

# Analysis of Haier's Acquisition of General Appliances

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## Abstract:

In this era of rapid but highly competitive economic development, China, as a large developing country, needs to cater for the contemporary economic development trend. In the wake of the information technology revolution, listed mergers and acquisitions companies have ushered in a new wave of mergers and acquisitions as they need to adjust their own internal industrial structures. To better enable China's listed companies to carry out live mergers and acquisitions, the development of China's merger and acquisition financing market. In addition to providing an analysis of the Haier Group's merger and acquisition of basic household appliances, this study offers pertinent insights and sources of inspiration. For China's listed companies M&A financing to provide effective financing experience and innovative financing ideas, to create a good financing environment. Based on the evaluations of Haier Group mergers and acquisitions case, the case for in-depth analysis, and then combined with the current situation of China's merger and acquisition financing market and analyses the problems that exist in it.

**Keywords:** Merger and acquisition; financing process; general appliances.

## 1. Introduction

To comprehend the effect of M&A on the subsequent operation of M&A enterprises, this study analyzes Qingdao Haier's M&A performance and motivation in the acquisition of General Appliances. In addition, Haier's M&A behavior is also highly representative of the fact that General Appliances has more advantages in terms of awareness and market share [1]. Therefore, this serpentine M&A can also provide more targeted opinions and references for other home appliance enterprises to realise financial effects in the M&A process.

Haier Group went through layers and layers of procedures, and finally with 5.58 billion U.S. dollars to the successful conclusion of this merger and acquisition of General Electric. The merger is a leap to some extent, the merger and acquisition of Haier Group net profit, operating income, total assets have risen significantly for the development of the Haier Group has opened a broad space, means that China's home appliances to the international arena. The appliance division of General Electric would be acquired by Haier Group for \$5.4 billion, the company stated on January 15, 2016. The U.S. Department of Justice authorized the agreement on March 2 and it closed in the summer of 2016 [2]. It was disclosed that the acquisition would be financed by Bank of America, Merrill Lynch, government policy lender China Development Bank, and state-owned China Construction Bank. The newly pur-

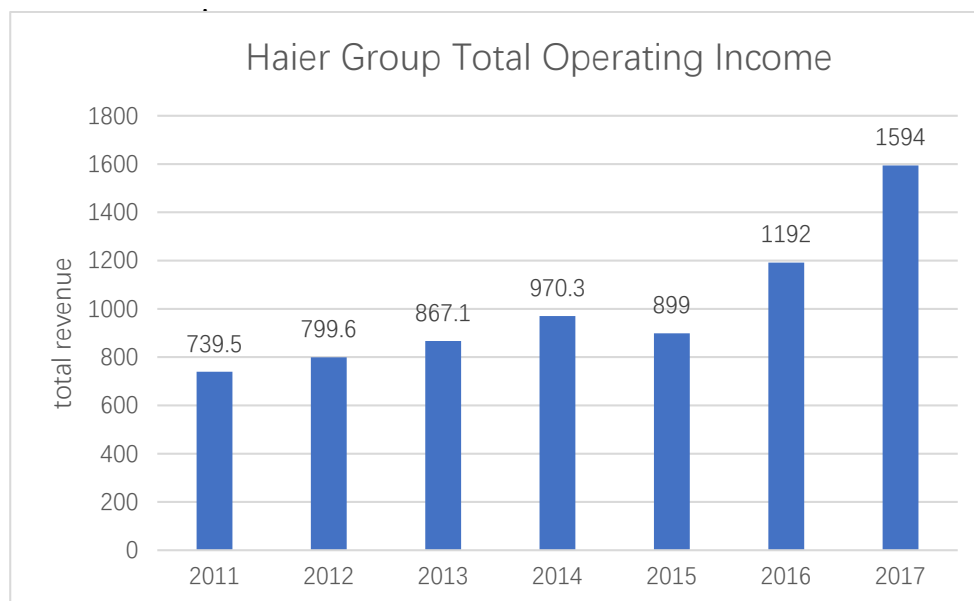
chased GE Appliances division will become a part of the Shanghai-listed Qingdao Haier of the Haier Group.

The Haier Group's merger and purchase were motivated by a number of factors. Prioritize stabilizing the industry's position and maximizing the brand effect. A company's brand is one of its main competitive advantages. In the US market, General Appliances is a global brand and the largest multinational firm offering technology and services; in contrast, Haier Group is a well-known domestic home appliance manufacturer. By way of the merger and purchase of General Electric, it can strengthen its international reputation and consolidate its market position in the domestic market. Secondly, it is to enhance technological innovation and strengthen product competitiveness. M&A of General Appliances, learning its advanced science and technology, using the sharing of resources; promote Haier Group's internal technological upgrading, in the R & D market in an advantageous position. Moreover, open the international market and develop towards globalisation. Competition in the home appliance market is relatively fierce, with Midea, Xiaomi and other major home appliances squeezed domestically, and international brands such as the United States and Japan occupying the market abroad [3]. Haier's international market share is growing slowly. Haier's acquisition and merger of general appliances helped the company build its brand while also quickly increasing the Haier Group's home appliance market share abroad, which aided in the company's efforts

to extend its product line internationally. Maximize the distribution of resources and augment revenue.

Lastly, it has the potential to increase profitability. There is a lot of competition in the home appliance business, a lot of major domestic brands, and a different level of quality. Haier in the years before the merger and acquisition of the operation is relatively low [4]. From the Fig. 1, it can be seen that earnings growth was slow in the years before the merger and acquisition. According to the values, General Appliances has a competitive advantage in terms of brand resonance, market share, and management, and in the years prior to the Haier Group's merger and ac-

quisition, total revenue from main business and net profit grew slowly [5]. After the completion of the integration of general appliances, the use of general appliances to optimise the allocation of resources and improve the quality of Haier Group's assets. On this basis, Haier Group's profitability has improved significantly, helping Haier Group to form a new competitive advantage [6]. After in-depth study and analysis of Haier Group M&A case, should ensure that the smooth progress of M&A financing at the same time, the coordination of internal and external resources, and after the merger and acquisition can create greater benefits for the enterprise.



**Fig. 1 Total Operating Income of Haier Group, 2011-2017**

## 2. Basic Descriptions

The top brand of big household appliances worldwide is Haier Group. Since the organization's founding, it has introduced advanced technology from abroad, taking customer demand as the driving force, strengthening its own learning and innovation, greatly promoting the rapid economic development of Haier Group, and expanding its market share. So that it has developed and progressed from a small group all the way to become a large international enterprise, and occupies an important position in the domestic home appliance industry. Haier Group realized a net profit of 5.04 billion yuan in 2016, a rise of 17.2% year over year, and overall operational income of 119.1 billion yuan for the year, up 32.6% [7]. In 2017, it realized a net profit attributable to net profit of \$6.91 billion, an increase of 37.1%, and produced operational income of 163.4 billion yuan, a year-over-year rise of 37.2%.

General Electric (GE for short) is a local brand in the United States, founded in the United States in 1892. The

company focuses on scientific and technological innovation, and is able to provide technology and service business in many fields (life, military industry, energy, etc.), General Electric was ranked 10th in both the 2016 Global 100 Most Valuable Brands and the Global Market Capitalization 500 in the same year [8]. GE occupies an important position in the United States in the American economic system, and is a leader in its niche industries.

So far Haier and General Electric have had a long history of interaction, as early as 2008 General Electric's first public sale of home appliance business, Haier is one of the bidders, but the sale was not successful. 2014, General Electric and the Swedish company Electrolux reached an agreement on the sale of General Electric appliances, Haier in the bidding and General Electric appliances lost, and ultimately the transaction failed to pass the U.S. antitrust examination. After 2014, General Electric continued to sell its home appliance business, Haier eventually stood out among competitors such as Samsung and Midea, and

the bid was successful. On June 7, 2016, the Haier Group-owned Qingdao Haier paid a total of around \$55.8 billion, of which 40 came from its own cash and the remaining 60 via a finance loan, to finalize the acquisition of General Electric's home appliance division. The merger and acquisition of Haier to pay in cash, only the acquisition of general appliances assets, excluding interest-paying debt, of which 3.3 billion U.S. dollars in merger and acquisition loans issued by the China Development Bank. According to the merger and acquisition information, Qingdao Haier's 2016 operating income and net profit were 119.66 billion yuan and 5.037 billion yuan respectively.

### 3. M&A process

Haier Group M&A financing process on 14 January 2015, Haier and General Electric both signed an agreement and reached into a transaction amount of \$5.4 billion paid by Haier. The relevant documents regarding the merger and acquisition were then disclosed. After a series of M&A matters were completed, on 7 June, Qingdao Haier confirmed the delivery of cash of US\$5.58 billion, and General Appliances officially became a part of Haier.

The ongoing growth of the market economy, which encourages the development of merger and acquisition operations of listed businesses in China, is the current state of merger and acquisition finance in China. Under the promotion of several merger and acquisition boom, the economic competition between companies is more and more intense, and their merger and acquisition financing activities are also increasingly and have an innovative development mode. overall level of transaction amount is high.

The problem of M&A financing for listed companies in China is the lack of financing methods. The problem seriously restricts China's listed companies to carry out financing, or a major bottleneck in the development and growth of China's M&A market. Such as the above Haier Group mergers and acquisitions, many enterprises or listed companies will take the means of cash payments for mergers and acquisitions. Cash payments can enable enterprises to generate large cash flow and enable them to seize investment opportunities; but the size of the transaction is also subject to the constraints of the ability to obtain cash, and may affect the enterprise subsequent cash investment. The lack of M&A financing methods greatly limits the choice of enterprises, coupled with China's existing financing channels are not smooth, directly leading to China's listed companies in the process of mergers and acquisitions financing difficulties. Secondly, the merger and acquisition financing method is contrary to the merger and acquisition theory [9]. When China's listed companies carry out M&A financing problems, they do not abide by

the theoretical order of internal financing, external bond financing and external equity financing. Usually, the share of equity financing and stock financing is mainly around 30% and 70%, while in China's M&A financing process, but first consider equity financing, and the theoretical order is not consistent. At the same time, China's mergers and acquisitions in the process of financing enterprises mostly use cash payment means, such as Haier Group with cash mergers and acquisitions of general appliances, which reflects the immaturity of China's capital market. Therefore, the characteristics of China's listed companies using cash payment means and preferring equity financing are contrary to the theory of M&A financing. At the same time, China's investment banks and other financial institutions with a low level of development. China's investment bank started late, the level of business activities is low, and even most of the securities companies and other financial institutions to undertake, seriously lagging behind the western developed countries; the law is not perfect, the support is too small to affect the expansion of its scale, the lack of professional talents also hindered its further development [10]. Different from the deposit and loan business of commercial banks, the main business of investment banks focuses on securities underwriting and trading business; and the degree of development of China's investment banks is not able to acquisition financing market and most of the mergers and acquisitions, which, to a certain extent, has limited the expansion of China's mergers and acquisitions market.

### 4. Analysis and Suggestion

#### 4.1 Financial Risk Analysis

Due to the early development and high maturity of the capitalist market in western countries, overseas mergers and acquisitions have become an important aspect of their enterprise development, and the financing channels of their overseas mergers and acquisitions are also richer and more diversified, and the debt financing methods, equity financing methods, etc. are very common in the financing of overseas mergers and acquisitions of European and American enterprises, in comparison, the way of financing for China's enterprises in overseas mergers and acquisitions is still too single, mainly supported by a large number of loans from commercial banks. In comparison, the financing methods of Chinese enterprises participating in overseas M&A are still too single, mainly relying on a large number of loans from commercial banks to support. A scientific and reasonable financing structure should be established to effectively avoid risks in the financing process [11]. The financing structure of the enterprise will be created by different aspects of the impact, so it is

more necessary to do a variety of channels of funds to be weighed to the cost and benefit of the combination of financing before making a good decision to avoid mistakes. Haier should have reasonable pricing for its products in its marketing activities, if the price is too low, it will trigger a vicious price war among competitors, and if the price is too high, it will reduce the affordability of consumers and lead to the loss of most of the customers.

In conclusion, Haier should be based on its own development strategy, the general financing of mergers and acquisitions program as early as possible for research and planning, and the introduction of strategic investors to support the merger and acquisition. Through Haier's M&A financing, one can find that different financing methods will have different types of impact on the enterprise's own capital structure and the cost of financing. In M&A financing, enterprises must formulate financing programs in advance, and gradually improve the financing plan, so as to ensure the smooth progress of M&A financing. In the process of mergers and acquisitions of general appliances, Haier chose to complete the payment in the form of cash, the reason why, Haier has its own considerations, fully grasp the basic needs of its own liquidity, but also a combination of the basic requirements of general appliances, which is Haier finally able to complete the merger and acquisition of an important reason. From a practical point of view, enterprises must develop a detailed merger and acquisition of capital budget program, so that one can fully grasp their own financial structure, but also to meet the basic requirements of the merged party on multiple levels, so as to reduce the resistance in the process of implementation of mergers and acquisitions and can improve the merger and acquisition of the process of the possibility of success, reduce unnecessary financial risks, can be merged and acquisitions in the possible risks to a minimum. The success of this merger, not only supplemented Haier's resources, but also bring the corresponding synergies. No matter what general appliances it acquires or what other mergers and acquisitions it makes, Haier's mergers and acquisitions can play a positive benefit for the enterprise, but also China's home appliance industry to bring the quality of the improvement of healthy competition [12].

## 4.2 Suggestion

According to the analysis, following suggestions are proposed. First, it should adhere to the scientific M&A financing methods and use them reasonably. When carrying out M&A financing activities, the listed company should choose the financing method suitable for the enterprise according to the economic environment and financing mechanism in which the enterprise is located, such as its own financial situation. In the financing activities, accord-

ing to the current factors to analyze whether the current financing methods used in the capital demand, financing risk, financing costs and other aspects of adaptation, can promote the listed company's economic structure is more reasonable, in order to obtain more long-term development. Secondly, it is necessary to continue to develop and improve China's M&A financing market. Besides, one ought to optimize the M&A financing environment of China's capital market. Listed companies to implement a more relaxed bond financing management strategy, gradually lower the restrictions on the issuance of securities by enterprises, and increase the opportunities for enterprises to raise funds.

## 5. Conclusion

Qingdao Haier's in-depth analysis of Acquisition of General Appliances, through a series of mergers and acquisitions behaviour of the study, for the enhancement of China's entrepreneurial and innovative capacity of various types of enterprises has a significant role in promoting, but also allows China's enterprises to participate in overseas mergers and acquisitions to master more methods and learn more content. At the same time, with the help of Qingdao Haier's successful merger and acquisition case, comprehensively analysed the basic elements affecting China's corporate innovation, but also for China's enterprises to participate in overseas mergers and acquisitions to find an extremely effective management model. Currently, Haier's M&A with General Electric is the largest cross-border M&A case. As one of the giants in the home appliance industry, Haier's development strategy at all stages has brought important changes to China's home appliance industry. Chinese enterprises often ignore the difficulty of integration in cross-border mergers and acquisitions, and make comprehensive adjustments to the acquired party after the completion of the merger and acquisition, resulting in the acquired party being unable to adapt due to cultural differences and other factors. Thus, Haier's international expansion strategy provides an example with significant reference value.

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