Motivation and Enlightenment of Internet Enterprises' M&A of Live Streaming Platforms

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Abstract. In 2019, the number of online live streaming users in China exceeded 500 million, and live stream has gradually evolved into a national product, becoming a standard feature for brands, businesses and even individuals. Under the tendency, live streaming platforms sprung up correspondingly, resulting in fierce competition. Hence, live streaming companies began to actively seek investment from Internet enterprises, raise funds and go public, improve profitability, and achieve diversified transformation. Meanwhile, Internet enterprises find business opportunities in the live streaming industry. In order to compete for more market shares and gain excess investment returns, the number of cooperation between two sides is increasing. M&A and investment events also appear one after another between two sides. This paper will discuss the motivation and enlightenment of Internet enterprises' M&A of live streaming platforms based on Baidu's M&A of YY Live, a financial analysis of Baidu after M&A is also included. According to the analysis, Baidu's profitability, growth, solvency, and operating capacity have all been improved after the M&A. These results shed light on Baidu’s M&A of YY Live is successful from financial aspect. Furthermore, the paper will also provide achievable and practical suggestions for the Internet enterprises which want to enter the live streaming industry through M&A, aiming at helping Internet enterprises to achieve diversified transformation.

Keywords: Live streaming industry; Baidu; YY Live; M&A.

1. Introduction

In 2020, China has entered the era of live stream. The number of online live streaming users in China exceeded 500 million in 2019. Live stream has gradually evolved into a national product and become a "standard part" of brands, businesses and even individuals. Under the tendency, Internet enterprises are gearing up to layout live broadcast business. In the past two years, Baidu has been making continuous moves in the layout of live stream business. Baidu continues to increase its personnel, team, and strategic positioning in the live stream business by launching "Baidu live stream Gathering Energy Plan" and establishing Baidu short video business department. During this year's Double 11, the average turnover of a single live gold sale exceeded 10 million yuan, and the highest gross merchandise volume of a single event reached 12 million yuan, setting a record for live commerce.

Previous scholars put forward the problems of live stream industry in terms of content, data, anchors, revenue and expenditure, and proposed development strategies such as strengthening the management of live stream platforms, building characteristic live stream platforms, innovating enterprise cooperation mechanisms, and vigorously cultivating high-quality Internet celebrities [1]. Ma elaborated the development process of China's live stream e-commerce industry since its emergence in 2016 and analyzed the industrial chain of China's live stream e-commerce from three aspects: "people", "goods" and "materials" [2]. Yu proposed to clarify the responsibilities which should be taken by live sellers, and conduct necessary regulations on relevant sellers, so as to eliminate the bad practice in lives-broadcasting e-commerce [3]. Wang analyzed the background, motivation and subsequent impact of Internet enterprises' M&A of live stream platforms, and discussed the new trend of powerful combination of Internet enterprises and live stream platforms [4], which was also mentioned by Qiu [5]. Li used the example of "Alibaba's M&A of Ele. me" to analyze the motivations and social value of Internet enterprises’ M&A [6]. In addition, Gao revealed the risks of public companies’ M&A, and put forward some suggestions on avoiding those risks. For example, carefully choose the merger target, make a scientific merger plan, sufficient investigation of merger target's assets, etc. [7].

This paper will focus on Internet enterprises' M&A of live stream platforms, explore the motivations of both parties of M&A, and analyze the impact of the M&A on them through the case study of Baidu's M&A of YY Live. This paper will also provide achievable and practical suggestions for the Internet enterprises which want to enter the live stream industry.

2. Descriptions of M&A

2.1. Background of M&A

Baidu was founded in Zhongguancun on January 1st, 2000. The "Hyperlink Analysis" technology patent owned by Robin Li, the founder of Baidu, makes China one of the only four countries in the world with the core technology of search engine, besides the United States, Russia, and South Korea. Baidu responds to billions of search requests from more than 100 countries and regions every day. It is the main portal for net citizens to access Chinese information and services, serving 1 billion Internet users. Baidu's business scope covers search, artificial intelligence, cloud computing, bigdata and other fields.

Founded in April 2005, Joyy is a globalized social media platform. YY Live is a domestic live streaming brand under Joyy. YY Live and Bigo, an overseas live streaming brand, support the income of Joyy, and the revenue mainly comes from live stream and short videos. 2021 marks the 10th anniversary of YY Live. According to data provided by YY Live, it has operated 370 million live streams, nearly 300 million hours of live stream, and 1.5 million anchors' shares of nearly 30 billion yuan. A total of 4,460 virtual gifts were sent by 15.4 million viewers. YY Live is a comprehensive platform with increasingly rich business contents, such as culture, tourism, spread of positive energy and Internet celebrity cultivation. Constantly innovative business models lead the trend of Chinese live streaming industry. YY Live is not only limited to "live stream", but constantly improves its live-streaming ecology. However, since the end of 2018, YY Live has witnessed a steady decrease in viewers and paying customers, and its profits are constantly squeezed, while the overseas market keeps improving.

2.2. Process of M&A

As early as October 2020, there was a rumor that Baidu was about to acquire YY Live. On November 16, 2020, Baidu announced that it signed a final binding agreement with Joyy to wholly-owned acquire YY Live, and the delivery is expected to be completed in the first half of 2021. Under the agreement, Baidu agreed to acquire YY Live for a total purchase price of US $3.6 billion, of which US $2 billion (subject to certain conditions) shall be paid to Joyy on the settlement day of the acquisition. After the delivery of the Acquisition, approximately US $1 billion will be paid no later than the settlement day or April 30, 2021 (depend on whichever is the latter), and approximately US $300 million will be paid no later than the settlement day or June 30, 2021 (depend on whichever is the latter). Completion of the acquisition is subject to certain conditions met by Joyy, including that YY Live has not been significantly adversely affected, YY Live's financial statements are fair and legal, and Joyy has entered a 10-year non-competition commitment. The share purchase agreement may be terminated if the acquisition is not completed within the specified time. On February 8, 2021, Joyy announced that the sale of YY Live to Baidu had been basically completed, with a total transaction price of US $3.6 billion, and YY Live would operate independently as a complete business.

2.3. Motivation of M&A

As a matter of fact, this M&A case is a win-win cooperation between two weak parts. For Joyy, the domestic market is under great pressure but foreign business is developing well. Hence, for Joyy, the purpose of selling YY Live is to focus on developing overseas business. For Baidu, the problem has long been the inability to turn huge flux of information into money, which has persisted since the rise of the mobile Internet. Baidu, a latecomer in the live streaming industry, YY brings a complete set of live streaming ecology, which is a platform in the completion stage. If Baidu chooses to build a new live streaming platform, it will be quite difficult. However, the introduction of YY Live's technology, content and team can make up for the shortcomings of Baidu live streaming business and is expected to turn the user traffic into money.

In 2020, Baidu has been making continuous efforts in live streaming business, and the acquisition of YY Live is also logical. Shen, vice president of Baidu Group, has mentioned that Baidu will do two key things in 2020, one is to strengthen the human factor, and the other is to promote service. In his opinion, live streaming meets both of those two things. Therefore, Baidu live streaming would be promoted more actively in 2020. Besides live streaming, Baidu also makes efforts in the field of short videos. In October 2020, Baidu connects Baidu short videos with Baidu App, Baidu Post Bar, Baijia, iQiyi and other Baidu products to carry out unified management.

After this acquisition, Baidu is likely to re-emerge in the capital market. Baidu was once known as an Internet BAT with Tencent and Alibaba, but it has fallen behind in the era of mobile Internet. Baidu has a 73% share in the search engine sector and 86.54% in the mobile web search sector. In addition, after recent years' development, Baidu has established a prosperous and powerful mobile ecosystem with huge page view, while YY Live itself has high liquidity. Therefore, the addition of YY Live may bring Baidu's revenue capacity to a new level.

3. Financial Analysis

3.1. Profitability

After the acquisition, as shown in Fig. 1, Baidu's ROA, gross profit rate and ROE have all shown increasing trends [8, 9]. Baidu's ROA, gross profit rate and ROE in the 2020Q9, the 2020FY and the 2021Q1 are 5.15%, 7.14% and 7.27%, 47.10%, 48.49% and 46.68%, 10.18%, 12.98% and 12.44%, respectively. Thus, this M&A was beneficial to Baidu profitability.

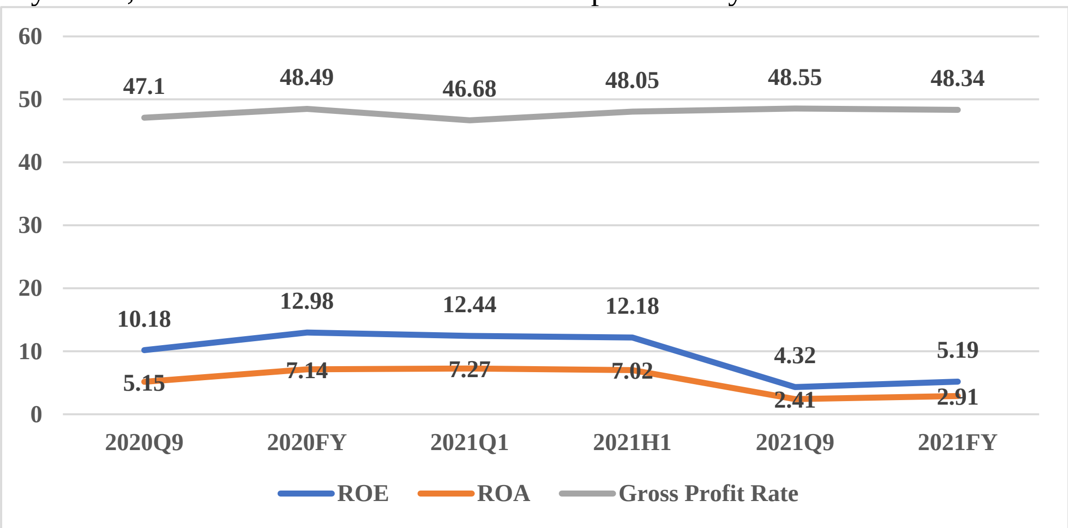

Fig. 1 Profitability evolution.

Table 1. Growth ability.

	2020Q4	2021Q1
gross revenue	15.741	13.132
year-on-year growth rate	17.76%	67.12%
EBITDA	4.977	2.789
year-on-year growth rate	6.92%	738.21%

3.2. Growth Ability

In terms of growth ability (seen from Table. 1) the year-on-year growth rate of gross revenue and EBITDA has been improved [8]. Fig. 2 shows that from November 2020 (when Baidu proposed to enter into a stock purchase agreement with Joyy) to February 2021 (when Joyy announced that the merger had been basically completed), Baidu's total market value rose from $48 billion to $1130 billion [8]. Baidu's growth ability improved significantly during this acquisition. Moreover, as for the Fig. 3, EPS of 2020FY, 2021Q3, 2021H1 are 8.19, 9.51, 9.14, respectively, and net asset value per share of 2020FY, 2021Q1, 2021H1 are 66.09, 83.13, 82.81, respectively [8, 9]. Therefore, the acquisition boosted the value of the shares and shareholders' earnings.

Fig. 2. Baidu's total market value.

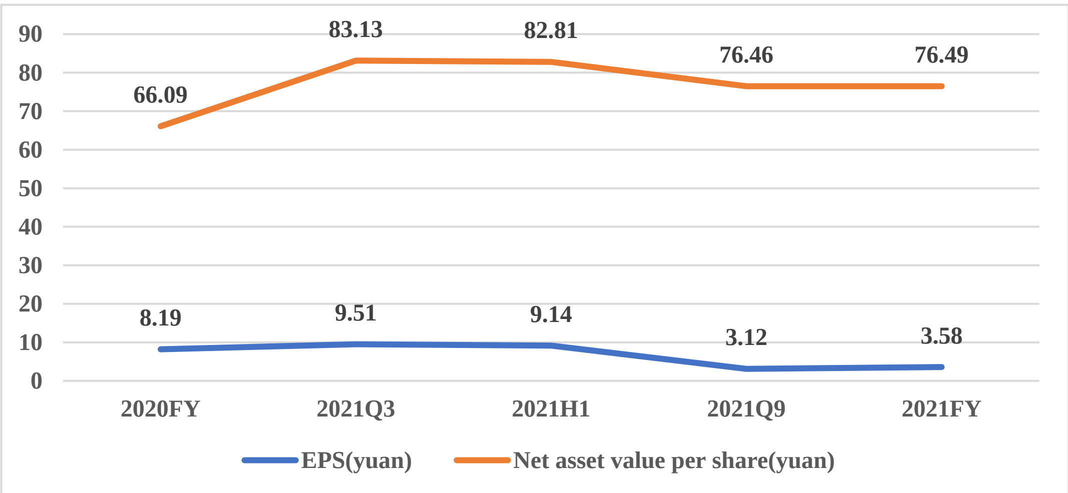

Fig. 3. Growth ability evolution.

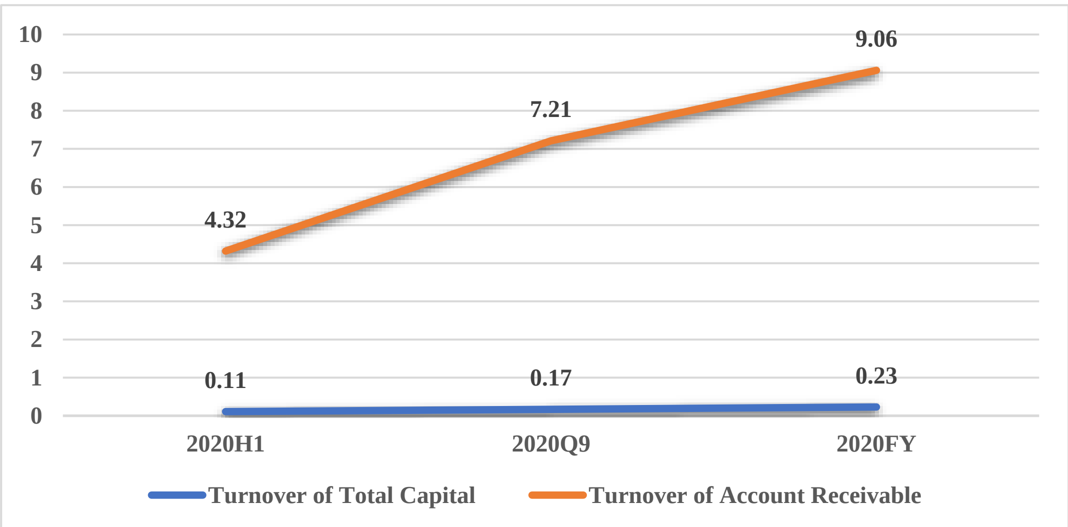

Fig. 4. Operating ability.

3.3. Solvency

In terms of solvency, both the current ratio and the quick ratio improved, with the current ratio rising more significantly from 2.65 to 2.86, which means both the security of short-term debt repayment and the ability of enterprises' current assets to immediately pay off maturing debts have been improved. After Baidu's acquisition of YY Live, the equity ratio changed from 0.74 in 2020Q9 to 0.61 in 2021Q3, and then to 0.66 in 2021H1 [9]. The overall declining trend of equity ratio means that the solvency of enterprises is enhanced, the protection degree of creditors' rights and interests is strengthened, and the risk coefficient is reduced, which is conducive to the financing of enterprises.

3.4. Operating Ability

Regarding to operating ability, as can be seen from the Fig. 4, the turnover of total assets and the turnover of accounts receivable have both increased after the acquisition [8]. In other words, the acquisition has improved Baidu's efficiency of using funds, shortened the average collection period of accounts, and reduced bad debt losses, thus improving the speed of capital turnover and the company's sales ability, as well as helping the enterprise to issue bonds.

4. Suggestions & Implications

4.1. Defining the Strategic Positioning.

It is necessary to have a clear strategic plan to engage in the live streaming industry, continuously precipitate user traffic and enrich channels to make money. Since the Internet has transformed from PC terminal to mobile terminal, user traffic has also changed its existence mode and started to focus on one fixed APP. Meanwhile, due to fierce market competition, each APP has become an island of traffic. Therefore, it is very important for any enterprise that wants to engage in live streaming industry to build a commercial closed loop [10]. For enterprises that want to engage in the live streaming industry through M&A, they should first lay a foundation, which is also the basis for the existence of the live streaming industry, aiming at accumulating user traffic. They can directly expand the traffic by continuously merging some live streaming companies. After the merger, they can also take certain economic measures to attract customers to stay in the company. For the company after merger, it is necessary to actively integrate the company's business with live streaming, improve the operation process of live streaming, make money from the traffic as soon as possible, and expand the company's channels to make money.

4.2. Careful Legal Investigation Before the M&A.

Due diligence on M&A targets is conducive to the sustainable operation of enterprises. With the rapid development of the Internet, the live streaming industry has seized the industry opportunities, and live streaming websites of various sizes have begun to appear. However, due to the incomplete laws and regulations in the early stage, the problems of the live streaming industry have also been exposed day by day [3]. To be specific, there is no unified standard for the compliance of platform operation, and it is impossible to determine whether the platform behavior violates the legal norms. In addition, due to the rise of the live streaming industry in recent years, the legal documents introduced by the live streaming industry are not perfect enough. Therefore, those documents cannot provide accurate reference for the live streaming industry. Moreover, the supervision of the live steaming industry by the government also needs to be improved. Owing to the delayed communication among various departments, some problems in the live streaming industry cannot be solved in time.

However, the government has issued various documents to strengthen the standardization of the live streaming industry contemporarily. Therefore, for enterprises who want to engage in the live streaming industry, on the one hand, they should carefully study the relevant laws and regulations of the industry to strengthen their understanding of the regulations, on the other hand, they ought to hire experts to conduct professional due diligence on the acquisition target. Experts should carefully review financial statements, operation process and compliance of the target to ensure its normal operation.

4.3. Enable Both Parties to Achieve Synergies.

At present, the Internet giants of our country, have a huge pool of capital, also accumulated considerable user flow, but mostly focus on the software. As the Internet changes from the original PC terminal to the current mobile terminal, it also poses great challenges to the development of traditional Internet companies. Therefore, many enterprises, not only Internet companies, are exploring diversified development paths. The combination with live streaming platform can not only transform the user flow into cash, but also can quickly improve the company's internal live streaming ecology. Thus, company's original business and live streaming can closely combine [11]. However, not all enterprises can achieve synergies through M&A of live streaming enterprises. On the one hand, live streaming companies should be mature enterprises with a complete set of operational processes, rich operational experience, complete live streaming team and skilled live streaming technology. On the other hand, the acquirer needs to have sufficient user flow and abundant capital support, so that the combination can achieve performance dividends and improve the business status of the acquirer.

4.4. Build a Distinctive Live Streaming Platform.

The existing live streaming platforms in the Chinese market are mostly of these types: e-commerce live streaming, game live streaming and show live streaming. Nowadays, the Chinese market is nearly saturated, so how to create differentiated live streaming platform is a problem that enterprises who want to get involved in the live streaming industry need to consider. For example, in the early days, Baidu carried out some pan-knowledge live streaming, but it did not achieve the expected results. Therefore, Baidu should think about how to make customers get solutions faster in live streaming than in daily life, so as to make users become loyal customers of Baidu after solving problems. Therefore, after the M&A of a live streaming company, it is necessary to create a unique operative mode while using live streaming technology combine with the company's own characteristics, so as to expand the company's market share [12]. Additionally, company should strengthen the verification of anchors' qualifications, and select anchors in line with company characteristics, thereby create a live streaming method in line with the company's operation characteristics.

5. Conclusion

In summary, this study comprehensively analyzes the M&A case of Baidu acquired YY Live from three aspects: motivation, process, and financial performance after acquisition, and gives four suggestions for the M&A of the live streaming industry. As a senior Internet enterprise, Baidu has a large number of users and huge traffic, but its liquidity is poor. YY Live, as an established live streaming platform, has a complete live streaming system and rich operational experience. Nevertheless, as competition in the live streaming industry intensified, problems such as serious user loss and insufficient user traffic occurred, leading to a gradual decline. Baidu and YY Live's "weak and weak joint" is just a good opportunity for both sides to draw on each other's strengths and go hand in hand. However, large-scale M&A of Internet enterprises have certain risks. It is necessary to clarify strategic positioning and do careful legal investigation before the merger, so that the two sides of the M&A can reach a synergistic effect and jointly build a distinctive live streaming platform.

There are two limitations to this paper. Primarily, in part of the merger and acquisition process, Baidu and YY disclosed less information and did not find any information that could reflect the role of investment banks in the merger and acquisition process. Second, it has only been three years since the merger was completed. The long-term development of YY Live streaming and Baidu's performance in the field of live streaming after the merger need further attention and cannot be determined yet. For further study, scholars and the government are suggested to continuously study the measures to improve the imperfect laws and regulations in the live streaming industry. Besides, it is also worth to analyze that weather the M&A of live streaming companies is the best approach for Internet enterprises to enter the live streaming industry or not. Overall, these results offer a guideline for the Internet enterprises entering the live streaming industry through M&A.

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