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# The Application of Differentiated Pricing Strategy in M&A Practice of Listed Companies

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***Abstract:*** In recent years, with the continuous active market of listed companies M&A and reorganization, the phenomenon of differentiated transaction pricing M&A is very common. In order to quickly shorten the transaction process, the initial design of the transaction plan needs to pay attention to the demands of the transaction parties, and the application of differentiated pricing strategy meets the diversified needs of the transaction parties. Based on the historical wave of M&A and the development status of Chinese listed companies, this paper analyzes the applicability and defects of M&A pricing of Chinese listed companies from the point of view of the core issue in the M&A process. This paper studies the pricing problem from two aspects. First, starting from the deterministic system, it analyzes the pricing of M&A enterprises under the perfect market system. The second is from the actual situation of China, the use of AMPS model for analysis. The research results show that the practice of differentiated pricing strategy of listed companies can not only deepen the understanding of the role of corporate governance in M&A, but also promote the effective risk control and profit maximization of listed companies. The research significance is to have a further understanding of the M&A pricing of China's joint-stock enterprises.

***Keywords:*** Differentiated pricing strategy, Listed company merger and acquisition, AMPS model

## 1. Introduction

### 1.1. Research Background and Significance

In the rapid development of the current global market, differentiated pricing strategy, as an important part of enterprise competitiveness, shows its unique value in the merger and acquisition of listed companies. Differentiated pricing strategy refers to the company's formulation of personalized and differentiated product pricing strategies according to different characteristics of M&A targets to achieve the purpose of optimizing resource allocation and improving M&A benefits [1]. In M&A activities, the differentiated pricing strategy not only helps the acquirer to accurately value the target enterprise and reasonably formulate the payment consideration, but also helps to improve the integration efficiency after M&A and maintain the competitive advantage in the market. This study focuses on the pricing issues in M&A, especially the differences in pricing strategies in different industries and market contexts and their impact on M&A performance. By collecting M&A cases of listed companies, this paper deeply analyzes the implementation of differentiated pricing strategy in M&A process and its performance, aiming to provide theoretical support and practical guidance for listed companies to make scientific decisions. When choosing payment methods for mergers and acquisitions, listed companies can effectively alleviate financing costs caused by pricing deviations in the stock market by cooperating with differentiated pricing strategies [2]. Therefore, it is of great significance to further optimize the application of differentiated pricing strategy in M&A of listed companies to improve the overall performance of M&A of listed companies in China.

## 1.2. Literature Review

As an important means of capital operation, differentiated pricing strategy is especially key in the field of corporate mergers and acquisitions. At present, some scholars have studied the correlation between stock pricing bias and financing impact, but the application in M&A practice is still insufficient. Gaojie Zhang's research shows that pricing bias will not only affect the financing behavior of listed companies, but also the opportunistic behavior of major shareholders in private placement shows the importance of pricing strategies [2]. This point has been further confirmed in the follow-up research, private placement with the participation of major shareholders can obtain higher long-term performance than that with the participation of non-major shareholders, which is consistent with the positive correlation of stock price level during equity refinancing. However, the practical analysis of the application of differentiated pricing strategy to listed company mergers and acquisitions is not sufficient, and most studies are limited to qualitative description, lacking accurate quantitative models to guide practice. Especially in the context of mergers and acquisitions between China and foreign countries, it is particularly important to accurately price the target enterprises and adopt highly personalized and differentiated pricing strategies. In order to more accurately define the value interval of the target company, empirical analysis methods such as regression analysis and event study are frequently used to verify the rationality and effect of M&A and reorganization pricing [3]. From the perspective of market efficiency, information asymmetry, as a problem that cannot be ignored, often leads to the deviation between the two sides in the price game. In this regard, prospect theory has been gradually introduced into the M&A pricing model to consider the possible impact of decision makers' psychology and behavior on transaction prices [3]. These studies have continuously promoted the adjustment of the pricing strategy of mergers and acquisitions to be more in line with the limited rational tendency of economists.

## 1.3. Research Method

This paper will use AMPS model to analyze the data of differentiated pricing strategy, so as to provide basis for differentiated pricing of mergers and acquisitions. A in the AMPS model asks the Question of how differentiated pricing is applied in M&A practice. M in the AMPS model represents the Master the Data. This paper uses the share ratio, transaction consideration, PE value and other data of listed companies for analysis. P in AMPS model represents Perform the Analysis. This paper will analyze how listed companies' price differently through the collected data. S in the AMPS model stands for Share the Story. When the listed company chooses the payment method of merger and acquisition, it can effectively alleviate the financing cost problem caused by the pricing deviation in the stock market by cooperating with the differentiated pricing strategy.

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## 2. Differentiated Pricing Decision

### 2.1. Reasons for Differentiated Pricing

The differentiated pricing strategy is born with the continuous improvement of the design of M&A transaction framework and the continuous bridging of the needs of both sides in M&A negotiation. The main reasons are the identity, responsibility and demand of the counterparty. The identification includes its role and contribution in the past development of the target company, whether it will continue to participate in the operation and management of the target company in the future, that is, the actual controller of the target company, the founding team, the management team, or the financial investor or the strategic investor; The responsibility to undertake includes whether to participate in the performance commitment and profit compensation responsibility, the service period and the non-competition period; The demand is an acceptable payment consideration method and lock-in period arrangement.

### 2.2. Case Analysis

#### 2.2.1. Valuation Differentiation

Considering that various counterparties have significant differences in their contributions and business participation in the growth of the target company, differentiated pricing strategies are adopted after full negotiation based on counterparties' different demands for profit compensation liability, service term, non-competition, share lock-in arrangement and other factors [4].

On the evening of November 26, 2018, it was announced that GREEN PINE Shares (300132.SZ) acquired NOX BELLCOW. The Company intends to purchase 90% shares of NOX BELLCOW held by 19 counterparties, including Hong Kong NOX BELLCOW, at a transaction price of 2.43 billion yuan by a combination of issuing shares and paying cash, and raise a matching capital of no more than 700 million yuan. According to the announcement, the trading price of 90% of the underlying asset NOX BELLCOW was 2.43 billion yuan, of which 1.51 billion yuan was paid in the form of shares and 920 million yuan was paid in cash.

The issue price of the shares in this transaction is 11.66 yuan/share, and the Company intends to issue a total of 129,540,298 shares to 17 counterparties including NOX BELLCOW of Hong Kong. For the part of supporting fundraising, the Company intends to raise a matching fund of 70,000 million yuan by issuing shares to no more than 5 qualified (including 5) specific investors by way of inquiry, and the number of shares issued does not exceed 20% of the total share capital of the listed company before this issue, that is, no more than 77.1840 million shares. The matching funds raised are used to pay the cash consideration of this transaction and pay the intermediary fees of this transaction.

A higher valuation is given to the shares held by the company's actual controller and consortium, with a PE multiple of 18.4 times; a lower valuation is given to the shares held by financial investors who do not participate in performance betting, no service period and no special share lock-up arrangement, with a PE multiple of 10.4 times. Due to the agreement on the executive shareholding platform participating in performance betting and non-competition, Give them a PE of 12 times their shares. With the gradual relaxation of constraints, valuations have also been lowered. The higher the PE valuation, the higher the market's expectations of the company's future earnings, the more expensive the stock price; The lower the PE valuation, the lower the market's expectation of the company's future earnings, and the cheaper the stock price [5]. The specific pricing is shown in Table 1.

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Table 1: Counterparty Valuation Table(Unit:100million yuan)

| Serial | Counterparty | Selling ratio | Transaction consideration | NOX BELLCOW Overall valuation | The valuation corresponds to the PE value/times |
|---|---|---|---|---|---|
| 1 | Hong Kong NOX BELLCOW, Tengyi Yuan Yuan No.1 private equity fund-Actual control of the joint | 31.64% | 11.67 | 36.88 | 18.4 |
| 2 | He Fu Yingtai、Hiep Cheng Tong, Rylan Nakayama-Executive shareholding platform | 16.63% | 3.99 | 24 | 12 |
| 3 | Jianxin Liu | 0.14% | 3.26 | 23 | 11.5 |
| 4 | Zhongshan Veya and 13 other counterparties-Financial investor | 41.59% | 8.61 | 20.7 | 10.4 |
| Total | - | 90% | 24.3 | 27 | 13 |

### 2.2.2. Payment Method Differentiation

In M&A transactions, listed companies are more inclined to pay transaction consideration by issuing shares and cash. In recent years, listed companies are also exploring diversified payment methods such as convertible corporate bonds, warrants and depositary receipts. The difference of payment methods is closely related to the demands and negotiations of both sides of the transaction. From the perspective of the acquirer, it hopes to issue shares to the actual controller and management team of the target company, ensure their continued participation in the operation and management of the target company through the share lock-up period, and restrict them to fulfill their performance commitments. For the acquiree, financial investors, investment institutions or merger and acquisition funds often hope to obtain cash for quick realization or withdrawal, and the original shareholders and management team of the target company may be willing to continue to participate in the operation of the company based on emotional factors, and then accept the payment method of issuing shares. There are also buyers who are optimistic about the future development of the listed company, have good expectations for its secondary market, and are willing to accept all share payments. In addition, the payment method is related to whether the trading party is optimistic about the future stock price of the listed company. Specific cases are shown in Table 2;

Table 2: The payment methods of listed companies and target companies are different

| Serial | Listed company | Target company | Payment method differentiation | Reasons |
|---|---|---|---|---|
| 1 | Landai Technology (002765.SZ) | Taiguan Technology 89.6765%stock rights | For 11 performance pledges, including the company's actual controller, consortium, original shareholders and employees, the share payment ratio is 73% and cash payment is 27%; For 22 non-performance pledge parties, including financial investors, the cash payment ratio was 91%. | The shares obtained by the 11 performance pledges will be unlocked in stages during the performance commitment period to ensure the stable operation of the target company and the realization of the promised performance after the completion of the transaction. |
| 2 | Wanders (688178.SH) | Peach blossom of The Times 81.45%stock rights | For the 5 counterparties participating in the performance commitment, the proportion of share payment, convertible bond and cash payment was 9.36%, 34.48% and 56.16% respectively; For non-performance committed parties, convertible bonds are issued to pay the transaction consideration. | Issue shares to performance promisers to urge them to complete the performance bet |

Table 2: (continued).

| | | | | |
|---|---|---|---|---|
| 3 | Oriental Shenghong (000301.SZ) | Srbon100% stock rights | For the listed companies under the control of the same real controller Shenghong Petrochemical, Bohong Industrial issued shares, for external investment institutions CCB investment, Bank of China assets to pay cash. | Shenghong Petrochemical, Bohong Industry to participate in the performance commitment |
| 4 | ST Busen(002569.SZ) | Weidong Tianxia100% stock rights | The proportion of cash payment to Shenyang, founder of the target company, is 71.5%, and the proportion of stock payment is 28.5%; Issued shares to 23 counterparties, including Dingshi Houtu and Hangzhou Bowen. | The founder Shenyang has made more contributions to the target company |

# 3. Suggestion

## 3.1. Innovate Financing Tools and Optimize Payment Methods

Listed companies can issue convertible bonds, options and other derivative financial instruments as payment means to improve the flexibility and efficiency of financing, while reducing the market value fluctuation and management equity dilution caused by direct share payment. In addition, through the introduction of the floating exchange ratio mechanism, that is, the merger and acquisition parties agree to adjust the exchange ratio according to market conditions within a specific time, which not only provides reasonable protection for the acquired party, but also locks in the merger cost for the listed company, thus playing a role of risk hedging. Specifically, the adjustment of the share exchange ratio can be based on the pre-agreed market index or performance indicator. This market-oriented pricing mechanism can effectively avoid pricing bias and improve the efficiency of mergers and acquisitions while ensuring the fairness of transactions [6]. In summary, innovative financing tools combined with differentiated pricing strategies can more accurately reflect the value of the acquired company, and at the same time bring dual optimization of capital and business for listed companies.

## 3.2. Strengthen Corporate Governance on Both Sides of the Transaction

Differentiated pricing strategy is an important issue that the senior management team of listed companies needs to pay deep attention to in M&A transactions. In terms of strengthening corporate governance, adopting a precise differentiated pricing strategy can effectively improve the transparency and fairness of M&A transactions, thus enhancing the overall corporate governance efficiency. When discussing the pricing strategy, it is necessary to consider the corporate governance structure, the governance matching degree between the acquirer and the acquiree, and the dynamic changes in the market environment. Especially in the trend of industry mergers and acquisitions, the regional peer effect may lead to an overall increase in the premium level of the entire industry, which further affects the M&A pricing behavior of a single listed company [7]. The corporate governance optimization plan should be based on detailed data analysis to monitor the stock price fluctuations during the merger and reorganization to ensure the balance of interests of all parties involved in the merger and reorganization [8,9]. For example, when setting the M&A price, the professional judgment of the board of directors on the valuation of the M&A enterprise and its decision-making mechanism should be taken into account, reflecting the compatibility and integration potential of the two parties in the governance level. In addition, the listed company should establish a sound incentive and restraint mechanism, analyze market price fluctuations before and after the announcement of the board resolution, timely adjust and optimize the performance evaluation indicators of the board members, guide the management to correctly price the merger and acquisition, and protect the rights and interests of small and medium investors [10]. The implementation of this strategy will, to a certain

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extent, weaken the adverse effects of internal information spillover, avoid potential price manipulation, and ensure market fairness and information transparency [9].

## 4. Conclusion

The differentiated pricing strategy plays a key role in the M&A practice of listed companies. Through research and analysis, this study finds that choosing the appropriate payment method in M&A transactions has an important impact on maintaining the stability of the company's capital structure and promoting the maximization of long-term economic benefits. Compared with the traditional cash payment, although stock payment can reduce the cost of M&A, its price is prone to distortion when the market fluctuates greatly, which increases the uncertainty and risk of both sides of the transaction. To solve this problem, innovative financing tools have become an important way to optimize payment methods.

Although this paper carries out a simple review and analysis of the differentiated pricing strategy of joint-stock companies, there are still some shortcomings that the author need to try the author best to make up. For example, the author will be more detailed in the case analysis, so that readers can know more clearly some methods of differentiated pricing M&A payment. If the data analysis is not comprehensive enough, the author will make improvements, such as increasing the sample size and using more specific research methods. The author will continue to improve and make progress in the future research, so that readers can have a higher reading experience.

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