M&A performance analysis-Take BY-HEALTH M & A LSG as an example

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Abstract. BY-HEALTH is a leading healthcare product company in China, committed to providing high-quality healthcare products and services. In 2019, BY-HEALTH announced that it would acquire all equity of LSG Group in Australia, which attracted widespread attention. This is the first overseas merger and acquisition by BY-HEALTH, and it is also a great way to expand overseas market share. Therefore, an in-depth analysis of the acquisition of LSG by BY-HEALTH not only provides a deeper understanding of the overseas expansion model of Chinese health product companies, but also explores and studies the practical experience of Chinese enterprises in overseas acquisitions. The benefits of the merger and acquisition, as well as the problems that may arise, are worth paying attention to.

Keywords: Characteristics and techniques of mergers and acquisitions, Enterprise mergers and acquisitions, Merger and acquisition performance.

1. Introduction

The development of China's health care products industry began in the 80s of the twentieth century, and after the reform and opening up, the national economic level has risen rapidly people's average disposable income and living standards have gradually increased. People are more willing to spend money for their health so people's demand for health care products has risen. The demand for health care products in China is increasing, but the current situation of the health care products industry is that the market development is immature, and the scientific research ability and management concept are relatively backward. As a leading enterprise in China's health care products industry, BY-Health's main exhibition area is the development, production and sales of dietary nutritional supplements, but the research of health care products based on probiotics is still relatively backward. In this context, mergers and acquisitions are an important way for enterprises to quickly integrate resources and seek breakthrough development. BY-HEALTH has reached a cross-border merger and acquisition of LSG, so as to realize the complementary resources at home and abroad, seize better development opportunities and transform and upgrade.

1.1. Basic information of both parties to the merger and acquisition

1.1.1 The basic situation of BY-Health

Founded in October 1995, By-Health is one of the leading enterprises in China's health care products industry, its main business including health care products, food and beverages. Headquartered in Shenzhen, Guangdong Province, the company has dozens of subsidiaries and brands. Its main development history is as follows:

In 2002, By-Health cooperated with pharmacies and supermarkets to set up retail channel sales points to directly face offline customers, opening up brand awareness. This has also become the main sales method of By-Health.

In 2006, By-Health implemented the differentiation strategy and opened up a number of dietary supplement production lines. Hire sports stars as spokespersons to stimulate consumers' demand for healthy consumption, this allows consumers to better understand the brand, and the brand concept it promotes can be more deeply rooted in the hearts of the people.

In 2010, By-Health was listed on the Shenzhen Stock Exchange. Going public provides a better financing channel for enterprises, and businesses can get more capital and the company will use nearly half of the funds raised by the listing to update the sales channels, further open up the market. By the end of 2012, it had formed a retail end of 20,000 pharmacies offline. In 2012, By-Health established the "Transparent Factory" to showcase their production and processing processes to the public, enhance transparency, make consumers more assured of your products, and further enhance your corporate image

However with the development of e-commerce, the offline pharmacy retail market is facing a serious squeeze, and in 2016, the company's performance showed signs of decline for the first time; In 2017, in the face of fierce competition in the health care industry and changes in customer consumption habits, in order to create a sustainable growth momentum, By-Health implemented business integration and launched the strategy of "large single product" and "e-commerce branding" to change the company's development strategy.

As one of the representative enterprises in China's health care products industry, By-Health has been adhering to the corporate mission of "Healthy China, Sharing with the World", and is committed to promoting the healthy development and globalization of the health care products industry. In 2018, with the acceleration of Chinese enterprises towards globalization, By-Health also actively explored overseas markets, carried out overseas investment and acquisitions, and realized the strategic layout of overseas markets. Among them, the acquisition of Australian LSG by By-Health is an important part of its overseas mergers and acquisitions, and it is also the main research object of this paper.

1.1.2 The basic situation of LSG

Life Space Group Pty Ltd(LSG) was founded in 2009 and is one of the largest probiotic production enterprises in Australia. It mainly produces and sells probiotic products, and its brand Life Space is a high-end brand of professional probiotics in Australia, with a market share of over 40% in Australian pharmacies. In 2014, Life Space entered the Chinese market through cross-border e-commerce, and its products have accumulated a good product reputation and brand foundation in the Australian and Chinese markets, which are deeply loved by consumers. LSG company has sales operations in Australia, New Zealand, the United States, Europe and other places, and has multiple well-known brands. As a local health product enterprise in Australia, LSG has a certain influence and market position in the health product industry. The company's business philosophy emphasizes science and health, and is committed to providing consumers with high-quality health and nutritional products. LSG is registered in Victoria, Australia, and the three controllers (Alan Messer, Irene Messer, and Craig Silbery) have a concerted action relationship. The company's main business is the production and sales of health food and comprehensive health products, with Australia and China as its main target markets and sales regions. LSG itself does not engage in specific production and operation businesses, and its main assets are two wholly-owned subsidiaries, UltraMix and Evolution Health. Among them, Evolution Health mainly engages in sales, Ultra Mix mainly engages in production, and Divico is the owner of intangible assets such as LSG's core trademark.

1.2. The process of By-Health's acquisition of LSG

In 2018, By-Health took the first step in the internationalization process and began to acquire LSG. The process of cross-border acquisition of LSG by By-Health is mainly divided into two steps: The first step is to sign the merger agreement: to reach an agreement with the acquired LSG. In 2018, the subsidiary of By-Health established Hong Kong BuySun Co., Ltd. It plans to trade with LSG's related parties at a price of no higher than AUD$690million; The second step is to set up a private M&A to obtain funding from the LSG. On February 27, 2018, By-Health signed a joint investment agreement with gfinvestment, Zhongping Capital and their designated domestic investors, and the five parties jointly invested in the establishment of Guangzhou By-Health and officially implemented the overseas acquisition of LSG. In July 2018, the company will purchase BuySun 46. 67% of the shares. After the issuance of the shares, By-Health finally owned 100% of the shares of By-Health and achieved 100% control of LSG.

1.3. M&A Industry Background Analysis (PEST Model Analysis)

1.3.1 Political context

The National Health Insurance Administration issued a policy clarifying that health care drugs and beauty and weight loss drugs are not allowed to use medical insurance cards for settlement, and these negative factors continue to affect By-Health, making the proportion of its offline channel revenue drop from 80% to less than 60%, and the average annual growth rate can only maintain single digits. At the same time, Australia's regulatory oversight of health products is one of the strongest in the world. Health products have been included in the scope of drug management in Australia, and the production of health care products needs to be the same as other drugs. After high standards of testing and repeated experiments before it can be sold in the market, so compared to other countries, Australia's health care products are of higher quality, safer, and more trusted by the people. Therefore, the acquisition of LSG in Australia is very necessary for By-Health.

1.3.2 Economic background

With the development of the economy, the per capita disposable income continues to increase, the benefits of probiotics are more and more widely known to the public, many people have begun to join the ranks of probiotic consumers, and their demand is also increasing, and the domestic probiotics industry is showing a blowout development. In 2018, the size of China's probiotics industry has reached 4.24 billion yuan, a year-on-year increase of 18%. China's probiotics market was valued at USD 543 million in 2018, with a CAGR of 19 from 2013 to 2018. 90%, with an expected CAGR of 14.71% from 2019 to 2023. In addition to By-Health, domestic and foreign health care product companies have joined in the field of probiotics in China, and the huge competition in the probiotics market is also an important reason for the decline in LSG's performance. In the 2019 ranking of the top ten probiotic brand companies, LSG probiotics ranked sixth, down one place year-on-year, and the corresponding competitors made strong efforts, and there were not only previous companies on the list, but also new companies on the list.

1.3.3 Sociocultural background

In the post pandemic era, the elderly population of health products is experiencing an irreversible increase, and the younger generation is increasingly valuing health preservation. Nowadays, "universal health preservation" is no longer empty talk. The demand for probiotic consumption is also increasing, and lifestyle is paying more attention to health preservation, increasing the demand for health products.

1.3.4 Technical background

With the rapid development of the Internet, Online channels have gradually replaced the position of pharmacy in the largest proportion of retail sales. As of 2020, online channels have become the main purchase channel for consumers in China. The main way accounts for the highest proportion of sales channels, which brings a heavy burden to By-Health, which mainly focuses on offline sales hit. In 2017, By-Health put forward the strategy of "e-commerce branding" and "large single product", and was eager to break this dilemma through the merger and acquisition of LSG, which had a good business income in the online sales channel of domestic health care products before the merger and acquisition, and could help the company promote the large-scale single product strategy in the field of probiotics, which was the best choice for By-Health at this stage.

2. The Strategic Motivation of By-Health Merger and Acquisition of LSG

2.1. Cross border mergers and acquisitions are a layout of a company's overseas strategy (from the perspective of By-Health)

By-Health has a strong motivation for overseas strategic mergers and acquisitions. By attempting to achieve strategic upgrades and global business expansion through overseas acquisitions, By-Health

has turned its attention to LSG, a promising company in the same industry. By localizing LSG's products, this initiative marks the beginning of expanding the international market, integrating domestic and foreign resources, and creating a certain brand effect to better help the company achieve its own development. LSG has sales operations in Australia, New Zealand, the United States, Europe, and other regions, with a certain market share and brand influence. For By-Health, acquiring LSG can quickly enter these markets, expand the company's sales network in overseas markets, and increase the company's market share.

2.2. Making up for the Shortcomings of By-Health in the Probiotics Market (from the perspective of By-Health)

In 2016, after experiencing the first decline in growth rate in a decade, the management quickly responded and adjusted its strategic layout, deciding to implement the "big order product" strategy. In response to national policies, it actively launched e-commerce brands2.0 Strategy. In addition, probiotics have the fastest growth rate in the domestic segmented market. In 2019, the probiotics industry accounted for approximately 22.5 billion yuan in the world market, but its share in the Chinese market is not high. Our country's probiotic products mainly rely on imports. Due to the increasing demand for probiotics among consumer groups, the probiotic market in China has great development prospects. LSG is one of the largest unlisted companies in the Australian probiotic market. Our main business is the research, manufacturing, and marketing of health products mainly focused on probiotics and healthy foods. By acquiring LSG company through cross-border mergers and acquisitions, Thompson Biotech can effectively compensate for its shortcomings in the probiotics market, achieve resource complementarity, and achieve company transformation and upgrading, enhancing its competitive position in the domestic healthcare market. LSG has a certain brand influence and reputation in the health product industry. By acquiring LSG, By-Health can expand its brand influence, improve the company's visibility and competitiveness in overseas markets.

2.3. Building good business collaboration benefits and improving enterprise competitiveness (LSG perspective)

With the increasing awareness of health care and the increasingly mature market, consumer demand is constantly upgrading, and opportunities and challenges coexist in the health product industry. The biggest challenge is the safety of health products. The problem of substandard quality testing for frequently exposed health products has caused heavy damage to many health product companies. A good brand reputation plays a huge supporting role in the survival and development of a company. As one of the benchmark companies for dietary supplements, Thompson Bejian has used mature marketing methods with its market foundation in the process of cross-border acquisition of LSG company, helping Life Space quickly enter physical store channels and achieve offline marketing. While increasing brand awareness, it has also increased product sales, thereby promoting performance growth. LSG has multiple well-known brands and businesses related to health products, nutrition products, etc., which complement the product line of Thompson Bion. It can provide a diversified product structure for Thompson Bion, improve product added value and technological content.

3. Value analysis of the acquired company

3.1. LSG Financial Status

Table 1. Asset composition of LSG from 2016 to 2018

	31/12/2018		31/12/2017		31/12/2016	
Project	amount	Percentage	amount	Percentage	amount	Percentage
cash	3350.82	7.68%	8860.71	30.76%	4081.51	20.1%
inventory	22979.12	52.64%	10362.91	35.97%	6738.71	33.18%
Current assets	**40110.79**	**91.89%**	**26705.72**	**92.71%**	**18873.58**	**92.94%**
PPE	1644.7	3.77%	812.05	2.82%	563.16	2.77%
Intangible assets	1172.16	2.69%	64	0.22%	0.75	0.00%
Non-current assets	**3538.9**	**8.11%**	**2101.36**	**7.29%**	**1434.29**	**7.06%**
Assets	**43649.69**	**100%**	**28807.08**	**100.00%**	**20307.87**	**100%**

Table 2. Changes in LSG revenue and receivable balance and Partial financial data from 2016 to 2018

	2018		2017		2016	
Project	amount	Rate of change	amount	Rate of change	amount	Rate of change
Revenue	71903.4	51.7%	47398.46	54.27%	30723.63	
receivable	12411.45	97.69%	6278.25	26.3%	4970.78	
Cost	31842.36	47.12%	21643.31	56.50%	13829.27	
Selling expense	21604.34	84.67%	11698.73	87.37%	6243.72	
Profit	12688.59	26.21%	10053.41	14.03%	8816.72	

After analyzing some of LSG's financial data for 2016, 2017 and 2018, we can find that LSG achieved an operating income of nearly 720 million yuan in 2018, a growth rate of more than 50% compared with 2017. Looking at the accounts receivable closely related to revenue, its amount almost doubled in 2018, with a year-on-year increase of 97.69% in 2018 and an increase of 71.39 percentage points over the previous year. From the cost side, the growth rate of selling expenses in LSG2018 exceeded 84%.By comparing the growth of LSG's operating income, accounts payable and selling expenses, it can be found that the company's accounts receivable growth rate in 2018 was nearly 46 percentage points higher than the growth rate of operating income, and the proportion of accounts receivable in operating income in 2018 increased by 4% compared with 2017, and the sales expenses also increased significantly Partially operating income, which increased the value of the completed performance evaluation indicator EBITED, and finally obtained the excess balance. During the acquisition of LSG, By-Health entrusted Zoomlion Asset Appraisal to value LSG. On the one hand, the asset value of LSG is mainly human resources, core technology and brand advantages, etc., which cannot be accurately priced. On the other hand, since this M&A is a cross-border M&A, compared with domestic M&A, the process of cross-border M&A is more complex, and it is difficult for enterprises to conduct more on-site inspections of the acquired company due to the influence of the international environment, national policies, exchange rates and the availability of local resources. Affected by the above factors, Zoomlion Asset Appraisal did not use the cost method for valuation when choosing the valuation method, but made a comprehensive estimate by comparing the transaction cases of companies that are comparable to LSG in the Australian market, and comprehensively considering the internal core values and marketing strategies of LSG. It is believed that the expected return and risk of the future year should be reasonably estimated, so the market method and the income method are used to make the valuation. (Comparable company approach $4132million, Comparable Transaction Method $2707million income method$3861million) Finally, on August 30, 2018, By-Health paid the consideration in cash, at a price of $3.33 billion to complete the high-priced acquisition of LSG, and the high-premium acquisition resulting from the high

valuation generated $2.24 billion in goodwill. High valuations lead to high premium M&A accompanied by high risk of premium impairment, which lays the hidden danger of having to make a huge provision for goodwill impairment in the future.

4. M&A characteristics analysis and M&A skills

4.1. M&A feature analysis

This acquisition is a cross-border horizontal merger of the health product industry. In August 2018, the company spent 3.52 billion yuan to acquire LSG Company in Australia. LSG's net assets on the books were 114 million yuan, with total assets of 325 million yuan. In 2017, LSG's operating revenue was 474 million yuan, and its net profit was 63 million yuan. This acquisition has resulted in an increase of 1.48 billion yuan in intangible assets and 2.238 billion yuan in goodwill on the company's books. Its equity investment and payment methods are unique. Excessive goodwill payments also lay a hidden danger for a large goodwill impairment in the future.

4.1.1 Equity investment methods

The shareholding structure adopts the "listed company + PE" fund model. It is not common to use the "listed company + PE (Private Equity)" model to participate in the public bidding of overseas targets, and the main reasons are: First, due to the uncertainty of the review, regulatory approval and approval matters, the suspension period is long. The second is to efficiently promote the project process, information disclosure of listed companies, and investor relations for intermediaries bring a series of difficulties. Third, intermediary service fees and expenses of M&A loans, transaction taxes and other contingent expenses are usually borne by listed companies, which will affect the performance of listed companies. After the completion of the transaction, By-Health will hold 100% of the equity of LSG through its holding subsidiary and the controlling shareholder and actual controller of the listed company have not changed, the main purposes of this model adopted by By-Health 's cross-border acquisition of LSG are: first, the M&A fund locks in strategic resources and the exit period is short. The second is to use more social resources, it is easier to raise funds. The third is to design a holding plan based on the equity structure and its dilution ratio, so as to facilitate the inclusion of the performance of the target company in the consolidated financial statements of the listed company.

4.1.2 Payment Methods

When By-Health acquired LSG, the transaction consideration was divided into two parts: the first part was the transaction price of A$586.5 million paid to LSG by the buyout fund's grandson company, Baisheng Australia, and the second part was the signing of an earn-out agreement. If LSG's EBIT in 2018 is less than AUD 30.87 million, Baisheng will not pay the remaining transaction price, and the final transaction price will be the first part of the payment of AUD 586.5 million Australian dollars, and if LSG's results in the 2018 financial year meet the expected value, the second part of the remaining price will be paid by Baisheng Australia, and the final transaction amount will be about 3.514 billion yuan.

An earn-out agreement refers to an agreement between the two parties to adjust the transaction price based on an agreement drawn up in advance, and the achievement of the agreed conditions by the acquirer in a certain period of time will be used as the assessment criterion. Specifically, the Earn-Out Agreement is a special clause on the acquisition price, which usually stipulates that the target party shall be evaluated within a certain period of time, and the evaluation index shall be determined by the two parties through negotiation, and the evaluation result shall be used as the basis for determining whether the acquirer needs to pay the remaining acquisition price. In essence, although the earn-out agreement is an add-on clause in the M&A clause, it is often considered an addendum to the M&A agreement, or even directly as a sub-agreement, due to its complexity. Earn-Out is similar in essence to VAM in that both parties can easily adjust their valuations, solve the problem of

information asymmetry, and mitigate transition risks. However, there are obvious differences between the two in terms of the form of constraints, payment conditions, the payer and the payee, and the form of payment. The management of By-Health is the first time to come into contact with the Earn-Out protocol, and it may be that there is a loophole in the setting of the protocol due to the lack of understanding of the Earn-Out protocol, and it has not played its role in controlling the price of the merger and acquisition.

4.2. M&A skills

In the M&A case, By-Health first initiated financing from a domestic PE company, and used private equity funds to establish By-Health M&A Fund, which holds 53.33% of the fund's shares. After that, the subsidiary was established, and By-Health increased the capital to the subsidiary, negotiated mergers and acquisitions with LSG through the subsidiary, and finally purchased 46.67% of the equity of By-Health by issuing shares, and the PE company realized the share exchange exit. By-Health reached the acquisition of LSG by holding the entire equity of By-Health. The specific process is as follows:

1. On February 27, 2018, By-Health initiated financing from the private equity fund and signed the "Joint Investment Agreement" to negotiate the establishment of By-Health M&A Fund.

2. On March 7, 2018, By-Health invested 1.55 billion to hold 51.67% of the equity of By-Health, and Zhongping Guojing, Jiaxing Zhongping, Xinde Houxia and Xinde Aodong invested a total of 1.45 billion yuan, holding 48.33% of the equity of By-Health.

3. On May 29, 2018, the company's investment in By-Health changed, and the shareholding ratio also changed, with By-Health accounting for 53.33% of the shares.

4. By-Health set up a subsidiary in Hong Kong, China, Hong Kong Baisheng, through By-Health increased its equity in Hong Kong Baisheng, and set up a subsidiary in Australia. At the same time, Hong Kong Baisheng increased its stake in Australia Baisheng, and after negotiations with LSG, Australia Baisheng acquired LSG in full.

5. On July 13, 2018, By-Health invested in the purchase of 46.67% of the shares of By-Health, realizing 100% control of By-Health and completing the final merger and acquisition. Absolute control.

4.2.1 Overview of cross-border M&A operation skills of Chinese enterprises

There are some operational skills for Chinese companies to carry out cross-border mergers and acquisitions. First of all, it is necessary to review and formulate a cross-border M&A strategy based on the company's strategy, secondly, you can hire an international professional consulting company to conduct due diligence on the M&A object, thirdly, to grasp the favorable M&A time based on internal and external analysis, and fourthly, to grasp the key points of lobbying and innovate lobbying strategies. Fifth, through extensive research, the M&A integration system is planned in advance.

For example, Lenovo hired world-class intermediaries to participate in M&A negotiations, conduct public relations lobbying, avoid politicized blame, retain management and employees to ensure company stability, integrate company culture, and attract strategic investment for steady growth.

4.2.2 By-Health M&A skills

Combined with the perspective of By-Health, By-Health has selected a potential company as the acquisition target, and has the ability and resources to realize this acquisition. Its strategic planning is accurate, with a clear strategic plan, and its strategic objectives have been achieved through the acquisition of LSG. In terms of financial strength and operational capabilities, By-Health has strong financial strength and rich operational experience, and can effectively manage and operate the acquired enterprise. Finally, By-Health can carry out good business integration, which has successfully integrated LSG's business and achieved synergies through the optimization of technology and management.

5. M&A performance analysis

5.1. Impact of M&A on both parties

5.1.1 The impact on By-Health

First of all, the acquisition of LSG expands the product line and sales network of By-Health in overseas markets. LSG has a stable sales network and customer base in Australia, New Zealand and other countries, and after joining LSG, By-Health can better expand overseas markets with the help of LSG's channels and brand advantages.

Secondly, LSG has certain advantages in technology and product research and development in the field of oral liquid, and By-Health can learn from LSG's experience and technical advantages to further improve its R&D level and product quality in the field of oral liquid.

Finally, By-Health can further enhance its brand awareness and market share in overseas markets through LSG's brand influence and customer base, thereby accelerating the company's globalization process.

Table 3. Profitability analysis of By-Health

	Before M&A		M&A		After M&A	
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
Net profit margin on sales	21.98	24.65	20.88	-7.89	25.33	23.77
Net profit margin on total assets	9.92	13.4	11.42	-4.58	17.18	15.63
Net profit margin on net assets	11.44	15.02	17.92	-5.94	21.98	16.91

During the implementation of the acquisition of LSG, the net profit margin of By-Health decreased from 24.65% in 2017 to -7.89% in 2019, and the return on total assets and return on net assets also turned from positive to negative, and the net profit gradually declined, and the company was in a state of loss. After the completion of the merger and acquisition, the company's profitability increased significantly, and the return on equity reached 21.98% in 202 and was basically stable. On the one hand, this is due to the fact that the costs incurred in M&A will have an impact on the financial status and operating results of the enterprise itself, and on the other hand, the economic environment, corporate culture and governance structure faced by overseas M&A are more complex, and it is more difficult to integrate resources, and both parties to the M&A are not yet fully familiar with it. In the long run, after the completion of the merger and acquisition, LSG's probiotic products combined with By-Health's mature offline sales channels have accelerated the growth of the company's operating income and net profit, and the profitability has been enhanced, which shows that the two companies have achieved complementary advantages, generated scale effects, and created enterprise value.

Table 4. Operational capacity analysis of By-Health

	Before M&A		M&A		After M&A	
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
Inventory turnover(times)	2.53	2.69	2.57	2.55	2.81	2.96
receivable turnover (times)	43.48	29.79	23.15	31.41	43.89	32.69
Total Asset Turnover(times)	0.45	0.54	0.55	0.58	0.68	0.66

The inventory turnover rate of By-Health decreased slightly in 2018 and gradually increased in 2020, which shows that the horizontal merger and acquisition has brought challenges to the inventory management. The company's accounts receivable turnover ratio decreased from 29.79 to 23.15 in 2018, mainly due to the fact that after the merger, the subsidiary LSG, strengthened its cooperation with cross-border e-commerce customers PBX and HVK, which increased their purchase volume rapidly, resulting in some accounts receivable not being collected. After that, the company's accounts receivable decreased, the operating income increased, the accounts receivable turnover rate rebounded again, and continued to remain higher than the average level of the same industry, the liquidity of the company's accounts receivable was strong, and the turnover rate was fast. In addition,

the total asset turnover rate of By-Health remained basically stable, and the company's asset management level was good. On the whole, the company's operating level has improved after the merger and acquisition.

Table 5. Debt repayment ability analysis of By-Health

	Before M&A		M&A		After M&A	
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
Debt-to-asset ratio	11.72	16.06	29.65	28.8	27.99	18.74
liquidity ratio	5.33	4.45	2.75	2.17	2.17	3.54
Quick ratio	4.77	3.98	2.3	1.74	1.78	3.14

The liquidity ratio and quick ratio of By-Health have decreased, and both of them have remained within a reasonable range, indicating that the change of the cost of capital of the enterprise by this merger and acquisition has improved the short-term solvency of By-Health to a certain extent, but in 2021, these two indicators have increased significantly, and the company needs to strengthen the management of current assets and liquid assets to prevent excessive occupation of funds and affect the liquidity of corporate funds. In addition, the Debt-to-asset ratio of By-Health increased significantly from 2017 to 2018, and then decreased year by year, due to the increase in borrowings to 890 million yuan due to the company's acquisition loans to pay the transaction consideration of LSG's original shareholders, resulting in a significant increase in current liabilities. According to the data, the asset-liability ratio of the food manufacturing industry is about 58.65%, which is much higher than that of By-Health, indicating that although the long-term solvency of By-Health has been negatively affected for a short time in mergers and acquisitions, it is still at a good level in the industry, and it is increasing year by year, and there will be no major debt repayment risk.

Of course, there are also some problems in this merger, such as the goodwill formed by By-Health's excessive consideration and facing large-scale impairment in the later stage.

5.1.2 The impact on LSG

First of all, LSG became a wholly-owned subsidiary of By-Health, and LSG's original independent business model was broken and integrated with By-Health, which will have a certain impact on LSG's organizational structure and personnel management.

Second, the acquisition brings new development opportunities to LSG. As a leading manufacturer of health care products in China, By-Health will provide LSG with a broader development platform, and with the help of By-Health’s strong financial strength and brand advantages, LSG can better achieve its strategic goals.

Finally, the management philosophy and model of By-Health will also have an impact on LSG. By-Health pays attention to quality and innovation, which will play a certain leading and promoting role in the quality and innovation management of LSG.

5.2. The impact of mergers and acquisitions on the industry

The acquisition of LSG by By-Health will not only have an impact on By-Health and LSG itself, but also on the entire health care products industry.

First of all, the acquisition means that the health care product industry has further accelerated the pace of integration, and the competitive landscape of the giants in the industry will be further formed. In addition, there will be more capital mergers and acquisitions in the industry, the role of the capital market will become more important, and health care product companies will pay more attention to quality, R&D and brand building to enhance market competitiveness.

Second, the acquisition will promote the globalization of the nutraceutical industry. With the gradual saturation of the domestic market and the continuous development of overseas markets, the health care products industry will further globalize and form a global production, marketing and supply chain system, and the acquisition will promote this process to a certain extent.

Finally, the nutraceutical industry will face more severe regulatory pressure. In recent years, the regulation of the health care products industry has become stricter, and acquisitions will further attract the attention and investigation of regulatory authorities, and health care product companies will need to pay more attention to compliance and quality management to avoid unnecessary risks and losses.

6. M&A risk and resolution

6.1. Policy risk analysis

The promulgation of the E-commerce Law has brought about industry policy risks to the cross-border mergers and acquisitions of By-Health. Cross-border M&A risks mainly include political risks, financing risks, integration risks, industry policy risks, etc. Among them, industry policy risk refers to the promulgation or revision of relevant laws and policies in the process of mergers and acquisitions, which will have a certain impact on the performance of the target enterprise, forming a greater risk. Therefore, in the process of mergers and acquisitions, the risk of changes in laws, regulations and policies of relevant national industries should also be considered. Compared with the old e-commerce law, the new e-commerce law has stricter provisions for market. First of all, the purchasing agent must be registered, obtain the business license of both the purchasing country and China, and must pay taxes in accordance with the law; Secondly, the purchasing agent must be responsible for the safety of the products sold; Finally, as a distributor, procurement service can only sell to buyers for its own use, and cannot be resold as a middleman. The above regulations make it difficult for purchasing merchants to operate, and the purchasing industry is experiencing a new round of market elimination and transformation. On the one hand, some merchants were forced to withdraw from the market, and consumers who followed the merchants also withdrew from the consumer market, which directly led to a sharp decline in sales; On the other hand, some businesses take the initiative to withdraw or transform, and clearing inventory will inevitably bring about changes in supply and demand and price fluctuations, and the market system will be rebuilt. LSG's four main revenue streams are the ANZ market (pharmacies, health product stores, etc.), cross-border e-commerce, export distribution (export distributors in ANZ, etc.) and OEM business. Among them, the Australian and New Zealand markets and export distribution businesses are more dependent on purchasing agents, which are greatly impacted by the e-commerce law. Before the promulgation of the E-commerce Law, the business model of small and medium-sized procurement service publishing advertisements and selling products on platforms such as WeChat, QQ, and Salted Fish was not fully included in the scope of supervision. After the promulgation of the E-commerce Law, it has increased the difficulty of the operation of purchasing agents, and the original purchasing model can no longer be continued, resulting in fundamental changes in LSG's business model, sales channels, communication methods, product transportation and other aspects in the Australian and New Zealand markets and export distribution business. As a result, the introduction of the E-commerce Law has increased the uncertainty of LSG's performance.

6.1.1 Policy risk response

In the whole process of cross-border M&A, enterprises should pay close attention to the changes in relevant industry policies and laws and regulations of the countries to which the merger and acquisition belong, so as to reduce the negative impact of industry policy risks as much as possible. It is necessary to fully understand all the information such as the market access guidelines, relevant preferential policies, formal approval procedures, and government regulatory trends of the countries to which the merger and acquisition belong, conduct a comprehensive scientific assessment, and carefully make all preparations before the merger. Before cross-border mergers and acquisitions, it is necessary to have a comprehensive understanding of the target enterprise, and to be fully familiar with the relevant laws, regulations and policies of the industry in which it is located, especially whether there are any laws and policies that are about to be introduced or revised in the industry, and to measure whether the target enterprise is still being acquired in combination with its changes. When

the E-commerce Law came into effect in early 2019, it had a huge impact on the main business purchasing market. Although the E-commerce Law was only officially promulgated on August 31, 2018, as early as January 2017, it had begun to solicit opinions extensively, and in the process of collecting opinions, suggestions and relevant information from relevant persons had flowed out, but By-Health did not pay attention to it and did not continue to follow up the progress of the E-commerce Law, so it did not know much about the possible changes in the new E-commerce Law, did not realize the seriousness and urgency of the policy changes, and did not correctly assess the specific impact of the introduction of the E-commerce Law on the procurement service industry and LSG.

Although By-Health has set performance targets through the earn-out payment mechanism, the short duration of existence or the low consideration paid cannot minimize the adverse consequences of mergers and acquisitions to By-Health. When By-Health acquired LSG, if LSG's EBIT in 2018 is less than AUD 30.87 million, Baisheng will not pay the remaining transaction price, and the final transaction price will be the first part of the payment of AUD 586.5 million Australian dollars, and if LSG's results in the 2018 financial year meet the expected value, the second part of the remaining price will be paid by Baisheng Australia, and the final transaction amount will be about 3.514 billion yuan. In addition, By-Health did not enter into any other VAM agreement and profit compensation agreement with LSG. In 2018, LSG's performance increased significantly, far exceeding the performance target set at that time, so By-Health paid the remaining amount to LSG. However, in 2019, LSG's performance fell sharply due to the impact of the e-commerce law, and By-Health did not receive any compensation because it did not sign a performance commitment with LSG.

6.2. The integration effect is not ideal, and the synergy effect cannot be played

The integration of By-Health and LSG should have enabled the two companies to achieve complementary resources, mutual coordination and better development. In 2019, after the company suffered huge losses, the integration effect of mergers and acquisitions still needs to be tested. In 2020, LSG achieved revenue of 5. 6.7 billion yuan, a year-on-year increase of 23. 94%, but still slightly loss-making, two mergers and acquisitions made the company inconsistent in financial management, customer management, resource management, business development and corporate culture, and there were many problems in integration. In addition, each country has its own standards for the inspection indicators of food and health products, and it is difficult to achieve integration if the standards are not uniform. Among them, the integration of corporate culture is the most basic, the most core and the most difficult. If there is a great difference between the two parties in terms of corporate culture, the two parties cannot complement and share their advantages in terms of information, personnel, product types, technology and management, distribution channels and other resources, and cannot achieve synergies.

6.2.1 Countermeasures

The three strategic objectives of By-Health's acquisition of LSG are: cross-border e-commerce, internationalization and market segmentation. Although LSG's performance in 2019 did not meet expectations, the three objectives of By-Health's mergers and acquisitions still hold. In 2020, By-Health will fully operate the "Life-Space" brand business in the Chinese market, register the "life.space® Probiotic Powder" health food trademark, increase investment in market promotion, and realize a comprehensive layout in terminal sales points such as pharmacies, supermarkets, and health care product stores.

In order to reverse the sharp decline in LSG's performance, LSG has adopted a series of targeted management measures: adjusting its business and organizational structure, optimizing product lines, intelligently managing inventory, regulating prices as a whole, and changing investment directions to fully respond to market challenges. Carry out diversified brand promotion, brand trial and other activities to establish a good brand image and consolidate the position of "Life-Space" as the preferred brand of probiotics in the Australia, New Zealand market and the Chinese market. After a period of practice, LSG's sales in the Australian and New Zealand markets have grown steadily, and its performance in the Chinese market has achieved leapfrog growth.

In the Australian and New Zealand market, due to the continued impact of the e-commerce law, there are still many difficulties in business development, and there is great uncertainty in performance. In order to fully respond to the changing market, By-Health should start from the following two aspects: on the one hand, continue to add

Strengthen the brand position of "Life-Space" in Australia, continue its leading sales volume in Australia, and highlight its unique product advantages of multi-strain, personalized formulations based on different life stages; On the other hand, we will continue to optimize and integrate the purchasing business of the Australian and New Zealand markets and export distributors, promote the brand promotion and brand building of the Australian and New Zealand markets and the Chinese market, increase the investment and expansion of cross-border e-commerce platforms, actively explore other online and offline sales channels, and actively manage the import business of "Life-Space" in China.

7. Conclusions and follow-up development suggestions

7.1. M&A Implications

1. Precise selection of acquisition targets. Enterprises should choose acquisition targets that are in line with their own positioning according to their strategic needs and market trends, and avoid choosing targets that have no potential or do not meet their strategic needs. If By-Health selects a company that does not meet its strategic needs or has limited potential as the acquisition target, the acquisition may fail.

2. Carefully consider the purchase price. Enterprises should carefully consider the purchase price based on the actual value of the acquisition target, as well as their own financial condition and performance, so as to avoid excessive acquisition costs affecting the financial condition and performance of the enterprise. If By-Health bids too high, it may have a negative impact on its financial condition and performance.

3. Effectively integrate the business. After the acquisition, the enterprise should effectively integrate the acquired enterprise business through the optimization of technology and management, so as to achieve synergies and improve the overall performance. If By-Health diversifies too many resources to manage the acquired business, it may adversely affect its main business.

7.2. M&A Proposals

1. Extensive market research should be conducted during mergers and acquisitions to make valuations more accurate. Avoid excessive goodwill due to the payment of excessive consideration, and carry out a large-scale provision for goodwill impairment in the later stage of the merger.

2. Expand domestic and foreign markets. Enterprises should further expand domestic and foreign markets, actively explore new markets, improve brand awareness and market share, and achieve higher performance growth.

3. Optimize internal management. Enterprises should optimize internal management, strengthen risk control and cost management, improve enterprise efficiency and profitability, and lay the foundation for future development.

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