

Analysis of M&A in Vehicle Industry: Evidence from Geely's Acquisition of Lotus

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Abstract: With the continuous improvement of China's domestic economic level, the automobile manufacturing industry is developing rapidly, the market competition is fierce, and the automobile market is gradually becoming saturated. The reduced market demand has led to higher and higher requirements for the technical level of domestic automobile manufacturers. In 2013, China proposed the "Belt and Road" initiative, which brought new opportunities to some domestic auto companies. Geely Group seized the opportunity to acquire Lotus. This paper mainly analyzes the reasons for Geely's acquisition of Lotus, and this paper analyzes Geely's acquisition of Lotus through two aspects of finance and motivation. In terms of motivation, this paper analyzes policy, society, external environmental factors of Geely Group through economy and technology through PEST model. Meanwhile, SWOT is used to analyze the advantages, disadvantages, opportunities, and internal factors of Geely's acquisition of Lotus. On the financial side, through the analysis of each financial indicator, trend, causality, growth, and revenue. According to the analysis, after the acquisition of Lotus, Geely's enterprise strength has been improved to a certain extent, and the future development prospects are expected.

Keywords: automobile market, PEST, SWOT, acquisition

1. Introduction

Throughout the past 20 years in our country market economy environment, the overall economic development of our country a better situation. According to the auto industry report of China Merchants Securities in 2022, the overall auto sales in China were rising at a high speed before 2017, and the growth rate once reached nearly 50% with the support of "purchase tax" in 2009. However, after 2017, the overall sales of the auto industry continued to decline, showing a negative growth [1]. According to a report on the charging pile industry by Guotai J&A Securities, the sales volume of new energy vehicles in the post-epidemic era has witnessed explosive growth, with the year-on-year growth rate reaching 93.4 percent in 2022 and the market penetration rate reaching 25.6% [2]. Zhang believes that China, as the core force of global new energy vehicle development, is gradually stepping into a new stage of accelerated development from the incubation period. Besides, China is also accelerating the high-quality development of the new energy vehicle industry

[3]. Yu and Dai comprehensively analyzed the six elements of Porter diamond model and drew the conclusion that the development prospect of new energy automobile industry is huge [4]. Liang Shuang also pointed out in the report that the concept of environmental protection in China is being strongly supported by the government, in terms of market competition, this concept will enable the company to achieve a better position in product competition [5]. Overall, the traditional automobile market has been close to saturation, and the new energy automobile market will become the target pursued by many investors.

For most enterprises, new technologies and new strategic thinking are indispensable if they want to occupy a place in the new market. Tang and Jiang claimed that M&A is the most rapid and effective growth strategy for enterprises, and the most efficient response for enterprises to quickly acquire innovative resources in response to business model changes [6]. Meng and Gu also argued that Chinese enterprises often acquire knowledge resources such as advanced technology and management experience through mergers and acquisitions to improve innovation ability [7]. He mentioned that the implementation of the “Belt and Road” Initiative has promoted the development of cross-border M&A strategy, which is one of the ways to realize the national strategy of “going out”, and clearly pointed out that cross-border M&A can take advantage of the resource reorganization of enterprises on both sides to complement each other’s advantages, so as to promote the long-term development of enterprises [8]. Zheng et al. also mentioned that foreign M&A provides a new development path for Chinese enterprises and brings positive promotion effect and synergistic effect to both China and foreign countries [9].

Among the many car companies seeking strategic reform, Geely Group’s strategic initiatives in recent years have made investors full of expectations. As the previous leader in the domestic low-end car manufacturing industry, Geely Group has been committed to getting rid of its “low-end car” brand image through strategic transformation and technological innovation. Since 2008, Geely began to actively develop cooperative relations with foreign auto enterprises, gradually transforming itself into a global multinational enterprise. Wang Kai also pointed out in the article that Geely’s mergers and acquisitions played a great role in promoting the goal of strategic transformation of the enterprise. The completion of the acquisition has also successfully improved its brand structure and significantly improved its international influence [10]. Obviously, Li Shufu’s ambition is not limited to this. Against the background of the growing market of new energy vehicles, Geely will not let go of such a precious opportunity. In addition to establishing the trend technology car brand - Krypton, Geely also turns its attention to the market of electric luxury sports cars, so in 2017, Geely acquired the old sports car Lotus. It is officially the first step to enter the luxury brand. Therefore, this paper hopes to analyze Geely Group’s strategic arrangement and corresponding motivation in the case of Geely’s acquisition of Lotus. Through financial and market research to judge the success and risk of this behavior, it is hoped that this can bring inspiration and suggestions to the future M&A behavior of enterprises.

2. Descriptions

Zhejiang Geely Holding Group (hereinafter referred to as “Geely Holding Group”) was founded in 1986. It officially entered the automobile industry in 1997. In the overall development process, it pays attention to talent training, advocates enterprise transformation and upgrading and sustainable development, and gradually becomes a global private automobile enterprise. At present, the total assets exceed 510 billion yuan and the total number of employees exceeds 120,000. It has been listed in the Fortune Global 500 for 11 consecutive years and is the only Chinese automobile group in the top 10 global automobile brand portfolio value.

Geely Holding Group has become a global innovative technology enterprise group integrating the design, research and development, production, sales and service of complete vehicles,

powertrains, and key components, and covering digital technology and other fields of business. Headquartered in Hangzhou, the group owns several car brands including Volvo, Polestar and British Automobile, and has modern vehicle and powertrain manufacturing plants all over the world. Its product sales and service network cover all over the world, and has a great influence in the world automobile industry. Throughout its development course over the years, Geely has not only focused on technological innovation and automobile quality assurance, but also continuously developed and expanded itself through many corporate mergers and acquisitions including cross-border mergers and acquisitions in the past 20 years, and expanded its influence in various fields through technology linkage and asset integration. Now it is committed to the development of intelligent electric travel and energy service technology, and has gradually created its own strong science and technology ecosystem.

Lotus was founded in 1948 as a world-famous manufacturer of sports cars and racing cars. Its founder, Anthony Colin Bruce Chapman, was both an engineer and a racing driver who insisted on his philosophy of “all for the driver”. His sports cars are known for their lightweight design and sheer driving pleasure. Chapman designed the Type25, the world’s first all-hardshell race car, in 1962, and successfully helped the greatest driver in racing history, Jim Clark, win the first annual F1 championship. After the death of founder Chaps, Lotus experienced a turbulent period, and it was acquired by Toyota, General Motors, Bugatti, Proton and Geely over the years. After years of decline, it was not until Geely acquired a 51 percent stake in Lotus Group in June 2017 that Lotus began to enter a new era of its own, gradually becoming a new benchmark for supercars in the era of intelligent electrification. At present, its current Lotus brand business includes Lotus Engineering, Lotus Automotive and Lotus Technology. Among them, engineering business belongs to its traditional business field, which was established in 1952, and the latter two belong to the new development path after Geely acquired Lotus. In particular, Lotus Technology, which is the core of Lotus Group’s “Sino-British dual engine” strategy, inherits Lotus’ 74-year innovation gene and technology accumulation, It is responsible for the R&D and production of global ultra-high-end intelligent electric vehicles, and refreshes industry cognition in intelligent driving, interaction, manufacturing and other fields.

As Malaysia’s No. 1 national treasure brand, Proton’s domestic success mainly depends on Mitsubishi technology, government tariffs, low interest loans. With Malaysia’s accession to the WTO in 1995, tariff reduction was imperative. In order to ensure the better development of Soes led by Proton, Soes could only be privatized, and the largest distributor in Malaysia, Yahya’s company DRB and Malaysia Heavy Industries were merged to form a new company DRB-Hicom. It bought sports car brand Lotus for £51m in 1996, inaugurating an era of in-house research and development by buying technology. However, after the economic crisis and the resignation of Mahathir, the newly appointed Prime Minister Tun Abdullah Ahmad Badawi did not regard Proton as important, but as a burden. Therefore, after losing the protection of the national government, Proton’s automobile began to decline continuously. Faced with the pressure from the government, the consortium and the supporters of national industry, Proton embarked on the road of seeking help from foreign companies.

Then, one came the meeting between Geely and Proton. After a series of lengthy negotiations, trial, suspension, restart, and other complex processes, Geely Company announced on January 20, 2017 that its subsidiary Linkstate and Geely International Hong Kong entered into a Proton agreement. Linkstate intends to purchase Proton sales shares and sales loans. The costs were 1.063 billion yuan and 56.39 million US dollars respectively. On the same day, Linkstate entered a DHG Agreement with Geely International HK, whereby Linkstate intends to purchase DHU shares from Geely International HK at a consideration of USD1; Upon completion of the transaction, Geely will hold 49.9% of each of Proton and DHG. At the same time, Geely took the opportunity to acquire 51%

equity of Lotus (Lotus) belonging to Proton, officially becoming the exclusive foreign strategic partner of Proton Automobile, and thus launched the close cooperation between Geely and Lotus.

3. Analysis

3.1. PEST Analysis

As for policy and institutional factors, on the one hand, as for the environmental protection system, China officially began environmental protection in 1972, and since then, various domestic raw materials in China began to develop in an environmentally friendly direction. In recent years, China has paid more and more attention to environmental protection. The State Council issued the 2030 Carbon Peak Action Plan Notice in 2021, which requires countries for the automobile industry for reducing carbon emissions. China began to implement the national 5 emission system on January 1, 2017, and cars that fail to meet the standards will not be able to be sold. Stimulated by various institutions, some traditional domestic auto manufacturers have been forced to transform themselves. In addition, China plans to fully withdraw fuel vehicles from the market by 2050, and new energy vehicles are destined to become the main direction of automobile development in the future. As early as 2018, Lotus announced the transformation from fuel vehicles to electric and intelligent vehicles. Due to the early transformation, the electric technology is relatively mature, which is of certain help to the development and innovation of electric vehicles. On the other hand, for the tax policy, since January 1, 2018, for the purchase of passenger vehicles with displacement less than 1.6L, the purchase tax collection will be reduced from the tax rate of 7.5% in 2017 to the statutory tax rate of 10%. However, from January 1, 2018 to December 31, 2020, the state will continue to exempt the vehicle from the purchase of new energy vehicles. This policy promotes consumers to buy new energy vehicles, the sales of fuel vehicles are greatly reduced, and the market demand for electric vehicles is constantly increasing. Geely's acquisition of Lotus for its own research, manufacturing and development of electric vehicles is conducive to Geely to gain more market benefits.

Regarding to social factor, in recent years, the state has paid more attention to environmental problems. The state has implemented various policies, measures and legal systems to improve and protect the ecological environment, and has increased the publicity of environmental protection through online social media. The concept of environmental protection has also been deeply implemented in the national thought. More and more people begin to pay attention to the protection of the ecological environment, so many consumers choose electric vehicles as a means of transportation. Moreover, with the continuous development of the economy, people's requirements for the quality of life are also constantly improving. Electric vehicles do not need to be maintained regularly as fuel vehicles. Therefore, new energy owners have more spare time and savings to meet their life needs and psychological needs. This also leads to people being more inclined to buy electric vehicles. Geely's acquisition of Lotus not only powers the development of the group's electric vehicle industry, but also ensures that Lotus, as a historic British sports car brand, has a high brand recognition and loyal fan base. Geely's acquisition of Lutes will help increase the global awareness of the Geely brand. Moreover, it can produce high-quality new energy vehicles to meet consumer demand and obtain good sales results. Geely's acquisition of Lutes is also beneficial to the cultural exchanges between China and the UK, and the state encourages and supports cultural exchanges.

With the growth of the global middle class, more and more consumers have a demand for high-performance sports cars. Geely's acquisition of lotus will help meet this part of the market demand and increase the market share. Capital operation: Geely has been expanding overseas acquisition

and investment in recent years, and has strong financial strength. The acquisition of Lutes will help to further optimize capital operations and achieve economies of scale.

Lotus has a world-leading technology in lightweight, high performance, chassis suspension and other fields. Geely's acquisition of lotus can leverage these technological advantages to enhance the competitiveness of Geely's product line. New energy vehicles: The global new energy vehicle market is growing rapidly. Through the acquisition of Lutos, Geely can integrate the technical resources of the two companies and accelerate the research and development and market layout in the field of new energy vehicles.

3.2. SWOT Analysis

The acquisition of Lotus will enable Geely to leverage its technology and expertise to potentially improve its product supply and overall capabilities. As a 75-year-old car maker, Lotus focuses on making luxury, high-performance sports cars. Lotus has won seven F1 team annual championship, six times F1 driver annual championship, 81 F1 station champion, etc., behind its brilliant record, such car companies long time focus on track car research in order to make more lightweight chassis, more lightweight body and grasp the unique aerodynamics, and in 2018 when the fuel car sales are still hot road officially announced to the direction of electric transformation. Early transformation and a long time of research on the track have made Lotus have advanced technology and strong strength in the automotive field. This has certain experience guidance and technical guidance for Geely to develop its own new energy vehicles. In addition, the two car companies can play their own advantages at the same time, the road will their own track gene and Geely car young and sporty appearance of the interior and exquisite, the advantages and characteristics of maximize each other can make up for each other's weaknesses, such as road, vehicle price is too expensive and Geely car low price can make most consumers to pay, but Geely automobile has not yet a big breakthrough in technology, so the two sides can make up for each other under certain conditions. Second in terms of market expansion: acquisition road, can help Geely expand its market share, and in the road has a customer base to expand business, most consumers for imported vehicles need to pay a lot of tariffs and not willing to buy, and Geely road can use road technology manufacturing, the cost, reasonable and excellent performance of domestic brands to solve consumer pain points to improve market share. Finally, brand enhancement: The acquisition will enhance Geely's brand image and make it a leading participant in the automotive industry. Road in the automotive industry and Porsche, Ferrari, known as the world's three major car makers, Porsche in le man's 24 hours endurance race won 19 times and in the Dakar rally using its iconic models 911 champion, and Ferrari also in F 1 events and le mans 24 hours endurance race won many times. Lotus can compete with the two manufacturers in its strength and influence in the automotive industry. This will make Geely's own influence and brand image more popular with consumers.

Inferior strength or position. Integration challenges: Combining the two organizations may pose significant operational and cultural challenges, which may affect the overall success of the acquisition. For one supercar brand from Europe and another Chinese brand that dreams of making luxury sports cars, there are inevitably some cultural conflicts and contradictions. Lotus focuses on track research and is influenced by British culture and regional customs, preferring more luxury brands, while Geely Auto is for ordinary people with relatively low incomes. Financial risk: Acquisitions are usually expensive, and Geely may need to allocate significant resources to finance the deal, which could further strain its financial position.

Opportunities: Commodity diversification: The acquisition of Lotus can help Geely diversify its product portfolio and reduce the risks associated with relying on a single market or product line. Access to new technologies: The acquisition could provide Geely with ways to access Lotus technology and potentially enable it to develop new products or improve existing products. Growth

in emerging markets. By acquiring Lutes, Geely may be better suited to enter emerging markets and leverage their growth potential. With the gradual popularity of sales of sexual energy, the increasing improvement of people's living standards, and the increasing requirements on vehicle performance and quality, Geely can use Lotus electric vehicle technology to gain consumer recognition so as to increase sales and expand the market.

Nevertheless, the acquisition may trigger a reaction from competitors, leading to increased competition, and may affect Geely's market share and profitability. Acquisitions could face regulatory scrutiny, which could delay or even prevent the completion of deals. To sum up, the motivation of Geely's acquisition of Lotus may be based on internal factors and national policies such as synergies, market expansion, brand strengthening, diversification, and access to new technologies, as well as economic and technological external factors for social development. However, the company must also consider the potential challenges and risks associated with the transaction, including integration difficulties, financial risks, competitive responses, and regulatory barriers.

3.3. Market Share Analysis

According to insurance data, in 2016, Geely sold 778,310 units, and had a market share of 3.4% of the passenger car market. In 2017, the annual sales volume of Geely was 1184,399 units, and the market share of passenger car market was 5.1%, an increase of 1.7 compared with the same period last year. In 2018, the annual cumulative sales volume of Geely Auto reached 1500,838 units, with a year-on-year growth of about 20.3%. The market share was greatly increased and the sales volume exceeded 1.5 million for the first time in the history of Geely Auto. In 2018, Geely Auto's new products were launched quickly, promoting the construction of the future matrix of Geely Auto.

3.4. Financial Analysis

The purpose of conducting this analysis is to study the assistance of acquiring Lutes to Geely. Next, this study will analyze from the following four aspects: debt repayment ability, operational ability, profitability, and growth ability. The default currency for this article is CNY. Before analyzing the debt repayment ability of Geely Auto, it is necessary to first analyze the asset allocation of Geely Auto. For the automotive industry, the measurement method of inventory issuance can also have a significant impact on the profits in the company's cash flow statement, and a comprehensive analysis of this content is also necessary; The most important items in the manufacturing industry are usually fixed assets, including land, factories, and equipment. At the same time, their proportion in total assets is positively correlated with their importance. There are also various depreciation methods for fixed assets, so it should also be analyzed in detail. Therefore, this study will conduct a basic analysis of Geely Company through three indicators: inventory, accounts receivable, bills, and fixed assets.

It can be seen from the Table. 1, the inventory of Geely Company shows irregular changes, and the automotive industry is relatively affected by the social environment. The year 2016 was a year of economic recovery and stability after the financial crisis, promoting economic development. At that time, the country introduced a series of macroeconomic policies to support the consumption of the automotive industry, upgrade the automotive manufacturing industry, and in 2017, inventory reached a relatively high level. However, in that year, Geely Auto acquired Lutes Company. In 2018 and 2019, the fuel vehicle market tended to become saturated, and in response to policy calls, efforts were increased to develop new energy, green and clean electric vehicles. As a result, inventory levels were reduced to some extent, maintaining a relatively stable level in terms of quantity and proportion. At the end of 2019, due to the impact of the epidemic, the global economy

became weak, public demand weakened, and inventory levels reasonably decreased. In mid-2022, the epidemic was initially controlled, and the manufacturing industry required a certain period of time to produce products, so inventory levels did not increase. After the condition was stably controlled, the demand for people's livelihood began to surge and rebound, and the inventory level gradually increased from 2021 to 2022, which is in line with objective laws. Further verification of this analysis will be conducted based on the company's operational capabilities and product competitiveness.

Table 1: Inventory Analysis.

year	2017	2018	2019	2020	2021	2022
Inventory million	60.27	40.97	48.21	36.91	55.22	108.2
Total assetsmillion	849.8	914.6	1079	1108	1343	1578
Proportion	7.09%	4.48%	4.47%	3.33%	4.11%	6.86%

Table 2: Analysis of accounts receivable and notes receivable.

year	2017	2018	2019	2020	2021	2022
Trade and other accounts receivable million	334.8	228.6	258.4	278.7	315.5	343.9
Total operating revenue million	927.6	1066	974	921.1	1016	1480
Proportion	36.09%	21.44%	26.53%	30.26%	31.05%	23.24%

The essence of accounts receivable is the company's working capital, but it is presented in the form of vouchers and cannot be traded, mainly because the vouchers have a high probability of bad debts. Seen from Table. 2, the overall situation of the proportion of accounts receivable shows a fluctuating trend of first decreasing, then increasing, and then decreasing, with fluctuations up and down. In terms of the production and operation profits of corresponding enterprises, from 92.76 billion yuan in 2017 to 148 billion yuan in 2022, the overall trend is on the rise. However, overall, Geely Group is consciously reducing the scale of vouchers. From 2018 to 2020, there was little change in the scale of the production line. Geely had insight into the market situation and national policy guidance, actively invested in the field of new energy vehicles, increased resource investment, and deepened research and development. In 2018, the operating income significantly increased, promoting the withdrawal of funds. Therefore, accounts receivable reached a relatively low position. From 2020 to 2021, due to the severe impact of the epidemic, the public's consumption capacity is insufficient, and the proportion of accounts receivable is reasonable. In 2022, the company's operational status was good, resulting in a significant decrease in the proportion of accounts receivable. By analyzing the factors related to vouchers, as well as Geely's strategic layout and operating status, it is evident that the data performance of accounts receivable and bills is consistent with Geely's operating status.

Table 3: Quality Analysis of Fixed Assets.

year	2017	2018	2019	2020	2021	2022
Property, plant and equipment (fixed assets) million	140.5	234.2	270.7	265.7	308.6	322
Total assets million	849.8	914.6	1079	1108	1343	1578
Proportion	16.53%	25.61%	25.09%	23.98%	22.98%	20.41%

As given in Table. 3, in the past five years, Geely's overall fixed assets have shown a trend of first increasing and then decreasing, from 16.53% in 2017 to 20.41% in 2022. Geely's fixed assets

have always fluctuated around 20% with little fluctuation, mainly due to Geely's continuous investment in various resources for technological upgrades and product adjustments after acquiring multiple car companies, forming a strategic shift. After several years of effort, Geely has achieved remarkable results in both traditional and new energy vehicle fields. In recent years, Geely has vigorously built factories, introduced advanced production lines, and established sound supporting facilities for new products developed in the later stage. The decrease in fixed asset ratio from 2021 to 2022 is partly due to the difficulty in factory construction due to the pandemic. Secondly, the newly established car model factories are already sufficient to meet market demand, so more funds have been mobilized for further upgrades in related technology and scientific research. If the automotive industry wants to maintain strong market competitiveness for a long time, it is bound to invest more funds in technology.

Table 4: Balance Sheet Analysis.

year	2016	2017	2018	2019	2020	2021	2022
Non current assets million	203.3	319.7	486.8	579.1	598.8	690.5	787.6
current assets million	472.5	530.1	427.9	500.1	509.3	653	790.6
Total assets million	675.8	849.8	914.6	1079	1108	1343	1578
Current liabilities million	406.3	499	437.6	485.3	418.9	603.5	689.5
Non current liabilities million	22.66	2.68	23.26	44.77	47.16	37.7	126.8
Total liabilities million	429	501.7	460.9	530	466	641.2	816.3

Seen from Table. 4, from 2016 to 2022, the overall market share of Geely has significantly improved, and its strong debt ability is due to its high market share. People only lend money to Geely because they are optimistic about it. The total debt gradually increased from 42.9 billion in 2016 to 81.63 billion in 2022, and the total debt has steadily increased over the past seven years.

Table 5: Analysis of Debt Repayment Capability.

year	2017	2018	2019	2020	2021	2022
Current ratio	1.06	0.98	1.03	1.22	1.08	1.15
Cash ratio %	26.87	35.97	39.73	45.31	46.41	48.35
Quick ratio	0.94	0.88	0.93	1.13	0.99	0.99
Asset liability ratio %	59.04	50.39	49.11	42.05	47.73	51.72
Shareholders' equity ratio %	40.96	49.61	50.90	57.95	52.29	48.29

The quick ratio is a measure of the ability of an enterprise's current assets to be immediately realized to repay its current liabilities. According to traditional experience, it is normal for the quick ratio to be maintained at 1:1, which indicates that for every 1 yuan of current liabilities, an enterprise has 1 yuan of readily realizable current assets to offset, and its short-term solvency is reliably guaranteed. In recent years, the quick ratio of Geely Auto has remained around 1 for a long time (as given in Table. 5), and its value is very consistent with the standards of international automobile manufacturing industry.

The current ratio is the ratio of current assets to current liabilities, used to measure the ability of a company's current assets to be converted into cash for debt repayment before the short-term debt matures. The higher the ratio, the stronger the liquidity of the enterprise's assets and the stronger its short-term debt repayment ability; On the contrary, it is weak. It is generally believed that the current ratio should be above 2, and a current ratio of 2 indicates that the current assets are twice the current liabilities. Even if half of the current assets cannot be realized in the short term, it can ensure

that all current liabilities are repaid. However, the current ratio of Geely Auto remains at a level around 1:1 all year round, indicating a very weak ability to repay current liabilities, which is a significant risk. From other sources, Geely's customers are relatively fixed, with many collaborations and a good understanding of customer strength. Therefore, in the past 7 years, there have been very few bad debts in accounts receivable, which has to some extent avoided the above problems. The cash ratio is the ratio of the balance of quick assets after deducting accounts receivable to current liabilities, which best reflects the company's ability to directly repay current liabilities. The cash ratio is generally considered to be above 20%, and Geely Auto's cash ratio from 2017 to 2022 showed an overall upward trend, reaching 48.35% in 2022. This high ratio indicates that the company's current assets have not been properly utilized. There may be some issues with Geely's operations due to previous disagreements.

3.5. Profitability Analysis

From Table. 6, the gross profit margin has remained at a relatively stable level of around 17% from 2017 to 2022, showing an overall downward trend. This indicates that Geely Auto's system for producing its own products is mature enough. However, both the net interest rate and the annualized return on assets are decreasing year by year. The net interest rate will decline from 19.4% in 2017 to 3.14% in 2022. This is due to the epidemic situation that began in 2019, the reduction of market demand, the increase of operating costs, and the national policy orientation. The products sold by Geely are mainly traditional fuel vehicles, and electric vehicles need to strengthen sufficient market competitiveness, this is why it has acquired a series of automobile companies with high technical level similar to Lutes. It wants to create better products, such as new energy sports cars and high-end models. This is a market that Geely has not competed for. The annualized net return on assets has a strong positive correlation with the net interest rate, which will drop from 31.62 in 2018 to 7.32 in 2022. Therefore, it is believed that Geely's acquisition of Lutes is to acquire the relevant technology for high-end and sports models. For example, in 2019, Lutes produced the EVIJA pure electric supercar, which is precisely what Geely needs. Due to the increasing demand for electric vehicles in the market, Geely's acquisition of Lutes is very helpful for its own research on electric vehicles.

Table 6: Profitability Analysis.

year	2017	2018	2019	2020	2021	2022
Annualized net return on assets %	36.11	31.62	16.48	9.37	7.33	7.32
Gross profit margin %	19.38	20.18	17.37	16	17.14	14.12
Net profit margin %	11.57	11.89	8.48	6.05	4.28	3.14
Earnings per share (CNY)	1.19	1.4	0.9	0.56	0.48	0.51

3.6. Operational Capability Analysis

Inventory turnover rate is one of the important indicators for analyzing the operational capacity of enterprises and is widely used in enterprise management decision-making. Inventory turnover rate can be used to measure the efficiency of inventory operations in various stages of enterprise production and operation. The higher the inventory turnover rate, the stronger the liquidity of inventory assets in the enterprise, and the faster the turnover speed of inventory and funds occupied in inventory. From Table 7, Geely's inventory turnover rate has shown an overall trend of first increasing and then decreasing, with a stable position around 17 in recent years, indicating the best-selling performance of Geely's products. The ratio between the net income of main business and the average total current assets is the current Asset turnover. This rate value is one of the main

reference standards for evaluating the resource utilization rate of an enterprise. By comparing and analyzing the rate values in the table over the years, it can be found that there are problems in the resource mobilization process. Conducting in-depth analysis of this problem can greatly promote internal change and strengthen management, and can also promote the full utilization of enterprise resources for investment, monetization, and other profit-making business activities. According to the data in the table, the turnover rate of current Asset turnover in the first three years has improved. It will slightly decline in 2020 and 2021, but increase in 2022. Overall, this shows that Geely has made good use of current assets.

Total Asset turnover is the ratio of net sales revenue to total average assets of an enterprise in a certain period. This indicator reflects the turnover speed of total assets. The faster the turnover, the stronger the sales ability. The domestic standard value is 0.8, and Geely Auto can adopt the method of small profits and quick sales to accelerate asset turnover and increase the absolute amount of profits. Its own business is in the low-end market, and there is no shortage of market under normal circumstances. However, it is not ruled out that Geely's future layout is that the production cost of low-end vehicles is difficult to further reduce while maintaining its original market competitiveness. Therefore, it is necessary for Geely to be able to produce cars that enter the military's high-end model market, further improve the efficiency of the enterprise.

Table 7: Operational Capability Analysis.

year	2017	2018	2019	2020	2021	2022
Inventory turnover rate (times)	16.78	16.58	17.85	18.83	18.49	15.4
Current Asset turnover (times)	1.906	2.16	2.076	1.881	1.771	1.964
Total Asset turnover (times)	1.25	1.177	0.966	0.84	0.84	0.97

3.7. Analysis of Growth Ability

The year-on-year growth of net profit attributable to the parent company is one of the important indicators of a company's profitability. As shown in Table. 8, the year-on-year growth of Geely Auto's scale profit margin has changed irregularly, from a high of 108 in 2017 to -32.4 in 2019. Due to environmental factors and fierce competition in the automotive market, combined with previous market share analysis, Geely Auto aims to maintain its market share it can occupy.

Table 8: Analysis of Growth Ability.

year	2017	2018	2019	2020	2021	2022
Net profit attributable to parent company increased year-on-year (%)	108	18.1	-32.4	-34.76	-12.4	8.52
Total asset growth rate (%)	72.7	14.9	-8.63	-5.43	10.3	45.6
Total asset growth rate (%)	25.7	7.6	18	2.7	21.2	17.5

4. Revelation

From the results, the results of forming synergistic effects through mergers and acquisitions can be confirmed. When the domestic market environment is close to saturation or needs to be transformed, cross-border M&A can better solve this problem. Combined with the national strategic policy of "going global" and the increasingly positive trend of economy, cross-border M&A has been supported by various factors. It can not only bring new technology, but also bring new strategic thinking. At the same time, in terms of financial indicators, it is an opportunity with both risks and benefits. Therefore, as an enterprise, when seeking transformation, it should first correctly

understand the market trend, and fully analyze its own advantages and disadvantages, so as to achieve its expected results through cross-border mergers and acquisitions. In addition to mergers and acquisitions, there are many transnational strategies that can achieve similar goals.

5. Conclusion

After reviewing the main background of the case, this paper uses a series of macro background analysis models and Geely's own related indicators to study the strategic motivation behind Geely's acquisition of Lotus, as well as the objective financial impact of the acquisition on the enterprise. From the perspective of acquisition motivation, most automobile companies aim to acquire new technologies through various possible channels. For Geely, the acquisition of Lotus, an old racing brand, is to acquire its technology and improve its brand competitiveness through the acquisition of Lotus. In the analysis of Geely's strategy, based on SWOT analysis, both Geely and Lotus have achieved rapid development in this merger and acquisition, and have achieved synergistic effects. In terms of disadvantages and drawbacks that need to be avoided, enterprises should promote the integration of Chinese and British automobile culture, adopt management strategies more suitable for multinational integration companies, and ensure the stability of the internal organizational environment of enterprises to ensure the healthy development of brands in essence. From the perspective of financial indicators, although the ability of enterprises to control capital structure and liabilities is relatively healthy, they are still under great profit pressure and facing great tests at the market level. Whether Geely can occupy its own place in the future automobile market depends on whether it can get innovative breakthroughs in the future technology research and development. Based on Geely's grand strategic blueprint, Geely's development form is still full of expectations. This paper is too optimistic about the brand influence and technological level of Lotus itself. It is still unknown whether the market influence brought by Lotus itself after going through the trough can meet the expectations, and the improvement of Geely brand itself is also vague and impossible to verify. At present, whether the R&D of Lotus and Geely can truly form competitiveness in the new energy vehicle technology still needs a period of time to be tested by the market.

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