China’s Mergers & Acquisitions: A Comparison with the United States

by

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Mergers and acquisitions are widely researched in the United States. The M&A in China, however, is not so clear. There are plenty of successful companies in the United States growing by M&A to global powerhouse, which is seldom to see in China. This thesis presents the current status of China’s M&A from a holistic perspective through comparison with global M&A. By a detailed case study of Cisco and the Bank of America, I settled a benchmark for China’s peer companies through analysis covering from corporate strategy selection to M&A deal making process to operational integration. To make these findings relevant to China’s context, I researched two Chinese firms, Ping An of China and Shanghai Fosun, both of which are growing fast by serial M&A. A comparison is employed throughout both companies in the United States and China. The finding implies significant lessons for Chinese firms in these industries as well as others in a broad base regarding M&A in China.
Acknowledgements

To my dearest wife, Liangliang Gao
For your self-giving sacrifice for our love and family

To honorable Professor Michael A. Cusumano
For your invaluable support, understanding, and direction
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1. Introduction

As China is widely expected to grow to be the world’s second largest economy by 2010, it is now a rapidly expanding mergers and acquisitions market. Although its economic activities have attracted substantial academic research, there’s no clear framework to understand China’s mergers and acquisitions from a corporate development perspective. This thesis intends to do a comparative analysis for China’s mergers and acquisitions through several case studies.

I will discuss two companies in the United States, Cisco and the Bank of America, both of which have made plenty of serial M&A to grow the companies and to some extent are very successful. In contrast, there are not too many Chinese companies who employ an M&A strategy to either grow the firms or try to develop competitive advantages. Whether M&A can lead to competitive advantages is still a highly debating research topic and hence my research will focus on the other part, which is to grow corporations by M&A. Of those limited Chinese firms with serial M&A deals, I will dig deep down to two firms, Ping An of China and Shanghai Fosun, both of which are showing a clear M&A strategy and grow relatively fast.

By a deeper understanding of their Mergers and Acquisitions activities within each other’s social, political, economics and firm wide context, I will develop a qualitative approach to grow firms by M&A.

The structure of this thesis consists of five parts. The first part is an introduction and I will go through some fundamental knowledge of mergers and acquisitions. The second part elaborates on the current circumstance of China’s M&A by statistical analysis of M&A deals in China as well as a comparison with global wide and M&A in the United States. The third part goes to the
case study of companies in the United States while the fourth part focuses on companies in China. Then the last part is a conclusion.

1.1 What is M&A

Before I start to go over major corporations, I begin a brief overview of mergers and acquisitions. Mergers and acquisitions is a kind of corporate restructuring. A merger is two separated companies combined together to form a new company while an acquisition is one company purchased by another company with no new company formed (Brealey, Myers, and Allen 2008).

Generally, there are three kinds of mergers, horizontal merger, vertical merger, and conglomerate mergers (Oster 1999). Horizontal mergers are combinations of two firms in the same line of business. A most recent example is the Bank of America merger with Merrill Lynch in year 2008. Both Bank of America and Merrill Lynch are in the financial service industry and both have broad and overlapped business scope. Vertical mergers involve companies that are at different stages of production. From the perspective of the value chain, it is usually a firm merging backward to the supplier side or forward to the customer side. The failed Chinalco-Rio Tinto deal is a vertical merger with Chinalco trying to move into raw material source by partnership with the world’s leading international mining group. Conglomerate mergers are combinations of firms that are neither direct rivals nor producers in the same production areas. As in Shanghai Fosun’s case, Fosun has such a diversified business range largely resulting from conglomerate mergers.
1.2 Reasons for Mergers

The motivation for companies to make mergers and acquisitions varied. Typically, there are six main reasons for mergers.

**Growth**

Growth is one of the most commonly cited reasons for mergers. A firm grows either by organic growth which is internal growth and means growth through continuous operation and corporate development, or by unity with external part, which is mainly merger. However, organic growth may be too slow, as it usually requires a firm to eventually expand market share and improve corporate efficiency. Therefore, a merger with another firm may soon grow company’s size and scale. Merger can also bring new products and new processes. An example is eBay’s acquisition of Paypal, by which eBay enters online payment area and get a secure way for eBay customers to pay for any goods they auction online. A company can also enter new geographic market by a merger.

**Market Power**

This is the least cited reason by the merging companies. In the steel industry, major iron and steel firms merge with each other to gain more market power from both raw material supplier and downward buyers. However, market power usually leads to monopoly and hence this kind of merger is constrained by anti-trust laws.

**Operational Synergies**

Operational synergies are another reason cited very often. If two firms have partially shared value activities, their merger could have cost savings because of economies of scale. For instance,
two steel firms can share operational facilities and thus save cost. Companies can improve processes too by aligning two firms’ operation. Each company has its own advantage on certain process and hence a merger makes both companies take advantage of each other. In addition, revenue could increase as post-merger firm will have more product lines and therefore more revenue sources.

**Diversification**

A firm can enter new business area by merging with a firm in a different production area and thus allocate capital efficiently relative to the market. As well known in corporate finance field, less than perfectly correlated cash flow streams provide diversification and decreases the cost of capital, especially to some extent in emerging markets where well-developed capital markets are still rare. Besides, diversification creates value by dispersing managerial talent. As in many cases, managerial talent is scarce buy scalable. Hence, diversification can let good managers manage even bigger firms.

**Managerial Entrenchment**

This incentive for mergers mainly comes from agency problem, as managers maximize their own return rather than shareholders’. First, diversified cash flow makes firm safer and less likely to bankrupt, and then provides them job security. Second, managers have incentive or motivation to run a larger company just for excessive pride.

**Strategic Reasons**

Sometimes, even if an acquisition or merger has a negative cash flow, it may provide strategic options for potential cash flow in the future.
1.3 Process of M&A

A merger or acquisition begins from M&A strategy. As elaborated from the last past, there are numerous motivations to make M&A, so companies have to fully understand why they make M&A. The reason should essentially fit in the M&A strategy of the firm. For instance, in the case of Mexico CEMEX (Lessard and Lucea 2008), its acquisition strategy is very clear and serves the entire expansion strategy of the firm.

After identifying M&A strategy, company will source ideal target for M&A. It is usually a tough process and very uncertain. Beginning from selection plan, acquirer Company will narrow down targets to a certain industry and initial several targets companies. The real sourcing process would be done in several rounds. The first round is relatively quick as acquiring firms would only select those targets who match their M&A strategy. The second round is more about initial evaluation of the targeted company based on the information gathered.

As long as M&A target is cleared, the M&A process goes to due diligence. Due diligence is the process of thorough analysis of targeted company in order to make M&A decision. Before acquiring companies make due diligence, they would prepare due diligence model, timeline, and so on. Then they will conduct due diligence, including collecting all required information in the model, writing M&A analysis report, and even discussing with intermediary agencies about cooperation. After this process, acquiring firms will evaluate merger opportunities and thus make decisions.

By making due diligence, acquiring firms would choose the target to invest. Deal structure is an agreement made between acquirer and target defining the rights and obligations of the parties.
involved. In terms of M&A strategy, integration process, capital tools, financing cost, and risk, acquiring firms would define the entire deal structure with targeted company. With the service of law firms and financial advisory firms, acquiring firms would then standardize term sheets and begin to negotiate with the company targeted. As long as both parties reach to an agreement for all terms, they will sign M&A agreement and finish deal negotiation.

Once M&A deal is sealed, the integration process begins. Integration is an important step of successful M&A. Whether integration is successful could determine the success of entire merger, including strategic goal, operational synergy, and financial forecast. Integration usually involves the integration in corporate culture, management, operation and production, human resources, and so on. Historic research shows 50% of failed mergers resulted from unsuccessful integration.

**Why most of mergers and acquisitions fail?**

Previous research has seen frequent failure in mergers and acquisitions. In 1967, Kitching found more than 50% of M&A in the United States failed or not worthwhile (Kitching 1967). More recent research by Sirower found 65% of acquisitions fail to benefit from the acquiring companies (Sirower 2000).

Academic research in the past had tried to suggest some reasons why most of M&A failed. In a research concluded by Hunt, he suggested that multiple context variables, such as acquisition strategy, ownership, specific industry, quality of buyer, or insufficient information, are not sufficient to explain the success or failure of acquisitions (Hunt 1990). Hunt’s research was based on a critical examination of previous academic analysis, including Kitching’s. In his conclusion, he suggested that rather than focusing on single-context variable, combination of the context variables offered a better way to explain the divergence in success and failure of M&A.
He came to a major conclusion that it was the behavioral process initiated by targeting and continuing through bidding, negotiating and implementing that hold the key to success. (Hunt 1990)

Rather than discussing generally success or failure factors of M&A, this thesis will focus on real merger cases and compare M&A in the United States and China in previous research, as reflected in the research objective at the beginning of this chapter.

1.4 Data Sources

This thesis highly depended on data availability, time frame, detailed deal data on M&A deals, in China, the United States and globally. I get all these first hand data mainly from the Zephyr Database at MIT Libraries. Information related to specific companies is mainly retrieved from Capital IQ and Factiva databases.
2. China’s M&A Status

2.1 Statistical Analysis

After the overview of M&A in part 1, I will review the current situation of China’s M&A in the past decade to set the basic understanding. Only in year 2009, there are 2526 (Zephyr 2010b) M&A deals in China, including all acquirers and targets in mainland China. Deal types cover acquisitions and mergers, with IPO, planned IPO, institutional buy-out, joint-venture, management buy-in, management buy-out, demerger, minority stake and share buyback deals excluded. Total M&A deal values reach $156 billion. M&A activities in the first decade of 21st century is a booming era for China, which I will conduct statistical analysis for the period of year 2001 to 2009.
Figure 1: Mergers and Acquisitions deals in mainland China from 2000 to 2009


I searched all the M&A deals data from 2000 to 2009 in mainland China from Zephyr database as well as the deal value, as showed in figure 1. It is clear to see a rapid growth in terms of yearly total deal numbers and deal values. In 2000, there are only 96 M&A deals. This number increased to 2526, more than 26 times. The deal value also increased from $3 billion at 2000 to $156 billion at 2009, more than 52 times bigger. Previously I assumed the M&A activities would have had a period of decline from 2000 to 2003, due to the high-tech bubble burst in 2000. However, it is interesting to see the M&A activities in mainland China still maintained its upward increase during this period, which may partially because of China’s continuous strong economical growth. However, as China’s economy is connected more closely with global
economy, the recent financial crisis displayed a different pattern. From 2007 to 2009, the total M&A deal value reduced from $176 billion at 2007 to $156 billion at 2009. Although the total deals number is still in its upward routine, the average deal value decreased from $84 million at 2007 to $62 million at 2009.

2.2 Top 20 Deals

One of the water marks of M&A activities is the top deals ranking. I examined Zephyr database and searched the top 20 M&A deals in mainland China (Figure 2). The biggest M&A deal so far is the Central Huijin Investment Co.’s investment into the Agriculture Bank of China, a deal valued at around $19 billion. The major reason behind this acquisition is China’s financial system reform which intends to take major state-owned banks to go public.

Of these top 20 deals, nine deals are in financial service sector, which represents the ongoing reform in Chinese financial system and banking sector. Three deals are in telecom industry, which is dominated by major state-owned enterprises and also involved drastic reform by Chinese central government. Among the rest, another four deals are dominated by power, iron & steel, oil & gas companies, all of which are state-owned enterprises. Private companies in China are rare to see in these big deals.
<table>
<thead>
<tr>
<th>#</th>
<th>Acquiror name</th>
<th>Target name</th>
<th>Date announced</th>
<th>Deal type</th>
<th>All Deal values ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central Huijin Investment Co., Ltd</td>
<td>Agricultural Bank of China, The</td>
<td>11/6/2008</td>
<td>Acquisition 50%</td>
<td>18,986,695</td>
</tr>
<tr>
<td>2</td>
<td>China Yangtze Power Co., Ltd</td>
<td>China Three Gorges Project Corporation's electricity generation assets</td>
<td>8/15/2009</td>
<td>Acquisition</td>
<td>15,716,274</td>
</tr>
<tr>
<td>3</td>
<td>Yanbian Road Construction Co., Ltd</td>
<td>GF Securities Co., Ltd-old</td>
<td>9/10/2006</td>
<td>Acquisition 100%</td>
<td>12,051,167</td>
</tr>
<tr>
<td>4</td>
<td>China Mobile (Hong Kong) Ltd</td>
<td>Anhui Mobile Communications Ltd</td>
<td>10/5/2001</td>
<td>Acquisition</td>
<td>8,573,000</td>
</tr>
<tr>
<td>5</td>
<td>China Netcom Group Corporation (Hong Kong) Ltd</td>
<td>China Network Communications Group Corporation's certain assets in four Chinese provinces</td>
<td>9/12/2005</td>
<td>Acquisition 100%</td>
<td>4,455,089</td>
</tr>
<tr>
<td>6</td>
<td>Shanghai Baosteel (Group) Co., Ltd</td>
<td>Guangzhou Iron &amp; Steel Enterprises Group</td>
<td>3/19/2008</td>
<td>Acquisition</td>
<td>4,174,439</td>
</tr>
<tr>
<td>7</td>
<td>Bank of China Ltd</td>
<td>Singapore Aircraft Leasing Enterprise Ltd</td>
<td>12/15/2006</td>
<td>Acquisition 100%</td>
<td>3,245,000</td>
</tr>
<tr>
<td>8</td>
<td>China Unicom Ltd</td>
<td>Unicom New Century (BVT) Ltd</td>
<td>11/21/2002</td>
<td>Acquisition 100%</td>
<td>2,680,000</td>
</tr>
<tr>
<td>9</td>
<td>Central Huijin Investment Co., Ltd</td>
<td>China Everbright Bank Co., Ltd</td>
<td>11/8/2007</td>
<td>Acquisition 70.92%</td>
<td>2,690,088</td>
</tr>
<tr>
<td>10</td>
<td>Yanzhou Coal Mining Co., Ltd</td>
<td>Felix Resources Ltd</td>
<td>8/13/2009</td>
<td>Acquisition 100%</td>
<td>2,914,397</td>
</tr>
<tr>
<td>12</td>
<td>China Merchants Bank Co., Ltd</td>
<td>Wing Lung Bank Ltd</td>
<td>5/30/2008</td>
<td>Acquisition 53.119%</td>
<td>2,485,368</td>
</tr>
<tr>
<td>13</td>
<td>China COSCO Holdings Co., Ltd</td>
<td>COSCO Bulk Carrier Co., Ltd</td>
<td>9/4/2007</td>
<td>Acquisition</td>
<td>2,161,525</td>
</tr>
<tr>
<td>14</td>
<td>Wuhan Urban Construction Investment &amp; Development (Group) Co., Ltd</td>
<td>Hu Han Rong Railway Hubei Co., Ltd</td>
<td>7/7/2008</td>
<td>Acquisition 98.227%</td>
<td>2,268,099</td>
</tr>
<tr>
<td>15</td>
<td>China Merchants Bank Co., Ltd</td>
<td>Wing Lung Bank Ltd</td>
<td>9/30/2008</td>
<td>Acquisition increased from 53.119% to 100%</td>
<td>2,195,398</td>
</tr>
<tr>
<td>16</td>
<td>Aluminum Corporation of China Ltd</td>
<td>Baotou Aluminum Co., Ltd</td>
<td>6/29/2007</td>
<td>Acquisition 100%</td>
<td>1,784,054</td>
</tr>
<tr>
<td>17</td>
<td>Investors</td>
<td>BOE Technology Group Co., Ltd</td>
<td>11/6/2008</td>
<td>Acquisition 60.365%</td>
<td>1,754,873</td>
</tr>
<tr>
<td>18</td>
<td>Huanghai Power International Inc.</td>
<td>SinoSing Power Pte Ltd</td>
<td>4/29/2008</td>
<td>Acquisition 100%</td>
<td>1,610,964</td>
</tr>
<tr>
<td>19</td>
<td>Shijiazhuang Refining-Chemical Co.</td>
<td>Changjiang Securities Co., Ltd (old)</td>
<td>1/24/2007</td>
<td>Acquisition 100%</td>
<td>1,393,424</td>
</tr>
<tr>
<td>20</td>
<td>Beijing Huaer Co., Ltd</td>
<td>GuoYuan Securities Co., Ltd (old)</td>
<td>3/14/2007</td>
<td>Acquisition 100%</td>
<td>1,357,909</td>
</tr>
</tbody>
</table>

Figure 2: Top 20 M&A deals in mainland China from 2000 to 2009

Source: Zephyr Database, Top 20 deals ranking in mainland China, Time period 2000-2009
2.3 Comparison with global M&A

To explore further China’s M&A, it is better to compare global M&A with China. Figure 3 is the data of global M&A deal numbers for the past decade. Due to database limitation, total deal value for each year is not available.

![Global M&A Deal Number](image)

Figure 3: Global M&A deal number for 2000 to 2009


After comparing figure 3 with figure 1, I found the macro trend of China’s M&A is similar with that of global M&A. Global M&A also sees a decline from 2007 to 2009. But at the beginning of this decade, global M&A already has a huge base while China is still in its infant time to make M&A deals at early 2000s.
Figure 4 is the top 20 M&A deals globally from 2000 to 2009. None of these mega deals is in China. Of these 20 deals, six deals are in financial service sector while that of China is eight. Three of the world’s top 20 deals lie in telecom industry compared with five in China. The industry pattern is more or less the same in China as in other parts of the world. The financial service and telecom industries in the past decade have experienced extensive consolidation by mergers and acquisitions. However, there are also mega deals in pharmaceutical, consumer goods, media industries in the world’s top 20 deals but none in China’s. Partially the reason is due to different economical stage of China and the world. But it is possible to see these deals coming out in the future as China’s economy continues its rapid raise.
<table>
<thead>
<tr>
<th>#</th>
<th>Acquiror name</th>
<th>Target name</th>
<th>Date</th>
<th>Deal type</th>
<th>Deal values ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vodafone Airtouch plc</td>
<td>Mannesmann AG</td>
<td>4/02/2000</td>
<td>Acquisition 100%</td>
<td>$194,759,649</td>
</tr>
<tr>
<td>2</td>
<td>America Online Inc.</td>
<td>Time Warner Inc.(old)</td>
<td>10/01/2000</td>
<td>Acquisition 100%</td>
<td>$181,950,000</td>
</tr>
<tr>
<td>3</td>
<td>RFS Holdings BV</td>
<td>ABN Amro Holding NV</td>
<td>29/05/2007</td>
<td>Acquisition 100%</td>
<td>$112,233,623</td>
</tr>
<tr>
<td>4</td>
<td>Pfizer Inc.</td>
<td>Warner-Lambert Company</td>
<td>7/02/2000</td>
<td>Acquisition 100%</td>
<td>$90,000,000</td>
</tr>
<tr>
<td>5</td>
<td>Royal Dutch/Shell Group</td>
<td>Shell Transport &amp; Trading Co plc, The</td>
<td>27/06/2005</td>
<td>Merger 100%</td>
<td>$87,044,189</td>
</tr>
<tr>
<td>6</td>
<td>Gaz de France SA</td>
<td>Suez SA</td>
<td>3/09/2007</td>
<td>Acquisition 100%</td>
<td>$72,365,885</td>
</tr>
<tr>
<td>7</td>
<td>Comcast Corporation</td>
<td>AT&amp;T Broadband LLC</td>
<td>19/12/2001</td>
<td>Acquisition 100%</td>
<td>$72,000,000</td>
</tr>
<tr>
<td>8</td>
<td>Wells Fargo &amp; Company Inc.</td>
<td>Wachovia Corporation</td>
<td>3/10/2008</td>
<td>Acquisition 100%</td>
<td>$68,111,985</td>
</tr>
<tr>
<td>9</td>
<td>Pfizer Inc.</td>
<td>Wyeth</td>
<td>26/01/2009</td>
<td>Acquisition 100%</td>
<td>$68,000,000</td>
</tr>
<tr>
<td>10</td>
<td>AT&amp;T Inc.</td>
<td>BellSouth Corporation</td>
<td>6/03/2006</td>
<td>Acquisition 100%</td>
<td>$67,000,000</td>
</tr>
<tr>
<td>11</td>
<td>Sanofi-Synthelabo SA</td>
<td>Aventis SA</td>
<td>26/04/2004</td>
<td>Acquisition 100%</td>
<td>$66,642,564</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Bid 2 - Increased offer</td>
</tr>
<tr>
<td>12</td>
<td>NGMCO Inc.</td>
<td>General Motors Corporation's good assets</td>
<td>2/06/2009</td>
<td>Acquisition 100%</td>
<td>$66,600,000</td>
</tr>
<tr>
<td>13</td>
<td>Glaxo Wellcome plc</td>
<td>Smithkline Beecham plc</td>
<td>17/01/2000</td>
<td>Acquisition 100%</td>
<td>$64,777,147</td>
</tr>
<tr>
<td>14</td>
<td>Pfizer Inc.</td>
<td>Pharmacia Corporation</td>
<td>15/07/2002</td>
<td>Acquisition 100%</td>
<td>$60,000,000</td>
</tr>
<tr>
<td>15</td>
<td>JP Morgan</td>
<td>Bank One Corporation</td>
<td>14/01/2004</td>
<td>Acquisition 100%</td>
<td>$57,405,000</td>
</tr>
<tr>
<td>16</td>
<td>Procter &amp; Gamble Company</td>
<td>Gillette Company, The</td>
<td>28/01/2005</td>
<td>Acquisition 100%</td>
<td>$57,000,000</td>
</tr>
<tr>
<td>17</td>
<td>Commonwealth Bank of Australia Ltd</td>
<td>PT Bank Arta Niaga Kencana Tbk</td>
<td>8/01/2007</td>
<td>Acquisition increased from 57% to 83%</td>
<td>$52,329,420</td>
</tr>
<tr>
<td>18</td>
<td>InBev SA</td>
<td>Anheuser-Busch Companies Inc.</td>
<td>14/07/2008</td>
<td>Acquisition 100%</td>
<td>$52,000,000</td>
</tr>
<tr>
<td>19</td>
<td>Bank of America Corporation</td>
<td>Merrill Lynch</td>
<td>15/09/2008</td>
<td>Acquisition 100%</td>
<td>$50,000,000</td>
</tr>
<tr>
<td>20</td>
<td>Bank of America Corporation</td>
<td>FleetBoston Financial Corporation</td>
<td>27/10/2003</td>
<td>Acquisition 100%</td>
<td>$47,000,000</td>
</tr>
</tbody>
</table>

Figure 4: Top 20 M&A deals in the world from 2000 to 2009

Source: Zephyr Database, Top 20 deals ranking globally, Time period 2000-2009
2.4 Comparison with the United States

A comparison with M&A in the United States (Figure 5) is also necessary to explore the difference between these two markets and get some hints for China’s M&A. The scale and size of M&A deal in U.S. is much larger than those of China. The total deal value in U.S. is way above $1 trillion except in year 2003. Deal number is also more than 4000 every year but 2003. While in China, only beginning from 2006, China begins to see hundreds of billion dollars deal. The entire pattern is also different. From figure 5, it is obvious to observe U.S. as a matured market with just a fluctuated pattern for both deal number and deal value. However, China appeared a strong increasing pattern for its M&A market in figure 1.

![Figure 5: Mergers and Acquisitions deals the United States from 2000 to 2009](image)

Figure 5: Mergers and Acquisitions deals the United States from 2000 to 2009
Figure 6 is the top 20 M&A deals in U.S. from 2000 to 2009. The biggest M&A deal ever happened before the high-tech bubble burst at 2000, when America Online merged with Time Warner with a deal value nearly of $182 billion. In contrast with figure 4, 13 out of the top 20 M&A deals in U.S. are in the global top 20 M&A deals list. This feature confirms with U.S.'s dominant position in the world’s economy as well as the global financial market.
<table>
<thead>
<tr>
<th>#</th>
<th>Acquiror name</th>
<th>Target name</th>
<th>Date</th>
<th>Deal type</th>
<th>Deal values ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>America Online Inc.</td>
<td>Time Warner Inc.(old)</td>
<td>10/01/2000</td>
<td>Acquisition 100%</td>
<td>$181,950,000</td>
</tr>
<tr>
<td>2</td>
<td>Pfizer Inc.</td>
<td>Warner-Lambert Company</td>
<td>7/02/2000</td>
<td>Acquisition 100%</td>
<td>$90,000,000</td>
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<tr>
<td>3</td>
<td>Comcast Corporation</td>
<td>AT&amp;T Broadband LLC</td>
<td>19/12/2001</td>
<td>Acquisition 100%</td>
<td>$72,000,000</td>
</tr>
<tr>
<td>4</td>
<td>Wells Fargo &amp; Company Inc.</td>
<td>Wachovia Corporation</td>
<td>3/10/2008</td>
<td>Acquisition 100%</td>
<td>$68,111,985</td>
</tr>
<tr>
<td>5</td>
<td>Pfizer Inc.</td>
<td>Wyeth</td>
<td>26/01/2009</td>
<td>Acquisition 100%</td>
<td>$68,000,000</td>
</tr>
<tr>
<td>6</td>
<td>AT&amp;T Inc.</td>
<td>BellSouth Corporation</td>
<td>6/03/2006</td>
<td>Acquisition 100%</td>
<td>$67,000,000</td>
</tr>
<tr>
<td>7</td>
<td>NGMCO Inc.</td>
<td>General Motors Corporation's good assets</td>
<td>2/06/2009</td>
<td>Acquisition 100%</td>
<td>$66,600,000</td>
</tr>
<tr>
<td>8</td>
<td>Pfizer Inc.</td>
<td>Pharmacia Corporation</td>
<td>15/07/2002</td>
<td>Acquisition 100%</td>
<td>$60,000,000</td>
</tr>
<tr>
<td>9</td>
<td>JP Morgan</td>
<td>Bank One Corporation</td>
<td>14/01/2004</td>
<td>Acquisition 100%</td>
<td>$57,405,000</td>
</tr>
<tr>
<td>10</td>
<td>Procter &amp; Gamble Company</td>
<td>Gillette Company, The</td>
<td>28/01/2005</td>
<td>Acquisition 100%</td>
<td>$57,000,000</td>
</tr>
<tr>
<td>11</td>
<td>InBev SA</td>
<td>Anheuser-Busch Companies Inc.</td>
<td>14/07/2008</td>
<td>Acquisition 100%</td>
<td>$52,000,000</td>
</tr>
<tr>
<td>12</td>
<td>Bank of America Corporation</td>
<td>Merrill Lynch</td>
<td>15/09/2008</td>
<td>Acquisition 100%</td>
<td>$50,000,000</td>
</tr>
<tr>
<td>13</td>
<td>Bank of America Corporation</td>
<td>FleetBoston Financial Corporation</td>
<td>27/10/2003</td>
<td>Acquisition 100%</td>
<td>$47,000,000</td>
</tr>
<tr>
<td>14</td>
<td>Roche Holding AG</td>
<td>Genentech Inc.</td>
<td>12/03/2009</td>
<td>Acquisition increased from 55.8% to 100%</td>
<td>$46,800,000</td>
</tr>
<tr>
<td>15</td>
<td>Qwest Communications</td>
<td>US West Inc.</td>
<td>18/07/1999</td>
<td>Acquisition 100%</td>
<td>$41,895,000</td>
</tr>
<tr>
<td>16</td>
<td>JDS Uniphase Corporation</td>
<td>SDL Inc.</td>
<td>10/07/2000</td>
<td>Acquisition 100%</td>
<td>$41,000,000</td>
</tr>
<tr>
<td>17</td>
<td>Cingular Wireless LLC</td>
<td>AT&amp;T Wireless Services Inc.</td>
<td>17/02/2004</td>
<td>Acquisition 100%</td>
<td>$40,717,000</td>
</tr>
<tr>
<td>18</td>
<td>US Government</td>
<td>American International Group Inc.</td>
<td>10/11/2008</td>
<td>Acquisition unknown stake %</td>
<td>$40,000,000</td>
</tr>
<tr>
<td>19</td>
<td>Chevron Corporation</td>
<td>Texaco Inc.</td>
<td>16/10/2000</td>
<td>Acquisition 100%</td>
<td>$39,000,000</td>
</tr>
<tr>
<td>20</td>
<td>Schering-Plough Corporation</td>
<td>Merck &amp; Company Inc.</td>
<td>9/03/2009</td>
<td>Acquisition 100%</td>
<td>$37,654,154</td>
</tr>
</tbody>
</table>

Figure 6: Top 20 M&A deals in the United States from 2000 to 2009

Source: Retrieved from Zephyr Database, Top 20 completed deals ranking in the United States, Time period 2000-2009
3. M&A at the United States: A Benchmark

Since the United States economy is much more matured than China’s, it would be a good approach to discover how U.S. corporations leverage M&A to grow and then compare that with Chinese firms. I will go over the entire M&A process within each firm’s context, try to find the evolution of these firms’ M&A strategies and how they perform and integrate M&A deals. To set the benchmark, I selected two firms, Cisco Systems and the Bank of America, both of which are representative companies in their industries by market size and position.

3.1 Overview of corporate strategy

Successful mergers and acquisitions always fit in overall corporate strategy. Different corporate strategy leads to different M&A strategy and hence totally different integration process. For instance, if companies take a portfolio management strategy, then each acquired firm will operate relatively independent while holding company acts as financial holding entity. So in this part I will take a brief review of corporate strategy to clarify the relation between corporate strategy and M&A strategy. The content bases mainly on Porter’s paper in 1987, From Competitive Advantage to Corporate Strategy (Porter 1987).

Nowadays most of firms are to some extent diversified. They have more than one product line and operate in more than one market. Whether diversification can add competitive advantage or not is not the argument of this thesis, so I will focus more on the four types of corporate strategies used by diversified firms. A diversified company has two levels of strategy: business
unit (or competitive) strategy and corporate (or companywide) strategy. M&A strategy relates more to corporate strategy.

In terms of Porter’s study, there are four concepts of corporate strategy that have been put into practice: portfolio management, restructuring, transferring skills, and sharing activities. The first two require no connections among business units while the second two depend on them.

Portfolio Management: This concept is employed by corporations who diversified primarily by acquisitions. A company acquires undervalued, sound firms, whose business are not in the same industries as existing ones. Under this circumstance, senior management usually serves as review roles guiding all units in the portfolio. To ensure success of portfolio management strategy, the corporation usually is a private company or operates in underdeveloped capital markets.

Restructuring: Like portfolio management strategy, restructuring strategy does not need the new businesses to be related to existing units. The only one needed is unrealized value and potential. A company with restructuring strategy is an active restructurer of business units, not a passive role in portfolio management roles. As soon as restructuring finished and results are clear enough, parent sells off the unit as it no longer can add value to parent corporation.

Transferring skills: If corporation has skills that are important to competitive advantages in target industries and it has capacity to make the transfer of skills among units continuously, then it will build a transferring skills strategy. Different business units usually have different value chain. The skills and knowledge to perform primarily activities in these values chains can transfer among these business units.

Sharing activities: For the primarily and supporting activities in the value chains of different business units, sharing activities can be a corporate strategy. That means activities in current
business units can be shared with new business units to gain competitive advantages. According

to Porter’s competitive advantage theory, the ability to share activities is a potent basis for

corporate strategy because sharing often enhances competitive advantages by raising
diversification or lowering cost.

3.2 Cisco

Cisco Systems, a company founded by two former graduate students then staff member of
Stanford University at 1984 (Gawer and Cusumano 2002), is now the world’s largest maker of
computer networking equipment. Headquartered in San Jose, California, Cisco has more than
65,000 employees and annual revenue of US$36.11 billion as of 2009. As of Nov 2, 2009, Cisco
has a market capitalization of $129 billion (Cisco 2010c), way above its main competitors. This
company employed an M&A strategy to grow sustainably and is a perfect benchmark for
Chinese firms.

3.2.1 The company: Cisco System Inc

Cisco Systems, Inc. designs, manufactures, and sells Internet Protocol (IP)-based networking and
other products to the communications and IT industry worldwide. The company offers routers
that interconnect public and private IP networks for mobile, data, voice, and video applications;
switching systems, which provide connectivity to end users, workstations, IP phones, access
points, and servers; application networking services; home networking products, such as voice
and data modems, routers and gateways, Internet video cameras, home entertainment storage,
wireless home audio, and home network management software; and network and content
security, email, and Web security products. It also provides storage area networking products that deliver connectivity between servers and storage systems; unified communication products to integrate voice, video, data, and mobile applications on fixed and mobile networks; video systems, including digital set-top boxes and digital media products; and wireless systems. In addition, Cisco offers optical networking products, cable access, and service provider VoIP services; and Cisco TelePresence systems and exchange services, physical security and video surveillance, digital media systems, and building systems to manage energy efficiency. It serves enterprise businesses, public institutions, telecommunications companies, commercial businesses, and personal residences through systems integrators, service providers, resellers, distributors, and retail partners. Cisco Systems has strategic alliances with Accenture Ltd; AT&T Inc.; Cap Gemini S.A.; EMC Corporation; Fujitsu Limited; Intel Corporation; International Business Machines Corporation; Italtel SpA; Johnson Controls Inc.; Microsoft Corporation; Nokia; Nokia Siemens Networks; Oracle Corporation; SAP AG; Sprint Nextel Corporation; Tata Consultancy Services Ltd.; VMware, Inc.; and Wipro Limited (Capital IQ 2010b).

Here is a brief history of the company (Cisco 2010b). In Dec 1984, computer scientists, Len Bosack and Sandy Lerner, from Stanford University found Cisco Systems. The company is named for San Francisco, gateway to the Pacific Rim. Beginning to experiment with connecting detached networks, Bosack and Lerner run network cables between two different buildings on the Stanford campus, connecting them first with bridges, and then routers. Bosack and Lerner, with the expertise of Greg Satz and Kirk Lougheed, work to enable disparate networks to talk with each other and share information reliably. But in order for the networks to be truly interconnected, a technology has to be invented that can deal with the disparate local area protocols. With that idea in mind, the multi-protocol router is born. Eventually, Cisco became a
market leader in networking market in late 1980s and 1990s. The company went public on Feb 16, 1990 and continued its rapid growth in 1990s thanks to the dramatic growth of the internet after 1995. Cisco’s current CEO, John Chambers, a former IBM sales person, joined the company in 1991 and became CEO since 1995. As of the second quarter of 2009, Cisco captures leading market share in its main segments. (Figure 7)

![Cisco: Market Share Leadership](image)

Figure 7: Market Share Leadership of Cisco in computer networking industry

Source: Retrieved from Cisco Website, 2010

3.2.2 Cisco’s acquisition activities and performance

In Cisco’s 26 years history, it has acquired 137 companies (Figure 8), that is average 5 deals per year. The most active period is the high tech booming period from 1999 to 2000, when Cisco
acquired 18 and 23 firms, respectively.

![Cisco acquisitions each year](image)

Figure 8: Acquisitions amount of Cisco from 1984 to present

Source: Retrieved from Cisco Website, 2010

Before I study Cisco’s acquisition strategy, let’s examine its performance first. At 1990 when Cisco went public, its total revenue was just $69.8 million (CapitalIQ 2010c) while market cap was slight above $1.8 million. At FY2009, Cisco’s total revenue jumps to $36 billion, 517 times bigger than that of 1990. As of Feb 14, 2010, its market cap is $136.4 billion (CapitalIQ 2010c).

Another perspective to conduct performance review is to look at the companies’ stock performance. If the ongoing stock return to shareholders is by largely increasing, then the M&A activities must be successful. Figure 9 is the stock prices of Cisco from its public offering to Feb 15, 2010, with a comparison with S&P 500 and NASDAQ. Clearly, Cisco’s stock performance is
far better the market’s benchmark. Except for the high tech bubble period of 1999 to 2003, the stock price of Cisco maintains its upward trend and rewards its shareholders significantly.

![Cisco stock prices](image)

Figure 9: Cisco stock prices

Source: Yahoo Finance, Max time frame, compare with S&P 500 and NASDAQ, Feb 15, 2010

### 3.2.3 Acquisition strategy

As previous part examined, Cisco is pretty successful in terms of its massive acquisitions. In a leading research conducted by Gawer and Cusumano in 2002, they found Cisco’s acquisitions were very much strategic and focusing on building its platform leadership (Gawer and Cusumano 2002). In their research, Gawer and Cusumano demonstrated companies, such as Cisco, Intel, and Microsoft, can grow and sustain to be world-class leading company by becoming platform leaders—companies that provide the technological foundation on which other products, services, and systems are built.

Cisco’s origin went back to its innovation of the internet router. Internet router itself was a platform that could be built and used by other products and services. However, Cisco soon
realized the transition happened in information technology industry, which was transforming dramatically from personal computer to internet-based networking. In this sense of industry environment change, Cisco defined itself as a platform leader by providing much of the infrastructure hardware and software of computer network. A more detailed articulation could be referred in Gawer and Cusumano’s publication in 2002, Platform Leadership: How Intel, Microsoft, and Cisco Drive Industry Innovation.

Cisco particularly looks for acquisitions that capitalize on market disruption through new technologies and new business models. Its acquisition strategy emphasizes building a market by extending the technology and business model by a global view which pursues acquisitions that present the best opportunities for business and technology innovation coming from both established and emerging markets.

At the corporate strategy level, I categorize Cisco’s corporate strategy as sharing activities. Cisco’s existing business and acquired business share a very similar value chain, which gives Cisco space to create synergy. Take the company’s acquisition of WebEx Communication in 2007 as an example.

The acquisitions should fit Cisco’s overall growth strategy, which is based on identifying and driving market transitions. Any acquisitions should help Cisco capture these market transitions. In the case of WebEx acquisition, WebEx engages in the development and marketing of Web collaboration services that enable end-users to conduct meetings and share software applications, documents, presentations, and other content on the Internet using a standard Web browser (WebEx 2010). This market segmentation is exactly what Cisco is pursuing for.
Cisco segments acquisitions into three categories – market acceleration, market expansion or new market entry. The target companies might bring different types of assets to Cisco, including great talent and technology, mature products and solutions, or new go-to-market and business models. Cisco’s mission is to connect people in a collaborative world. Before acquisition of WebEx, Cisco has no footprint in this sub-market. So acquiring WebEx can help Cisco extend its position on the collaborative service market.

From the perspective of transferring skills, Cisco has a track record to leverage deep expertise and unique experience in its acquisition practice, having cultivated world class processes over 15+ years and 130+ acquisitions of small to large, private and public companies (Cisco 2010a). In the entire value chain of networking service industry, the technology development is part of the support activities in Porter’s value chain theory. Cisco has the ability to improve current technology and develop new technology by its own process. It also can identify the technology developed by those firms being acquired and transfer the new technology to internal system, and thus combine internal R&D with external innovation through acquisitions.

3.2.4 Valuation

Overview of General Valuation Method

After acquiring target is finalized, the M&A process goes to valuation. I will go over general valuation approach first before discussing Cisco’s valuation. Theoretically, there are three main valuation method used by private equity firms.

The first method is net present value (NPV) method (Lerner, Hardymon, and Leamon 2009), which is the most common valuation method either in reality or in academic area. NPV method is essentially to get total discount value of all future cash flow of the targeted company.
\[ NPV = \sum_{n=1}^{N} \frac{FCF_n}{(1+r)^n} + \frac{TV_N}{(1+r)^N} \]

Where

- \( NPV \) = net present value of the targeted firm
- \( FCF_n \) = free cash flow to the firm in year \( n \)
- \( r \) = discount rate, which is also the cost of capital to the targeted firm
- \( TV_N \) = terminal value the future cash flow after year \( N \)

I will skip the detailed description of FCF, \( r \), and TV as they could be easily found in intermediate finance textbook.

The second valuation method is to value the targeted company by comparables, such as Price to earnings per share (P/E ratio), price to book value per share, price to cash flow per share, and so on. In contract with NPV method, which is a method to calculate absolute value, comparable is a method to the market value or relative value of the targeted firm. For instance, if the average P/E ratio of all public firms in one industry is 10 and the trailing earnings per share of the target is $2, we could get the market expected price per share of the target by multiplying 10 and $2, which is $20. Hence market valuation of the company can be deduced by multiplying $20 and all shares outstanding of the company.

The third valuation method is adjusted present value (APV) method (Damodaran 2001), which is an extension of NPV method. APV method works better than NPV method if the company’s capital structure keeps on changing. Changing capital structure would change the weighted average cost of capital of the firm. Meanwhile, APV calculation counts in the financing side.
The effects of different factors, such as tax shields, government incentives, debt distresses, etc. The formula to calculate APV could be written as:

\[
\text{APV} = \text{NPV} + \text{NPVF}
\]

Where

\[
\text{APV} = \text{adjusted present value of the company}
\]

\[
\text{NPV} = \text{net present value of the company}
\]

\[
\text{NPVF} = \text{the present value of the financing side effects}
\]

There are some other types of valuation methods available too, such as venture capital method and asset options method. However, the comparables, NPV and APV are the three most widely used models preferred by private equity firms.

Each of the three models has its own pros and cons. The advantage of net present value method is theoretically sound and reflects the intrinsic value of the firm. However, the weaknesses of net present value method are substantial. The basis of net present value method, cash flows, may be difficult to estimate. The beta coefficient and capital structure of private company is difficult to find. NPV also assumes a constant capital structure, which is usually not the case. Comparables is easy and simple to use and also commonly used in private equity industry. However, it may be difficult to get comparables for private company. Even public company comparables are used, the illiquidity of private equity still hasn’t been considered in comparable method. Adjusted present value method seems adjusted the weaknesses of net present value method. But it becomes more complicated to calculate than NPV method. In addition, APV method is still based on capital structure theory, of which the shortfall is still under discussion in academics.
Cisco’s Valuation of WebEx Acquisition

From the perspective of financial valuation, there’s not too much difference in different cases of acquisitions. As for Cisco, I will elaborate its multiple valuation of WebEx acquisition as an example. Cisco announced a definitive agreement to acquire WebEx on March 15, 2007. WebEx is a market leader in on-demand collaboration applications, and its network-based solution for delivering business-to-business collaboration extends Cisco's vision for Unified Communications, particularly within the Small to Medium Business (SMB) segment.
<table>
<thead>
<tr>
<th>Multiples Detail</th>
<th>Mar-30-2007</th>
<th>May-25-2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For Quarter Ending</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TEV/LTM Total Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>4.95x</td>
<td>6.34x</td>
</tr>
<tr>
<td>High</td>
<td>6.59x</td>
<td>6.58x</td>
</tr>
<tr>
<td>Low</td>
<td>3.68x</td>
<td>6.12x</td>
</tr>
<tr>
<td>Close</td>
<td>6.58x</td>
<td>6.20x</td>
</tr>
<tr>
<td>TEV/NTM Total Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>4.10x</td>
<td>5.27x</td>
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<tr>
<td>Close</td>
<td>5.45x</td>
<td>5.16x</td>
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<tr>
<td>TEV/LTM EBITDA</td>
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<tr>
<td>Average</td>
<td>18.89x</td>
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<td>25.08x</td>
<td>25.03x</td>
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<td>14.17x</td>
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</tr>
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<td>Close</td>
<td>25.01x</td>
<td>22.83x</td>
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<tr>
<td>TEV/NTM EBIT</td>
<td></td>
<td></td>
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<tr>
<td>Average</td>
<td>12.92x</td>
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<td>Close</td>
<td>17.76x</td>
<td>16.48x</td>
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<tr>
<td>P/LTM EPS</td>
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<tr>
<td>Average</td>
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<td>Close</td>
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<tr>
<td>P/NTM EPS</td>
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<td>Average</td>
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<td>Close</td>
<td>51.70x</td>
<td>47.73x</td>
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<tr>
<td>P/LTM Normalized EPS</td>
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</tr>
<tr>
<td>Average</td>
<td>4.83x</td>
<td>5.79x</td>
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<tr>
<td>High</td>
<td>6.10x</td>
<td>6.09x</td>
</tr>
<tr>
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<td>5.56x</td>
</tr>
<tr>
<td>Close</td>
<td>6.09x</td>
<td>5.64x</td>
</tr>
</tbody>
</table>

Figure 10: Multiples of WebEx Communication Inc. before and after Cisco acquisition
Under the terms of the agreement, Cisco would commence a cash tender offer to purchase all of the outstanding shares of WebEx for $57 per share and would assume outstanding share-based awards, for an aggregate purchase price of approximately $3.2 billion, or approximately $2.9 billion net of WebEx's existing cash balance. Cisco Systems would pay USD 57 per share of WebEx Inc. The offer represented a bid premium of 23.377 per cent over WebEx' closing share price of USD 46.20 on 14/03/07, the last trading day before the offer was announced (Zephyr 2010a).

In this case, Cisco used tender offer to acquire the company. Tender offer is a corporate finance term denoting a type of takeover bid (Thompson 2001). The tender offer is a public, open offer or invitation by a prospective acquirer to all stockholders of a publicly traded corporation to tender their stock for sale at a specified price during a specified time, subject to the tendering of a minimum and maximum number of shares. In a tender offer, the bidder contacts shareholders directly; the directors of the company may or may not have endorsed the tender offer proposal. To induce the shareholders of the target company to sell, the acquirer's offer price usually includes a premium over the current market price of the target company's shares. So we see a premium of more than 20% in WebEx acquisition.

I examined the multiples in the acquisition of WebEx (Figure 10). In terms of total revenue of last twelve months, Cisco’s offer was 6.34 times of WebEx’s total sales revenue. If calculated by EBITDA of the last twelve months, the offer was 5.27 times. In contrast to multiples on Mar 30, 2007, all multiples at the date of acquisition completion increased around 20%.
3.2.5 Integration

Integration is essential to successful acquisitions. Cisco’s overall business development effort includes engaging from the early diligence phase through to mainstream business, by investing in dedicated integration resources across the company at the corporate and functional levels. The integration process starts with the entire acquisition strategy. Cisco seeks acquisitions where there is not only a strong business case but also a shared business and technological vision, and where compatibility of core values and culture foster an environment for success.

Cisco’s normal practice is to integrate acquired technology with their existing product lines, doing substantial development work in-house to produce products much more interesting than the initial acquired technology. As often the case, acquisitions fill a specific technology void in a larger Cisco product innovation map.

If one acquisition is in manufacturing sector, the majority of Cisco’s integration lies in the supply chain. Cisco has a comprehensive supply chain management system and thus requires every acquired company’s products and suppliers to be integrated in the entire system. Original suppliers of the acquired company will be evaluated and then converted to Cisco’s outsourcing model. In the production step, acquired company has to adopt Cisco’s forecasting methodology and employ acceptable defect reduction process. Based on an analysis from STMB Biztel, there are 12 mandatory integration steps for mandatory manufacturing integration (Sardjana 2005).

1) Assign each product a Cisco part number;
2) Re-create the bill of materials into Cisco’s MRP system;
3) Convert acquired company to Cisco’s MRP system;
4) Convert acquired company to Cisco’s Autotest system;
5) Evaluate suppliers;
6) Convert to Cisco’s outsourcing model;
7) Determine product lifecycles;
8) Employ acceptable defect reduction process;
9) Adopt Cisco’s forecasting methodology;
10) Adopt Cisco’s NPI methodology;
11) Integration of manufacturing facilities;
12) Integration of people.

This integration process is essentially trying to share activities of the entire value chain and thus enjoy the synergy from acquisition. Typically, Cisco integrates human resources, manufacturing, distribution, customer service, and finance into the overall Cisco firm-wide infrastructure. Engineering, marketing, and sales are often integrated into the Cisco business unit which sponsored the acquisition (Paulson 2001).

In Paulson’s Inside Cisco, he categorized Cisco’s integration process into two stages: the structural integration stage and the culture integration stage. All the administrative and operational aspects are in the structural integration stage. The items included are the integration of employee compensation, employee information, information systems, and other operational activities. Cultural integration stage is more difficult and thus need more time. Cisco did this mostly by pairing up inside team and acquired company to coach and transfer Cisco culture to acquired company.
3.3 The Bank of America

3.3.1 The Company

The Bank of America is now one of the largest financial institutions in the United States. It offers financial services and products to individual consumers, small and middle market businesses, large corporations, and governments globally. The company’s Deposits segment generates savings accounts, money market savings accounts, certificate of deposits, individual retirement accounts, and checking accounts; and Global Card Services segment provides the U.S. consumer and business card, consumer lending, international card and debit card services. Its Home Loans & Insurance segment offers consumer real estate products and services, including mortgage loans, reverse mortgages, home equity lines of credit, and home equity loans. It also provides property, casualty, life, disability, and credit insurance. The company’s Global Banking segment offers lending products, including commercial loans and commitment facilities, real estate lending, leasing, trade finance, short-term credit, asset-based lending, and indirect consumer loans; capital management and treasury solutions, such as treasury management, foreign exchange, and short-term investing options; and investment banking services comprising debt and equity underwriting and distribution, and merger-related advisory services. Its Global Markets segment provides financial products, advisory services, financing, securities clearing, settlement, and custody services. The company’s Global Wealth & Investment Management segment offers investment and brokerage services, estate management, financial planning services, fiduciary management, credit and banking expertise, and asset management products (CapitalIQ 2010d).
The company provides unmatched convenience in the United States, serving approximately 59 million consumers and small business relationships with more than 6,000 retail banking offices, more than 18,000 ATMs and award-winning online banking with nearly 30 million active users (Bank_of_America 2010b).

3.3.2 Merger Strategy

In more than 200 years, the Bank of America was grown up from a local bank in Charlotte, North Carolina by series of mergers and acquisitions. It not only expanded its geographical presence by acquiring strategically but also extended its business scope to areas other than retail banking. Figure 11 shows clearly the merger history of the Bank of America.
<table>
<thead>
<tr>
<th>Year</th>
<th>Mergers and Acquisitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>NCNB acquired the Bankers Trust of South Carolina. The acquisition of Bankers Trust brought $4 billion in assets to NCNB and ensured the banks' place as the largest banking group in the Southeast, with a network of 355 networks in the Carolinas.</td>
</tr>
<tr>
<td>1988</td>
<td>NCNB acquired the Frist Republic Bank and thus gain a foothold in the west in Texas.</td>
</tr>
<tr>
<td>1991</td>
<td>NCNB acquired the C&amp;S/Sovran Bank and thus expanded its presence throughout Maryland, Virginia, South Carolina, Tennessee, Georgia and Florida. After this acquisition, NCNB changed its name to the NationsBank.</td>
</tr>
<tr>
<td>1997</td>
<td>NationsBank acquired the Barnett Bank. After this acquisition, NationsBank obtained a dominant market share in Florida and an increased share in Georgia.</td>
</tr>
<tr>
<td>1997</td>
<td>NationsBank acquired Boatman's Bank, which is the fifth largest bank in the country at that time. Since then, NationsBank provided services to over 13 million customers in 16 states.</td>
</tr>
<tr>
<td>1998</td>
<td>NationsBank acquired BankAmerica Corp. After this acquisition, NationsBank changed its name to the Bank of America. The new financial institution was to be the first coast-to-coast retail banking franchise in the U.S. and also had a global presence.</td>
</tr>
<tr>
<td>2004</td>
<td>Bank of America acquired FleetBoston, which was created after the acquisition of BankBoston Corporation by Fleet Financial Group in 1999, and thus extended its reach into New England region.</td>
</tr>
<tr>
<td>2006</td>
<td>Bank of America acquired Maryland Bank, N.A. (MBNA) and subsequently became the leading credit card issuer in the U.S. and abroad.</td>
</tr>
<tr>
<td>2007</td>
<td>Bank of America acquired U.S. Trust and thus expanded its services and reach to ultra high net worth clients.</td>
</tr>
<tr>
<td>2007</td>
<td>Bank of America acquired LaSalle Bank and thus extended a strong presence into the Middlewest.</td>
</tr>
<tr>
<td>2008</td>
<td>Bank of America acquired Countrywide Financial and consequently became the nation's largest mortgage lender and loan servicer.</td>
</tr>
<tr>
<td>2008</td>
<td>Bank of America acquired Merrill Lynch and thus enhanced its global offerings and reach particularly in its retail brokerage and wealth management divisions.</td>
</tr>
</tbody>
</table>

Figure 11: The merger history of the Bank of America


In terms of the four corporate strategies I elaborated at part 3.1, I would categorize the merger strategy of the Bank of America into transferring skills. From the geographical perspective, the
predecessor of Bank of America, NCNB, constantly expanded its presence from North Carolina to South Carolina, then to the west, the Middle West, and national wide. The acquisitions in 1960, 1986, 1988, 1991, 1993, 1997, 2004 and the acquisition of LaSalle Bank are mainly in the commercial banking side. It is thus easily for the bank to transfer skills from one location to another. The acquisitions in 2006, the acquisition of U.S. Trust in 2007, and the acquisitions in 2008, 2009 significantly extend its business segments. These M&A deals involve mainly skills transferred from the Bank of America to acquired companies and therefore strengthened its position as a leading financial institution.

Before the acquisition of Merrill Lynch, the business scope of Bank of America was mainly in the retail banking side. So it is relatively easy to transfer skills from one branch network to another one. That’s why the majority acquisitions did by the Bank of American was involving geographic expansion, which largely improved the retail banking service coverage.

3.3.3 The Merrill Lynch Acquisition

The Bank of American’s acquisition of Merrill Lynch gives the bank a strong position in capital markets, wealth management and investment banking. It is by this acquisition that the Bank of America rises to be a top player on Wall Street.

Target

Prior to the acquisition, Merrill Lynch was renowned for its brokerage network, which had 15000+ as of 2006. Such a strong network made Merrill Lynch capable to sell securities it underwrote directly. Other well known investment banks, such as Goldman Sachs and Morgan Stanley, had to rely on other independent brokers to distribute securities they underwrote: Merrill Lynch went public in 1971 with over $1.8 trillion assets under management and operated in more

**Timing**

Beginning from 2007, a global financial crisis broke out as of the burst of American housing bubble and the subsequently subprime mortgage crisis. Plenty of financial institutions were involved in the transactions of CDO (Collateralized Debt Obligations) and CDS (Collateralized Debt Swaps), which were highly risky in terms of volatility of housing price. When housing bubble busted, these subprime securities became nearly valueless and therefore resulted in severe assets loss to those financial institutions. Merrill Lynch was one of those highly involved.

In November 2007, Merrill Lynch announced a write down loss of $8.4 billion with the national housing crisis and removed its CEO (The_New_York_Times 2007). In July 2008, the new CEO of Merrill Lynch announced a fourth quarter loss of $4.9 billion for the company from defaults and bad investments in the mortgage crisis (The_New_York_Times 2008). During this period, the company’s stock price also declined significantly. Tremendous loss heavily eroded Merrill Lynch’s solvency to its short-term debt and thus ultimately led to its sale to the Bank of America.

The Bank of America was different from Wall Street investment banks and mainly a bank holding company and had strong balance sheet from its retail banking side. The company’s risk exposure to subprime securities was also trivial and thus in a very good position in terms of cash and capital capacity. The difficulty facing Merrill Lynch gave the Bank of America a great opportunity to expand its foothold to Wall Street and gained the strong brokerage network of Merrill Lynch. Meanwhile, the share price of Merrill Lynch had dropped significantly from the
first time of a market rumor that it would be merged with Wachovia banking corporation. So if the Bank of America could negotiate an all stock acquisition deal, it would be benefiting the Bank of America to a large extent. And that was what exactly happened later on.

Valuation

On Sep 15, 2008, Bank of America announced it agreed to acquire Merrill Lynch & Company Inc. The consideration is valued at $50 billion and the offer was for 0.8595 Bank of America shares for every Merrill Lynch share (The_Wall_Street_Journal 2008). As of Sep 12, 2008, the closing share price of Bank of America was $33.74. So the shares can be valued at $29.00. This price represented a 70.1% premium over the closing price of Sep 12 of Merrill Lynch, which was $17.05 (Capital_IQ 2010a). However, this price also represented a discount of 52.38% over Merrill Lynch’s closing share price of $60.90 as on Oct 25, 2007, the last trading day before Merrill Lynch received a proposal to acquire the company (Capital_IQ 2010a). On Jan 1, 2009, Bank of America reported that it had completed the acquisition of Merrill Lynch (Bank_of_America 2010a).

Performance of the acquisition

Figure 12 is the key financials of Bank of America for the past three consecutive years. After its acquisition of Merrill Lynch, the company’s total revenue increased 54.7% from $45.957 billion to $71.073 billion. Its net income also increased from $4 billion to $6.276 billion, which represents more than 50% increase. Total assets increased 22.3% from $1818 billion to $2223 billion.
Integration

Prior to the acquisition of Merrill Lynch, both Bank of America and Merrill Lynch were big powerhouses in the United States, thus its integration was enormously hard for Bank of America.

Culture: Merrill Lynch prided itself on sophisticated financial advice, trading and risk management. The Bank of America, in contrast, is a more conservative retail bank. How to ensure the culture of Bank of America and Merrill Lynch can converge was really challenging.

After the acquisition, a serial of senior executives of Merrill Lynch left the new Bank of America, including former CEO John Thain resigned and Bank of America CEO Kenneth Lewis took his
position as the new CEO of Merrill Lynch. Finally the culture integration went for former Bank of America.

Business Segment: Prior to this acquisition, Bank of America was a powerhouse in the United States but lacked a presence in international investment banking market. Merrill Lynch, instead, had a strong brand in both Europe and Asia. So after the acquisition, Bank of America also had to integrate the overlapped business of former Bank of America and Merrill Lynch. Of these, a critical part was to retain key deal makers in Merrill Lynch. Only if Bank of America can align its investment banking business with that of Merrill Lynch, it can then assure its position in this segment. The same integration process repeated in other segments, namely wealth management.

Competitive Advantage

The acquisition of Merrill Lynch provided Bank of America great synergies. Merrill Lynch was well known for its wealth management, corporate and investment banking business. Rather than brokerage service and wealth management, Bank of America focused more on consumer and commercial banking. The combination of Merrill Lynch gave Bank of America more than 18000 financial advisors and more than $1.8 trillion in client assets (Bank_of_America 2009). Bank of America also gained approximately 50% ownership in BlackRock Inc., a publicly traded investment management company (Bank_of_America 2009). Meanwhile, the acquisition added strength in debt and equity underwriting, sales and trading, and merger and acquisition advice. This combination created significant opportunities to deepen relationships with institutional and corporate customers globally.
4. M&A in China: Comparison

As I examined in part 3, both Cisco and Bank of America enjoyed rapidly growth by series of mergers and acquisitions. Even the M&A scale in the U.S. is much larger than that of China, it is unclear whether there are some Chinese cases which companies leverage M&A to grow. During the past 30 years, while China’s economy grown at an average rate of 10%, its main economy players, enterprises, grown at an even higher rate. Although there are certainly Chinese characteristics behind these companies’ huge growth, whether M&A played a significant role or not is unclear. This part analyzed two Chinese firms, Ping An of China and Shanghai Fosun, to clarify this question.

4.1 Ping An of China

Along with China’s rapid economic development, most of Chinese firms relied heavily on organic growth. A growth strategy following mergers and acquisitions is seldom employed by Chinese firms. However, after China joined the World Trade Organization (WTO), the insurance sector is the one that would be eventually opened to foreign investors and insurance companies. Therefore, China’s insurance companies faced a very challenging policy change. They either grown up or exited from Chinese insurance industry. A number of firms chose to diversify to be universal financial service group and Ping An of China is by far the most successful one.

4.1.1 The Company

The full name of Ping An of China is Ping An Insurance (Group) Company of China, Ltd. The company is a financial service conglomerate in China and also the first one with core operations
in insurance. Ping An of China has three main business sectors, which are insurance, banking, and investment. It was established in 1988 and headquartered in Shenzhen, a southern China city besides Hong Kong and also the first Special Economic Zone in China. In June 2004, the company went public in Hong Kong Stock Exchange. In Mar 2007, Ping An of China went public in mainland China and issued shares in China’s Shanghai Stock Exchange (Ping An of China 2010a).

In the insurance sector, which is its core and fundamental business, the group has subsidiary companies, such as Ping An Life Insurance, Ping An Property & Casualty Insurance, Ping An Health Insurance, Ping An Annuity, and Ping An Hong Kong. The company eventually diversified its insurance business and entered other financial services area. It has Ping An Bank, which is a commercial bank and acts as the banking platform for the conglomerate. The company also has a strong presence in investment sector, including subsidiary companies, such as Ping An Trust, Ping An Securities, which is the company’s investment banking arm. Ping An Asset Management and Ping An Asset Management (Hong Kong) are the asset management arms of the company (Ping An of China 2010d).

By the end of 2009, Ping An of China has about 47 million individual clients and over two million corporate clients. The company has about 83,000 (Ping An of China 2010d) full time employees, 394,000 (Ping An of China 2010d) life insurance sales agents, and more than 3,800 (Ping An of China 2010d) branch and sub-branch sales offices.

4.1.2 Corporate Development

At the time Ping An was founded, Ping An Insurance was a local insurance company in Shenzhen and had only one business license for insurance operation. The first premium in its
corporate history is RMB43998 (Ping_An_of_China 2010b), slightly more than $5000 in terms of the exchange rate in 1988.

21 years later, the company has grown to be one of the largest integrated financial service groups in the country. As of Jun 30th, 2009, under International Financial Reporting Standards (IFRS), the consolidated total assets and total equity of Ping An Group were RMB 885.419 billion and RMB 101.793 billion, respectively (Ping_An_of_China 2010f). The total income has grown to be RMB 79.439 billion (Ping_An_of_China 2010f).

In June 2009 the latest Financial Times Global 500 companies list, Ping An of China ranked No. 2 among global insurance companies. In the Non-State Owned Enterprise (SOE) sector, Ping An of China ranked as No. 1 for three consecutive years.

4.1.3 M&A strategy

Ping An started its business as a local insurance company and on the road to become a financial conglomerate, it would take numerous time and resources if Ping An takes organic growth strategy. Instead, mergers and acquisitions could accelerate its expansion speed to enter new business areas and markets quickly.

Insurance is Ping An’s initial business. It eventually extended its footprint to investment and particularly banking sector. Ping An’s acquisitions in banking sector are very successful and thus I will look at its merger history in banking first and then analyze its M&A activities in investment and asset management sector.
Ping An and HSBC jointly acquired Fujian Asia Bank Ltd. and renamed it to be Ping An Bank Limited on Feb 19, 2004.

Ping An acquired a 89.24% interest in Shenzhen Commercial Bank for RMB 4.9 billion.

Ping An announced an acquisition of Shenzhen Development Bank, the 11th biggest public commercial bank in China.

Figure 13: Ping An’s M&A in banking sector

Source: Ping An website and Zephyr database, 2010

Figure 13 shows the main acquisitions Ping An conducted to diversify into banking sector. It actually takes Ping An decades to build its banking business. In Ping An’s corporate strategy to be an integrated financial service group, insurance, banking and asset management, banking is a critical part as bank acts as a capital platform for the entire group.

China’s financial regulation rules in 1990s prohibited any universal financial group model. It required insurance and banking be separated under different operations. However, chances come when the China Insurance Regulation Committee approved Ping An’s application to restructure as a group holding company in Feb 2003. The subsidiary companies under the holding company could operate in different financial sector.

Under this new regulation change, Ping An soon acquired Fujian Asia Bank for $20 million jointly with HSBC. The company increase extra investment of $23 million later on and thus controlled 73% of ownership of the bank (NetEase 2003). Fujian Asia Bank was established in 1992 by Fujian Investment & Trust Consultant Corp, a subsidiary of Bank of China, and Hong Kong Mid-Asia Financial Co. As of Dec 31st, 2002, the total assets of Fujian Asia Bank were $32.7 billion and had branches in Fuzhou, Fujian Province of China. It was by this acquisition that Ping An finally entered the fast developing Chinese banking area.
However, Fujian Asia Bank is too small to match Ping An’s needs. Fujian Asia Bank’s commercial network was only in Fuzhou City. Besides, after this jointly acquisition with HSBC, the bank becomes a joint foreign owned bank, which in China has significant limitation to expand business because of license regulation. So after the rename of Fujian Asia Bank to Ping An Bank, Ping An of China continued its effort to identify a national wide bank.

In 2005, Guangdong Development Bank announced it was seeking strategic investor. This national wide bank had operations in 27 cities and more than 500 branches. It fit exactly in the banking strategy of Ping An Group at the time. Ping An of China attended the bidding for Guangdong Development Bank but eventually lost the chance to win out.

A year later, Shenzhen Commercial Bank began to restructure and it attracted Ping An Group as well. Shenzhen Commercial Bank had business license in Ren Min Bi transactions and credit card sector, and 47 branches in local Shenzhen area. From the perspective of corporate strategy, Shenzhen Commercial Bank acquisition was strategic fit for Ping An of China. Follow the banking platform strategy, Shenzhen Commercial Bank acquired Ping An Bank and was renamed to Ping An Bank.

The two acquisitions of Fujian Asia Bank and Shenzhen Commercial Bank let Ping An enjoyed the synergy of integrated financial service, particularly the cross-selling of diversified financial services and products. For instance, Ping An Bank expanded its credit card business rapidly by leveraging the more than 50 million individual customers and national wide sales agents’ network. In just two years, Ping An Credit Card had already issued more than 2 million.

To build a real integrated financial service group, the major acquisition to Ping An of China was the Shenzhen Development Bank deal.
4.1.4 The Acquisition of Shenzhen Development Bank

The acquisition of Shenzhen Development Bank, which was announced on June 12, 2009, was in line with Ping An’s corporate strategy to be a financial holding group. This acquisition is still in the approving process of China Securities Regulatory Commission but had already been approved by the shareholder conference of both Ping An of China and Shenzhen Development Bank.

Target

Shenzhen Development Bank (SDB) was established in 1987 through the share reform of the original six rural credit cooperatives in Shenzhen. The company was the first commercial bank in China that launched IPO and got listed in Shenzhen Stock Exchange. In 2004, Shenzhen Development Bank introduced a strategic investor, Newbridge Asia AIV III, L.P. and thus became China’s first shareholding commercial bank with a foreign investor as the largest shareholder. The bank offered a full range of services in commercial banking with strength in trade finance and treasury & interbank business. As of the end of 2008, Shenzhen Development Bank had 266 branches in 18 major cities. It also had representative offices in Hong Kong and Beijing. At the time, the total assets, total loans and total deposits of the bank was RMB 521.9 billion, RMB 319.4 billion, RMB 400.7 billion, respectively (Shenzhen_Development_Bank 2010b).

Why Ping An of China targeted Shenzhen Development Bank? There were several reasons.

First of all, this acquisition was still following the overall integrated financial service strategy of Ping An. Prior to this acquisition, Ping An Bank had only presence in the south eastern area of China, namely Guangdong and Fujian province. Shenzhen Development Bank, instead, had
branches in not only southern China, but also Northern & Northeastern China, Southwestern China and Eastern China, which covered the majority cities of the most developed area in China. So Ping An got a national wide network by the acquisition of Shenzhen Development Bank.

Second, Shenzhen Development Bank was the only one left that had nationwide business network but no significant strategic investor, which meant that Shenzhen Development Bank was the only feasible choice. As of the first quarter of 2009, Shenzhen Development Bank was the 11th largest joint-stock commercial bank in China by total assets (Shenzhen_Development_Bank 2010b).

**Timing**

On the one hand, the reason for the timing that why Ping An Group acquired Shenzhen Development Bank in middle 2009 was the first moving consideration. If Ping An of China lost this last chance to acquire a national wide banking network, its integrated financial group strategy would take a much longer time to implement and finally achieve.

On the other hand, in middle 2009, Shenzhen Development Bank had showed a strong business shape. Since the new management joined the bank in late 2004, the bank’s asset quality had continued to improve, and the bank’s operations were in its best shape ever. For instance, the bank’s Non-Performing Loan (NPL) was just RMB 1.9 billion, or 0.68%, which was the lowest in public commercial banks in China. The total assets increased 155% from RMB 204.443 billion to RMB 521.879 billion (Shenzhen_Development_Bank 2010a). Total loans and total deposits both had around an increase of 150% (Shenzhen_Development_Bank 2010a). Provision coverage ratio increased from 35.5% to 130.4% (Shenzhen_Development_Bank 2010a). From
these financial statistics, Shenzhen Development Bank was pretty healthy and at its best financial position ever.

Valuation

The acquisition of Shenzhen Development Bank was valued at RMB 221.3 billion (Ping An of China 2009a; Shenzhen Development Bank 2009). Prior to the transaction, Ping An Group had already bought 4.68% shares of Shenzhen Development Bank in the public stock market. Figure 14 was the stock structure before the announced acquisition by Ping An of China.

In the transaction structure of Shenzhen Development Bank acquisition deal, there were two steps. The first step was that Shenzhen Development Bank would issue up to 585 million shares to Ping An Life through a directed issuance, which would represent 18.84% of the bank’s current share capital. The share price of this subscription was RMB 18.26 per share, which was the average trading price of Shenzhen Development Bank for the 20 trading days prior to the announcement. So there was no premium for this step.

The second step was to make sure Ping An Group’s total ownership reach but not exceed 30%. First, Ping An Group would purchase 520,414,439 shares from Newbridge, which was 14.10% of Shenzhen Development Bank’s share capital at the time. Newbridge had options to either receive cash or Ping An shares. After step 2, the stock structure of Shenzhen Development Bank would become that in Figure 15.
Figure 14: Stock structure of Shenzhen Development Bank before the announced acquisition by Ping An of China

Source: Shenzhen Development Bank’s website, 2010
Figure 15: Expected stock structure of Shenzhen Development Bank after the acquisition by Ping An of China

Source: Company announcement by Ping An of China, 2010

In terms of multiples of the valuation, figure 16 showed the multiples of price to revenue, price to EBITDA, price to assets, price to book value and price to market value.

<table>
<thead>
<tr>
<th>Deal value (RMB million)</th>
<th>22131.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares acquired</td>
<td>29.95%</td>
</tr>
<tr>
<td>Target valuation</td>
<td>73,893.82</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>31/12/2008 (1) (RMB million)</th>
<th>Deal Valuation (Multiples)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>14,479.40</td>
</tr>
<tr>
<td>EBITDA</td>
<td>9,255.50</td>
</tr>
<tr>
<td>Total assets</td>
<td>474,440.20</td>
</tr>
<tr>
<td>Total shareholder's equity</td>
<td>16,400.80</td>
</tr>
<tr>
<td>Market capitalisation at month-end</td>
<td>29,377.40</td>
</tr>
</tbody>
</table>

Remarks: (1) Financial data are obtained from Zephyr database except deal value

Figure 16: Multiples of Ping An’s acquisition of Shenzhen Development Bank

**Integration**

The synergies expected from this acquisition could only be realized by successful integration. In Ping An’s plan, the company would establish close cooperation with product capability of various group companies to build bancassurance business. By taking advantage of the oven 45 million retail and 2 million corporate customers across the group, both Ping An group and the new banking sector can enjoy the cross-selling opportunities.

In the group’s one account strategy, both Ping An Group and the acquired Shenzhen Development Bank can participate in group marketing platform, which was The One Account
aggregation product. They can also share support activities under one group system, such as IT and operations resources in back office, which Ping An has substantial resources in Shanghai and Chengdu.

4.1.5 The Minority Share Acquisition of Fortis NV: Experienced Failure

Ping An of China employed a successful M&A strategy to grow its banking business. These acquisitions are all focusing on domestic markets. The company, however, like many other Chinese conglomerates, intends to go global. Its minority share acquisition of Fortis NV was a strategic investment in its going global strategy though failed finally.

In Nov 2007, Ping An of China announced it would acquire 95.01 million (Ping_An_of_China 2008) shares of Fortis NV for €1.81 billion (Ping_An_of_China 2008), or RMB 19.6 billion, representing 4.18% (Ping_An_of_China 2008) of Fortis’ total outstanding shares. Ping An soon increased its share holding to 4.99% (Ping_An_of_China 2009b) and made the total investment in Fortis as high as RMB23.8 billion (Ping_An_of_China 2009b).

At the time, Fortis NV was an integrated financial service provider in Europe and its business was exactly what Ping An dreamed to develop. Fortis had strong presence in banking, insurance and asset management. As of Feb 29, 2008, the market capitalization of Fortis was €32.3 billion and was in the top 15 financial institutions in Europe.

The acquisition strategy for Fortis was obvious for Ping An, as it can learn directly from Fortis how to build an integrated financial service group covering banking, insurance, and asset management.
Figure 17: Fortis’ stock price chart from 2001 to 2010 and the timeline of Ping An’s investment in Fortis

Source: Yahoo Finance and Ping An’s annual report of 2007 and 2008

However, as the subprime crisis in the United States continue to spread globally, Fortis’ share price plummeted and thus made Ping An’s investment devalued significantly (Figure 17). As of the end of September 2008, the total loss of market value of Ping An’s investment in Fortis Group was approximately RMB 15.7 billion (Ping An of China 2010e).

The major reason behind this failure was the globalization risk for Chinese firms. In cross-border mergers and acquisitions, it was relatively easy to get right calculation in the valuation process but hard to predict the global uncertainty in both capital markets and geographic risks.
At the time Ping An invested in Fortis, the price to book value ratio of Fortis was only 1.1, which was relatively cheap comparing with the average price to book value ratio of 1.8 to 2.5 in Hong Kong banks and 3 to 4 times of Chinese domestic banks (Ping_An_of_China 2010c). In the company’s internal valuation report, the company and its financial advisor both believed that this investment would bring stable and long-term returns to Ping An (Ping_An_of_China 2010c).

However, even if this going global trial by foreign acquisition experienced deep loss, investment in Fortis is still beneficial to Ping An in terms of overseas investment experience and exploration.

4.1.6 Comparison with Bank of America

<table>
<thead>
<tr>
<th></th>
<th>Ping An of China (1)</th>
<th>Bank of America (2)</th>
<th>Ping An/BoA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Headquarter</strong></td>
<td>Shenzhen, China</td>
<td>Charlotte, NC, United States</td>
<td>--</td>
</tr>
<tr>
<td><strong>Year Founded</strong></td>
<td>1988</td>
<td>1874</td>
<td>--</td>
</tr>
<tr>
<td><strong>Number of Employees</strong></td>
<td>82808</td>
<td>284000</td>
<td>29.2%</td>
</tr>
<tr>
<td><strong>Business Scope</strong></td>
<td>Insurance, Banking, Asset Management</td>
<td>Banking, Insurance, Investment Management</td>
<td>--</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$127.839 billion</td>
<td>$2223.299 billion</td>
<td>5.7%</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$25.308 billion</td>
<td>$71.073 billion</td>
<td>35.6%</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$1.214 billion</td>
<td>$6.276 billion</td>
<td>19.3%</td>
</tr>
<tr>
<td><strong>Market Capitalization</strong></td>
<td>$53.01 billion</td>
<td>$169.042 billion</td>
<td>31.4%</td>
</tr>
<tr>
<td><strong>Major M&amp;A deal numbers</strong></td>
<td>4</td>
<td>14</td>
<td>28.6%</td>
</tr>
<tr>
<td><strong>Biggest M&amp;A deal value</strong></td>
<td>$34.785 billion (4)</td>
<td>$50 billion</td>
<td></td>
</tr>
<tr>
<td><strong>M&amp;A strategy</strong></td>
<td>Sharing activities</td>
<td>Sharing activities</td>
<td></td>
</tr>
</tbody>
</table>

Remarks:
(1). All financial data are taken from the filed statements as of Sep 30, 2009 from Capital IQ database;
(2). All financial data are taken from the filed statements as of Dec 31, 2009 from Capital IQ database;
(4). Exchange rate was RMB 6.8634 per US$ as of Jun 26, 2008, the last day Ping An increased its investment in Fortis.

Figure 18: Comparison of Ping An of China with the Bank of America

Source: Retrieved from Capital IQ database, 2010
Figure 18 compares Ping An of China with the Bank of America. Ping An is nearly 100 years younger than Bank of America but is already in a relatively strong financial position in terms of total assets, total revenue, net income and market capitalization, as the last column shows.

Both companies take mergers and acquisitions to grow its business and are very successful so far. Bank of America grown from a local bank in North Carolina to a global banking holding group through constantly acquisition of banks in other locations. Ping An of China also gradually diversified into banking sector and would have a national wide presence after its acquisition of Shenzhen Development Bank.

However, in the company of Ping An of China, the biggest M&A deal was the Fortis deal, which was a huge investment loss to Ping An. The Bank of America, in contrast, didn’t have any significant failed M&A deal. On top of that, the first acquisition made by the Bank of America was in 1960 while the first one of Ping An of China was in 2003, 43 years later than that of the Bank of America. So both the failure of Ping An’s investment in Fortis and this comparison with the Bank of America indicated that there was still a long road ahead for Ping An to master M&A, particularly global M&A deals.

4.2 Shanghai Fosun

Ping An of China is a good case in terms of its performance and business growth by M&A. However, the company has strong support from local government, namely Shenzhen government, as the government is a significant shareholder of the company (Ping_An_of_China 2010b). In China’s economy, there are three main kinds of players, which are foreign owned companies, state owned enterprises, and privately owned enterprises. The M&A conducted by China’s state
owned enterprises (SOE) are not in the range of my research, as the resources and political supports obtained by those SOEs are solely exclusive to them and thus not a common strategy other firms can follow. However, in China’s private sector, M&A are also very active. A number of firms grew up successfully by serial mergers and acquisitions. Shanghai Fosun is one representative.

4.2.1 The Company

The full name of Shanghai Fosun is Shanghai Fosun High Technology (Group) Co. Ltd. Headquartered in Shanghai, China, and established in 1992, Shanghai Fosun has now grown to be the largest privately owned conglomerate in China. The company engaged in steel, property, pharmaceutical, retailing, financial service, and strategic investment businesses in China. Figure 19 is its share structure. The company’s business is diversified into different area by a number of subsidiaries. On July 16th 2007, Shanghai Fosun’s holding company, Fosun International went public in the Hong Kong Stock Exchange.
Figure 19: The share structure of Shanghai Fosun as of Mar 31, 2009. The data for equity interest in Focus Media is as of Mar 25, 2009.

Source: Retrieved from Fosun’s website and Fosun 2009 Interim Report
4.2.2 Corporate Development

When Shanghai Fosun commenced in 1992, the company only had RMB 38000 as their seed capital. In 17 years, the company had rapid development. As of Dec 31st, 2008, Shanghai Fosun had a record high revenue of RMB 40.25 billion (Fosun International 2009) and net profit of RMB 1.328 billion (Fosun International 2009). In terms of net profit, Shanghai Fosun ranked No.82 among the Top 500 Chinese firms. It ranked No. 2 among Chinese comprehensive manufacturing firms in terms of revenue. The position of Shanghai Fosun in China’s private sector could also be examined by tax paid. Fosun had been the largest taxpayer among Chinese private enterprises for four consecutive years (Fosun International 2009).

At the time the company started, Fosun speculated in different private business and eventually found its first big business opportunity in pharmaceutical industry. Eventually, the company expanded its business scope to other areas. As of middle 2009, the company had a diversified business portfolio covering pharmaceuticals, property development, steel, mining, retail, services and strategic investments.

4.2.3 M&A strategy

Shanghai Fosun employed a corporate strategy of portfolio management to rapidly grow the company by constant mergers and acquisitions. Under this strategy, the company explored new investment opportunities at an ongoing base. Along with China’s fast growing economy, Fosun targets those industries which have higher growth rate than China’s macro economy. In these selected industries, the company strictly analyzes those enterprises who can deliver higher growth rate than average industry level. After fixing these targets, the company then either merges with the company or acquires shares of the firm at a best time they could capture. This
strategy could be demonstrated by the timeline of all major acquisitions made by Shanghai Fosun (Figure 20). The new industries Fosun entered are all in the fast growing period in 2000s.

<table>
<thead>
<tr>
<th>Year</th>
<th>Major Acquisitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>In Jan 2003, Fosun acquired 47.0% shares of Sinopharm through its subsidiary, Fosun Pharma. In Jan 2003, Fosun acquired 20% shares of Ningbo Iron &amp; Steel. In Mar 2003, Fosun acquired 62.7% shares of Nanjing Iron &amp; Steel through a newly established firm Nanjing Steel United, which Fosun controlled 60.0% shares. In May 2003, Fosun established Tebon Securities, eventually hold 25.4% share of Tebon and sold 19.74% equity interests in Feb 2009.</td>
</tr>
<tr>
<td>2004</td>
<td>In Apr 2004, Fosun acquired 17.1% shares of Zhaojin Mining and then sold approximately 10.91% shares to Yuyan in Nov 2008.</td>
</tr>
<tr>
<td>2007</td>
<td>In Sep 2007, Fosun and Hainan Iron &amp; Steel jointly established Hainan Mining while Fosun controlled 60% of shares of the new company.</td>
</tr>
<tr>
<td>2008</td>
<td>In Nov 2008, Fosun begun to purchase shares of Focus Media and constantly increased its shareholding to 28.7% as of Mar 25, 2009</td>
</tr>
</tbody>
</table>

Figure 20: Major acquisitions in Shanghai Fosun’s corporate history.


For instance, the fast urbanization in China and mega infrastructure investment from government would provide huge demand to steel industry and subsequently the raw material industries, such as mining industry. Fosun’s investment in Yuyuan, or retail industry, also foresaw the prospect of huge domestic consuming market in China. As the growth engine of China’s economy eventually turned around to internal side of the country, retail industry will benefit enormously.

Given its essentially portfolio management strategy in M&A, Fosun differentiate itself by continuous management improvement after every acquisitions. The company would retain
original management team but inject new incentives mainly by giving ownership in the acquired company. Fosun would help new company build differentiated strategy usually by focusing on several sub-segments and being the market leader in these segments. On top of that, Fosun also would try to lower cost in both production and administration, such as reducing manpower but maintaining or even increasing production. I would dig deeper this part in the following deal analysis of Nanjing Iron & Steel acquisition.

Besides, Shanghai Fosun highly emphasized the importance of capital market. The company constantly optimizes its financing structure. Since Fosun Pharma’s initial public offering in Shanghai Stock Exchange in 1998 (Shanghai_Fosun 2010), the company continued to take advantage of capital markets either by stock offering or bond issuing, particularly when capital market was in high valuation period (Figure 21). Fosun not only financed its growth from capital market but also from debt market. The company tried to take full advantage of debt leverage but maintained a low current ratio, especially interest coverage ratio (Fosun_International 2009). Also, Fosun constantly optimized its debt structure but replacing current debt to middle or long term debt, which would reduce its solvency risk.

<table>
<thead>
<tr>
<th>Year</th>
<th>Financing in capital markets</th>
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<tbody>
<tr>
<td>1998</td>
<td>In Jul 1998, Fosun Pharma went public in the Shanghai Stock Exchange</td>
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<tr>
<td>2000</td>
<td>In Aug 2000, Fosun Pharma issued 22.5 million A shares in a follow-on offering.</td>
</tr>
<tr>
<td>2003</td>
<td>In Oct 2003, Fosun Pharma issued RMB 950 million convertible bonds.</td>
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| 2004 | In Feb 2004, Forte went public in the Hong Kong Stock Exchange  
In Jan 2005, Nanjing Iron & Steel issued additional 120 million shares. In Mar 2005, Forte issued 146.6 million shares in a follow-on offering.  
In Apr 2006, Forte completed a second follow-on offering of 175.9 million shares. In Dec 2006, Zhaojin Mining went public in the Hong Kong Stock Exchange.  
In Jul 2007, Fosun International, or the group as a whole, went public in the Hong Kong Stock Exchange. |

Figure 21: Major financing events of Shanghai Fosun
4.2.4 The Acquisition of Nanjing Iron & Steel

Nanjing Iron & Steel was the first acquisition Fosun made in order to enter Steel business. Fosun announced on Mar 12nd, 2003 that it would jointly establish Nanjing Iron & Steel United Co. Ltd. with Nanjing Steel Group. Fosun will invest total cash of RMB 1.65 billion to get 60.0% ownership of the new venture through the group itself and two of its subsidiaries. Nanjing Steel Group would take the rest 40.0% shares by some assets, including 357.6 million shares of Nanjing Iron & Steel Co., which was a listed company in the Shanghai Stock Exchange since Sep 2000. The 357.6 million shares represented 70.95% of the public Nanjing Iron & Steel (Antimonopolylaw 2010). As Nanjing Iron & Steel was nearly the best assets Nanjing Steel Group had, so this joint venture was the same as Fosun acquired Nanjing Steel Group (Zhonggu_Law 2010).

Steel sector soon emerged as the dominant profit source to Fosun Group (Figure 22). The questions went to how Fosun chose this target and why at that time? I will analyze these two questions below.
Figure 22: Net profit breakdown by portfolios of Shanghai Fosun, as of Jun 30, 2009

Source: Fosun International 2009 Interim Report

Target

Fosun wanted to enter steel business and it targeted those steel companies who also needed external investor for future growth. Nanjing Steel Group was exactly in that stage. Historically, Nanjing Steel Group was in a good shape but relied mainly on the continuous increase of steel price in China. As of the end of 2002, the steel production of Nanjing Steel Group was only 1.73 million tons (Nanjing_Iron&Steel_Co. 2010) while the production of its major competitors, such as BaoSteel and Wuhan Iron and Steel Group, are all above 10 million tons annually. And in steel industry, economy of scale is critical to a firm’s competitive advantage. Therefore, Nanjing Steel Group had a strong need to leapfrog the organic growth stage and hence the best solution was to raise massive capital from a strategic investor.
Fosun, different from the foreign firms, had a strong expertise to negotiate with local government and can balance between different stakeholders involved. This advantage gave Fosun a favorable position in the process of seeking external investor by Nanjing Steel Group. Eventually, Shanghai Fosun stood out and Nanjing Steel Group chose Fosun to cooperate.

**Timing**

The timing of this acquisition was very good to Shanghai Fosun for several reasons. First, the world steel price was in its beginning stage of a bull market cycle from 2003 to 2008 (Figure 23).

**Figure 23:** CRU World Steel Price Index from May 23, 2003 to Mar 12, 2010.

Source: iFeng Finance, 2010
Second, at the macro economy level, China’s economy was heating from 2001 to 2004 as of the stimulus policy since global high-tech bubble (Wang 2004). The central government of China suddenly took strict macro control policy national wide that any new investment into heavy industry including steel by private companies were prohibited. So Fosun’s acquisition of Nanjing Iron & Steel was right ahead of the policy change. Third, Nanjing Iron & Steel cannot finance its new investment project by issuing follow-on shares. In Jun 2002, the board of Nanjing Iron & Steel decided to issue no more than 140 million shares in a follow-on offering (Zhonggu_Law 2010). But the stock market was so weak at the time that the company’s stock plummeted upon the board’s decision (Zhonggu_Law 2010). A much lower stock price signified that it was impossible for the public company to raise enough capital for new investment projects.

**Valuation**

The valuation of this deal was full of Chinese characteristic. At the establishment of Nanjing Iron & Steel United, the joint venture set up by Shanghai Fosun and Nanjing Steel Group, the per share price valued in Nanjing Steel Group’s paid in capital was RMB 3.08, which is the paid in capital RMB 1.1 billion divided by 357.6 million shares, the total represented shares of Nanjing Iron & Steel Co. This price of RMB 3.08 was actually 9.7% lower than the per share net asset value of Nanjing Iron & Steel Co, which is RMB 3.41(Nanjing_Iron&Steel_Co. 2003).

This valuation to Nanjing Steel Group was justifiable, as Nanjing Iron & Steel United, Nanjing Steel Group basically just moved its assets in Nanjing Iron & Steel Co. to the new joint venture Nanjing Iron & Steel United. However, to Shanghai Fosun, this valuation was very attractive, as the company essentially obtained a very healthy steel asset without any premium. The price was even 9.7% lower than its net asset value.
The analysis indicated that Fosun’s value-add expertise in acquisition and strong financial position gave the company a premium of its investment. On the other hand, Nanjing Steel Group made a discount to its assets.

In the cases I did for M&A in the United States, all acquisition involved some premium, no matter more or less. But in this Fosun’s case, I saw a discount other than premium of the acquired assets. It made clear that China’s M&A market were still in its developing stage. Sometimes because seller cannot find enough buyers, they had to provide discount and thus reduced its shareholder’s value.

Integration

Even if Shanghai Fosun acquired companies in different business, it was different with private equity firms, which were mainly acting as financial investors. In contrast, Fosun highly involved the integration process of each of its acquisitions.

The first step of Fosun’ integration was to redesign the incentive system and make sure management team can benefit from value creation. In the case of Nanjing Iron & Steel, the company was originally state owned and shareholder was the government. After the acquisition, more than 600 employees became shareholders of Nanjing Iron & Steel. Thus employees and management team had incentive to improve profitability of the acquired company.

The second step was to improve the detailed management. In portfolio management strategy, a key success factor is the replicability of management method in each portfolio. In Shanghai Fosun, this was exactly the case. One common approach by Fosun is what they called “Systematic Benchmarking”. After the acquisition of Nanjing Iron & Steel, Fosun broke down the working flow in the steel company to 45 steps (Yin 2008) covering from sourcing raw
material, to manufacturing, to after-sale service. The performance of each of these steps was to be quantified and compared with the Top 5 (Yin 2008) performance numbers in the entire steel industry national wide. By constantly benchmarking with the best, Nanjing Iron & Steel eventually narrowed its gap with top 5. The improvement was then directly correlated with the compensation of the worker who was in charge of that step. For instance, in order to lower down the cost of Nanjing Iron & Steel, they benchmarked with BaoSteel and Wuhan Iron and Steel Group, two of the biggest iron & steel firms in China. By following the systematic benchmarking approach, the company successfully reduced RMB 26 (Yin 2008) in its energy consuming cost per ton, representing RMB 50 million (Yin 2008) for the entire company.

The last step of Fosun’s integration process again made Fosun distinctive. Their innovation was to re-audit its equity one year after every investment or acquisitions. The objective of this audit was to re-value the acquired firms and determine whether Fosun’s equity value increased or not. If the equity value of one acquired firm cannot increase even after Fosun’s continuously management improvement, Fosun would then consider spinning off the acquired company. In the CEO of Shanghai Fosun’s words, “you cannot sell a company after you know it engages loss, you should spin off it before that when it still has residual value.” (Yin 2008)

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<tr>
<th></th>
<th>Before Fosun's acquisition</th>
<th>Present</th>
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</thead>
<tbody>
<tr>
<td>Size of Work Force</td>
<td>~19000</td>
<td>~11000</td>
</tr>
<tr>
<td>Crude Steel Capacity</td>
<td>~2 million tons</td>
<td>6.5 million tons (8.0 million tons forecasted by 2010)</td>
</tr>
<tr>
<td>Product Mix</td>
<td>~30% commodity ship plates</td>
<td>Production base for premium plates (high strength ship plates and others)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New production line for alloyed bars and wire rods with capacity over 600000 tons</td>
</tr>
</tbody>
</table>

Figure 24: Management improvement of Nanjing Iron & Steel Co. after Fosun’s acquisition

Source: Retrieved from Fosun International Corporate Presentation, Jan 2010
The management improvement of Nanjing Iron & Steel was significant (Figure 24). While its crude steel capacity increased more than 3 times, the company’s size of work force decreased more than 42.1%.

4.2.5 Comparison with other diversified conglomerates

In order to analyze what could be learned from Fosun’s M&A to grow a company in China, I tried to compare the growth routine of Fosun with other renowned diversified conglomerates, such as General Electric (GE) in the United States.

Both Fosun and General Electric have diversified portfolio business. While Fosun engages businesses in steel, property development, pharmaceutical, mining, retail, strategic investment, GE also has a broad portfolio range, including appliances, aviation, consumer products, electrical distribution, energy, consumer finance and business finance, healthcare, media & entertainment, oil & gas, rail, water, and security (General Electric 2010). The segments Fosun operates in are mainly resources-oriented and capital-intensified industries and seldom need high technology. In contrast, GE is focusing more on high-technology area, such as aviation, lighting, security, new energy and sustainable development, like water and energy. GE also invested heavily in health care and media & entertainment. One of the main reasons is the different development stage of China and the United States. China is still in its industrialization period and thus the fast development industries are natural resources-oriented industries and industries involving urbanization of 1.3 billion people. The United States is a more matured economy and in its post-industrialization. Therefore, GE focuses more on innovation-oriented industries, health care and renewable energy, and so on.
The biggest difference between Fosun and General Electric is its operation model. From the case of Nanjing Iron & Steel acquisition, Fosun didn’t replace the company’s original management team. Instead, Fosun replicated its management improvement approach into the acquired firm. General Electric, instead, operated following a unified model. The heads of different segments of GE are all in the corporate executives committee and reports to the CEO of GE. GE’s famous leadership development programs also emphasized rotation in different segments. What’s the reason behind this difference? Largely the reason is because GE could find and develop enough professional managers in its portfolio businesses. Therefore, GE could accumulate more common management knowledge and management team can be easily replaced by new professional managers. In China, it is still not in that stage. As I analyzed in Fosun’s case, Fosun didn’t replace management team for acquired firms. The major reason is that there are not enough professional managers existed in China so that Fosun has no choice. It is also arguably that original management team has deeper expertise. But it is still a question about the availability of professional managers to the large extent.
5. Conclusion

The last part comes to a conclusion of this thesis. Based on the deal analysis for four case companies, I sum up the success factors for an M&A deal. The context of China is also important for Chinese firms who want to grow fast by serial mergers and acquisitions. I will elaborate some common pitfalls Chinese firms faced as well as the future trends. However, there are still some questions left for further research.

5.1 What leads to a successful M&A? Learning from both the U.S. and China

In all the four cases, there are some common success factors:

Fit with corporate strategy: Before any merger or acquisition, company has to know clearly its corporate strategy. M&A is about bringing new business into current business. Regardless whether new business is in the same segment with current one or not, companies have to make sure that the corporate strategy is unified. In Cisco’s serial acquisitions, Cisco expanded its presence but focused on networking business. The acquisition of WebEx fits exactly with the company’s strategy as well as its business vision.

Timing is important: Timing in M&A is essentially to capture business opportunities. It is also highly related to valuation of M&A deal. In the acquisition of Shenzhen Development Bank, Ping An chose to acquire the firm when it was healthy enough. In the acquisition of Merrill Lynch, it was only during financial crisis that the Bank of America could have this opportunity to acquire a bulge bracket bank on Wall Street.
Integration is critical to the success of M&A: In the analysis of all the four cases, integration with acquired firms were the key to their successes. As I analyzed in the reasons of M&A, only by successful integration can those effects be realized.

Of all the four cases I looked at, Cisco conducted more acquisitions than any of other three companies. From its successful integration of those acquired firms, cultural integration was placed at a more important position than technical or operational integration. Essentially culture is related to a company’s vision and whether acquired company can fit well in the new company is highly depending on to what extent the acquiring company can transit its culture to the acquired target. At the pragmatic level, Kotter’s paper Leading Change: Why Transformation Efforts Fail provides a systematic process to make the culture transition stage successful (Kotter 2007). Followed by culture integration, the integration process goes to management team. As analyzed in the case of Shanghai Fosun, Fosun didn’t replace the original management team in Nanjing Iron & Steel. The key reason for this decision is that Fosun need the best leadership team to manage the new company, regardless this team is original management or new hires. In the end, whatever synergy or strategic reason a merger or acquisition intends to realize, the objective needs leaders to implement, which determines the success or failure of M&A. The last part of integration process is the operation level, which is to capture expected synergy or strategic goal. In the case of Shanghai Fosun, Fosun implemented its objective by improving the current operation of the acquired company, which mainly focused on operation efficiency in the manufacturing procedures. In the case of Ping An of China, Ping An clearly laid out its intention to cross-sale its insurance products in the already-existed distribution network of Shenzhen Development Bank.
5.2 China context

The process of M&A is same in both the United States and China, but the context is different. Faster growing China gives Chinese firms more opportunities to grow faster than those in the U.S. In the comparison between Ping An and the Bank of America, Ping An was established more than 100 years later than the Bank of America. But its revenue per employee and market cap per employee are nearly the same as the Bank of America.

China’s economy development stage is still behind of the United States. Even if China’s economy has around 30 years fast growing, its economy as a whole is still not as developed as the United States. In the comparison between Fosun and General Electric, Fosun’s M&A are mainly focusing on those industries that can benefit from China’s rapid urbanization and its position as global manufacturing center. GE is a United States company. Although GE has global presence, its business reflected more of its root in matured economy.

5.3 Pitfalls for China’s M&A

The analysis of both Ping An and Fosun showed that the M&A of Chinese firms can usually be successful if the M&A deals are domestic deals. However, cross-border M&A deals are far more risky to Chinese firms. As the case of Fortis acquisition, the valuation at the time is justifiable but the global macro environment cannot be justified by regular analysis. Cross-border M&A involves risks including political risk, exchange rate risk, capital risk and risk in culture conflicts, and so on. Anyone of these risks could be pitfall for Chinese firms’ M&A.
The main pitfall for M&A in China comes from the regulation from Chinese government. China has strict regulatory restrictions on the approval process and limitation on foreign investors who intends to merge or acquire Chinese company. For instance, there are a number of industries which are identified as strategic industry involving national security and thus are not open to foreign investors (Gong and Day 2008).

The same risk exists for Chinese companies involving cross-border M&A, particularly in the political aspect. In 2005, China National Offshore Oil Co. (CNOOC) bid for an acquisition of Unocal, a California-based oil company in the United States. The U.S. congress opposed the deal with a worry of China’s geopolitical influence on its own economy (Yao 2009). As more and more Chinese firms go global by M&A targeting outside of China, political issue is pretty critical for their M&A success. A more recent failed deal was the expected strategic alliance between Chinalco and Rio Tino, an Anglo-Australian company. Chinalco’s intention to move up the supply chain by investing in Rio Tino was terminated even after those two parties signed minority share acquisition agreement, of which a large extent reason was the political fear of Chinese control in the Australia economy (Yao 2009).

In the China context, acquiring company should be more cautious if a merger or acquisition involves a state-owned-enterprise (SOE). Under China’s legal system, SOE has very different asset and liability ownership with private companies. While SOE is under the control of the State Assets Supervision and Administration Commission (SASAC), SOE-related M&A should follow more comprehensive approach. For example, disposal of state owned assets should not destroy or decrease the asset value, and employees in SOE should be well treated other than simply restructuring, and so on (Levine and Woodard 2006). In the case of Shanghai Fosun, Fosun was
renowned for its expertise to deal with local government and therefore can usually acquire SOEs successfully.

5.4 Questions left for further research

As stated in 5.3, more research has to be done regarding regular pitfalls, particularly feasible solutions for Chinese firms to go global by cross-border M&A. In domestic M&A, further research is also needed as China’s economy continues to evaluate forward. Will China’s M&A become more and more like M&A in the United States? Or will there be more Chinese characteristics in China’s M&A activities? These questions are still unknown and thus left for further research and study.
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