Proceedings of the 2nd International Conference on Management Research and Economic Development
DOI: 10.54254/2754-1169/93/20241109

The Importance and Implementation Strategies of M&A Financing

Yujie Pan[1,a,*]

[1]*Massey University, Nanjing University of Finance and Economics, Nanjing, China*
a. 3127610579@qq.com
**corresponding author*

Abstract: Financing is a crucial financial aspect of mergers and acquisitions (M&A). The effective selection and utilization of financing tools can significantly impact the financial performance and progress of M&A. This study, employing literature review and case examples, emphasizes the importance of M&A financing and explores three main issues from a dynamic perspective: financing needs for M&A pricing, obtaining financing, and repaying M&A financing. The findings suggest that meeting M&A funding needs, focusing on financing repayment, and controlling financing risks are critical for orderly M&A financing activities and performance optimization. Drawing on successful cases, the study designs strategies to facilitate orderly M&A financing, providing some references for related research.

Keywords: M&A financing, financing tools, financing risk

1. Introduction

Financing is essential for corporate capital flow, with various implementation paths or methods, each with different scales, costs, and risks. M&A often involves substantial payment activities, and the acquirer's own funds are usually limited, leading to a high demand for M&A financing. Different choices and applications of M&A financing tools can significantly impact the amount of capital obtained, financing costs, and subsequent repayment risks. Thus, to truly meet M&A strategic financing needs, it is necessary to analyze the scale, structure, cost, and risk of M&A financing, choose the best plan that meets these needs while controlling risks, and ultimately ensure M&A performance. This paper aims to explore feasible financing activities and tool selection plans in corporate M&A, based on typical cases, to improve the success rate of M&A financing and better ensure the orderly conduct of M&A activities.

2. Literature Review on M&A Financing

In recent years, scholars domestically and internationally have enriched research on M&A financing. M&A financing is the activity of raising funds for M&A, significantly affecting the success and performance of M&A. Zhang Guozhu and Wei Luoyan studied the impact of overseas M&A financing and found that multiple factors influence M&A financing, and different tools or combinations thereof can have differential impacts on capital amounts, costs, and risks [1]. Meng Di compared the choice of financing tools for real estate companies, finding optimal financing methods under changing external factors that balance safety and profitability and reduce M&A risk [2]. These

DOI: 10.54254/2754-1169/93/20241109

studies indicate that M&A financing has an indispensable influence on M&A success and performance, warranting special attention.

M&A financing profoundly affects the M&A process and financial performance. However, many factors influence whether the most reasonable M&A financing plan can be selected and implemented. Many scholars have proposed feasible suggestions for optimizing M&A financing implementation, providing references for conducting M&A financing activities. For example, Li De's research on overseas M&A financing innovation acknowledges the role of innovative financing methods in obtaining more financing and reducing costs, suggesting that innovative management and financing paths enrich financing structures, disperse risks, and lower costs [3]. Xie Jun, Tian Yiqing, and Qu Hanwen, through analyzing the design process of Xiwang Food's financing plan for acquiring Kerr Company, emphasized the importance of focusing on financing structure, cost, and risk in cross-border M&A financing plan design [4]. Xie Jun, Tian Yiqing, and Qu Hanwen, through analyzing the design process of Xiwang Food's financing plan for acquiring Kerr Company, emphasized the importance of focusing on financing structure, cost, and risk in cross-border M&A financing plan design [5]. Li Lu and Liu Wei both stressed the importance of optimizing M&A financing systems for M&A success and efficiency, proposing utilizing capital markets for new stock issuance and bond financing, or using supply chain finance and other methods to improve financing outcomes and reduce costs [6][7]。

Summarizing the research, M&A financing is vital for corporate M&A activities. Companies must identify problems and propose corresponding countermeasures to form financing plans suitable for specific M&As to enhance financing effectiveness and reduce risks. Despite extensive research, the evolving nature of financing tools and plans requires continuous innovation to adapt, indicating ongoing research value in M&A financing.

3. The Importance of M&A Financing

3.1. Meeting M&A Funding Needs

Any company aiming to acquire another must pay enough to acquire the target's assets or equity value. Funds are crucial for a company's survival and development; even large listed companies face pressure to quickly mobilize sufficient funds for full payment. When acquirers have M&A needs but insufficient funds, financing is necessary to obtain capital and meet funding requirements. M&A financing thus solves the acquirer's financial constraints, ensuring smooth subsequent negotiations and cooperation.

3.2. Facilitating Orderly M&A Activities

M&A usually occurs over a relatively long period, and post-M&A integration is crucial for synergy effects. Many companies seek M&A for synergy effects, which require retaining key resources of the acquired company, such as scarce talent, core intellectual property, key markets, and brand value, all necessitating adequate funding. M&A financing addresses pre-M&A funding gaps, allowing acquirers to save more cash flow for effective resource integration during and post-M&A, ensuring synergy effects.

3.3. Enhancing M&A Performance

M&A pricing, financing, payment, and integration all impact M&A performance, influencing the acquirer's long-term development. M&A financing, linking pricing and payment, significantly affects financial performance. To ensure M&A success, enhancing M&A performance and mitigating financial risks is crucial, necessitating optimized M&A financing. Financing should match the

DOI: 10.54254/2754-1169/93/20241109

acquirer's actual situation for feasibility and risk control to maximize performance. Thus, scientifically conducting M&A financing activities is worth further exploration.

4. Implementation Strategies for M&A Financing

4.1. Scientific Pricing to Clarify Financing Needs

Pricing negotiations are key in establishing M&A pricing, mainly based on the target's asset value and the acquirer's additional premium. In some M&As, acquirers offer premiums above asset value to expedite the process, increasing financing needs. When corporate funds are insufficient, scientific financing paths are necessary to address funding gaps. For instance, Wingtech's acquisition of Nexperia had a much higher equity acquisition value than available funds, as shown in Table 1.

Table 1: Wingtech's Cash Balance before Acquisition (2018) (Unit: 10,000 RMB)

Item	Amount (10,000 RMB)
Cash on Hand	21.51
Bank Deposits	41,584.62
Other Monetary Funds	148,714.40
Total	190,320.53

Data Source: Wingtech's 2018 annual report

Although Wingtech addressed funding gaps through multiple financing methods, subsequent repayment pressures remained significant. Thus, acquirers must ensure scientific pricing in the pre-M&A phase, keeping premiums reasonable to avoid performance shortfalls and increased repayment risks.

4.2. Expanding Financing Paths and Enhancing Scale

After clarifying financing needs, acquirers should construct a demand-oriented financing plan, initially building feasible, cost-effective, and risk-controlled financing schemes through data forecasting and assessment. Different financing tools offer varying amounts, timelines, and costs, impacting repayment pressures. Table 2 compares common M&A financing methods, indicating that most common tools include internal financing and external financing (mainly debt financing and other methods), each with distinct advantages and effects.

Table 2: Comparison of Common M&A Financing Methods

Financing Method	Common Paths	Advantages	Disadvantages
External Financing	Bank Loans	High security, fast fund transfer	High interest, strict review
	Bond Financing	Low-cost financing through specific bonds	Market confidence and project impact
	Debt Financing	Fast funding speed, fewer restrictive clauses, reduces the risk of outdated equipment being phased out, rent is spread over the lease term, which can appropriately lessen the burden of principal repayment at maturity	Higher funding costs, fixed rent payments constitute a heavy burden, no residual value of the equipment

Table 2: (continued).

	Stock Market Private Placements or Other Equity Financing	By injecting high-quality assets and integrating upstream and downstream enterprises, performance growth effects can be achieved, introducing strategic investors lays a solid foundation for the company's long-term development	Potential equity dilution or changes in control
Internal Financing	Shareholder Capital Injection	Good development prospects, future income increases	Potential changes in control
	Retained Earnings	High safety and low cost	Excessive mobilization may increase the cash gap for the enterprise

From the perspective of financing structure, Wingtech Technology's acquisition of Nexperia primarily utilized equity financing along with various other financing tools. This financing method offers stronger cost controllability, though excessive equity financing may affect the stability of corporate control. From the financing process perspective, in the initial stage of the acquisition, Wingtech Technology first employed internal financing, forming a consortium to enhance creditworthiness and secure multiple loans. As the acquisition progressed, Wingtech Technology continuously expanded its financing channels, leveraging strategic investors to increase the scale of both equity and debt financing.

In this acquisition financing, various tools were used. Internal financing offered high security and low cost but had limited scale. Equity financing could facilitate corporate integration and drive performance growth, yet it posed a risk of changes in corporate control. Major debt financing tools provided fast funding but came with relatively high interest rates and short repayment periods, potentially increasing the repayment risk post-acquisition.

Therefore, the acquiring party should actively seek cooperation to broaden financing sources and diversify financing risks. On one hand, the acquiring party can form business consortia with other companies to enhance creditworthiness and secure additional capital. For instance, during the early stages of Wingtech Technology's acquisition of Nexperia, the acquisition financing demand was high but the company's inherent funds and credit were insufficient. Wingtech Technology's subsidiary, Hefei Zhongwen Jintai, introduced Yunnan State Investment and Shanghai Xiyin to form a consortium to participate in the bidding process, successfully leveraging the consortium to enhance creditworthiness and secure the acquisition of Hefei Guangxin's LP shares. On the other hand, the acquiring party can utilize various methods to broaden financing channels and effectively increase the financing amount. Wingtech Technology introduced high-quality strategic investors, offering personalized equity financing solutions to different investors. This approach secured long-term loans from foreign syndicates to meet large-scale financing needs, while fully utilizing equity financing to acquire remaining shares. By leveraging multi-channel acquisition financing tools and the support of multiple strategic participants, Wingtech Technology significantly broadened its financing channels and increased the financing amount in a short period.

4.3. Reasonable Planning and Layout to Reduce Acquisition Financing Risks

After planning the acquisition financing scheme and securing the acquisition funds, the acquiring party must proactively anticipate and prevent acquisition financing risks to reduce the chances of

DOI: 10.54254/2754-1169/93/20241109

these risks evolving into acquisition financial risks, and avoid scenarios where insufficient acquisition financing repayment threatens corporate credit.

Controlling acquisition financing risks is a critical step in the entire acquisition financing process and can significantly determine the final performance of the acquisition. When designing acquisition financing strategies, companies must also focus on the effective prevention and control of financing risks. Based on dynamic risk control theory, potential financing risks should be considered before acquisition financing and corresponding risk response plans should be formulated in advance. During the acquisition financing process, appropriate measures must be taken to control financing risks and prevent risk spread. Therefore, the acquiring party should not only analyze and guard against risks during the acquisition process but also dynamically monitor whether financing risk control measures are effectively implemented. After completing the acquisition financing, the acquiring party should employ scientific financing repayment design, flexible working capital management, and capital structure optimization to effectively reduce repayment risks and other associated risks.

Firstly, the acquiring party must identify risks. This involves collecting risk control information related to internal and external financing and establishing a risk information framework, seeking expert assistance, and appropriately using computer technology for comprehensive risk identification. Secondly, risk assessment is essential. The collected risk information should be given to professionals for qualitative and quantitative assessment, determining the probability and severity of various risks to ensure precise risk control work. Thirdly, a risk warning system should be established. Based on the risk assessment results, corresponding risk management measures should be formulated, and a risk warning and supporting mechanism should be established. The key is to determine warning thresholds based on quantified risk results, and to monitor and track risks in real-time to promptly activate the warning mechanism and curb risk spread.

5. Conclusion

Financing is the main means to meet the capital needs of corporate strategic activities. The reasonable selection and combination of financing tools influence the financing scale and cost. In high-capital-demand transactions like acquisitions, the acquisition financing scheme is crucial to the success of the transaction. From a dynamic perspective, companies need to lock in acquisition financing needs, choose the best financing structure, and control financing risks to ensure the orderly conduct and completion of acquisition financing.

When planning and implementing acquisitions, companies need to prudently and scientifically price the target company, minimize acquisition costs through negotiation, and determine the final acquisition financing needs. After locking in the acquisition financing needs, the acquiring party should customize a diversified financing plan based on the total financing needs, mobilize various internal and external resources, optimize the financing structure to meet the required financing scale, and reduce acquisition financing costs and resistance. After securing acquisition financing funds, companies also need to emphasize the prediction and control of related risks to prevent uncontrolled risks from affecting acquisition performance or threatening the company's healthy development.

Although this paper proposes some feasible strategies for selecting acquisition financing tools and designing schemes based on successful cases, there are still limitations in the research. It is hoped that future studies can improve and supplement this research.

References

[1] *Zhang, G. Z., & Wei, L. Y. (2024). Study on financing issues in corporate overseas mergers and acquisitions. Cooperative Economy and Science and Technology, (05), 68-70.*

[2] *Meng, D. (2024). Discussion on the choice of financing methods for real estate enterprises considering merger and acquisition risks. China Management Informatization, 27(03), 30-33.*

DOI: 10.54254/2754-1169/93/20241109

[3] Li, D. (2023). How Chinese enterprises innovate financing methods for overseas mergers and acquisitions. China Foreign Investment, (20), 33-35.
[4] Xie, J., Tian, Y. Q., & Qu, H. W. (2023). Study on the choice of financing methods for overseas mergers and acquisitions: A case study of Xiwang Food's acquisition of Kerr Company. Management Accounting Research, (05), 34-42.
[5] Zhang, Q., & Liang, W. Y. (2023). Research on the financing strategy of Wingtech Technology's acquisition of Nexperia. Hebei Enterprise, (04), 34-36.
[6] Li, L. (2023). Analysis on the optimization of the merger and acquisition financing system of listed companies. National Circulation Economy, (12), 116-119.
[7] Liu, W. (2022). Exploration on the optimization path of the merger and acquisition financing system of listed companies in China. Modern Business, (30), 49-51.