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Analysis on the Synergistic Effect of Internet Enterprise M&A Based on Financial Indexes

—Taking the Youku Tudou Merger as an Example

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Abstract. Financial synergistic effect is one of the important motives for the m&a of enterprises. This paper analyzed the financial index data and business status before and after the merger of Youku Tudou, and found that the short-term financial synergistic effect was not obvious after the merger. Two years later, there were significant positive effects, but it was necessary to innovate the profit model.

1. Introduction

Under the national "Internet +" strategy, the merger and acquisition of Internet enterprises has become a common important economic phenomenon. Merger and acquisition has become an effective means for the expansion and development of Internet enterprises, as well as an important and fast way to optimize the allocation of resources and upgrade the industrial structure. With the rapid development of mobile Internet technology, video website is an emerging media with Internet and mobile Internet as the carrier, gradually becoming one of the main activities for people to watch video in their life. And the competition between video website also increasingly intense, occupy the industry dominant position through the merger and reorganization undoubtedly is wise. Financial synergetic effect is one of the main factors in the m&a of enterprises, but not all the m&a can produce financial synergetic effect.[1]Taking the merger of Youku Tudou as an example, this paper analyzes the effect of m&a from the perspective of financial cooperation according to the financial indicators before and after the merger.[2]

On March 12, 2012, Youku and Tudou announced the merger of the two companies with 100% stock exchange. The new company was named as Youku Tudou co., LTD. The merger of the two giants of China's network video officially started the new competition climax of video website. In the same year, Tudou's issued shares and American depositary receipts were officially approved on August 20. All of Tudou's issued shares and their American depositary receipts were delisted and converted into Youku shares. Youku's American depositary receipts will continue to be traded on the New York stock exchange. Therefore, the data selected in the analysis of its consolidated financial synergies is the financial data after the consolidation.

2. Analysis of Financial Indicators before Merger

Select the financial index data of the three years before the merger in 2009, 2010 and 2011, and the data source is listed companies' financial statements and Wind database.

2.1 Analysis of Youku's financial indicators before the merger

Table 1 Financial indicators of Youku from 2009 to 2011

Financial Indicators	2009	2010	2011
Current ratio	290.10%	792.79%	895.85%
Asset-liability ratio	33.22%	12.72%	10.06%
Total asset turnover	0.35	0.29	0.26
Operating margin	-114.08%	-39.84%	-20.42%
retained profits	-182.29	-204.68	-172.10
Profit growth rate	-10.84%	12.28%	-15.92%

As can be seen from table 1, the current ratio of Youku was relatively large before the merger and the trend was increasing year by year, indicating that although Youku had strong short-term debt repayment ability, it had a large amount of capital stuck in the current assets and insufficient use of funds, which might affect its future profitability. From the data of asset-liability ratio, the asset-liability ratio of Youku is low and shows a downward trend, which indicates that Youku has not fully utilized the funds provided by creditors to carry out financial activities, and the financial risk is relatively low. The turnover rate of total assets decreases year by year and the operating capacity is low. Therefore, it is necessary to improve the existing operating strategies, make better use of existing assets to make profits and improve corporate profits.[3]

The operating margin is an important indicator to evaluate the profitability of enterprises. The operating margin of Youku has been on the rise in the three years before the merger, which indicates that the profitability of Youku has been improved and the profit mode is stable and reliable, but the index is still negative and the profitability should be improved significantly.

In terms of data, Youku has been losing money, but the loss is decreasing year by year. The profit growth rate increased by about 23% between 2009 and 2010, indicating that the overall effect of improving the profitability of the company during this period was good. But the company's profit growth rate declined by about 28.2% and was negative in the 10 to 11 years, which may be related to a drop in operating income and a sharp rise in operating expenses during this period.

2.2 Analysis of financial indicators of Tudou before the merger

Table 2 Financial indicators of Tudou from 2009 to 2011

Financial Indicators	2009	2010	2011
Current ratio	186.34%	146.81%	271.57%
Asset-liability ratio	45.61%	81.92%	28.27%
Total asset turnover	0.30	0.60	0.43
Operating margin	-169.86%	-65.77%	-73.70%
retained profits	-144.78	-347.40	-511.16
Profit growth rate	-31.91%	139.95%	47.14%

It can be seen from table 2 that the liquidity ratio of Tudou from 2009 to 2011 is in the normal range, and the short-term solvency of the enterprise is relatively good, which can meet the needs of the enterprise to repay short-term debts. During 2009, the asset-liability ratio of enterprises remained at an appropriate level, with relatively strong ability to repay long-term debts and moderate degree of financial security and stability. Although the asset-liability ratio of enterprises rose to 81.92% in 2010, a phenomenon of high debt management appeared, but this phenomenon was alleviated in 2011. The asset-liability ratio of enterprises recovered to a reasonable level again, and their long-term solvency was still good. The turnover rate of total assets showed a trend of growth. Although it was lower in 2011 than in 2010, the decline was not large, indicating that its ability to use assets to earn income was good and corporate profits increased.

Operating profit was the first to increase and then decrease, which was a big increase but not a big drop, indicating that the profitability of enterprises was good during this period. Combined with table 1, it can be seen that the two companies showed the same trend in the same indicator during the same period, indicating that the profits of video industry were increasing from 2009 to 2011, but the loss was increasing year by year, and the loss was more serious than that of Youku. The profit growth was the first to increase sharply and then to decrease sharply, and the growth slowed down, indicating that the company is still profitable in general.

To sum up, before the merger, Youku had been in the state of loss, but had a high p/e ratio; In terms of operating capacity, there is a problem of failing to make full and effective use of surplus funds and existing assets to obtain more profits for the enterprise, but the profitability is improving year by year. Before the merger, Tudou had been in a loss state and the loss amount was much higher than that of Youku. Its solvency and profitability are both good and it has long-term development potential. Although the operating capacity of Youku needs to be improved, it has more capital than Tudou. Considering the overall situation of Youku and Tudou and the high cost of video industry, the merger and acquisition of Tudou by Youku is a win-win choice.

3. Analysis of financial indicators after merger

3.1 Tax saving effect

The merger of Youku Tudou is only the first step, and whether we can obtain the financial synergies after the merger is completed is the key issue we pay attention to. The following is an analysis of the financial synergistic effect of m&a from the following five aspects: tax saving effect, debt paying ability, operating cost, net operating income and new enterprise strategy.

Table 3 The net profit of upland from 2009 to 2013

Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
TuDou(million yuan)	-144.78	-347.40	-511.16	-	-	-
YouKu (YouTu) (million yuan)	-182.29	-204.68	-172.10	-424	-581	-838
Total (million yuan)	-327.07	-552.08	-683.26	-424	-581	-838

As can be seen from table 3, both Tudou and Youku failed to achieve profits from 2009 to 2014, and the losses of Tudou became more and more serious, with the loss amount significantly higher than that of Youku. If the two companies choose to stay in business rather than merge, then potato losses could be even more severe and may end up being acquired at a lower price. As the loss continues to narrow, Youku will pay corporate income tax after deducting a certain amount of loss. However, with the merger of the two, the total amount of losses of upland increased which can make full use of the loss-deferred tax clauses, and can obtain more tax benefits than the original operating alone.

3.2 Solvency

Table 4 Debt paying ability indexes of upland from 2012 to 2014

Financial Indicators	**2012**	**2013**	**2014**	**International Common Rate**
Current ratio	402.94%	343.95%	384.71%	200%
Total cash debt ratio	9.57%	16.98%	24.57%	25%
Asset-liability ratio	13.31%	15.01%	17.49%	40%~60%

As can be seen from table 4, the liquidity ratio of superior soil after 2012 showed a fluctuating decline, but it was higher than the international general rate of 200%, indicating that the short-term solvency of the enterprise was strong and some funds were not fully utilized, but it was gradually improving. After the merger, the ratio of cash debt to asset-liability ratio is increasing year by year, which indicates that the short-term debt capacity of upland is continuously improving, and the long-term solvency of enterprises is also rising. Accordingly, merger also brings financial lever capacity and financial risk rise. Generally speaking, the short-term debt paying ability of upland is strong, and the medium - and long-term debt paying ability is improved compared with that before the merger.

3.3 Operating costs

Table 5 Operating cost indexes of upland from 2010 to 2014

	Indicator (million yuan)	**2010**	**2011**	**2012**	**2013**	**2014**
TuDou	**Product R&D**	0	0	-	-	-
	Marketing Costs	143	287	-	-	-
	Administrative Costs	105	175	-	-	-
	Total	248	462	-	-	-
YouKu (YouTu)	**Product R&D**	31	72.57	172.88	278.01	413.82
	Marketing Costs	130	230	364	681	1028
	Administrative Costs	29	81	238	262	251
	Total	190	383.57	774.88	1221.01	1692.82

As can be seen from table 5, the operating costs of both Youku and Tudou continued to increase before 2012. In the year of merger, the operating costs decreased, which was 8.36% lower than the previous year. However, in 2013 and 2014, the company broke through 10 million yuan in a row. The increased cost mainly refers to the increased cost of sales, marketing, product research and development, daily and administrative management brought by the company's substantial business growth.

3.4 Net revenue analysis

Table 6 the net revenue of upland from 2010 to 2014

Year	2010	2011	2012	2013	2014
TuDou(million yuan)	286	512	-	-	-
YouKu (YouTu) (million yuan)	387	898	1796	3028	4223
Total (million yuan)	673	1410	1796	3028	4223

It can be seen from table 6 that the net operating income of Youku and Tudou before the merger showed a gentle upward trend; after the m&a, the total net revenue of upland increased significantly, showing a rapid upward trend, which indicates that the m&a has a positive effect on operating revenue.

From the financial data before and after the merger of Youku and Tudou, youtu has basically achieved the financial synergistic effect of mergers and acquisitions, improved profitability and debt paying ability, reduced operating costs and significantly increased operating income. This is attributed to the series of positive measures adopted by superior soil after the merger to increase revenue and reduce negative load. First, to reduce the cost of survival and production. Second, superior soil reduced the dependence on copyright content, which greatly reduced the operating cost. Third, expand domestic second and third-tier cities, improve the proportion of domestic customers, increase revenue; Fourth, we should vigorously develop the Internet advertising in traditional industries, maintain the differentiated competition between Youku and Tudou, and improve their ability to resist risks.[4]

4. Conclusion

From the merger cases of Youku and Tudou, it can be found that although the financial synergies are relatively difficult to emerge in the short term, it takes a year or two or more to accumulate to have a significant positive effect, but the merger still has a significant impact on the enterprise. Upland is still unable to fundamentally reverse its losses in the short term, and the company needs to further explore new profit models. Competition in the Internet industry has become increasingly fierce, and mergers and acquisitions have become the inevitable choice for the operation and development of many Internet enterprises [5]. There are many reasons for the merger and acquisition of Internet companies and the most important one is to realize the financial synergies.

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