Case Analysis of SPEARHEAD’s Cross Border M&A of Germany Smaato

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Abstract. With the improvement of the position of digital marketing in China's media industry, many Chinese media companies have entered the field of online marketing through M&A and other means. This article mainly analyses the case of Beijing SPEARHEAD Integrated Marketing Consulting Group Co., Ltd.’s cross-border merger and acquisition of German Smaato. First, it gives an overview of the Chinese media industry and the companies on both sides. Second, it analyses the preliminary preparations for the merger and acquisition, and analyses the merger and acquisition process. Finally, it selects typical media companies such as Blue Cursor as comparable companies to compare with SPEARHEAD to analyse the reasons for the failure of the merger.

1. Introduction

According to the carrier, marketing services can be divided into online marketing and offline marketing services: online marketing is a marketing form using television, newspapers, radio, magazines, Internet, cinema, outdoor and other media as carriers, while offline marketing is to carry out marketing services by interacting with consumers through terminals such as stores. In 2009, China's first special plan for cultural industry, the Revitalization Plan for the Cultural Industry, was released. The state will focus on promoting the development of cultural creativity, film and television production, publishing and distribution, printing and reproduction, advertising, entertainment, cultural exhibition, digital content, animation and so on [1,2].

Beijing Huayi Jiaxin Integrated Marketing Consulting Group Co., Ltd (hereinafter referred to as "SPEARHEAD") belongs to the marketing communication category in the media industry. In terms of online marketing, from 2011 to 2013, the company increased media communication and Internet marketing business through the acquisition of Dongxi advertising and Meiyi intercommunication; in terms of offline marketing, the company's acquisition of Boshi advertising from 2011 to 2013 increased the business of auto show and new car launch, and the acquisition of Di Media in 2014 filled the vacancy in the field of public relations. The acquired party Smaato Holding AG (hereinafter referred to as "Smaato") was founded in Silicon Valley in 2005 and began to build its own advertising platform SSP in 2006. It is characterized by a combination of German technology and Silicon Valley innovation, with its own comprehensive platform to achieve the main advertising targets [3,4].

2. Preparation for M&A

2.1. M&A Motivation

2.1.1. Macro Driving

First of all, digital marketing has become a new trend. In 2015, the state comprehensively increased its policy support for the Internet industry and formulated and implemented national strategic decisions such as "Internet Plus". People gradually reduce the access to information through traditional media such as newspapers and TV, and the time of online browsing is increasing, especially mobile terminal. The change of consumer behaviour leads to the change of advertiser's delivery mode, and the traditional online marketing communication mode also changed accordingly.
In the field of marketing communication, with the redistribution of advertising market share, new media has gradually replaced traditional media (Table 1), and it can be seen that digital marketing has become the main driving force for the growth of marketing communication industry.

Table 1. Changes in the scale of Chinese traditional media and new media.

|                          | 2013   | 2014   | 2015   | 2016   | 2017   |
|--------------------------|--------|--------|--------|--------|--------|
| Newspaper printing volume (100 million folio) | 1550   | 1360   | 1145   | 958    | 855    |
| Cable TV users’ size (100 million)              | 2.24   | 2.31   | 2.39   | 2.23   | 2.20   |
| Advertising business size (100 million yuan)    | 5020   | 5606   | 5973   | 6489   | 6896   |
| Internet advertising market size (100 million yuan) | 1000   | 1565   | 2136   | 2552   | 3010   |

Secondly, the establishment of M&A fund makes merger and acquisition easier. On July 11, 2014, the CSRC revised the Administrative Measures on Material Assets Reorganization of Listed Companies and Administrative Measures on Acquisition of Listed Companies, etc. According to the revised rules, for the first time, the CSRC explicitly encourages legally established investment institutions such as M&A funds, equity investment funds and industrial investment funds to participate in mergers and acquisitions of listed companies.

2.1.2. Micro Demand

First, ownership can be acquired through mergers and acquisitions. Smaato is a technology company, through the cooperation with SPEARHEAD, it can better realize the mobile advertising. At the same time, based on Smaato's global market coverage, SPEARHEAD has a better opportunity to understand the world's leading technologies. The key technology is RTB, that is, real-time bidding technology, which enables the process from public bidding to transaction to be completed within 100ms, so as to maximize the efficiency of programmed purchase. RTB has a great market development prospect in China, and the core competitiveness of enterprises can be formed with this technology [5].

Secondly, companies can occupy locations through M&A. Smaato and Haoye of SPEARHEAD will cooperate to produce rapid synergies. Through Smaato's system platform, Chinese developers can gain access to the global market. Accordingly, global advertisers can better contact with Chinese consumers. Smaato has a huge number of users in the world. With this acquisition, SPEARHEAD can rapidly expand its consumer groups in the world.

2.2. Responsible Investigation

SPEARHEAD's investment in Smaato is the company's first cross-border investment project, which, to a certain extent, increases the difficulty and risk of investment. In order to prevent the above risks, the company conducted in-depth research and Analysis on the investment target and its industry before investment. After investment, the company strengthened frequent communication with the management of the target company, conducted regular business cooperation and communication and operation report, and actively explored business together [6].

2.3. M&A Risk and Analysis

Clear merger motivation and due diligence can only reduce the risks of merger and acquisition, but not eliminate them. Therefore, the company must carry out detailed risk analysis to take appropriate measures, including valuation risk, operational risk, human resources risk and so on.

3. M&A Operation

SPEARHEAD’s subsidiary Beijing Huayi Xinbang Integrated Marketing Consulting Co., Ltd. (hereinafter referred to as "Huayi Xinbang") participated in the investment industry M&A fund as a limited partner, Shanghai Qiugu Investment Partnership (hereinafter referred to as "Shanghai Qiugu"), and through Shanghai Yiqiu Enterprise Management Co., Ltd. (hereinafter referred to as "Shanghai Yiqiu"), a holding subsidiary established by Shanghai Qiugu, invested $148 million to acquire 100% of the overseas target Smaato. After that, SPEARHEAD acquired the remaining partnership shares of Shanghai Qiugu, realizing 100% control of Smaato. Among them, the scale of
M&A fund is ¥2 billion, and Huayi Xinbang invests ¥400 million to invest in enterprises related to the industry where the company is located, so as to realize the integration of the company's industrial chain and industrial expansion, and promote the healthy and rapid development of the company.

3.1. Set up M&A Fund

In 2016, Huayi Xinbang and other partners of the M&A Fund formally signed the "Shanghai Qiugu Investment Partnership (Limited Partnership) Partnership Agreement". The fund structure is shown in Table 2. Subsequently, the M & fund established a subsidiary, Shanghai Yiqiu.

Table 2. M&A fund structure.

| Company         | Subscribed capital contribution (¥10000) | Investment ratio | Types of partners   |
|-----------------|----------------------------------------|------------------|---------------------|
| Shenzhen Qiushi | 540                                    | 0.60%            | General partner     |
| Ningbo Xiangyun | 360                                    | 0.40%            | General partner     |
| Huayi Xinbang   | 18000                                  | 20.00%           | Limited partners    |
| Xinhe Qiushi    | 71100                                  | 79.00%           | Limited partners    |
| Total           | 90000                                  | 100%             |                     |

On August 2, 2016, Shanghai Yiqiu signed an equity transfer agreement and related supporting documents with 32 institutional and natural person shareholders, who hold 100% of Smaato's equity, and agreed to purchase 100% of Smaato's equity from these 32 shareholders with a total purchase consideration of $147.75 million. Among them, the consideration of $117.75 million will be paid in one-off cash when all the agreed delivery conditions are met, and will be adjusted according to the actual net asset value and other financial data on the final delivery date after the delivery audit results are confirmed by the trading parties; the consideration of $30 million will be paid step by step according to the completion of future performance.

3.2. Acquisition of 100% Stake in Smaato

Major counterparties of major asset restructuring: Xinhe Qiushi, Ningbo Xiangyun and Shenzhen Qiushi. The trading method is to issue shares or pay cash to purchase 80% of the shares held by the counterparties. The company plans to acquire 79.6% of the direct target Shanghai Qiugu to complete the acquisition of overseas assets Smaato, and finally achieve 99.6% equity of Smaato held by the company. The current equity structure of the underlying assets is shown in Figure 1. The merger started on November 30, 2017 and ended on September 18, 2018, and ended in failure.

4. Analysis of the Reasons for the Failure of M&A

Through the analysis of the company's financial reports and announcements, this article found that the company was filed for investigation many times during the suspension and reorganization, and its cash flow was very tight. Before this, the company's continuous M & A only brought nominal industrial chain integration and short-term income, did not cause the improvement of core
competitiveness, the company's financial situation continued to decline, eventually leading to the failure of this merger. In order to better explain the financial situation of the company, this paper selects the four listed companies of INLY, GENIMOUS, Blue Focus and GIMC as reference [7].

4.1. Operating Revenue Analysis

From 2010 to 2015, the total operating revenue of SPEARHEAD increased from ¥556 million to ¥3.25 billion, with a compound growth rate of 42.35%. Since 2016, the growth was obviously weak, and the compound growth rate dropped to 1.67% in 2015-2018. In 2018, the scale of operating revenue ranked fourth among comparable companies, only higher than INLY. (Figure. 2)

![Figure 2. Industry revenue from 2010 to 2018 (100 million yuan).](image)

4.2. Profitability Analysis

According to the report of SPEARHEAD, the gross profit rate of the company increased from 14.82% to 16.27% from 2010 to 2018, while other comparable companies showed a downward trend. However, based on the analysis of the gross margin of different sectors of the company (Table 3), it is found that among the three major businesses, the gross margin of experience marketing, which accounts for the largest proportion, has the lowest fluctuation range, only 7.65% in 2018. The gross profit rate of public relations advertising business with the lowest proportion is significantly higher than that of other businesses, showing a trend of first rising and then falling; The gross profit margin of digital marketing business dropped sharply in 2015, from 37.57% to 9.15%, and then gradually rose.

![Table 3. Gross profit rate of SPEARHEAD's three major business sectors (2014-2018).](image)

As shown in Figure 3, the company's net profit increased year by year from 2010 to 2016, but the net interest rate decreased from 5.99% to 3.83%, and it decreased rapidly to -7.95% since 2017. In 2018, the company's net interest rate is only -22.57%. Although the net interest rates of Companies in the same industry have declined to varying degrees, there are three similar companies in 2018, only SPEARHEAD is negative, far lower than the industry average. According to the annual report of the company, it can be found that the gross profit margin has increased, but the net profit loss is mainly due to two reasons: one is the serious loss of asset impairment; the other is the sharp rise of expenses.
4.2.1. Serious Loss of Asset Impairment

In 2017, the company's net profit suddenly and rapidly dropped from ¥130 million to ¥-288 million, and the loss accelerated to ¥-770 million in 2018. The main reason for the loss is that the asset impairment loss is as high as ¥1.005 billion without significant changes in operating revenue and operating costs (Table 4). This figure is very close to the company's total loss of ¥1.05 billion in two years. Among them, there are mainly bad debt losses and goodwill impairment losses. The total impairment of goodwill is as high as ¥620 million, which is the result of the company's previous acquisition but failed to integrate.

Table 4. SPEARHEAD loss project (2014-2018).

| Project (¥10000) | 2014   | 2015   | 2016   | 2017   | 2018   |
|------------------|--------|--------|--------|--------|--------|
| assets impairment loss | 1291.08 | 4151.51 | 2709.69 | 35766.63 | 64697.07 |
| Bad debt loss     | 480.82 | 1846.8 | 2472.37 | 31168.67 | 17179.87 |
| goodwill impairment loss | 810.26 | 2304.7 | -     | 4597.96 | 46534.2 |

4.2.2. Sharp Rise of Expenses

As shown in Table 5, the biggest increase was in the sales expense rate, which rose from 0.21% to 9.53%, followed by the financial expense rate, which increased from -0.44% to 2.3%. The increase in the management expense rate was small, and the R & D expense rate decreased slightly. Compared with the sales expense rate of other companies in the same industry, the other four companies either decreased or remained basically unchanged, while SPEARHEAD showed a continuous upward trend and reached 9.63% in 2018, which was much higher than 4.5%, 4.19% and 1.81% of other companies. The company's explanation for the rapid growth of its sales expenses is as follows: in 2016, the expenses of new subsidiaries Disi Media and Shanghai Haoye as well as the development of new businesses; in 2017, due to business expansion, more sales staff. This also reflects the company's increasing sales pressure after M&A.

Table 5. Changes in various expense rates of SPEARHEAD (2010-2018).

| Expense rate | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   |
|--------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Sales        | 0.21%  | 0.14%  | 0.22%  | 0.30%  | 0.48%  | 5.07%  | 4.90%  | 7.09%  | 9.63%  |
| Management   | 6.01%  | 4.17%  | 5.15%  | 4.66%  | 6.01%  | 5.23%  | 6.67%  | 6.54%  | 6.80%  |
| R & D        | 0.90%  | 0.61%  | 0.88%  | 0.45%  | 0.70%  | 0.19%  | 0.26%  | 0.66%  | 0.66%  |
| Financial    | -0.44% | -0.23% | -0.09% | 0.26%  | 0.04%  | 0.24%  | 1.37%  | 2.23%  | 2.30%  |

5. Conclusion

In recent years, SPEARHEAD's high premium acquisition behaviour has worsened the financial data in an all-round way. The company has turned a blind eye to it and still needs to further promote
the cross-border M&A of Smaato project, which eventually led to the failure of M&A, and the company began to face the crisis of delisting. From this case, we can see that M&A is a double-edged sword. The company must fully understand its own situation, market environment, conduct risk analysis, carry out M&A at an appropriate time, and seriously carry out integration after M&A. Only in this way can a successful M&A be completed successfully. We cannot blindly pursue the number of M&A, resulting in capital problems, and then lead to bankruptcy crisis.

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