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How Does Debt Financing Exacerbate M&A Failures? -- A Financial Stability Perspective Based on Suning.com's Acquisition of Carrefour China

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Abstract: With new retail models rising, traditional retailers are generally under pressure to transform. While debt financing has become an important tool for rapid expansion, the risk of highly leveraged debt is often overlooked. This paper discusses how debt financing exacerbates the failure of mergers and acquisitions (M&A) from the perspective of financial soundness, using the example of the M&A of Carrefour China (hereinafter referred to as Carrefour) by Suning.Com Co., Ltd(hereinafter referred to as Suning.com). The study finds that Suning.com relies excessively on short-term debt financing in M&A, which leads to uncontrolled debt levels and structural imbalance, thus affecting financial soundness. In summary, Suning.com is caught in a vicious cycle of debt pressure, financial deterioration, and operational difficulties. This paper highlights the need for enterprises to strengthen core business profitability and financial management to ensure sustainable development, balancing financing efficiency with risk prevention and control in strategic expansion. Therefore, this provides a new perspective for the study of the correlation between debt financing and M&A failure and certain warning significance for financial soundness management and risk prevention in corporate M&A financing decisions.

Keywords: Debt financing, Merger and acquisition (M&A) failure, Financial soundness.

1. Introduction

As the Internet develops, new retail enterprises gradually achieve deep online and offline integration, accurately meeting consumers' demands and adapting to the development of the times. Consequently, traditional retail enterprises often pursue M&A financing to enhance their competitiveness and facilitate resource integration, among other objectives [1]. Currently, debt financing and equity financing are the most common financing methods. Debt financing has the advantages of low cost and fast financing speed, making it an important channel for retail enterprises to obtain financial support [2].

To transition to intelligent retail and share resources, Suning.com chose to merge with Carrefour, the "dominant player" in China's early retail market [3]. It is typical to use Suning.com's M&A as a case to study the failure of M&A exacerbated by debt financing due to the highly leveraged debt financing used in the M&A process and the ineffectiveness of the integration.

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Existing research on debt financing mainly focuses on leverage, risk transfer, and the impact on the success or failure of M&As, rarely focusing on the impact of debt financing on the financial soundness leading to M&A failure. Taking Suning.com 's M&A of Carrefour as an example, the paper examines the impact of debt financing on financial soundness and subsequent effects to deduce the mechanism of exacerbating the failure of M&A by debt financing. The research provides insights for studying retail enterprises' financial soundness when using debt financing and preventing related risks.

2. Analysis of debt scale and structure

After Suning.com acquired Carrefour China, there have been significant changes in its debt scale and structure. This section analyzes the financial data before and after the M&A to explore the impact of debt financing on Suning.com 's financial condition [4].

2.1. Sharp rise in debt-to-asset ratio and deterioration in financial stability

According to publicly available data, Suning.com 's debt-to-asset ratio experienced a significant change following the acquisition of Carrefour China. The debt-to-asset ratios before and after the M&A for each fiscal year are presented in Table 1 below:

Table 1: Suning.com balance sheet (2019–2024)

Year	Total Assets (RMB 100 Million)	Total Liabilities (RMB 100 Million)	Debt-to-Asset Ratio (%)
2019	2368.55	1497.10	63.21
2020	2120.75	1352.43	63.77
2021	1707.38	1397.09	81.83
2022	1399.22	1248.34	89.22
2023	1217.48	1116.12	91.67
2024	1190.43	1078.84	90.63

(Data source: Annual Reports from Suning.com 's official website)

2.1.1. Financial status before the M&A

Before Suning.com acquired Carrefour China in 2019, its total assets amounted to RMB 236.855 billion, total liabilities were RMB 149.710 billion, and the debt-to-asset ratio was 63.21% (Table 1). This debt level was within the reasonable range for the retail industry (50%-70%) but was already approaching the upper limit [5,6].

2.1.2. Passive rise in debt-to-asset ratio after the M&A

Following the acquisition of Carrefour, Suning.com faced a sharp deterioration in asset quality and an unfavorable shift in its debt structure. Total assets dropped significantly—from RMB 236.855 billion pre-acquisition to RMB 119.043 billion in 2024, a 49.7% decline. This was primarily driven by over RMB 2 billion in goodwill impairment, as Carrefour’s performance failed to meet expectations, and by fixed asset losses of approximately RMB 5 billion due to the closure of most Carrefour stores (from 208 to 41).

Although total liabilities declined slightly from RMB 149.710 billion to RMB 107.884 billion, the greater contraction in assets caused the debt-to-asset ratio to spike from 63.21% to 90.63%, far surpassing the industry’s warning threshold of 70%. This dramatic increase in financial leverage significantly heightened the company's exposure to risk.

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2.2. Rising short-term debt proportion and liquidity crisis transmission

Between 2019 and 2024, the scale expansion of Suning.com 's short-term interest-bearing debts stood in sharp contrast to its drying liquidity [7-10]. To demonstrate the impact of short-term debt structuring on Suning.com 's cash flow, key liquidity indicators before and after the M&A are presented in Table 2 below:

Table 2: Comparison of Suning.com 's key liquidity indicators before and after the M&A

Indicators	2019 (Pre-M&A)	2024 (Post-M&A)
Short-term Interest-bearing Debt (RMB 100 million)	266.18	297.55
Current Ratio	0.99	0.55
Quick Ratio	0.77	0.47
Cash and Cash Equivalents (RMB 100 million)	179.20	31.82

(Data source: Annual Reports from Suning.com 's official website)

2.2.1. Short-term debt structure before the M&A

Before the M&A, Suning.com was already under substantial short-term debt pressure, with total short-term obligations reaching RMB 26.618 billion. These primarily consisted of bank loans and corporate bonds approaching maturity, reflecting a significant burden on the company's short-term repayment capacity.

Although Suning.com held RMB 17.92 billion in cash and cash equivalents—enough to cover approximately 67% of its short-term debt—this coverage was only marginal, indicating limited liquidity flexibility.

Furthermore, the current ratio stood at 0.99 and the quick ratio at 0.77, suggesting that liquid assets were slightly insufficient to meet current liabilities. The noticeable gap between these two ratios also reflected a relatively high inventory proportion, which, while common in the retail sector, weakened the company's ability to convert assets into cash in the short term, thereby exposing structural vulnerabilities in liquidity.

2.2.2. Surging short-term debt proportion after the M&A

Following the M&A, Suning.com's debt structure deteriorated further as short-term debt surged to RMB 29.755 billion. This sharp increase signaled a heavier reliance on short-term financing methods to fund the acquisition and sustain daily operations.

At the same time, liquidity indicators worsened significantly. The current ratio dropped to 0.55 and the quick ratio to 0.47, revealing a deepening mismatch between short-term assets and liabilities, and a severe decline in liquidity safety margins.

Moreover, cash and cash equivalents fell drastically to just RMB 3.182 billion, covering less than 11% of short-term obligations. This steep decline created substantial refinancing pressure, making the company highly vulnerable to funding disruptions and increasing the risk of default under unfavorable market conditions.

2.3. Debt sources and financing channels

When Suning bought Carrefour China, the main source of funding was a hybrid financing strategy. Bank loans and the issuance of corporate bonds prevailed, and a small amount of financing on the capital market was used only as an adjunct. Bank loans accounted for more than 40% of the total funds raised. Despite the low costs, the duration of the program is short, and the need to service short-

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term debt is significantly increasing. Early in the acquisition, Suning preferred short-term loans to meet capital needs, financial risks and liquidity resistance were weakened to some extent, and short-term loans allowed rapid demand for capital.

Suning Tesco's significant capital deficit in the post-merger phase is filled by the issuance of several five-year corporate bonds. Although medium and long-term support can improve the operating conditions of a company, a decrease in the credit rating led to an increase in the interest rate on the company's bonds, financing costs increased year after year, and the debt burden tended to increase. Although the company seeks to increase its capital by fixed increases and deductions, investors 'careful attitude towards the deteriorating financial situation and operational problems has led to restrictions on shareholders' capital investments, and the financing process has been affected by significant financial conditions and lending problems around the world.

Suning widely uses short-and medium-term debt financing tools in mergers and acquisitions. The company's financial leverage is growing rapidly, its cash flow and solvency are under pressure, and refinancing opportunities in the future are also limited.To systematically analyze these impacts, this paper builds a three-dimensional financial stability model from short-, medium-, and long-term perspectives, using quantitative indicators to trace how rising debt pressure transmits to liquidity shortages, solvency decline, and the erosion of long-term development capacity.

3. Three-dimensional model of financial soundness

3.1. Dimension one: short-term solvency

To assess the impact of debt financing on short-term solvency, this section analyzes the changes in liquidity before and after M&A by comparing the current ratio, quick ratio, current assets, and current liabilities. The relevant data is as follows (Table 3):

Table 3: Suning.com 's short-term liquidity indicators

Year	2017	2018	2019	2020	2021	2022	2023	2024
Quick Ratio	1.08	1.17	0.77	0.67	0.57	0.48	0.48	0.49
Current Ratio	1.37	1.41	0.99	0.86	0.68	0.57	0.55	0.55
Current Ratio	878.30	1317.43	1207.61	1074.84	752.79	596.81	518.69	493.12
Current Liability	642.64	936.97	1212.57	1246.02	1102.73	1041.67	948.82	901.71

Retail's current ratio and quick ratio are generally more reasonable at 1.2-2.0 and 0.8-1.2, respectively. According to Table 3, the pre-M&A current ratio and quick ratio were reasonable, with current assets significantly exceeding current liabilities. This indicates that Suning.com demonstrates strong short-term solvency prior to the M&A.

The current and quick ratios continued to decrease after the M&A. While there was a stabilizing trend from 2022 to 2024, these ratios remained below a reasonable level; current assets fell from RMB 120.761 billion in 2019, the year of the M&A, to RMB 49.312 billion in 2024, while current liabilities decreased from RMB 121.257 billion to RMB 90.171 billion. However, liabilities still exceed assets, indicating high indebtedness and declining short-term solvency for Suning.com, with potential liquidity risks.

3.2. Dimension two: medium-term interest coverage

This section examines the effect of debt financing on Suning.com 's ability to cover interest payments through a comparative analysis of the interest coverage ratio (ICR) and earnings before interest and

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tax (EBIT). Below are Suning.com 's medium-term interest coverage indicators before and after M&A (Table 4):

Table 4: Suning.com 's medium-term interest coverage indicators

Year	2017	2018	2019	2020	2021	2022	2023	2024
ICR	13.29	10.92	9.22	-2.21	-13.02	-3.90	-0.10	1.27
EBIT	44.08	150.35	164.58	-47.26	-479.91	-154.16	-3.56	39.41
Interest Expense	3.31	13.77	17.86	21.38	36.85	39.52	35.69	31.05

Retail ICRs typically range from 2 to 5. According to Table 4, the pre-M&A ICR was much higher than the industry level, and the EBIT was sufficient to fully cover the interest expense, indicating that Suning.com had a strong interest coverage ability at this time.

After M&A, although both ICR and EBIT were positive in 2024, both were negative from 2019 to 2024, even reaching -13.02 (times) and RMB -47.991 billion in 2021 respectively. Meanwhile, interest expense has been at a high level, combined with negative EBIT in the long term, indicating that Suning.com 's interest payments depend on external financing greatly.

In conclusion, M&A leads to the expansion of debt financing scale and increases interest burden, but EBIT decreases, indicating that M&A causes a serious deterioration in medium-term interest coverage capacity.

3.3. Dimension three: long-term cash flow and synergy

This section assesses the effect of debt financing on Suning.com 's long-term solvency alongside a comparative analysis of EBITDA and the debt service coverage ratio (DSCR). Below are the long-term cash flow indicators before and after M&A (Table 5):

Table 5: Suning.com 's long-term cash flow indicators

Year	2017	2018	2019	2020	2021	2022	2023	2024
EBITDA	65.68	263.42	326.72	2214.37	1130.88	-53.16	60.88	42.49
DSCR	0.43	0.60	0.73	4.33	2.65	-0.10	0.13	0.11

DSCR less than one is generally considered to be at risk of debt, while a negative value indicates that cash flow cannot cover the principal and interest of the debt. According to Table 4, despite the DSCR being less than one before M&A, it was still able to cover part of the principal and interest of the debt. Meanwhile, EBITDA was high and cash flow was relatively sufficient.

DSCR has been negative in 2022~2024 after M&A and EBITDA was lower than the pre-M&A level, reflecting that M&A has not brought scale effect or cost optimization. Instead, M&A has deteriorated Suning.com 's cash flow, which is unable to cover the principal and interest of debt. In 2020 though there was a sudden surge in EBITDA and DSCR, presumably this could stem from non-operating income such as asset disposals, which does not reflect the long-term post-M&A cash flow level.

In conclusion, Highly leveraged debt financing and deterioration of cash flow after the M&A have plunged Suning.com into a vicious cycle of “borrowing new to repay old”, exacerbating the M&A failure.

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4. Chain reactions from debt financing

The debt financing strategy adopted by Suning.com during and after its acquisition of Carrefour China triggered a series of adverse consequences across financial, operational, and reputational dimensions. These chain reactions reflect how excessive debt can rapidly undermine corporate stability, even when accompanied by short-term efforts at mitigation. The impacts are elaborated below.

4.1. Deterioration of financial indicators under debt pressure

By the end of 2023, Suning.com’s current liabilities exceeded its current assets by approximately RMB 43.014 billion, while its cash and cash equivalents had fallen to just RMB 3.815 billion. Since 2021, the company had breached multiple bank loan agreements, thereby activating default clauses and early repayment requirements. As a result, financial institutions obtained the right to demand repayment of principal and interest totaling RMB 19.138 billion. Moreover, around RMB 32.944 billion in accounts payable had become overdue, raising significant concerns about the company’s ability to continue as a going concern.

4.2. Supply chain strain and legal disputes

After the tightening of liquidity, payment delays at Suning.com disrupted relationships with major suppliers. Some suppliers took legal action to recover unpaid payments and interest. Rainbow Group and China Construction Information filed a lawsuit against Suning.com in China, intensifying internal tension and distrust in the supply chain. The externalization of the company's financial difficulties was significant and had a direct impact on operational continuity.

4.3. Debt restructuring and operational adjustments

The debt pressure continues to intensify, and Suning.com has taken internal measures to alleviate financial risks and stabilize operations. The company actively negotiates supplier debt issues, and a special working group coordinates debt resolution. At the same time, it promotes asset realization and deepens cooperation with financial institutions to improve liquidity. These actions have achieved certain results. The first half of 2024 financial report shows a net profit of 15 million yuan, but the scope and effect are limited and have not fundamentally solved the financial vulnerability problem. External confidence has also not been restored.

4.4. Collapse of market confidence and trust crisis

Although Suning.com has made efforts to adjust its internal operations, the situation of severe market confidence is still in front of it. Continuous losses and worsening debt are intertwined, triggering a comprehensive crisis of trust. While creditors are intensifying their efforts to recover debts through legal channels and public opinion pressure, the company's reputation is further damaged, and the decline in reputation significantly weakens its external financing capabilities. The prospects for business recovery are also facing destruction, and the company is trapped in deeper financial difficulties.

5. Conclusion

This paper takes Suning Yigou's acquisition of Carrefour China as an example to deeply analyze the impact of highly leveraged debt financing on the financial stability of enterprises, and the key role of debt financing in the failure of mergers and acquisitions has also been emphasized. The study found that Suning Yigou's acquisition process was overly dependent on short-term debt, its asset liability

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ratio rose significantly, liquidity continued to deteriorate, debt repayment ability declined, financing channels were limited, and operations were in trouble, and finally formed a vicious circle of financial crisis and bankruptcy restructuring. A three-dimensional financial stability model was constructed to further verify the systematic transmission mechanism of debt pressure from short-term solvency to medium-term interest protection, to long-term cash flow and sustainable development of enterprises.

The Suning.com case has important implications. When formulating strategies and financial policies, enterprises need to make rational decisions in business layout and financial management, focus on core competitiveness, avoid excessive diversification, and ensure stable development of the main business to support long-term growth. Blindly expanding business can easily lead to resource dispersion and increase management complexity, weakening core competitiveness. When expanding the market, enterprises should evaluate their own capabilities, maintain strategic determination to ensure profitability, reasonably control debt levels, maintain a healthy asset liability structure, and avoid excessive reliance on debt financing to reduce liquidity risks. Although high leverage financing can provide capital support, insufficient profitability or unfavorable external environment may lead to financial difficulties or even liquidity crises. Enterprises should optimize their financing structure, enhance their internal hematopoietic capacity, and strengthen their financial resilience. Only by consolidating their main business and prudently managing finances can they achieve sustainable growth and cope with market uncertainty.

Authors contribution

All the authors contributed equally and their names were listed in alphabetical order.

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