

# The Research on Jifeng's "Snake and Elephant" Merger and Acquisition

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**Abstract.** China's automobile and parts industry is developing rapidly under the strategy of "manufacturing power", but it is facing market saturation and development bottleneck. Therefore, more and more Chinese enterprises begin to formulate the "going global" strategy, on the one hand, expanding overseas markets, on the other hand, absorbing and learning from overseas advanced technologies. This paper takes Jifeng's merger and acquisition of Grammer as a case, introduces the basic information of both parties and the merger process, analyzes the motivation of the merger, and finally analyzes the performance of the merger and acquisition, and puts forward corresponding suggestions.

**Keywords:** "Snake and Elephant" M&A, M&A performance, auto parts.

## 1. Introduction

"Snake and Elephant" merger and acquisition is generally represented by the merger of weak brands in emerging economies and strong brands in developed countries in Europe and the United States [1]. In October 2019, Ningbo Jifeng Auto Parts Co., LTD. (hereinafter referred to as "Jifeng") settled the two-year acquisition case. Finally, Jifeng realized 84.23% equity control of Kramer, a famous German listed auto parts company with 100 years old, through the equity invested by Jiye, and acquired Kramer, which is a transnational merger and acquisition of "snake gobbling an image". It has opened a new stage of development.

## 2. Case Introduction

### 2.1. Company Introduction

Jifeng was established in 1996 and has been in operation for more than twenty years. It is a joint stock company initiated and established by Jihong Investment, Wing Sing, etc. In 2015, Jifeng was listed on the main board of the Shanghai Stock Exchange, with the stock code 603997. As a specialized field in the automotive industry, Jifeng is a globally leading supplier of cabin interior parts. For over two decades, it has been dedicated to the research and development, production and sales of headrests and armrests for passenger car seats. The company's products cover two major business lines, namely passenger vehicles and commercial vehicles, among which passenger vehicles are the core business line of the company. In the passenger vehicle sector, the main products include seat headrests, armrests, and thermoplastic solutions. In the commercial vehicle sector, the main products are truck seats, etc. The company's business scope is very broad, with nearly 70 subsidiaries worldwide.

As can be seen from Table 1, since its listing in 2015, Jifeng's sales scale has been continuously expanding and its net profit has been constantly rising. However, the growth rate has been declining. It is evident that although Jifeng has established multiple subsidiaries across the country and is a leading enterprise in China's auto parts sub-sector, with the sluggishness of the domestic vehicle market, Jifeng's development in China has encountered bottlenecks. Therefore, this situation has prompted Jifeng Co., Ltd. to expand its merger and acquisition vision to overseas markets, seeking further development and market expansion.

**Table 1.** Financial information of Jifeng before M&A (in RMB millions)

Indicator	2015	2016	2017
Total assets	1,557.53	1,933.53	2,191.82
Total liabilities	221.06	388.91	431.59
Operating income	1,048.07	1,465.51	1,902.07
Net profit	177.21	250.87	298.67

## 2.2. Merger and Acquisition Process

From the signing of the Memorandum of understanding to the final completion of Jifeng's acquisition of Grammer, the transaction was comprehensively considered and carried out step by step. It took two years to successfully complete the closing and achieve the goal of successfully acquiring Grammer. Specifically, it can be divided into three stages: foreign acquisition entities increasing their holdings in Grammer, Jiye Investment acquiring Grammer, and Jifeng acquiring Jiye Investment.

The foreign merger and acquisition entity increased its holdings in Grammer. Although the Hasto family, the largest shareholder of Grader, is powerful, the Wang Yiping family was able to achieve control through gradual acquisitions due to the highly dispersed equity of the company (their shareholding is only 20.32%). Since signing the Memorandum of Understanding in February 2017 and playing the role of a "white knight", the Wang family has successively subscribed to the mandatory convertible bonds of Gerner through its overseas subsidiary JAP GmbH and continuously acquired shares in the secondary market. By October 2017, its shareholding ratio had reached 25.56%, successfully surpassing the Hasto family to become the largest shareholder of Gerner.

Jiye Investment acquired Grammer. The first merger and acquisition transaction was jointly carried out by Jifeng shareholders through their subsidiary JAP GmbH and the merger and acquisition fund Jiye Investment. In 2018, Jiye Investment's overseas subsidiary, Jiye (Germany), launched a tender offer to acquire Grammer at a price of 60 euros per share. The acquisition was completed in two steps: first, 25.56% of the shares held by JAP GmbH were purchased for approximately 193 million euros in June, and then 58.66% of the shares were bought in the secondary market for approximately 444 million euros in September. As of now, Jiye (Germany) has cumulatively held 84.23% of the equity in Grammer, with a total acquisition consideration of approximately 637 million euros (equivalent to about 4.982 billion yuan). This transaction constitutes a business combination not under common control.

Jifeng acquires Jiye Investment. In the second merger and acquisition, Jifeng obtained control of Grammer from the merger and acquisition fund Jiye Investment by issuing shares, convertible bonds and paying cash to acquire 100% of Jiye Investment's equity, with a total transaction price of 3.754 billion yuan. The relevant equity was transferred on October 8, 2019, and Jifeng thus included Grammer in the consolidated financial statements.

## 3. Analysis of motivation

### 3.1. Enhance Research and Development Strength

One of the motivations for overseas M&A by enterprises from emerging countries is technology seeking [2]. As a century-old enterprise in the European auto parts industry, Grammer not only occupies 90% of the commercial vehicle seat market share, but also ranks first in the headrest market share in Europe. In addition, it has strong R&D strength and patent accumulation -- in 2018, it invested about 480 million yuan in R&D, and has 1,008 patents, including 70 core patents. In contrast, Jifa, which was founded only 25 years ago, is close to Grammer in profitability, but its R&D investment is only about one-eighth of Grammer's in absolute terms, and its patent number is significantly behind. The acquisition will help Jifeng absorb Grammer's advanced technology and strengthen its own research and development capabilities.

### 3.2. Increase Market Share

The search for overseas markets is also one of the main motivations for overseas M&A of emerging market countries [3]. The business integration of Jifeng and Grammer will achieve significant synergies. In terms of products, Jifeng has expanded from passenger car headrest to high-value commercial vehicle seats and central control systems, and has been promoted to cockpit system integrator. In terms of production, the combination of Jifeng's cost control and Grammer's R&D management advantages can effectively improve efficiency and reduce costs. In terms of sales, Grammer's top European customer resources, such as BMW, will bring stable and high-quality long-term profit growth points to Jiefeng.

### 3.3. Realize the Globalization Strategy

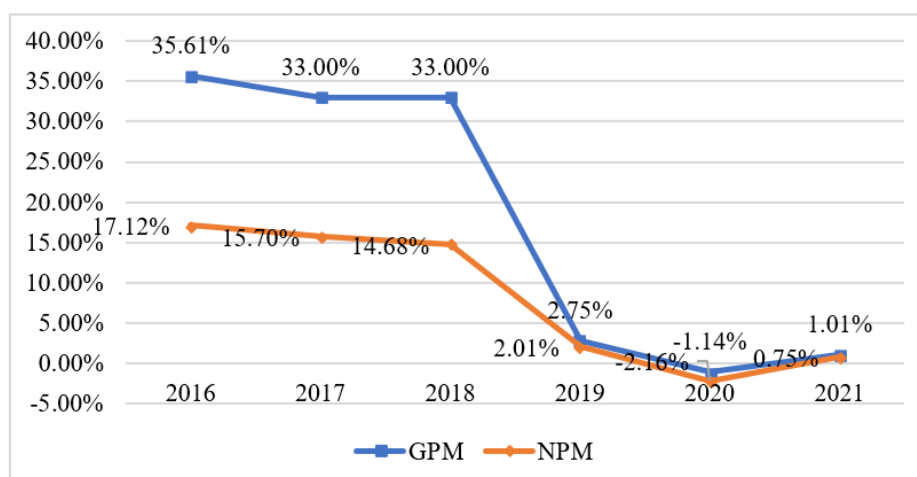
Chinese enterprises' overseas M&A has obvious motivation of seeking strategic assets [4]. Grammer has a global presence, with revenue mainly coming from Europe and North America, while Jifeng's previous market focus was China. This acquisition enables Jifeng Stock to quickly realize its global layout through consolidated statements, which not only expands its business to five continents, but also is a key step in its strategic transformation to a multinational company, which is of far-reaching significance.

## 4. Analysis of Merger and Acquisition Performance

Due to the huge gap between the two sides of M&A in terms of value concept, business concept and management mode, M&A integration will consume a lot of human, material and financial resources of enterprises, which will have an impact on the financial performance of enterprises [5].

### 4.1. Profitability

After M&A in emerging industries, the profitability of companies will decline significantly [6]. It can be seen from Fig. 1 that after the merger and acquisition of Jifeng (2019-2021), both Gross Profit Margin (GPM) and Net Profit Margin (NPM) declined, and sales profit was negative in 2020. In 2021, it turned from loss to profit and turned to positive, because operating cost increased significantly, and the increase exceeded operating income. The core reasons include raw material cost and labor cost.



**Fig 1.** Profitability of Jifeng from 2016 to 2021

On the one hand, the high cost of raw materials in Grammer led to a significant increase in the cost of the merger successor peak. Jifeng's mold is independently designed and manufactured, and the foaming technology is also independently developed. The cost of its raw material processing is significantly lower than that of Grammer, and the two sides can carry out in-depth cooperation in this aspect in the future. On the other hand, the labor cost of Grammer is higher. The most important reason why Grammer's gross profit margin is lower than Jifeng is the high compensation cost of

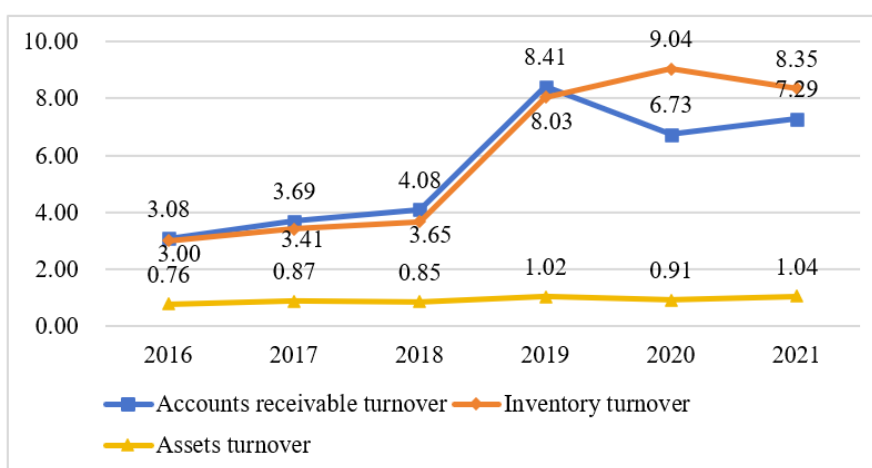
employees and the high wage level of German skilled workers. It can be seen from Table 2 that in the sales expenses of Grammer Company, the highest proportion is 66% of employee compensation, which is relatively stable. In 2019, the average salary of Grammer was about 500,000 yuan, 6 times that of Jifeng. The high salary cost of employees increased the company's sales expenses. In the early stage of the merger and acquisition, Jifeng's management paid high salary to appease employees and ensure that the salary of German employees would not be reduced, which directly led to a short-term decline in the company's profits.

**Table 2.** Structure of Grammer sales expenses in 2018 (in RMB millions)

Indicator	Amount	Proportion
Employee compensation	214.17	66.00%
Advertising expenses	28.67	8.84%
Travel expenses	18.94	5.84%
Consultation fee	5.42	1.67%
Repair cost	2.33	0.72%
Material cost	1.51	0.46%
Others	53.45	16.47%
Total	324.50	100.00%

#### 4.2. Operating Capacity

As can be seen from Figure 2, the inventory turnover rate of enterprises has maintained a steady upward trend. On the one hand, this shows that Jifeng's production and sales links are reasonable, the production management of inventory is in place, and the inventory turnover can be controlled at a relatively high level. On the other hand, it shows that after the merger and acquisition of Grammer, the business volume of Jifeng increased significantly, which can effectively reduce the inventory overstocking problem. The assets turnover of Jifeng before and after the merger and acquisition maintained a relatively stable level, and showed a significant improvement in 21 compared with 20. The accounts receivable turnover also increased significantly after the merger and acquisition, from 4.08 to 8.41, and the inventory and assets turnover both increased. The changes of the above three indicators reflect the significant enhancement of operating capacity after the merger and acquisition of Grammer.



**Fig 2.** Operating capacity of Jifeng from 2016 to 2021

#### 4.3. Development Capacity

According to the data in Figure 3, Grammer has brought significant growth momentum to Jifeng. After the merger and acquisition was completed in 2019, the growth rate of Jifeng's main business income jumped to 737%, mainly due to the new market and advantageous resources brought by Gerner. This enabled it to rise 79 places to the 14th position in the 2020 China Auto Parts Top 100

list, becoming the second-highest revenue auto parts enterprise in Ningbo, surpassing Ningbo Huaxiang. However, growth gradually returned to normal after the merger and acquisition. In 2020, due to the impact of the epidemic, revenue dropped by 12.6% and net profit turned negative. In 2021, revenue rebounded by 7.42%, and operating profit recovered to 170 million yuan. Despite a slowdown in growth, Jifeng has achieved a substantial improvement in its industry position through mergers and acquisitions - steadily moving from the bottom of the original list to the top 30. It is the fastest-growing enterprise in the past three years, demonstrating the continuous contribution of Grammer to its development. At present, the company's strategic focus has shifted from external expansion to internal integration and stable operation.

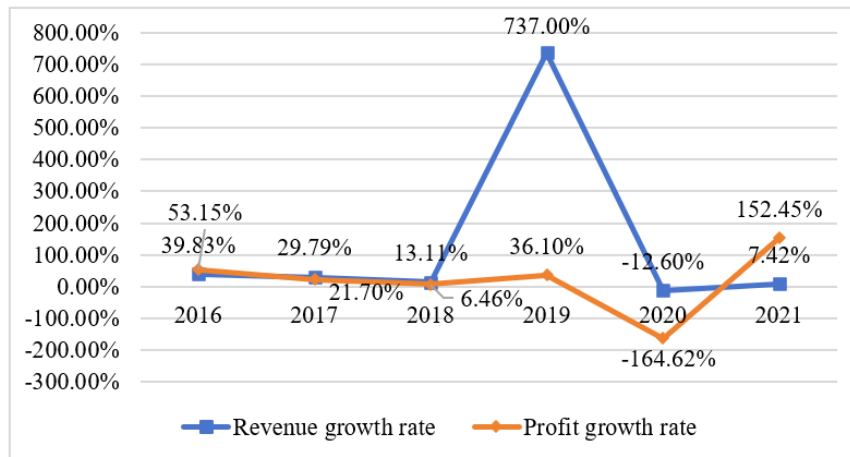


Fig 3. Development capacity of Jifeng from 2016 to 2021

#### 4.4. Solvency

“Snake and elephant” M&A will also affect the solvency of enterprises [7]. Prior to the M&A (2016-2018), the following peak current ratio was maintained at around 3, and the debt-to-asset ratio was below 25%, demonstrating strong short-term solvency and sound capital structure. After the merger and acquisition, due to the assumption of Kramer's debt and the payment of merger and acquisition related expenses, the short-term debt paying ability of the company decreased significantly, the current ratio decreased to around 1, and the debt-to-asset ratio jumped to 72%, indicating a significant increase in debt pressure. However, since 2021, relevant indicators have begun to improve, with the debt-to-asset ratio falling below 70%, indicating that the company is actively optimizing its capital structure. In the long term, Jifeng's solvency is expected to continue to recover as Grammer brings market and resource integration.

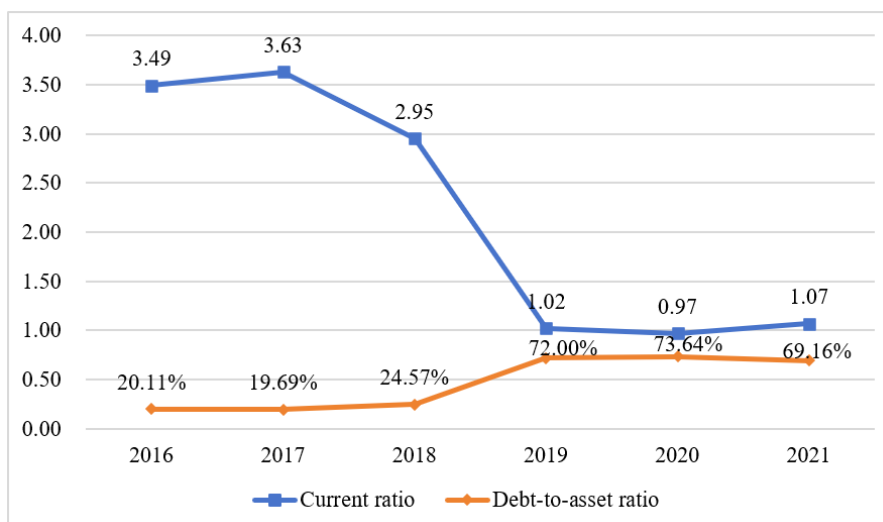


Fig 4. Solvency of Jifeng from 2016 to 2021

## 5. Conclusion and Suggestions

Through the flexible use of a variety of financial instruments, Jifeng successfully completed the merger and acquisition of Grammer in the way of “snake and elephant” M&A, realizing the effective leverage of capital without excessive dilution of equity. After the merger and acquisition, the market size, operation capacity and internationalization degree of the enterprise have been significantly improved. Although debt service and profitability metrics are under pressure in the short term due to M&A spending, long-term performance is expected to improve as businesses are integrated and revenue scales up.

(1) Prudent selection of M&A companies. In the “snake and elephant” M&A, the large size difference between the two sides is easy to lead to high gaming costs and integration difficulties. It is suggested that enterprises should give priority to the inter-bank targets with high business synergy and carry out horizontal M&A to reduce the integration difficulty and management burden, and formulate matching financing strategies accordingly to control the overall risk.

(2) Expand diversified financing channels. Faced with the huge demand for M&A funds, enterprises can learn from Jifang's experience, introduce financial investors, combine equity and debt financing, and relieve the early pressure. In the payment of consideration, mixed methods such as cash, shares and convertible bonds are adopted to balance cash flow expenditure and stable equity structure to achieve risk sharing.

(3) Strengthen post-M&A integrated management. Post-merger integration is the key to achieving synergy and long-term value. If the integration is insufficient, it is difficult to effectively transform high-quality resources even if they are obtained. Enterprises should pay attention to the integration of organization, management and business, avoid restricting the development of Rujifeng due to the simultaneous improvement of management ability, and ensure the implementation of M&A results.

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