Exploring the Financial Risks of Corporate Cross-Border Mergers and Acquisitions: Case Study based on Geely's Acquisition of Volvo

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Abstract: Geely Group's acquisition of 100% stake in Volvo and related assets in 2010 triggered global attention and promoted a new wave of China's overseas M&A activities. This study explores the financial risks in corporate M&A and their management strategies, and takes Geely's acquisition of Volvo as a case study for in-depth analysis. Through the background and significance of Geely's acquisition of Volvo, the process, significance, performance analysis and impact of Geely's acquisition of Volvo are explored in detail by adopting the case study method and SWOT analysis, and the financial risks are identified and assessed by combining relevant theoretical frameworks. The research results show that the financial risks faced by Geely's acquisition of Volvo mainly include valuation risk, financing risk, payment risk and integration risk. In the conclusion section, it is emphasized that the recognition and assessment of financial risks are crucial when conducting cross-border mergers and acquisitions of companies. Companies should conduct due diligence and risk assessment cautiously and develop effective risk management strategies to ensure the successful implementation of cross-border M&A transactions. Before carrying out cross-border M&A activities, companies should integrate the concepts of strategic management, financial risk management and corporate governance into all aspects of cross-border M&A, and automobile companies should obtain the support of domestic and foreign governments, broaden the financing channels of cross-border M&A, and pay attention to post-merger and acquisition integration measures in order to realize their long-term strategic goals.

Keywords: Corporate Mergers and Acquisitions; Financial Analysis; Financial Risk

1. Introduction

In recent years, as China's economy continues to integrate into the globalization process, Chinese companies have become more and more actively integrated into the international trading system, while actively participating in the Belt and Road Initiative. The willingness of Chinese companies to develop abroad has become stronger and stronger, and cross-border mergers and acquisitions (M&A) have become one of the most important ways for them to achieve international success. According to statistics, cross-border M&A amounted to only $49 billion in 2011, but by 2021 it will reach $415.3 billion, an increase of more than eight times. This growing trend is also validated by the actual M&A activities of Chinese companies, with 90% of Chinese companies having made an M&A or a change in trade activities in the past decade.

These cases reflect the willingness of Chinese companies to acquire advanced foreign technology and management experience through cross-border M&As in order to maintain their competitive advantage in the international market. Against the backdrop of the global automobile industry suffering from the subprime crisis and rising oil prices, China's automobile market is relatively closed and still has great potential for development. This provides a huge opportunity for Chinese automobile enterprises to cross-border M&A, integrate global advantageous resources and enhance their global competitiveness.

Geely is a well-known private automobile manufacturer in China, founded in 1986,

initially focusing on the production of motorcycles. With the continuous development of China's automobile market, Geely gradually transformed itself into a main automobile manufacturer and achieved a certain status and influence in the domestic market. And in 2008, the global financial crisis broke out, and Volvo Car Corporation's parent company, Ford Motor Company, was hit hard, resulting in Volvo's operational difficulties. Ford began to seek to sell Volvo in order to reduce its own burden and focus its resources on its core business. China's automobile market rose rapidly in the 2000s to become one of the largest in the world. Chinese companies began to actively seek overseas acquisitions to acquire technology, brands and market share to enhance their competitiveness. Against this backdrop, Geely decided to acquire Volvo, recognizing its strengths in safety technology and environmental protection, as well as its global brand influence. The completion of Geely's acquisition of Volvo has set an example for Chinese automakers to go to the international market, and at the same time injected new vitality and development opportunities for Volvo. Geely's acquisition of Volvo is a major takeover deal completed by Chinese automaker Geely Automobile Group in 2010. The deal is seen as one of the milestones in the internationalization of China's auto industry and one of the most important cases of overseas acquisitions by Chinese companies[1-3].

Corporate M&A is the process of maximizing the utilization of the company's internal resources through reasonable acquisitions, enhancing the company's competitive position in the industry, and completing the efficient overhaul of itself and the target company in the shortest possible time to ultimately achieve the company's goal of 1+1. The case of Geely's M&A of VOLVO provides a useful perspective for China's automobile industry to access cross-border M&A to gain technology and experience, and to analyze the financial risks and related management challenges of the company's M&A[4]. And studying the motives, processes and results of cross-border M&A of Chinese automobile companies helps to gain a deeper understanding of the development path of China's automobile industry and its impact on the global automobile industry pattern.

2. Geely Acquisition of Volvo Case Study

In 2007, Geely put forward a strategic transformation, in the introduction of advanced technology, enhance brand influence at the same time, decisively called a halt to the low price competition strategy. Today, Volvo (VOLVO) with advanced technology and international brand status has become the object of Geely's merger and acquisition, which is an important strategy for Geely to implement its development strategy. Whether it is the acquisition of Volvo, or late development funds, Geely is both internal and external. Overseas money is mainly the United States, Europe, Hong Kong, China, the money of these countries, the domestic money is Geely's own money and the bank's money, the local government's money each accounted for 50%, so that in the financial risk is easy[5]. The following analyzes the financial performance and financial risk of Geely before and after the merger and acquisition.

2.1 Analysis of Financial Performance before and after Mergers and Acquisitions

Financial performance analysis before and after merger and acquisition. The following indicators in Table 1. are obtained from the data and calculated from Geely's annual reports from 2008 to 2014.

Table 1. Solvency Analysis

Financial Indicators	2009	2010	2011	2012	2013	2014
current ratio	1.37	1.33	1.13	1.19	1.29	1.42
quick ratio	1.30	1.24	1.04	1.08	1.19	1.33
Gearing ratio (%)	62.26	62.65	63.22	57.92	51.70	53.15
Equity ratio (%)	164.95	167.73	171.89	137.65	107.02	113.44

Source of data Geely's annual reports from 2008 to 2014

Here, the current ratio fluctuates between 1.13 and 1.42, showing some volatility overall, but picking up after 2010. The lower gearing ratio indicates that the company's assets own equity is higher and the financial risk is relatively low. The gearing ratio shows a gradual decreasing trend after 2013, indicating that the company has gradually reduced the proportion of debt and the financial risk is relatively lower. The

equity ratio showed a gradual increase after 2013, indicating that the shareholders' equity in the total assets of the company gradually increased. Taken together, although these indicators have fluctuated somewhat over the past few years, overall the company's liquidity is better, financial risk has gradually decreased, and shareholders' equity has gradually increased, all of which are positive signals.

According to the data in Table 2, these financial indicators provide key information about the company in terms of sales, profits and shareholders' equity.

Table 2. Profitability Analysis

Financial Indicators	2009	2010	2011	2012	2013	2014
Gross margin on sales (%)	18.10	18.40	18.20	18.50	20.10	18.20
Net sales margin (%)	9.38	7.17	8.18	8.32	9.34	6.67
Return on net assets (%)	24.11	17.07	16.90	15.52	16.51	8.30
Net profit (billions of dollars)	13.19	15.50	17.16	20.50	26.80	14.50
Basic earnings per share (cents)	17.08	18.59	20.72	27.05	31.74	16.25

Source of data Geely's annual reports from 2008 to 2014.

Gross Sales Margin indicates the percentage of each sales revenue that is used to cover costs and produce goods. From 2009 to 2014, this indicator maintained a relatively stable level amidst fluctuations, showing some stability overall, from a peak of 20.10% to a trough of 18.10%. The decline from 9.38% in 2009 to 6.67% in 2014 shows some fluctuation, but the overall trend shows a slight decline. The return on net assets fluctuated between 24.11% in 2009 to 8.30% in 2014, showing an overall trend of gradual decline. Net profit increased from $1,319 million in 2009 to $1,450 million in 2014, with some fluctuations in between, but the overall trend showed an increasing trend. The score increased from 17.08 in 2009 to 16.25 in 2014, with some fluctuations in between, but overall showing a growth trend. Taken together, the company's performance in terms of gross sales margin and net profit is relatively stable, and it shows a growth trend in terms of net profit and basic earnings per share.

According to the data in Table 3., these indicators are about asset turnover and they provide information about the efficiency of the company's asset utilization.

Table 3. Analysis of Operating Capacity

Financial Indicators	2009	2010	2011	2012	2013	2014
Total asset turnover	0.97	0.93	0.81	0.84	0.88	0.61
Current asset turnover ratio	1.62	1.44	1.28	1.34	1.36	0.91
Inventory turnover	20.46	20. 16	14.63	12.62	12.72	10.45
Accounts receivable turnover ratio	4.01	3.17	2.32	2.23	2.45	1.76

Source of data Geely's annual reports from 2008 to 2014

Table 4. Analysis of Development Capacity

Financial Indicators	2009	2010	2011	2012	2013	2014
Growth in shareholders' equity (%)	48. 39	27.92	11.81	30.09	22.91	7.62
Net profit growth rate (%)	52.30	17.49	10.72	19.46	30. 76	45.93
Growth rate of operating income (%)	228.03	42.86	4.31	17. 47	16.57	24. 28
Total assets growth rate (%)	250.23	29. 26	13.55	13.71	7.07	10.96
Asset accumulation rate (%)	48. 39	27.92	11.81	30.09	24.69	7.59

Source of data Geely's annual reports from 2008 to 2014.

The current asset turnover ratio shows a decreasing trend from year to year, from 1.62 to 0.91, which again could mean that the company is having problems in utilizing its current assets. Inventory turnover ratio declined from 20.46 in 2009 to 10.45 in 2014, showing a decrease in the rate of inventory turnover, which could be due to inventory backlog or slowdown in sales. The accounts receivable turnover ratio indicates how quickly the company collects accounts receivable from customers. A higher number indicates that the company is collecting receivables faster, which is important for cash flow. This metric declined from 4.01 in 2009 to 1.76 in 2014, showing a decline in the company's rate of collection, which could be due to delayed payments from customers or an

easing of credit policies. These metrics show some issues with the company's asset utilization efficiency, including a decline in total and current asset turnover and a slowdown in inventory and accounts receivable turnover. This may require the company to further analyze and take appropriate measures to improve the efficiency of asset utilization.

The data in Table 4. provides information on the growth rate of the company in different years.

A higher growth rate in shareholders' equity means that the company's shareholders' equity is growing rapidly, usually due to the conversion of earnings into shareholders' equity or a return on investment. In the data you provided, the growth rate of shareholders' equity fluctuated between 2009 and 2014, but overall showed a decreasing trend from year to year. In the data you provided, the net profit growth rate fluctuates between years, but overall shows a year-over-year increasing trend Operating income growth rate also fluctuates between years, but overall shows a year-over-year increasing trend. Total Assets Growth Rate indicates the percentage increase in the total assets of the company in a year. Higher growth rates may be due to investment expansion or asset appreciation. In the data you have provided, the total asset growth rate fluctuates from year to year, but overall shows a decreasing trend from year to year. Asset Accumulation Ratio measures the percentage growth of a company's assets over the course of a year and can be viewed as a combination of the growth rate of shareholders' equity and the growth rate of total assets. In the data you provided, the Asset Accumulation Ratio also shows fluctuations, but overall shows a decreasing trend from year to year.

2.2 SWOT Analysis of Geely's Merger and Acquisition

Geely's acquisition of Volvo is a highly publicized and significant M&A transaction involving a merger between two companies with a significant presence in the automotive industry. Here are some key takeaways from a SHOW analysis of the acquisition.

Strengths (S) are reflected in brand value, technology and innovation, and global market channels. Volvo, as a well-established and reputable automobile brand, has high brand value and consumer recognition. It is an industry leader in safety technology and environmental protection technology, which provides Geely with access to advanced automotive technology and innovation. And it has extensive sales channels and market networks around the world, which facilitates Geely's entry into the international market.

Table 5. Geely Automobile Holdings Limited Relevant Data and Indicators in Recent Years

Consolidated income statement -	Full-year performance	2010/12	2009/12	2008/12	2007/12	2006/12
sum or volume of business		20099388	14069225	4289037	131720	127006
Operating profit		2181062	1576347	445502	-4958	-22754
Non-operational/special projects		-273437	-10742	246085	-25428	-4742
Operating profit before tax		1900323	1550460	917922	307373	215734
interest (on a loan)		244785	107226	60952	33699	32390
Earnings Summary - Full Year Results		2010/12	2009/12	2008/12	2007/12	2006/12
Profit (millions)		1617	1347	992	325	209
Earnings growth (%)		20.08	35.78	205.35	55.59	-9981
Financial ratios -- full-year results		2010/12	2009/12	2008/12	2007/12	2006/12
Profitability analysis						
Operating margin (%)		10.85	11.20	10.39	N/A	N/A?
Profit margin before tax (%)		9.45	11.02	21.40	233.35	169.86
Marginal profit margin (%)		6.81	8.41	20.50	229.67	164.36

Source Geely Annual Reports 2006-2012.

Market potential (H) is reflected in the market: Geely is one of the leading automobile manufacturers in China, and the acquisition of Volvo can help it to further expand its business in the international market, especially in the Chinese market to enhance its market share and competitiveness. Volvo has a good market base in Europe and the United States and other

countries and regions, Geely can further expand its influence and market share in these markets through the acquisition.

Opportunity (O) is embodied in technology integration and brand enhancement, Geely can accelerate product innovation and technological progress by integrating the technology and R&D resources of both parties to improve product competitiveness and market share. Utilizing Volvo's brand advantage and market position, it can enhance its brand image and market recognition, and further expand the international market.

Weaknesses (W) and threats (T) are mainly reflected in financial risks. Volvo, which specializes in luxury cars, has been hit hard since the financial crisis, with sales of only 370,000 units in 2008, down more than 20 per cent from the previous year.

Geely's acquisition of Volvo provides Geely with the opportunity to enter the international market, acquire advanced technology and strengthen its brand influence, but it also faces challenges such as cultural integration and market competition. By effectively integrating the resources and strengths of both parties, Geely is expected to realize synergies from the merger and enhance its market position and profitability.

In both cases, Geely Holding's 2010 (pre-tax and after-tax) margins were down 1 to 2 percentage points from last year. However, 2010 revenues and 2009 EPS increased year-on-year compared to 2009, thanks to strong revenue and sales growth in 2010, as well as strong growth in revenues from the deal with Volvo in 2010 and 2010(see Table 5.). Those who profited from selling cars at lower prices. However, a closer look at its audit reports and bond offerings makes it clear that Volvo is only bringing in profits that won't translate into cash flow.

2.3 Financial Risks of Geely's Acquisition of Volvo

2.3.1 Valuation risk to be determined

Due to information asymmetry, there is a degree of uncertainty on the part of Geely in evaluating Volvo's asset value and earning capacity. Geely can make an assessment based on information provided by Volvo, but it is not possible to accurately speculate on Volvo's financial condition for years to come. For example, Geely, for its part, does not know the exact status of Volvo's debt, whether Volvo's books are truthful and trustworthy, or whether secured loans are available for Volvo's assets, increasing the risk of the valuation. This uncertainty could leave Geo completely free of potential financial pitfalls, and thus at financial or legal risk[6].

2.3.2 Huge financing risks

Geely's acquisition of Volvo is a cross-border M&A transaction of great strategic significance, however, the move also comes with significant financing risks. The acquisition of Volvo will require the payment of a significant amount of capital, including the purchase price as well as the funds required for subsequent integration and development. This will pose a significant challenge to Geely's financial position, especially as China's auto market faces slowing growth and fierce competition. Geely has made acquisitions by relying on financial leverage, i.e., by borrowing debt to pay for a portion of the acquisition costs. However, increased financial leverage also increases the company's financial risk as it needs to pay interest and service its debt. An increase in financing costs, changes in market interest rates, or a decline in stock price could adversely affect Geely's financial position. In addition, the automobile industry is an industry full of uncertainties, and technological changes, changes in market demand and policies and regulations may affect Volvo's operating conditions. If Volvo's performance is not as expected or the market environment in which it operates deteriorates, it will further exacerbate Geely's financing pressure and financial risk. Finally, as a cross-border M&A transaction, Geely also needs to face exchange rate risk. Since Geely is a Chinese company and Volvo is a Swedish company, cross-border capital flows may be affected by exchange rate fluctuations, which in turn will have an impact on the acquisition cost and the financial position of subsequent operations.

2.3.3 Significant payment risk

Different payment methods carry different risks, and Geely will need to identify sources of financing to pay for the acquisition. This may involve debt financing, equity financing or other sources of funding. Debt financing may increase the company's level of financial leverage, interest expenses and debt servicing

pressure, while equity financing may dilute the equity of existing shareholders and negatively affect the company's share price. Therefore, Geely needs to carefully evaluate the pros and cons of different financing methods and select the most appropriate financing option. Secondly, Geely needs to consider the payment method of the acquisition proceeds. Generally speaking, the acquisition payment can be paid in installments or in a lump sum. Payment in installments can reduce short-term financial pressure, but may increase future financial risks, such as paying interest or incurring additional financing costs; while one-time payment may have a greater impact on the company's cash flow, and it is necessary to ensure that the company has sufficient cash reserves to pay for the acquisition. Therefore, Geely needs to consider the company's financial position, future operating cash flow and financing costs and other factors to choose the appropriate payment method.

2.3.4 Subsequent integration risks

Integration risk following Geely's acquisition of Volvo is an important consideration, as the integration process requires an effective combination of the two companies' cultures, management systems, technologies and market resources to achieve the desired synergies and maximize the combined value. Michael Stern, Chief Executive Officer and Chief Operating Officer of Geely Automobile Company, said, "Geely Automobile Company's strategic goal is to serve major automakers such as Volvo and Volvo Cars on a global basis." Ford's 2009 financial statements, review, Volvo cars that year's loss of up to 653 million U.S. dollars, so Geely should be required to address how to make Volvo turn a profit the primary problem. Geely spent $1.8 billion to buy Volvo in the meantime and used its own operating earnings to pay off Volvo's debt. Geely and Volvo, as companies from different countries and cultures, may have different cultures and management styles. If the cultural differences are not effectively integrated and coordinated, it may lead to a decline in employee morale, team conflicts and management chaos, thus affecting the smooth running of the integration and the realization of its effects. And during the integration process, it is necessary to ensure that the technologies of both can be effectively integrated to improve product competitiveness and market share. However, the difficulties that technology integration may face include inconsistencies in technology standards, difficulties in technology transfer, and synergies in R&D teams.

3. Financial Risk Management of Corporate Mergers and Acquisitions Conclusions and Insights

3.1 Conclusion

Numerous financial risks exist in the process of corporate mergers and acquisitions, and management countermeasures to deal with these risks are proposed. Firstly, it points out the fact that most M&A cases end in failure, and such failure often stems from the failure to effectively handle and avoid financial risks. Geely's acquisition of Volvo, for example, emphasizes the importance of successful M&A, but also highlights the urgency of financial risk management. Financial risk management is important, and quantitative assessment and effective management of financial risks remain unsolved challenges. In order to cope with these risks, companies need to be oriented to long-term strategic management before conducting M&A, to clarify the objectives of M&A, and to try to avoid and prevent possible financial risks and reduce the incidence of risks. The need for companies to incorporate the concepts of strategic management, financial risk management and corporate governance throughout all aspects of an M&A is crucial, which means that effective financial risk management measures need to be continually emphasized and implemented throughout the entire M&A process to ensure the successful implementation of the M&A and the achievement of its ultimate goals.

3.2 Revelations

3.2.1 Automobile companies should obtain the support of domestic and foreign governments

Automobile companies do need to actively seek the support of their own governments when engaging in cross-border mergers and acquisitions. The support of the home country's government can avoid political obstacles for the company, which can help to pass the relevant approval procedures smoothly and provide financial support for the company to ease the financial pressure. At the same time, obtaining the support of the target

country's government is also crucial. Establishing a good relationship with the target country government can help the company avoid external political risks and get support and convenience in operation and management. If the government of the target country is against it, the company may face difficulties in administrative approval and operation management, leading to the obstruction of the M&A process. Therefore, it is indeed necessary for companies to consider and actively seek governmental support when engaging in cross-border M&As in order to facilitate the smooth progress of the M&A[7].

3.2.2 Automobile companies should broaden the financing channels for cross-border M&A

In the process of cross-border M&A, companies face huge capital requirements. As many companies are themselves cash-strapped and highly indebted, relying on their own funds to complete cross-border M&As is not only realistically difficult, but may also reduce the company's operational flexibility and increase liquidity risk. In addition, companies applying for loans from banks to support their M&A activities often encounter strict scrutiny from the banks. Banks may meticulously assess a company's financial condition and solvency and may set a series of restrictive clauses, which further limits a company's access to financing, and makes it particularly difficult for companies that have been refused a loan by a bank. In view of this situation, when planning cross-border M&A, companies must take measures to broaden their financing channels and enhance their financing capacity. In order to meet the capital needs of cross-border M&A, companies can consider a variety of financing methods, including, but not limited to, bank loans, establishing cooperative relationships with strategic investors or financial investors, issuing corporate bonds, and raising funds through the open market. Each of these methods has its own advantages and disadvantages, and the company needs to choose the most appropriate financing strategy according to its own conditions and the specific needs of the M&A project. For example, cooperation with strategic or financial investors not only provides financial support, but also may bring additional resources and market opportunities, thus enhancing the success rate of M&A. Issuing corporate bonds is another way to raise large sums of money, which requires interest payments but avoids diluting the shares of the original shareholders compared to equity financing. Raising funds through the open market, such as through equity financing or crowdfunding, is also a viable way to raise funds, although it may face market uncertainty. When conducting cross-border mergers and acquisitions, companies should comprehensively consider different financing channels and strategies and rationally plan their capital structure to ensure the smooth implementation of M&A activities and the long-term development of the company, and to enhance the company's market competition[8,9].

3.2.3 Automobile companies should emphasize post-merger integration measures

Corporate mergers and acquisitions (M&A) involve many aspects of integration work, including culture, human resources, finance, technology, etc. Differences in these aspects may become obstacles to the failure of M&A. Taking Geely's acquisition of VOLVO as an example, the success of the integration of the two has become a major challenge for them, facing a completely different culture, language, political and economic environment in the West, as well as values, business philosophy and technology levels that differ greatly from Geely's internal ones. If the integration fails, it will result in lower management levels and lower performance levels, affecting the smooth progress of the M&A. Therefore, a comprehensive integration plan should be formulated, with clear integration objectives, steps and timetable, to ensure that the whole process is carried out in an orderly manner. A market integration strategy should be formulated to unify the brand image and market positioning, and to enhance market share and profitability. Establish an effective management integration mechanism to unify the management system and decision-making process to ensure the efficiency and flexibility of the company's operations[10].

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