

Analyzing The Goodwill Phenomenon in Mergers and Acquisitions: A Case Study on Junsheng Electronics Group

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Abstract: New-energy vehicles are the main direction and goal of the future development of the automotive industry. This article explored the issue of goodwill in mergers and acquisitions with the help of data from Junsheng Electronics, a leading supplier in the new energy automotive industry, and focuses on mergers and acquisitions. Based on the analysis of previous analysis data and internal and external strategic analysis of the enterprise, the following conclusions were drawn: due to the comprehensive strength problem of the insufficient technological content and scale of the enterprise itself, the duality of strategic direction should be considered in external exploration; bad merger and acquisition transactions yielded by the blind confidence of enterprise management should enhance the quality and objectivity of management; and due to the lack of enterprise integration capabilities and the lack of good synergy, suggestions are given for adjusting the independent, dependent, two-stage merger and acquisition (M&A) relationship. The significance of this investigation was to provide certain solutions for enterprises facing merger and acquisition transactions or bearing high goodwill issues, enhance objectivity and macro perspective in future strategic decisions, and reduce transaction risks.

Keywords: Junsheng Electronic, merger goodwill ,synergies, long-term performance

1. Introduction

1.1. Research Background

From 2011 to now, enterprises in emerging economies have been moving more and more rapidly around the world. Among them, the automotive electronics and security supplier industry, as one of the important sources of supply for the new energy industry, has also undergone tremendous changes, resulting in many cutting-edge automotive electronics technology products and technical solutions.

With the development of automobile electronic technology, more and more Electronic Control Unit (ECU) control units apply to the automobile. As the automobile network control platform, the controller area network bus control system will gradually carry all electronic control units and on-board electrical appliances onto the automobile network control platform to realize data sharing and intelligent control of the whole vehicle. In terms of micro-products, emerging new energy companies exploit the above and more innovative components to upgrade, while in the overall macro strategy of the company, international expansion, mergers and acquisitions, and other methods are used to

accomplish the realization and transformation of strategic objectives, and the acquisition of strategic assets is a necessary choice to adapt to the changes in economic operation.

Ningbo Junsheng Electronics Co., Ltd. is the leader of domestic new energy-related enterprises. As a global top supplier of automotive electronics and automotive safety, it is mainly committed to the research and development (R&D) and manufacturing of intelligent cockpits, intelligent driving, new energy management, and automotive safety systems, etc. It has acquired more advanced technical value through multiple mergers and acquisitions of high debt ratio enterprises, changed its strategic position, and occupied a leading position in the global automotive electronics and automotive safety markets. However, after a large number of commercial mergers and acquisitions, the issue of M&A goodwill has been a hot topic of discussion in Junsheng Electronics for the past decade. The masses have raised huge questions and concerns about its serious goodwill impairment and liabilities.

1.2. Research Gap

Not many investigation results have been put into practice in the fields of goodwill mergers and acquisitions and the automotive supplier industry. Wei and Zhu used China's A-share listed companies from 2007 to 2017 as examples to verify that excess goodwill is one of the burdens of enterprise operations, weakening the competitiveness of the enterprise's product market [1]. Xie and others proposed the concept of the mode and structure of continuous M&A of new economy enterprises based on the longitudinal case analysis of Junsheng Electronics [2]. Starting from the goodwill impairment cases of several listed companies at the end of 2017, Zhang pointed out the essence of goodwill and proposed practical suggestions for improving goodwill and controlling goodwill risks [3]. Zheng and others have demonstrated that high goodwill costs enhance the current performance of China's A-share non-financial listed companies but reduce their future long-term performance by analyzing the financial reports on mergers and acquisitions activities from 2007 to 2012 [4]. Feng and others applied theoretical knowledge such as the definition and classification of merger goodwill to discuss the relationship between merger goodwill and merger synergy, providing relevant exploration on current goodwill value measurement, and improving the relevance of accounting information [5].

At present, there are not many studies on the issue of corporate goodwill, but most of them are about the market value and risk of goodwill. However, there is still no good solution to the problem that the goodwill premium forces enterprises to bear huge debts and hinder operations. Due to the outbreak of the epidemic in the past 20 years, there have been serious problems with the capital integration of Junsheng Electronics, the overall profit margin has dropped significantly, and the debt problem is difficult. How do you solve the problem of high goodwill in mergers and acquisitions? After the initial solution of such problems, in the face of the global economic environment, enterprises can more reliably evaluate the risks and benefits of commercial M&A, make reasonable choices, effectively expand their own scale and advantages, enhance their tolerance in the face of debt and other difficulties, and help enterprises realize stable long-term development and maximum benefits in the future.

1.3. Structure of This Paper

This paper applies the CAS article model to detect the generations of the high goodwill problem in enterprise mergers and acquisitions. This paper will apply the relevant analysis data of previous years, as well as the financial changes and technical aspects since the merger and acquisition of enterprises by Junsheng Electronics, as well as the relevant data and information of the company's scale changes,

to complete the corresponding analysis and demonstration and finally give a reasonable solution according to the reasons.

2. Case Description

In the current economic environment, globalization is rapid. Junsheng Electronics, founded in 2004, as a global automotive electronics and automotive safety supplier company, started with auto functional parts as its main business. Since 2011, the company has successively acquired German PREH, German QUIN, American KSS, and Japanese Takata Assets (excluding PSAN business). Through enterprise innovation and upgrading and multiple international mergers and acquisitions, the company has implemented its strategic objectives of globalization, transformation, and upgrading. With advanced innovative design, manufacturing, quality management, and excellent service, Junsheng Electronics has become a long-term partner of global automakers such as BMW, Benz, Audi, Volkswagen, General Motors, Ford, Honda, and Toyota, and has repeatedly won the Excellent Supplier Award from Porsche, Volkswagen, General Motors, and other automakers. However, at the same time, a large number of acquisitions have buried a heavy burden of huge debts and goodwill for Junsheng Electronics. The business segments have become very large and complex and are distributed all over the world, which undoubtedly increases the capital market's concern about Junsheng Electronics' integration ability. Up to now, the goodwill problem of Junsheng Electronics has not been solved, but it has gradually turned from loss to profit. According to the data, by 2022, the company would have accumulated operating revenues of about 35.8 billion yuan in the third quarter, up about 5% year on year [6]. 2023 has come. The control of the domestic epidemic has been liberalized, and the market environment is improving. Whether Junsheng Electronics can realize a new leap in the new year and what new changes will be made in business and technology, to a large extent, depends on the resolution of the company's debt problem. Therefore, the issue of merger and acquisition goodwill has become a major problem to be solved.

3. Analysis on the Problems

3.1. The Issues of the Quality of Assets and Profitability

Junsheng Electronics, a manufacturer of vehicle parts, was new and had a low level of technical content when it bought out German Pri in 2011. Although Junsheng Electronics was elevated to A-level supplier status with Volkswagen and global supplier status with GE in 2008, the company still generated only 250 million yuan in operating income and lost 20 million yuan in the year. Since profit margins for competing products were already as low as those in tissue paper, a price war was necessary [2]. Junsheng Electronics is now focused on how to escape the current home market, rapidly expand its scale and technical capabilities, and break into a new, more lucrative industry. As a result, Junsheng Electronics was able to swiftly acquire money, integrate and enhance its corporate structure and governance, and establish a position of leadership and dominance in the industry over the next decade by means of a significant number of mergers and acquisitions. After multiple mergers and acquisitions, Junsheng Electronics' annual report indicates a compound annual growth rate of 30% to 40% in revenue. In addition, Junsheng Electronics has amassed a considerable amount of goodwill as a result of its many mergers and acquisitions (Figure 1). There are substantial financial dangers associated with the ambition to alter scale and capability.

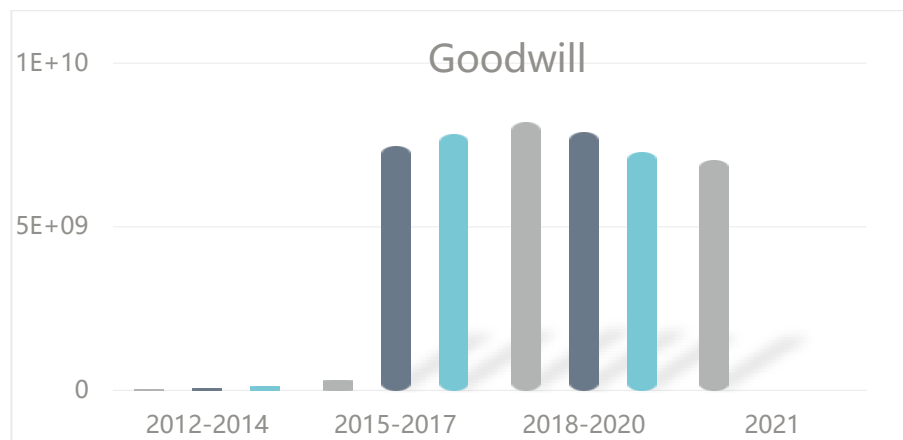


Figure 1: Goodwill of Junsheng 2012-2021 [2].

3.2. Overconfidence of Enterprise Management

During the first merger and acquisition with Germany-based Pry, Junsheng Electronics made a lot of progress. They improved their management technology, made a lot more money from sales, and grew their technology and sales channels. One of the reasons for the merger and acquisition's success is the "adventurer spirit" of the enterprise's management, which took the risk of acquiring Germany Pry. Thus, Junsheng Electronics is very interested in mergers and acquisitions (M&A) as a way to quickly improve its own business. Following that, IMA, Quin GmbH, KSS, Takata, and other companies were gradually added to the package. These types of hybrid mergers and acquisitions have had better portfolio effects and diversification effects in the short term, but their long-term performance has been weak. The lack of comprehensive management capability and high liabilities have gradually covered up the long-term synergy.

In the M&A transactions of Junsheng Electronics, the cumulative excess rate of return (CAR) shows that more than half of the transactions have produced positive benefits, but the events with higher M&A returns were mostly before 2014, and the actual effect of the later M&A transactions was not ideal [7]. The enterprise management has not effectively learned the actual benefits and risks of enterprise mergers and acquisitions, showing a blind and confident situation. The overconfidence of management can affect the degree of premium paid by enterprises in M&A activities, which is more likely to generate high goodwill [8]. Therefore, it also lays the groundwork for the high burden of goodwill.

3.3. The Issues of Insufficiency Integration Ability

Junsheng Electronics was originally an auto parts manufacturing company and is acquiring German Pri, an auto electronics manufacturer; Innventis, a locomotive software company; After IMA and automation companies realized globalization and integration, they enriched their business scope and volume and became the world's leading automotive electronics and security supplier at one stroke. However, after such a huge M&A transaction, the lack of internal integration of enterprises is gradually reflected. The purpose of technology M&A is to obtain the effective resources of the other party, improve the technical resources, and enhance the core competitiveness of the enterprise. However, there are great uncertainties in the resource acquisition of both parties: differences in technology R&D strategies, differences in enterprise processes, and differences in operations. [9]. The M&A parties of Junsheng Electronics are located overseas, which is difficult to manage. The number of car accessories and auto electronics produced is lower than expected, and the profit improvement rate brought by the M&A is lower than expected in the long term. These are all

manifestations of the impact on the overall operation of the enterprise, which will also bring the risk of huge goodwill impairment and affect the enterprise's profits and corporate image. Constantly restructuring the resource system in a dynamic environment, adapting to new market changes, and maximizing collaborative innovation effects and internal and external resource integration capabilities are currently the urgent goals of Junsheng Electronics [10].

4. Suggestions

4.1. Duality of External Search

Junsheng Electronics, founded in 2004, is still young. On the one hand, its sales network is unstable. On the other hand, its ability to bear innovation and transaction risks is poor. The exploration method of multiple enterprise mergers and acquisitions it has chosen is a gamble. While it has brought huge comprehensive improvements to enterprises, it has also buried a long-term hidden danger of goodwill.

In this regard, enterprises can improve business performance by clarifying the duality of external search. The duality of external search is divided into search breadth and depth. The depth of the search reflects the focus and professionalism of enterprises to explore and identify knowledge, and the breadth of the search reflects the number of external sources of knowledge, that is, sources of innovative thinking [11].

However, the company should not increase the exploration of autopilot. Enterprises should not continue to go deeper, but should consider expanding the existing exploration boundary, effectively combining the two, optimizing the internal basic knowledge structure of enterprises, paying attention to the overall reasonable matching relationship, and encouraging innovation and overall operational capability. By establishing an organic link between the company's external exploration and internal foundation, Junsheng Electronics can better deal with the current corporate problems, more thoroughly deal with and solve the goodwill problems arising from M&A, and maintain its position for a long time.

4.2. Improving the Quality of Management Personnel & Focusing on M&A.

In light of the enormous success of the initial merger and acquisition, Junsheng Electronics decided to adopt an active merger and acquisition strategy in order to continuously acquire multiple overseas businesses. This was done even though the company had huge debts and problems with its goodwill after the transaction was done. Since the expected synergy has not happened as a result of the merger and acquisition, this paper then could set up the following research question: How should Junsheng Electronics handle the situation?

The blind confidence of management is one of the reasons for high goodwill. Due to internal control deficiencies such as managers' insufficient capabilities, enterprises are unable to conduct comprehensive and effective investigations, resulting in an insufficient assessment of subsequent macroeconomic and operational risks. Enterprises pay less attention to potential risks and instead focus more on the benefits brought about by mergers and acquisitions, leading to the exchange of high-goodwill mergers and acquisitions for blindly optimistic business performance expectations [12]. The overconfidence of enterprise managers will affect the types of mergers and acquisitions, and the different types of mergers and acquisitions will affect the ability of managers to integrate the company's resources [13]. Therefore, the psychological errors of enterprise managers will not only lead to problems with M&A transactions but also affect the growth of the integration abilities of subsequent companies. When the management of an enterprise is an external employee, the ability review of the employee should be strengthened to select more excellent and stable enterprise talents. When the enterprise's management is an internal person, it should actively learn relevant knowledge, enhance the enterprise's management ability, more carefully consider major transactions such as

mergers and acquisitions, and avoid goodwill risk and resource integration risk. If the enterprise's management is improved, the enterprise's overall management and operational skills will be much better, the risk of future transactions will be somewhat lower, and the enterprise will be able to make money more safely and steadily. At the same time, it will strengthen the enterprise's external image and soft power.

4.3. Independent-dependent Strategy

In the face of a large number of M&A enterprises, Junsheng Electronics has taken on huge integration pressure due to the differences in countries, enterprise management models, and enterprise operation times. There are similarities and differences between the resources and processes of businesses in different fields. These similarities and differences could help the main M&A businesses grow. Have a direct impact on the success of mergers and acquisitions [14]. How to integrate different enterprises into their own operations and development is a major strategic problem at present. Junsheng Electronics, a typical emerging multinational enterprise, can mainly adopt an independent strategy and a dependent strategy. The independent strategy will maintain the original organizational identity of the merged party, stabilize its management team, and give it a high degree of autonomy. Relying on strategy reduces the role of power and improves the trust of both sides to realize win-win results [15].

Businesses can apply strategies of independence early on in an M&A to give the acquirer a lot of freedom, lessen the chance of diluting the brand's effect, and boost competitiveness in the market. Later on, they can employ strategies of dependence to deepen the comprehensive relationship between the two sides, learn from each other's strengths, help businesses get past challenges, and grow in size. The gradual improvement of corporate profits, enhanced comprehensive coordination ability of its M&A enterprises around the world, expanded enterprise scale, and increased shareholder trust in the enterprise will alleviate Junsheng Electronics' high goodwill problem after a reasonable enterprise integration strategy is implemented.

5. Conclusion

The overall background of this article is set in the era of rapid development of the global new energy vehicle industry since 2011, which is one of the most important industries in the world. The main exploration object of this article, Ningbo Junsheng Electronics Co., Ltd., is a leading supplier of new energy vehicle safety and electronics in China, but it bears a huge amount of goodwill and debt issues. Therefore, the main investigation direction of this article is to properly handle the issue of merger goodwill, hoping to improve the emergence of the huge goodwill issue and its impact on the operation of the enterprise to a certain extent.

Through the corresponding analysis of internal management and external strategies of enterprises, this article believes that the main reasons are the blind confidence of internal administrators, the unreasonable way of external exploration, and the difficulty in establishing relationships with mergers and acquisitions. The issue of huge goodwill can be addressed through these aspects. The main reasons and relevant suggestions for the huge amount of goodwill discussed in this article can provide certain reference values for relevant enterprises when considering merger and acquisition transactions, put more potential hazards on the surface, assess the magnitude of future risks more comprehensively, and ultimately compare them with forecasted earnings to make more favorable choices. On the other hand, the investigation in this article can also provide a general direction for further in-depth and broad solutions, making future academic exploration smoother.

However, this paper avoids detailed analysis of changes in the global and domestic auto markets since 2011, and the objective factors such as government policies and the Corona Virus Disease 2019

are too broad and complex. Therefore, this paper does not mention it, reflecting certain limitations and subjectivity.

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