measures are taken during the M & A process and precautionary measures are taken in advance, the increase in financial risks will
be reduced and the success of the enterprise's M & A will be effectively ensured.

REFERENCES


