

Performance Analysis of Fuchun's Acquisition of Moqikaka

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Abstract. This study examines Fuchun's acquisition of Moqikaka—a cross-industry merger between a traditional telecommunications firm and a gaming company—analyzing its motivations, long-term performance, and implications. Research findings reveal that driven by slowing growth in its traditional telecommunications business, Fuchun sought to diversify operations and improve performance through acquisition. However, analysis of post-acquisition financial performance (2015-2020) indicates: profitability deteriorated due to goodwill impairment and rising expenses; operational efficiency fell below industry averages; debt-paying capacity weakened from cash premium payments; and growth potential continued to decline. Overall, the acquisitions failed to deliver anticipated synergies and yielded poor financial outcomes. This case underscores that when pursuing high-premium, asset-light cross-industry M&A, enterprises must rationally plan strategies, conduct prudent valuations, prioritize post-acquisition integration, and avoid blindly chasing market trends.

Keywords: Cross-Industry M&A; Financial Performance; Diversified Operations; Post-Merger Integration.

1. Introduction

1.1. Research Background, Significance, and Scope

In recent years, the traditional telecommunications industry has faced increasing pressure from cross-industry competition driven by mobile internet disruption. Slowing growth in traditional telecom service revenues has accelerated operators' pace of industrial transformation and upgrading. The telecommunications technology services sector, positioned upstream in the industry chain, is significantly influenced by telecom operators. This sector has seen rising concentration and intensifying competition. In contrast to traditional industries, the online gaming sector has experienced rapid growth. China has introduced a series of policies to promote the gaming industry, leading to an expanding market scale. Many enterprises, driven by strategic transformation and diversification objectives, seek efficient entry into the gaming industry through cross-industry M&A.

This paper conducts an in-depth study of the cross-industry M&A case involving Fuchun's acquisition of Moqikaka. It analyzes the process, motivations, performance, and risks of cross-industry M&A to assess its effectiveness, thereby enriching China's current cross-industry M&A case library and theoretical research. As a representative case of M&A between a traditional industry and a hot industry, it provides valuable reference experiences for other enterprises, helping them avoid blind decision-making during M&A processes and better achieve their acquisition objectives.

This paper first summarizes theories on the motivations for cross-industry M&A. Centered on the case of traditional enterprise Fuchun Holdings acquiring internet gaming company Moqikaka, it introduces the basic profiles of both companies, the M&A process, and integration efforts. Building on this case study, it analyzes the motivations behind cross-industry M&A. Subsequently, it conducts a financial performance analysis of Fuchun Holdings' cross-industry acquisition and examines post-merger challenges.

1.2. Literature Review

1.2.1 M&A Motivations

In cross-border M&A, Feng Yuyu et al. (2020) identify corporate motivations as: enhancing technological innovation capabilities, expanding international market share, and strengthening brand

competitiveness. Diao Li et al. (2020) categorize M&A motivations into resource acquisition, business upgrading, and market expansion. Different types of enterprises consider varying factors in cross-border M&A: state-owned enterprises primarily focus on corporate resources, strategic environments, or superior technologies; Song Lin (2016) notes that private enterprises are more inclined to pursue cross-border M&A to acquire low-cost raw materials and reduce production costs. Godfrey (2014) argues that corporate characteristics also influence cross-border M&A decisions. Enterprises with strong operational performance and growth potential primarily consider resource and strategic factors. Conversely, firms with smaller asset scales and weaker profitability, facing intense domestic competition, actively pursue overseas market expansion and market share capture through cross-border M&A with state policy support.

1.2.2 M&A Performance

Domestic and international scholars have examined whether mergers and acquisitions (M&A) create value for enterprises from diverse perspectives using various methodologies, yet no consensus has emerged.

Some scholars argue that M&A exhibits a positive correlation with corporate performance. Yan, Ai-Ling et al. (2020) employed regression analysis to examine M&A cases in China's A-share market from 2008 to 2015, concluding that technology acquisitions positively impact corporate innovation performance. Lebedev et al. (2015) studied M&A activities in developing economies, finding that higher equity concentration among acquiring firms correlates with better M&A performance in emerging markets. Chen Shihua et al. (2020) examined M&A activities among A-share listed companies from 2003 to 2017, finding that M&A experience influences M&A performance: companies with highly successful initial M&A tend to achieve relatively better performance in subsequent acquisitions.

Some scholars, however, argue that M&A and corporate performance exhibit a negative correlation. Wang Wanqiu et al. (2021) studied cross-industry technology M&A events among A-share companies from 2007 to 2019 and found that such M&A does not enhance short-term performance. Yu Pengyi and Wang Manshi (2018) analyzed the relationship between corporate executives' multiple positions and corporate performance, concluding that multiple positions do not improve short-term performance.

cross-industry technology M&A events conducted by A-share companies from 2007 to 2019 and found that such acquisitions did not enhance short-term performance. Yu Pengyi and Wang Manshi (2018) examined the relationship between executive multiple positions and M&A performance, revealing a negative correlation between M&A outcomes and executives holding multiple positions. If a company's directors serve as chain directors, M&A performance tends to decline.

2. Case Introduction

2.1. Introduction to Fuchun Technology Co., Ltd.

Fuchun Technology Co., Ltd. (hereinafter referred to as "Fuchun Technology") was established in 2001, originally named Fujian Fuchun Communication Consulting Co., Ltd. In October 2010, Fuchun Technology underwent a corporate restructuring to become a joint-stock company, with a registered capital of RMB 50 million after the change. In March 2012, Fuchun Co. successfully listed on the ChiNext board of the Shenzhen Stock Exchange. With significant investment in mobile internet application platforms and content distribution, Fuchun Co. is committed to upgrading service models to meet telecom operators' demand for premium content while expanding business domains to pursue performance growth.

2.2. Moqikaka Company Profile

Moqikaka is a small-scale gaming company specializing in game R&D, co-operating games with online gaming platforms, and software sales. Since its establishment, Moqikaka has successfully

launched multiple mobile games that have received positive market responses. Beyond game development and production, Moqikaka has secured rights to several top-ranked premium novel and film/TV IP resources for future development. This enables the company to create games based on IPs, laying the groundwork for cross-media synergies among games, novels, and TV dramas. Such integration aims to generate synergistic effects while also helping game products acquire users and extend their lifecycles, positioning the company for favorable future growth.

2.3. Merger and Acquisition Drivers

2.3.1 Slowing Growth in Traditional Industries

Fuchun Communications operates in the upstream telecommunications technology services sector of the communications supply chain. Its development is heavily influenced by telecommunications operators, leading to declining net profits, underperforming core businesses, and slowing growth. To seek new profit growth points, Fuchun Communications actively aligned with operators' strategic transformations and upgraded its business operations.

2.3.2 Achieving Diversified Operations

Prior to the acquisition, Fuchun Communications primarily engaged in telecommunications network planning and design services. The telecommunications technology sector features low concentration and intense competition, while downstream industries are monopolized by operators. Telecommunications operators hold a central position in the industry chain with significant bargaining power. Consequently, the telecommunications technology sector is heavily influenced by operators, and pressure on traditional business operations continues to mount. Moreover, as Fuchun provided network construction technical services to telecom operators, the limited number of domestic operators and constraints imposed by existing production capacity resulted in a concentrated customer base. This created a degree of dependency on major clients. Should any major client alter its cooperative relationship with the company, it would adversely impact its operations. To mitigate operational risks, the company aims to diversify through strategic transformation, adopting a dual-core business strategy of “Communication Information + Mobile Gaming” to optimize its industrial structure.

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2.3.3 Improving Operating Performance

Since its IPO, Fuchun Co., Ltd. has experienced a high-opening, low-closing trend. While operating revenue has increased year after year, net profit and earnings per share (EPS) showed annual growth before listing but declined annually after listing. The return on net assets (ROE) indicator has decreased year by year, with the company's operating performance continuously deteriorating. Facing persistently declining performance, Fuchun aims to identify new profit drivers and enhance profitability. The gaming industry holds significant growth potential, with the mobile online gaming market experiencing rapid expansion in recent years driven by widespread smartphone adoption. Fuchun seeks to capitalize on this high-growth opportunity. Entering the gaming sector through mergers and acquisitions not only circumvents industry entry barriers but also acquires the target company's market share and corporate resources. Moqikaka creates premium games centered around intellectual property (IP), focusing on mobile game development. It possesses a rich reserve of IP resources, a professional team of development and operations talent, and a comprehensive product design and production process. By acquiring Moqikaka, Fuchun Holdings can open new profit channels, enhance the company's profitability, strengthen financial stability, and promote improved business performance.

3. Financial Performance Analysis

3.1. Profitability Analysis

Table 1. Fuchun Co., Ltd. Profitability Trends (2015-2020) (Unit: %)

Year		2015	2016	2017	2018	2019	2020
Net Operating Profit Margin	Fuchun Co., Ltd.	19.2	24.31	-32.3	10.41	-119.97	9.16
	Industry Average	8.3	6.74	10.54	-7.58	-420.27	6.20
Return on Equity	Fuchun Co., Ltd.	5.46	7.73	-13.76	4.61	-110.39	3.80
	Industry Average	6.96	3.96	6.80	-1.05	-10.49	3.10
Return on Assets	Fuchun Co., Ltd.	4.99	6.54	-6.18	4.19	-35.46	2.23
	Industry Average	4.29	2.64	4.43	0.08	-0.67	2.92

The table above indicates that this acquisition reduced Fuchun's profitability. On one hand, the acquisition of Moqikaka led to an expansion in loan amounts, resulting in significantly increased financial expenses and reduced corporate profits. On the other hand, the addition of game publishing operations in 2017 caused substantial increases in promotional and operational expenses. In 2019, amid intensified gaming industry regulation, the company adjusted its R&D plans to enhance game quality, deliver superior IPs, and improve user services. This resulted in the discontinuation of multiple online games, causing revenue decline. From 2017 to 2019, impairment losses on assets increased, primarily due to goodwill impairment charges and bad debt losses on accounts receivable related to Moqikaka. This severely impacted profit growth. While the company vigorously expanded into overseas markets, market competition proved challenging. Benefiting from the 5G wave, the communications business experienced rapid growth, leading to an improvement in corporate profitability in 2020, though it remained below pre-acquisition levels. Overall, the company's profitability showed a declining trend, and this acquisition did not enhance profitability in the short term.

3.2. Analysis of Operating Capability

Table 2. Changes in Fuchun Shares' Operating Capability, 2015-2020 (Unit: %)

Year		2015	2016	2017	2018	2019	2020
Total Asset Turnover	Fuchun Co., Ltd.	0.23	0.22	0.22	0.25	0.33	0.16
	Industry Average	0.55	0.51	0.52	0.55	0.57	0.54
Fixed Asset Turnover	Fuchun Co., Ltd.	24.3	26.24	23.59	22.25	22.77	13.18
	Industry Average	20.17	15.83	28.5	30.45	23.35	38.81
Current Assets Turnover	Fuchun Co., Ltd.	0.64	0.47	0.67	0.65	0.55	0.65
	Industry Average	0.79	0.79	0.81	0.82	0.84	0.82
Accounts Receivable Turnover	Fuchun Co., Ltd.	1.09	1.4	1.98	2	2.3	2.52
	Industry Average	4.55	4.79	4.07	4.3	4.23	4.59

Table 2 indicates that compared to the industry average, Fuchun Co., Ltd.'s total asset turnover has consistently remained below the sector benchmark. This suggests that the acquisition did not enhance the operational efficiency of the company's total assets. Although the company's operating revenue has increased, the acquisition resulted in substantial goodwill assets, with goodwill accounting for over 50% of total assets. This led to a significant expansion of total assets, thereby slowing the turnover rate of total assets. Accounts receivable turnover has steadily improved since the acquisition, primarily due to the online mobile gaming business compensating for the growth slowdown in the company's traditional telecommunications operations. This has led to increased operating revenue and reduced accounts receivable, though the company's management efficiency for accounts receivable and current assets remains relatively low.

In summary, while this acquisition has moderately improved Fuchun's accounts receivable turnover and current asset turnover rates, the company's overall operational efficiency remains below the industry average. Consequently, Fuchun must enhance its asset utilization efficiency in future operations.

3.3. Debt Repayment Capacity Analysis

Table 3. Changes in Fuchun Co., Ltd.'s Debt Repayment Capacity, 2015-2020 (Unit: %)

Year		2015	2016	2017	2018	2019	2020
Current Ratio	Fuchun Co., Ltd.	2.12	1.49	0.58	1.08	1.16	1.02
	Industry Average	1.92	1.96	1.72	1.77	1.72	2.45
Cash Ratio	Fuchun Co., Ltd.	0.55	0.37	0.31	0.18	0.17	0.09
	Industry Average	0.68	0.73	0.53	0.55	0.50	0.83
Debt-to-Asset Ratio	Fuchun Co., Ltd.	0.18	0.31	0.48	0.43	0.64	0.67
	Industry Average	0.39	0.38	0.41	0.41	0.42	0.40

Table 3 shows that prior to the acquisition, Fuchun Co., Ltd. had relatively low short-term liabilities, indicating minimal pressure on short-term debt repayment. Following the acquisition, the current ratio declined to 0.85 in 2017, saw a slight increase in 2018-2019 but remained below pre-acquisition levels, and dropped to 1.02 in 2020. The cash ratio also continued to decline, falling from 0.55 in 2015 to 0.09 in 2020 and consistently remained below the industry average. Fuchun's acquisition of 100% equity in Moqikaka employed an installment cash payment structure. The substantial acquisition premium significantly increased the company's debt repayment burden. The initial transaction in 2016 generated RMB 300 million in other payables. In 2017, payments to the original shareholders for the equity acquisition created RMB 130 million in other payables. By 2018, the company incurred an additional RMB 126 million in parent company loans and RMB 189 million in equity acquisition payments for Moqikaka. In both 2018 and 2019, Moqikaka failed to meet its performance commitments. Substantial performance compensation payments led to increased other receivables, indicating that this acquisition diminished Fuchun's short-term debt repayment capacity.

Fuchun raised substantial funds to upgrade games and expand markets. Debt financing has kept the company's debt ratio persistently high, maintaining a relatively elevated asset-liability ratio. In summary, while Fuchun Holdings aims to achieve transformation and upgrading through acquisitions, cross-industry mergers have temporarily weakened both its short-term and long-term debt repayment capabilities, negatively impacting the company's overall solvency.

3.4. Development Capability

Table 4. Changes in Fuchun Co., Ltd.'s Debt Repayment Capacity, 2015-2020 (Unit: %)

Year		2015	2016	2017	2018	2019	2020
Total Operating Revenue Growth Rate	Fuchun Co., Ltd.	69.79	19.61	17.17	4.7	-15.77	-9.56
	Industry Average	11.57	16.36	32.88	16.32	8.51	7.89
Total Assets	Fuchun Co., Ltd.	191.4	28.42	15.37	-8.19	-34.99	-9.00
	Industry Average	25.64	19.12	19.04	7.57	5.23	13.53

Table 4 reveals that Fuchun Co., Ltd.'s revenue growth rate and total assets growth rate have shown an overall downward trend, significantly lower than pre-merger levels. Compared with industry averages, both revenue growth and total assets growth have consistently fallen below the sector benchmark since the merger. In 2017, Fuchun Co., Ltd. initiated premium IP development, leading

to a substantial increase in promotional expenses. In 2019, Fuchun Co. shifted its business focus increasingly toward gaming. To capture market share, the company invested higher costs in developing proprietary games, influenced by external conditions and internal operational adjustments. Mobile gaming revenue fell short of expectations overall, while the telecommunications segment also saw reduced revenue potential due to cyclical industry fluctuations. In summary, Fuchun Co.'s growth capacity has gradually weakened, with insufficient momentum for future development.

4. Summary

Driven by policy initiatives and the rapid development of the internet, the online gaming industry has experienced explosive growth. Gaming companies, characterized by their asset-light operations and high profitability, have become prime targets for mergers and acquisitions. Many enterprises are pursuing cross-industry acquisitions of gaming companies to achieve strategic transformation, diversify operations, and mitigate business risks. To better analyze the outcomes of such cross-industry M&A activities, this paper examines the cross-industry acquisition of Moqikaka Gaming by Fuchun Holdings as a case study, analyzing its acquisition motives and performance.

This paper examines the motivations behind Fuchun's cross-industry acquisition. Facing a slowdown in the telecommunications sector's growth, Fuchun sought transformation through acquiring a gaming company to achieve business diversification, mitigate operational risks, and improve performance. It also analyzes the financial performance and changes in Economic Value Added (EVA) resulting from this cross-industry acquisition. The findings reveal that the cross-industry acquisition failed to achieve its intended outcomes. It did not effectively enhance corporate performance or improve capital efficiency, largely falling short of its acquisition objectives. Consequently, the cross-industry merger demonstrated poor performance.

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