

MERGERS AND ACQUISITIONS IN CHINA'S DAIRY INDUSTRY: AN ANALYSIS OF MENGNIU DAIRY AND MILK GROUND

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Article Info

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Abstract

The Chinese dairy industry is experiencing a transformation and upgrading in response to changing market consumption demands. As a result, mergers and acquisitions (M&A) have become an increasingly popular way for companies to expand and improve their competitiveness. This article analyzes the performance of Mengniu Dairy's M&A of Milk Ground using financial analysis and event analysis methods. The article builds a performance evaluation system for M&A, covering financial analysis, operation, customers and employees, and assesses the effectiveness of the M&A by Mengniu Dairy from these four perspectives. The results show that Mengniu Dairy has achieved a positive strategic integration effect, which has improved its development ability and competitiveness in the long term. However, the chosen M&A mode has worsened its solvency in the short term. It is noteworthy that Mengniu Dairy has not taken effective measures for internal resource adjustment. The article emphasizes the importance of formulating reasonable merger and acquisition plans according to financial conditions and development strategies, refining the market, updating business strategies, and avoiding financial difficulties. The article also highlights the need to strengthen asset management and internal resource integration to improve M&A performance. The findings of this study provide valuable insights for companies in the dairy industry that are considering or currently undergoing mergers and acquisitions.

1. Introduction

The statistics released by Zero2IPO Research Center, an authoritative research institution in the field of entrepreneurship and equity investment, at the beginning of 2022 show that the impact of the COVID19 epidemic will gradually slowdown in 2021. Although there is still a rebound, the economic recovery momentum is strong, and GDP will grow by 8.1% year-on-year. Driven by the economic recovery, China's enterprise merger and acquisition market is also relatively active. In 2021, the number of companies that issued mergers and acquisitions reached 2171, an increase of 14.7% year on year. M&A is the main way for Chinese enterprises to grow. With

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the adjustment of China's domestic consumption structure, the quality of life of consumers is also improving day by day. The dairy market has shown a trend of combining efficacy and taste, nutrition and health care. Enterprises need to develop more multilevel and personalized products for various consumer groups. The transformation and upgrading of market consumption demand provides a good driving force and environmental requirements for mergers and acquisitions in the dairy industry. Therefore, this paper selects Mengniu Dairy and Milk Ground, which are the most representative cases in the dairy industry, for analysis, in order to provide reference and reference for the merger and acquisition of similar enterprises and promote the healthy development of the merger and acquisition market.

2. The mechanism analysis of enterprise M&A and its performance

2.1. Meaning and classification of M&A

Corporate M&A is an activity of ownership transfer in the enterprise property rights system, which is based on equal pay for equal work, equal exchange and voluntary obedience to seek the rights and interests of enterprise owners (corporate legal persons). The main ways of merger and acquisition of the company are stock purchase, enterprise merger and asset acquisition. In addition, M&A can be divided into the following three forms according to industry characteristics: horizontal M&A, vertical M&A and mixed M&A.

2.2. Performance analysis method of enterprise M&A

The following two methods are commonly used to analyze the performance of enterprise mergers and acquisitions. The first is the financial analysis method, which is regarded as the most representative method that can best reflect the performance of enterprise mergers and acquisitions. It is an important method to measure the performance of enterprise mergers and acquisitions. The financial analysis method usually uses four technical indicators to evaluate the performance of mergers and acquisitions: solvency, profitability, development ability and operating ability. The second is the event analysis method, which is mainly used to analyze the correlation between the stock price, the stock yield and the business operation of the enterprise that the stock holders pay attention to. The event research method, which is based on the perfect theoretical knowledge, has been widely used in various fields.

2.3. Analysis on the mechanism of M&A performance

The performance of M&A is the state of whether the M&A enterprise achieves the expected M&A objectives and M&A efficiency in the M&A activities after the M&A enterprise completes the acquisition of the target enterprise. Good M&A performance refers to achieving the expected synergy of M&A, promoting the progress of M&A enterprises, and completing the indicators set in the early stage of M&A.

The performance of M&A can be reflected through direct and indirect effects.

2.3.1. Direct effect of enterprise M&A performance

There are two views on the direct impact of mergers and acquisitions on performance. One view is that mergers and acquisitions can greatly promote the company's operating performance. For example, Selcuk (2015) ^[1] through the case study of mergers and acquisitions in Türkiye, it can be seen that mergers and acquisitions can not only improve the financial performance of target enterprises, but also improve the non-financial performance of mergers and acquisitions. In addition, the higher the company's social responsibility, the better its financial performance ^[2]. Horizontal M&A can effectively improve the M&A performance of enterprises, but its improvement has a certain lag. The M&A performance of the M&A enterprises and target enterprises will significantly improve with the industry correlation of both parties ^[3]. By exploring the relative scale of mergers and acquisitions, it can be found that enterprises can significantly improve the performance of mergers and acquisitions while expanding the relative scale of operations through mergers and acquisitions. This feature is

more prominent in companies with a large proportion of institutional investors and in non-state-owned enterprises^[4]. By exploring the differentiated tax preference, we can find that when the regional differentiated tax preference is high, the frequency of enterprises' mergers and acquisitions will also increase, and with the increase of the degree, the degree of differentiated tax preference has a significant positive correlation with the performance of enterprises' mergers and acquisitions.

In addition, the government's competitiveness can improve the M&A performance of enterprises by optimizing differentiated tax incentives^[5]. Another view is that M&A can't significantly improve the company's operating performance, but will reduce the operating performance. For example, assuming that the M&A performance is the market reaction of investors, the M&A performance of enterprises will significantly decrease with the increase of economic policy uncertainty^[6]. When the M&A performance is assumed to be market response, although the management's ability can influence the M&A performance through strategic means, there is no significant correlation between the management's ability and the M&A performance assumed to be market response. In contrast, when analyzing the M&A performance from the perspective of operation path, the management's ability will significantly reduce the M&A performance of enterprises by implementing risky operation strategies^[7]. The existing research on the performance of enterprise M&A has not reached a consensus. Most of the research focuses on the overall M&A performance of listed companies in China, and lacks the research on the performance of specific industries such as dairy products.

2.3.2. Indirect effect of enterprise M&A performance

Inter-enterprise M&A can not only directly affect the company's operating performance, but also indirectly affect the performance of enterprise M&A through such factors as the corporate culture in M&A activities, the choice of M&A payment method, the effectiveness of internal control, the ability of management and the relative scale of M&A. For corporate culture factors, on the one hand, it is believed that corporate culture has a greater impact on mergers and acquisitions of non-listed companies, interbank mergers and acquisitions, or mergers and acquisitions between enterprises in different provinces. In addition, on the basis of the original large industry gap between the two parties to the merger and acquisition, the negative impact of different corporate culture is superimposed, which further worsens the long-term performance of the merger and acquisition enterprises^[8]; On the other hand, it is believed that the strength of corporate culture of M&A enterprises is negatively correlated with M&A performance, and the smaller the industry correlation, the stronger the negative effect^[9]. With regard to the factors of the payment method for mergers and acquisitions selected by enterprises, on the one hand, it is believed that the performance of mergers and acquisitions of enterprises that use cash payment in the merger and acquisition mode is significantly better than that of enterprises that use stock payment, but the enterprises that are accustomed to using stock payment are more likely to be enterprises with capital constraints^[10], on the other hand, it is believed that the merger and acquisition enterprises that use stock instead of cash payment can obtain excess positive returns in the whole acquisition process, However, the M&A enterprises that pay in cash can only obtain the normal rate of return^[11].

For the effectiveness of internal control, on the one hand, it is believed that the M&A performance of enterprises can be improved by improving the effectiveness of internal control and the shareholding ratio of institutional investors; on the other hand, the shareholding ratio of institutional investors will inhibit the positive effect of the effectiveness of internal control on the M&A performance of enterprises^[12]. For the factors of high M&A premium rate and high performance compensation commitment growth rate, on the one hand, it is believed that the rise of the double-high ratio is the key link to significantly reduce the performance of enterprise M&A, and the bank shareholding intervention will significantly weaken the negative correlation effect of the double-high

ratio on the acquisition performance, but on the other hand, it is believed that the effect of high M&A premium rate and high performance commitment growth rate on the acquisition performance, The impact in non-state companies is significantly higher than that in state-owned enterprises ^[13]. For the analysts' attention factor, on the one hand, analysts' attention can significantly improve the M&A performance of enterprises by publishing positive reports, and on the other hand, although the enterprise's own equity concentration will reduce the M&A performance ^[14], with the effective intervention of analysts, with the increase of equity concentration, the positive correlation between analysts' attention and M&A performance has been significantly strengthened ^[15]. In addition, M&A enterprises can reduce the negative effect of management capacity on the M&A performance of listed companies by employing analysts ^[16].

The due research on the factors affecting the performance of enterprise M&A provides a rich theoretical basis for this paper to analyze the performance of Mengniu Dairy through financial analysis and event analysis. This paper will take the case of Mengniu Dairy's merger and acquisition of Milk Ground as the analysis object, and conduct in-depth analysis from the following three aspects. First, from the perspective of M&A mode, combined with the payment method adopted in the M&A event of Mengniu Dairy, the impact of the M&A on the operating performance of Mengniu Dairy was analyzed; Secondly, from the perspective of the traditional financial analysis method, we use the level of profitability, the level of operation and the level of debt service to study the overall financial performance changes of the merger and acquisition; Thirdly, the Tova-Panlin non-financial performance classification of "operation, customers and employees" is introduced to analyze the non-financial performance changes of this merger and acquisition by market penetration, brand influence and company management ability. It is expected to provide reference basis for companies in the dairy industry that are in or about to be in merger and acquisition status from the perspective of traditional financial analysis method and event analysis method, so as to improve the policy effectiveness of the Action Plan for Improving the Quality and Safety of Dairy Products issued by the State Administration of Market Supervision.

3. A brief introduction to the case of Mengniu Dairy's acquisition of Milk Ground

3.1. Introduction to Mengniu Dairy

China Mengniu Dairy Co., Ltd. is an H-share listed company (securities code: 2319. HK) operating mainly in the production of liquid milk, ice cream and other dairy products in China. Its head office is located in Hohhot, Inner Mongolia Autonomous Region, China. With 68 enterprises in China and factories in 16 cities in China, it is one of the leading enterprises in China's domestic dairy industry, and has won many titles such as "China Famous Brand". Mengniu Dairy not only has a high share in the domestic market, but also has a place in the overseas market. In particular, the UHT milk under Mengniu Dairy has reached the first sales volume in the world.

3.2. Introduction to Milk Ground

At present, Milk Ground is the only A-share enterprise in the industry with cheese manufacturing as its core business area (stock code 600882. SH). Headquartered in Shanghai, China, it currently has five major production plants in China, which are located in Changchun, Jilin, Shanghai (Fengxian District, Jinshan District) and Tianjin in turn. It is currently one of the leading companies in China's domestic cheese industry. According to the sample group of Kai Du consumer index, in the sales volume of cheese products in 2021, Milk Ground ranked first in the world with 31.8% at most; As of the first half of 2022, the market share of Milk Ground Cheese reached 35.5%, and the market share of Cheese Stick exceeded 40%. The company remained the first in the industry and continued to expand its leading edge.

3.3. Mengniu Dairy's acquisition of Milk Ground

Mengniu Dairy has been subscribing for the shares of Milk Ground since the beginning of 2020, but the merger took nearly two years to end. From the beginning of the merger, it was not favored by the business community, and was even regarded as a blind merger by Mengniu Dairy to achieve the "100 billion goal", and finally announced the completion of the merger on July 9, 2021. See Table 1 for M&A transaction process

Table 1: The transaction process of Mengniu Dairy's acquisition of Milk Ground

January 6, 2020	Directly hold 5% of the equity of Milk Ground by cash payment	Mengniu and other shareholders of Milk Ground jointly signed the Share Transfer Agreement to acquire a total of 20467853 shares of non-restricted shares of Milk Ground at the price of 14 yuan per share, accounting for 5% of all shares of Milk Ground. As a result, Mengniu will become the second largest shareholder of Milk Ground.
March 24, 2020	Direct purchase of 8.81% of shares of Milk Ground by cash payment	With 8.81% of shares in Milk Ground, Milk Ground disclosed the Plan for the Non-public Issuance of A-shares in 2020. Mengniu planned to subscribe 315 million shares and the actual subscription scale was 20.78 million shares.
August 23, 2020	Mengniu withdrew from the fixed increase plan of Milk Ground	The deep cooperation plan between Milk Ground and Mengniu was announced to be broken. In the new share issuance plan of Milk Ground, it also withdrew from the list of fixed shares.
December 13, 2020	Direct holding of 23.80% equity of Milk Ground by cash payment	According to the share subscription agreement, Inner Mongolia Mengniu will acquire no more than 100976102 target shares of Milk Ground, and Inner Mongolia Mengniu will hold about 23.80% shares of Milk Ground.
July 9, 2021	Holding 28.47% of the shares of Milk Ground by cash payment and obtaining the actual control right, the acquisition was completed	Mengniu will successfully complete the purchase of and control of Milk Ground. Finally, Milk Ground will issue 100976102 shares to Inner Mongolia Mengniu Company in a private offering at a price of 29.71 yuan per share.

4. Analysis on the financial performance of Mengniu Dairy's M&A of Milk Ground

Financial performance refers to whether the company's strategy and its formulation and implementation process are making the greatest contribution to the company's final operating performance, mainly reflected in the company's profitability, operating strength and economic benefits. First of all, profitability refers to the total profit amount and revenue level of an enterprise during a period of operation. The following will analyze the change trend of product profitability during the acquisition process by using the product sales gross profit rate, return on net assets and return on total assets. Secondly, operating capacity is an important means to measure the company's daily operation and management strength, and refers to the ability of enterprises to use their own resources to create revenue. Finally, the solvency of an enterprise is an effective standard to predict the company's investment prospects, the strength of the risks it bears, and the ability to maintain normal operations and develop

services. The capital flow ratio and quick ratio are indicators to evaluate the short-term asset-liability ratio and short-term liquidity of the company in the analysis of solvency.

4.1. Profitability analysis

4.1.1. Sales gross profit rate and sales net profit rate indicators

The gross profit rate of product sales and the net profit rate of product sales are key indicators to measure the profitability of different companies under the same sales revenue. The former is used to reflect the competitiveness and profit potential of products, and the latter is used to detect the true profitability of enterprises. It can be concluded from Figure 1 that the sales gross profit margin of Mengniu Dairy maintained at a relatively stable level from 2019 to 2021, which indicates that Mengniu's liquid milk products have certain core competitiveness in the dairy market. The net interest rate on sales dropped precipitously from the end of 2019 to the middle of 2020, but gradually rose to the level of 2019 in 2020-2021. Mengniu Dairy, as a leading enterprise in the dairy industry, faced with the problem of rising raw material prices and increasing marketing costs due to the epidemic, the net sales interest rate dropped rapidly. However, with the gradual recovery of domestic and foreign industrial chains and supply chains and the normalization of the COVID-19, the net sales interest rate is also gradually rising. It is worth noting that in 2020-2021, with the increase of the acquisition ratio, Mengniu gradually integrated the product advantages of Milk Ground, obtained a new marketing approach, reduced agency costs, and steadily improved its core competitiveness. The above analysis shows that the profitability of Mengniu Dairy has been improved in the process of merger and acquisition.

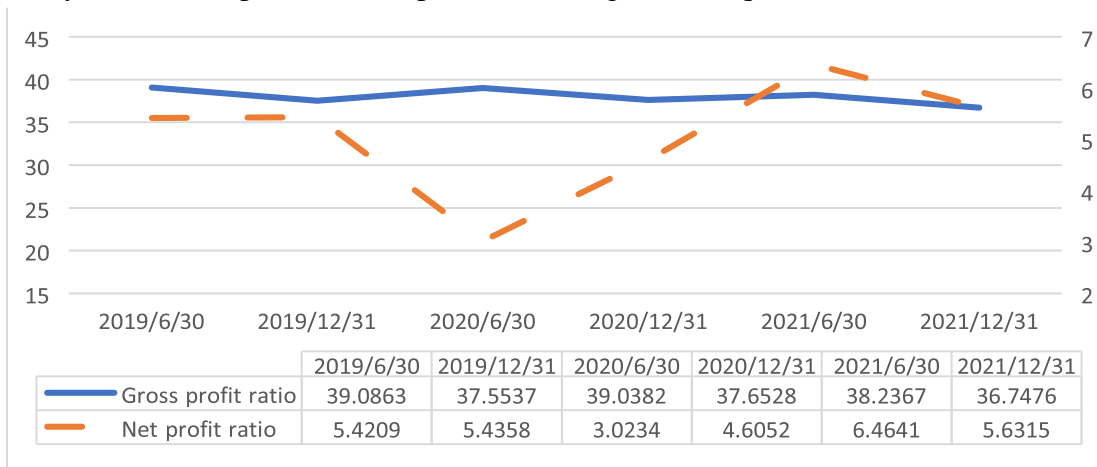


Figure 1: Gross profit rate and net profit rate of sales before, during and after the merger and acquisition of Mengniu

4.1.2. Return on net assets and return on total assets indicators

Return on net assets is a technical index used to study the true profit of an enterprise and reflect the benefits of the enterprise to the main shareholders or the use of the enterprise's net assets. Return on total assets is an important indicator of whether an enterprise has the ability to borrow. From 2019 to 2021, the return on net assets of Mengniu decreased from 15.11% to 14.39%, which indicates that Mengniu did not take effective integration measures after obtaining the net assets of the target enterprise, and the growth rate of the net profit of the enterprise was significantly behind the growth rate of the net assets of the enterprise. From 2019 to 2021, the return on total assets is basically stable at the level of 5%, which means that the financial situation of Mengniu Group before and after the acquisition of the target enterprise is basically balanced. At the same time, the growth level and ability of the company have reached the medium level in the industry. It is worth noting that the difference between the two ratios can reflect the risk level of the company in the process of operation. The

difference between the two ratios is basically stable at 9% - 10% in 2019 - 2021, which indicates that the financial structure of Mengniu is relatively stable before and after the merger, and also reflects that the merger method is more reasonable for Mengniu.

4.1.3. Earnings per share index

Earnings per share refers to the ratio of the remaining earnings to the total capital stock after deducting the income tax and paying the interest to the best stock. It is an important indicator reflecting the overall profit level of the company and evaluating the earnings per share in the stock market. In June 2020, Mengniu Dairy's earnings per share decreased from 1.049 to 0.309, which can be analyzed from the perspective of event analysis. The sharp drop in earnings per share is partly due to the downturn in the development of the whole industry caused by the COVID-19 in 2020, and partly due to the fact that Mengniu Dairy announced the acquisition of Milk Ground, which is generally not favored by the business community. This acquisition is considered to be a blind acquisition of Mengniu Dairy in order to achieve the goal of 100 billion yuan. In 2020-2021, with the steady improvement of Mengniu Dairy's operating performance and the resolution of the internal control problems of Milk Ground, this merger was recognized by the business community and the earnings per share gradually recovered. Although the stock market is still volatile, the stock trend of Mengniu Dairy is relatively stable. In 2021, the earnings per share of Mengniu Dairy was higher than that before the acquisition, but the value of earnings per share was lower than that before the acquisition, which showed that the acquisition reduced the earnings per share of Mengniu Dairy and did not meet the expected earnings rate of Mengniu Dairy.

To sum up, Mengniu Dairy's profit potential is steadily increasing. On the one hand, Mengniu has effectively played its new product advantages, thus reducing the agency costs. Although the changes in the general environment have impacted the net profit rate of sales and the return on equity, Mengniu Dairy has actively taken measures before and after the merger, integrated the resources of both sides, and superimposed the positive effects brought by the normalization of the COVID-19 epidemic. The overall profitability is also increasing with the improvement of the epidemic. Therefore, this study has sufficient reasons to believe that this merger and acquisition has enhanced the profitability of Mengniu Dairy.

4.2. Operation capacity analysis

4.2.1. Accounts receivable turnover rate, inventory turnover rate and operating income

The turnover rate of accounts receivable is a key parameter to evaluate the effectiveness of the company's accounts receivable, which is positively related to the company's fund management level. The inventory turnover rate based on income is an indicator used to measure the realization of the company's inventory fixed assets. The inventory capital occupancy rate and the liquidity of current assets will be significantly improved with the increase of the inventory turnover rate. From 2019 to 2021, the turnover rate of accounts receivable of Mengniu Dairy increased from 7.64 to 8.05, indicating that M&A activities have improved the management efficiency of Mengniu's working capital. However, in the process of merger and acquisition, Mengniu's inventory turnover rate has been declining, from 6.09 to 4.70 in 2019, down 22.8% year on year. This indicates that Mengniu's inventory management capacity is insufficient, resulting in a series of problems such as the reduction of inventory liquidity, the increase of capital occupation and the insufficient liquidity of inventory assets.

Operating revenue is an important indicator to judge whether an enterprise has achieved its expected operating objectives. In 2019-2021, Mengniu's operating revenue increased from 39.857 billion yuan to 45.905 billion yuan, an increase of 15.17% year on year. This shows that Mengniu has effectively integrated the product and marketing resources advantages of the target enterprise, readjusted its business strategy, and created new products to meet the market demand according to the needs of consumers. Therefore, the operating income has been

significantly improved in the process of mergers and acquisitions. Although the inventory turnover rate has decreased, the current asset turnover capacity of Mengniu Dairy has been improved in combination with the operating income.

4.2.2. Fixed assets turnover rate

The turnover rate of fixed assets is an important indicator to evaluate how much economic benefits the fixed assets can create for the company. In 2019-2020, the fixed asset turnover rate of Mengniu Dairy fell from 1.39 in the same period to 1.09, a year-on-year decrease of 21.85%. This shows that although Mengniu Dairy has improved its utilization of fixed assets, it has not improved the turnover rate of fixed assets. In addition to the strong impact of the COVID-19 on the dairy industry, the asset management level of Mengniu Dairy has significantly decreased. In 2020-2021, Mengniu Dairy gradually strengthened the management efficiency of fixed assets when it entered the comprehensive integration link after the completion of the merger and acquisition, while the turnover rate of fixed assets of Mengniu Dairy increased from 1.02 to 1.85. This shows that Mengniu Dairy has not played a good role in asset integration in this merger and acquisition, and the turnover rate of fixed assets of the company is lower than the industry average level.

4.2.3. Total asset turnover

The total asset turnover rate is the key indicator to evaluate the asset investment efficiency of an enterprise. It can be used to evaluate the overall sales ability of an enterprise by combining the business income of the enterprise. In addition, when evaluating the asset investment benefits of a single enterprise, it is often compared horizontally with other enterprises in the same industry. It can be analyzed from Figure 2 that from 2019 to 2020, Mengniu Dairy's total asset turnover rate is at the leading level in the industry, and fluctuates normally with the development of the industry. However, in 2020-2022, Mengniu's return on total assets decreased significantly, and the gap between Mengniu and other leading enterprises in the same industry, such as Yi Li and Bright Dairy & Food, rapidly deteriorated from 0.1 in 2019 to 0.4. This shows that this merger and acquisition has seriously affected the asset investment efficiency of Mengniu. Considering the rising trend of operating income, the increase of total assets of Mengniu is far greater than the increase of its operating income, which leads to the overall operating ability of Mengniu significantly lagging behind the industry average.

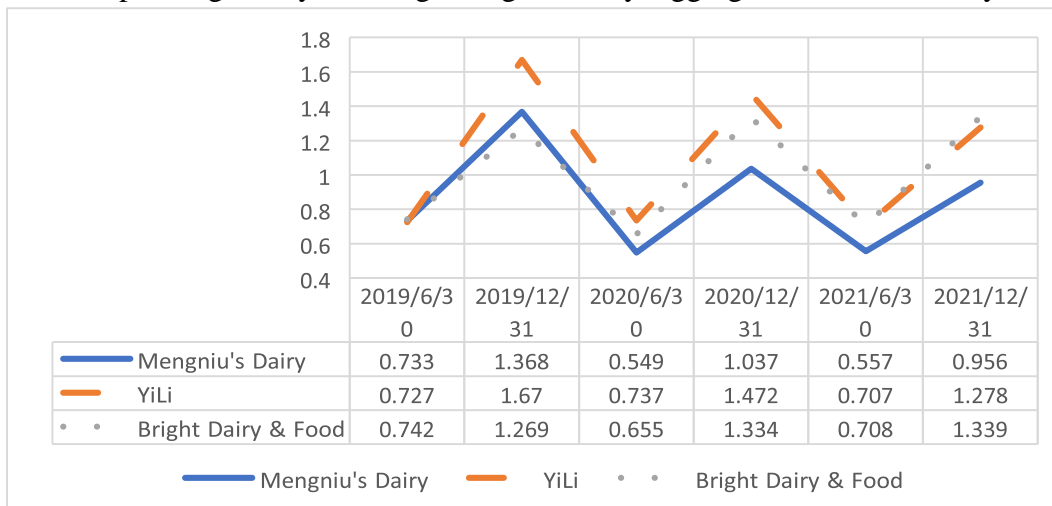


Figure 2: Total asset turnover rate and comparison in the same industry

The above analysis shows that different enterprises can adapt to the development trend by adjusting their own business strategies in the face of changes in the overall environment during the same development period, so as to ensure that they do not lag behind the development level of the industry. In terms of the performance of

Mengniu Dairy's operating capacity indicators, although the enterprise's net asset management capacity is insufficient, resulting in the liquidity and operating strength of current assets falling behind the industry level, Mengniu's gradual improvement in the management capacity of current assets has also achieved the business goal of merger to a certain extent.

4.3. Analysis of solvency

4.3.1. Current ratio and quick ratio

The current ratio is based on the short-term (less than one-year debt) held by enterprises. The higher the liquidity ratio of an enterprise, the higher the capital liquidity of the enterprise. CR is used to represent the liquidity ratio. The short-term debt service level of the company is expressed by the difference between the current ratio and the current ratio. The QR is used to represent the quick ratio. When the QR is greater than 1, it means that the company has sufficient current assets to repay short-term debt, and there will be no insolvency in the short term. From 2019 to 2020, the current ratio of Mengniu Dairy has been kept within the reasonable range of 1 to 1.5, and the quick ratio has always been greater than 1, which shows that Mengniu Dairy has good liquidity management ability and liquidity. In 2020-2021, the current ratio dropped from 1.27 to 1.07, and the quick ratio dropped from 1.14 to 0.83, with a year-on-year decrease of 15.74% and 27.19%. This shows that Mengniu Dairy's M&A payment method has greatly deteriorated the short-term solvency of the enterprise, and the quick ratio falling out of the normal range has further highlighted the problem of Mengniu's liquidity weakening and the substantial decline in short-term solvency.

4.3.2. Asset liability ratio

The asset-liability ratio is the proportion of equity in the company's net assets to all the company's assets. Expressed by equation, it is the ratio obtained by dividing the total liabilities of the company and all assets of the company. This paper selects Yi Li and Bright Dairy & Food for horizontal comparative analysis of the industry. Through the big data analysis in Figure 3, it can be seen that the asset-liability ratio of Mengniu Dairy before the merger is at the normal level of about 45% - 60%. In 2019, Mengniu's asset-liability ratio increased from 53.89 to 56.64, which was due to Mengniu Dairy's sale of its Jun Le Bao Company, resulting in a decline in total assets and an increase in asset-liability ratio. However, the asset-liability ratio will drop from 60.34% to 52.53% in 2020-2021. This shows that Mengniu's ability to operate external funds has declined in the process of mergers and acquisitions.

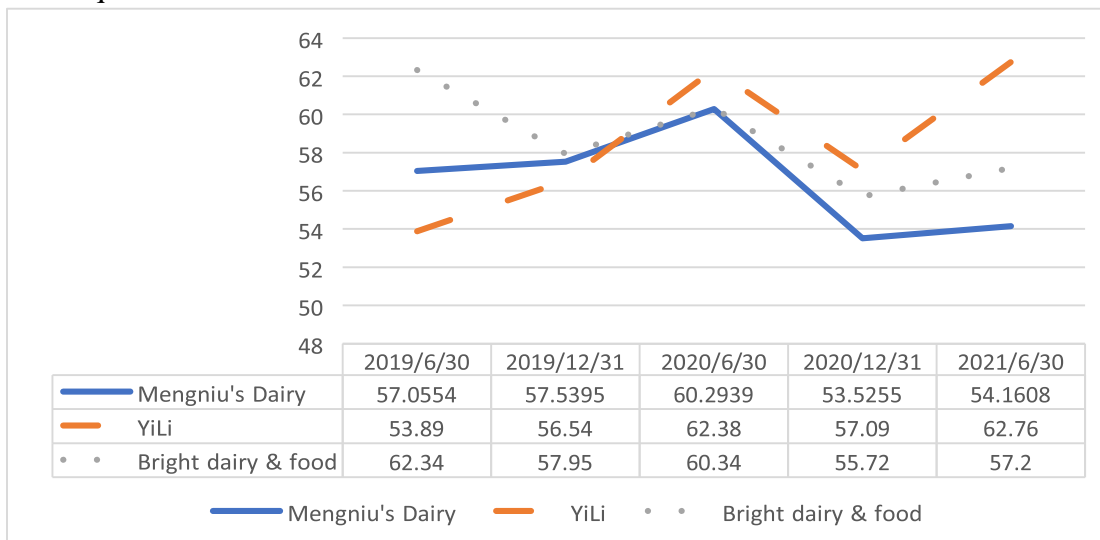


Figure 3: Comparison of total debt ratio of the same industry

The above data shows that although this merger and acquisition has reduced the debt risk faced by Mengniu, it can be seen from the decreasing current ratio and quick ratio that the payment method adopted by Mengniu in the merger and acquisition has greatly deteriorated the short-term debt repayment ability, and also sounded an alarm to other enterprises.

5. Nonfinancial performance analysis of Mengniu Dairy's acquisition of Milk Ground

Non-financial performance analysis is a modern performance evaluation method that cannot be obtained through financial indicators. The purpose of non-financial performance analysis is to conduct a comprehensive performance evaluation of the company. Based on the classification method of nonfinancial performance of "operation, customer and employee" proposed by Torval-Panlin in 1996, this paper selects market penetration, brand influence and company management ability to represent the three types of non-financial performance of operation, customer and employee respectively, so as to analyze the case of Mengniu Dairy's merger and acquisition of Miranda.

5.1. Market penetration analysis

Market penetration is a comparison of current market demand and potential market demand, and is one of the most basic development strategies of enterprises. According to the data of China urban household sample group of Kai Du Consumer Index, Mengniu Dairy's FMCG sales increased by 3.1% year-on-year in 2021, the overall sales of liquid dairy products increased by 4.4% year-on-year, and the market penetration rate was 99.6%. The sales of adult milk powder increased by 6.5% year-on-year, and the market penetration rate was 40.5%. The sales of cheese increased by 32.7% year-on-year, and the market penetration rate was 29.3%. Mengniu Dairy, on the one hand, makes full use of the cost advantage of liquid milk products and carries out refined marketing in the market, which improves Mengniu's social awareness and increases its market penetration in China; On the other hand, as Mengniu Dairy completed the acquisition of Milk Ground in July 2021 and successfully opened the door of overseas market, Mengniu Dairy's global market penetration is expected to further increase.

5.2. Brand influence

Due to the constant adjustment and upgrading of China's consumption structure, consumers should not only value the product itself, but also consider the brand image and credibility of the product. Brand awareness and brand competitiveness will affect the overall brand effect, and the sum of all factors will be reflected in the brand value of the enterprise, that is, the consumer's recognition of the brand. Therefore, the importance of a good brand image for enterprise management is increasingly prominent. The company's brand influence is measured based on the C-BPI index launched by the American brand evaluation agency Chnbrand. In 2018-2020, Mengniu Dairy ranked second in brand value. In 2020-2021, the comprehensive score rose from 523.1 to 598.35, up 14.39% year-on-year, surpassing Yi Li as the first brand in the liquid milk sector. In terms of the comprehensive score of the cheese bar/noodle brand ranking list, in 2020-2021, Milk Ground surpassed the Milk Ground based on the global cheese market, and the difference between the two scores increased from 18.7 to 64.9. The brand power index of Milk Ground showed an overall upward trend, indicating that the brand influence of both companies was further enhanced after the merger.

5.3. Company management level

Internal cost is the core measurement index to measure the overall operating efficiency of the company. Under the same operating input, the period cost is inversely proportional to the company's retained value. This paper reflects the management level of Mengniu Company through the period cost rate. The cost rate of Mengniu Dairy rose from 62.4% to 63.3% during the period from 2019 to 2021. The cost rate of Mengniu Dairy during the period before merger and acquisition has remained at a stable level. While Mengniu's net assets increased in a large

amount from 2021 to 2022, it also led to a sharp rise in operating and management costs in the short term. After the merger in 2022, although the management carried out business and human resources integration, the cost rate did not significantly reduce during the period. It can be seen from the change of expense rate during the period that Mengniu Dairy's ability in internal cost management needs to be improved.

6. Conclusion and enlightenment

This paper uses the financial index method and event analysis method to evaluate the case of Mengniu Dairy's merger and acquisition of Milk Ground, and divides it into financial performance analysis and non-financial performance analysis to conduct detailed analysis and draw the following conclusions: First, from the sales net interest rate, operating income and market penetration, it can be seen that Mengniu Dairy has carried out effective strategic integration in this merger and acquisition activity, and its core competitiveness has been improved. Second, from the perspective of return on net assets, inventory turnover, total asset turnover and asset-liability ratio, Mengniu Dairy did not take effective integration measures for new assets after the merger and acquisition, resulting in the overall operating capacity of the enterprise after the merger and acquisition falling behind the industry average. Thirdly, by comparing the return on net assets, profit on total assets, turnover rate of accounts receivable and quick ratio of capital flow, the M&A mode selected by Mengniu has worsened its solvency in the short term, but improved its development ability and competitiveness in the long term. Fourth, the change in the period cost rate of Mengniu Dairy shows that although Mengniu has integrated its business and human resources after the completion of the merger and acquisition in 2021, the integration has not achieved the expected effect. To sum up, we can get the following enlightenment:

6.1. Refine the market operation strategy based on the resource advantages of both sides

When dealing with the situation that the market positioning, main revenue sources and key industries of both parties are very different, enterprises can take measures to strengthen the integration of both parties in technology, management, marketing and other aspects, give full play to the advantages of both parties' product costs and marketing resources, adjust the company's industrial type and internal structure, and propose differentiated marketing strategies according to different consumer groups. Continuously carry out refined management in the market to improve the social awareness of enterprises.

6.2. Enhance asset management capability and focus on internal resource integration

The success of M&A is not an end, but another beginning. The completion of the M&A transaction stage is not simply equal to the completion of the overall M&A. In the M&A integration stage, enterprises need to not only take into account the business strategies of both sides to allocate the core assets of the target enterprise, but also pay attention to the adjustment of assets and technology between the M&A enterprise and the target enterprise, and also coordinate the relationship between the personnel structure of the target enterprise and the original business distribution system of the enterprise. It is worth noting that M&A enterprises need to pay close attention to whether the personnel structure after M&A is reasonable, and scientifically and reasonably allocate enterprise management resources through timely structural optimization and business integration. In addition, M&A enterprises can focus on the integration of M&A enterprises and target enterprises after M&A.

6.3. Formulate a reasonable payment plan based on its own financial situation

The choice of payment methods for mergers and acquisitions has a significant impact on the capital structure of enterprises. Cash payment accounts for more than 50% of the current mergers and acquisitions cases, which is the most preferred payment method for enterprises at present. When the M&A enterprise chooses the payment method, it can improve the asset utilization rate of the target enterprise while improving the transaction completion rate by combining its own financial situation and the M&A plan with less industry differences in the

same period, and then select the M&A mode that fits the long-term development strategic objectives of the enterprise. In addition, through the cash-based acquisition of a large amount of internal financing and bank financing, on the one hand, a large amount of corporate debt will be generated after the completion of the acquisition, thus improving the company's financial risk situation; on the other hand, due to the lack of a large number of current assets, the company's short-term debt repayment ability will be seriously reduced, so it is impossible to control the company's possible high-risk investment behavior in the future. Therefore, enterprises should choose the payment method that suits the long-term development of enterprises. A reasonable investment method is not only directly related to the company's asset composition, but also a dynamic form of the company's asset structure adjustment.

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