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Research on Risk Identification and Evaluation of Hybrid M&A of Internet Enterprises -- Multiple Case Studies

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ABSTRACT

With the steady growth of China's economy and the increasing popularity of Internet technology, the latest data released by the China Internet Information Center (CNNIC) as of December 2021 shows that the size of China's Internet users reached 1.032 billion and the Internet penetration rate reached 73%. The vast mass base and the rapid development of the country's infrastructure have enabled Internet companies to lead the trend of the times and keep moving forward. At the same time, in the test of the new crown epidemic for all mankind, the Internet industry stands out as a solid backing for China to resist the new crown epidemic in the new era, giving full play to its own advantages to play a positive role in the prevention and control of the epidemic. As an important part of China's economy, the Internet industry has been able to achieve industrial re-upgrading in various industries, so many Internet companies are no longer limited to a single business, but use their own advantages to achieve the expansion of their business and the expansion of their business scale by using the exogenous growth method of mergers and acquisitions.

In the past decade, the M&A scale and number of M&A in the Chinese corporate M&A market have shown a growth trend, especially between 2013 and 2016 when the scale and number of M&A showed an explosive growth trend. In today's increasingly mature development stage of the Internet industry, a large number of Internet companies have accumulated considerable assets during the growth period and hope to achieve further expansion of their corporate business and corporate scale, so the research on the identification and control of risks arising in the process of M&A of Internet companies is of practical significance and also substantially helpful to the development of Internet companies. Although the domestic research on corporate M&A risks has been more mature, there is a lack of targeted research on the identification and control of risky M&A of Internet enterprises, mostly focusing on the analysis of financial risks, so the research on the identification and control of M&A risks of Internet enterprises is of theoretical significance.

This paper seeks to summarize the research on M&A risks in the domestic and international literature, to adapt to local conditions, and to realize the research on risk identification and control of M&A in Internet companies by combining the analysis of the current situation of M&A in the Chinese Internet industry under the external environment of rapid technological

iteration of Internet companies. In addition, the study divides the whole process of M&A into three stages: before, during and after the analysis, and through risk identification in the steps of companies information collection before M&A, negotiation process between the two parties during M&A, and integration of companies parties after M&A, we search for the risks that need special attention in M&A of Internet companies and put forward corresponding suggestions and opinions on risk avoidance and problem solving, aiming to provide strategic M&A transformation for companies in the future. We aim to provide valuable experience and lessons learned for future strategic M&A transformations in order to achieve more effective risk control in future M&A activities.

In this paper, we collected detailed information about four typical cases of Hybrid M&A of Internet companies and distributed relevant questionnaires to the middle and senior personnel involved in M&A activities. The case information such as disclosed interview texts and relevant reports of senior personnel were coded through the rooting theory method to find whether there are still missing M&A risks; meanwhile, the impact of M&A risks was quantified using hierarchical analysis and fuzzy comprehensive evaluation method, and we devoted ourselves to summarize the risk evaluation index system applicable to M&A of Internet companies. With the help of the evaluation index system, the risk rating of the four cases of the M&A of Shanghai Huzhong and Beijing Guodu by Wutong Holding, the M&A of Giant Network Technology Sanwei Communication and the M&A of Jiahua Information Maoye Communication is realized, and the corresponding risk avoidance and risk control suggestions are put forward in conjunction with the risk response measures of Wutong Holding. The supplementary risk evaluation indexes will improve the success rate and reduce the risk of M&A to a certain extent when selecting target enterprises in the future, which is of great practical significance for the smooth implementation of the strategic transformation of M&A in a market environment where the speed of technology iteration is constantly accelerating.

Key Words: Internet company M&A, Risk identification, Risk assessment, Risk control

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