# Analysis of JD.com's Acquisition of Deppon

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**Abstract.** The old logistics company Deppon. founded in 1996, whose market value after listing was as high as 30 billion yuan. Contemporarily, the era of Internet e-commerce has arrived, the main express Deppon wants to share in this market in 2018 to optimize the original business, expand the transportation business of large express delivery. However, this transformation has put it into decline. Its new business growth was sluggish, and express revenue growth declined and market value has been falling. After the sharp drop in value, JD Logistics a logistics giant with a market value of more than 100 billion yuan, made an acquisition. After this acquisition, the two companies have integrated their businesses, complemented each other's advantages, and achieved great advantages in the fierce market competition. According to the analysis, the acquisition will improve the concentration of logistics industry in China and is beneficial to the healthy development of logistics industry. Overall, these results shed light on guiding further exploration of the significance of mergers and acquisitions.

**Keywords:** Logistics, Merger, Commerce, Economy.

## 1. Introduction

At present, the characteristics of China's logistics industry: first, it continues to expand in overall scale [1]. Second, the LTL industry is fragmented, and the market concentration is constantly increasing. Third, the focus of industry competition is to improve quality and reduce costs, and intelligence, standardization and greening have become the development trend of the industry. Deppon, on the other hand, embarked on the road of acquisition in this context [2]. Deppon emerged as one of the leading players in domestic LTL industry, starting from express delivery business. However, with the advent of large-scale e-commerce, Deppon had to shift its focus towards large-scale express [3]. In 2018, the company renamed itself as Deppon Express and began its new strategic step. Despite facing tolevel of operation on investment. In terms of stock price performance, Deppon's stock price has been in a state of decline in 2021, and it did not rise significantly until the news that it would be acquired, which also reflects the attitude of the capital market towards JD.com's acquisition of Deppon [4].

Deppon needs a major adjustment to improve business volume and fiscal data, and JD.com's achievement of Deppon will achieve a win-win situation for both parties. After the completion of the acquisition, advantages of Deppon in the field of large-scale express delivery and express transportation will progress the business layout of JD Logistics and increase the grade of socialization of JD Logistics. JD Logistics' advantages in technology, supply chain solutions, and business insights will help Deppon effectively penetrate integrated supply chain logistics services and improve comprehensive operational efficiency. Therefore, this merger has certain strategic significance for both parties, further enhances the concentration of the industry, is conducive to the high-quality development of the logistics industry, and is a model in the case of enterprise mergers and acquisitions [5]. Deppon, as the first IPO logistics company in China, known as the "king of LTL", has now embarked on the road of acquisition. The transaction price of nearly 9 billion yuan set the largest M&A amount in the express delivery industry [6]. This achievement has also become another industry resource integration after J&R Express obtained Best Express, which will have a far-reaching impact

on the logistics industry. This is also the reason why we select JD.com and Deppon company research. In the subsequent part, this study will first introduce the background of the two companies, review the acquisition process, then analyze the synergies and feasibility to conduct a study, and finally make recommendations and conclusions.

## 2. Case Description

Deppon Logistics had more than 30,000 finical openings, 140 granaries and more than 2,000 trunk routes across the country. According to Deppon's third quarter report in 2021, as of 30, June 2021. Jingdong has both express business and express business, and the operation mode of the network is also direct, and the acquisition of Deppon is appropriate. In the future, JD.com can use this to strengthen its direct sales model, enrich its product architecture, and increase its business volume. In recent years, the State Post Bureau and other aspects have also encouraged industry mergers and acquisitions. In 2021, the 14th Five-Year Plan for the Development of the Postal Industry cooperatively delivered by the State Post Bureau, the National Development and Reform Commission and the Ministry of Transport mentioned that supporting initiatives to support capital strategic and operation cooperation, endorse the formation of an industrial pattern in which large and small enterprises integrate and complement each other, and multi-subject competition and development, encourage creativities to reinforce market and resource integration, and build a comprehensive delivery logistics supply chain group. Gong also claimed that mergers and acquisitions are an important manifestation of the maturity of the industry and an important result of the development of the industry, and the curtain of mergers and reorganizations in the express enterprise has begun. The acquisition of Cross Express and the acquisition of Deppon shares a year and a half later is a sign of JD Express' entry into competition in the logistics industry.

Deppon determine to transform and take large-scale express as its business focus In July 2018, they decided to adopt Deppon Express as their new name, and it began a new strategic step. However, owing to the high cost of large-scale express transportation and the fierce competition in the express delivery market, Deppon's new express business growth is weak. From 2018 to 2020, the growth rate of Deppon Express' operating income fell from 64.5% to 13.6%, and fast operating revenue has also been negative growth during this period. Under double pressure, Deppon fell into a growth dilemma.

Looking back at the news that JD.com won Deppon, it was reported as early as January 2022. In March, the matter was hammered down, and Deppon officially announced the equity change and tender offer with JD Logistics. From the official announcement of the "strategic cooperation" between Deppon Express and JD Logistics on March 11 to the resolution of the shareholders' meeting of JD Logistics on July 21, the acquisition has lasted for more than 4 months. It is reported that a few days ago, JD Logistics held a shareholders' meeting to acquire Deppon shares. On the evening of the same day, it announced the voting results of the extraordinary general meeting held on July 21, 2022. The voting results of the relevant resolutions were as follows: 99.918% in favor and 0.082% against. The resolution was formally passed as an ordinary resolution of the Company at the Extraordinary General Meeting of Shareholders Because more than fifty percent of the people are in favor. This also means that "JD Logistics' acquisition of Deppon shares" will officially enter the delivery stage. Moreover, just the day before, on July 20, Deppon held the first extraordinary general meeting of shareholders in 2022 and passed the "Motion on Exempting the Actual Controller of the Company from the Voluntary Share Restriction Commitment". The voluntary share restriction commitment of the actual controller, directors and executives is conducive to accelerating the implementation of the share transfer transaction between Deppon and JD Logistics, thereby promoting the business integration and resource integration of both parties.

On July 28, 2022, a total of 58,759,190 shares of Deppon Investment Holding Co., Ltd. ("Deppon Holdings") held by the transferor and 62.5932% of the total share capital of Deppon Holdings (‘‘Subject Shares") have completed the share transfer registration procedures of Guangzhou Equity Exchange Co., Ltd., and the subject shares have been finished on July 26, 2022. When they finished

the delivery of the subject shares, Suqian Jingdong Zhuofeng Enterprise Management Co., Ltd. ("Jingdong Zhuofeng") holds 58,759,190 shares of Deppon Holdings (accounting for 62.5932% of the total share capital of Deppon Holdings), and 35,103,343 shares of Deppon Holdings (accounting for 37.3938% of the total share capital of Deppon Holdings) that have voting rights through the entrustment of voting rights, and the total number of the aforementioned Deppon Holding shares in which JD Zhuofeng has voting rights is 93,862,533 shares (99.9870% of the total share capital of Deppon Holdings). After the completion of the delivery of the subject shares, Mr. Cui will no longer be the actual controller of the company, Deppon Holdings will remain the controlling shareholder of the company, and JD Zhuofeng will indirectly control Deppon's shares. As of August 9, 2022, JD Zhuofeng held 59,005,765 shares of Deppon Holdings (accounting for 62.8558% of the total share capital of Deppon Holdings), 34,869,003 shares of Deppon Holdings (37.1442% of the total share capital of Deppon Holdings) through the entrustment of voting rights, and a total of 93,874,768 shares of Deppon Holdings in which JD Zhuofeng has voting rights (accounting for 100.0000% of the total share capital of Deppon Holdings) [9]. The analysis of Deppon logistics equity is as shown in Fig. 1.

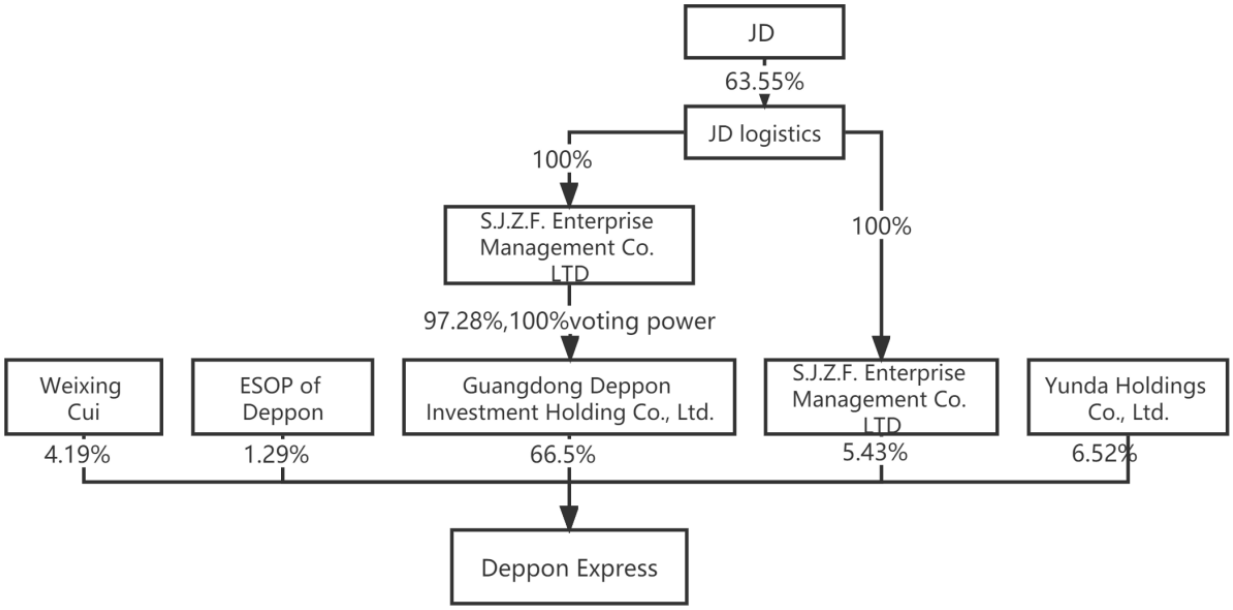



**Figure 1.** Analysis of Deppon Logistics Equity.

## 3. Case Analysis

### 3.1. Synergy Analysis

Yu Rui, CEO of JD Logistics, said at JD Logistics' 2022 second quarter results call. The acquisition of Deppon shares is an important measure for us to further enhance our network capabilities and supply chain product capabilities, and is of great strategic significance to our long-term development. Deppon has strong business advantages in the field of large-scale express delivery and express transportation, which will inject more abundant resources and channels into JD Logistics, help JD.com rapidly expand its service products and customer base, accelerate the expansion of the integrated supply chain from the consumer end, circulation end to production end, further increase market share, and further provide value to customers [7]. The two sides will carry out in-depth cooperation in the field of large-scale express delivery and express transportation. JD Logistics will create better development opportunities for Deppon's management team and employees, and the two teams will give full play to their respective advantages and achieve "1 plus 1 is greater than 2" through complementary advantages, so as to promote the healthy and high-quality development of China's logistics industry. It will assist both parties in complementing each other's logistics networks and product categories, fine-tuning market labor division, optimizing service experience, integrating

supply chain resources, improving network operation efficiency, lowering comprehensive operating costs, and continuing to create greater value for customers [8]. After the completion of the share transfer between the two parties, Deppon can operate its brands and teams independently, and they will not change their overall strategy and business direction. After the cooperation, the two parties will carry out in-depth cooperation based on their respective advantages, continue to create high-quality and efficient integrated supply chain logistics services, and promote the specialization, standardization and quality of products and services in the field of express delivery to achieve high-quality development [9].

Deppon has a nationwide express network, on 6/30/22, Deppon Logistics has nearly 9,000 outlets in China, covering almost all districts and counties in China, and has 145 distribution centers, with a total area of more than 2 million square meters and more than 20,000 self-owned operating vehicles. The acquisition of Deppon has effectively enhanced JD Logistics' network capabilities in large-scale express delivery and express delivery. We are exploring business and network synergy according to the established plan, exploring and verifying business models and process mechanisms between the two sides, gradually releasing synergies, and further extending the advantages of the integrated supply chain industry to social responsibility and sustainable development [10].

### 3.2. Feasibility analysis-Operating Income

According to Deppon's Q32022 report, During Q3, the company generated a primary operating income of 8.015 billion yuan, indicating a 4.51% YoY increase. The company focuses on the large-scale transportation market, The target customers are primarily comprised of small to medium-sized manufacturing and wholesale enterprises, business development and macroeconomic prosperity have a high degree of coordination, especially the express business and the development of domestic manufacturing industry is more closely linked. Benefiting from the change in customer demand and the increasing online penetration rate of bulky items, the company's large-scale express delivery business sustain a strong rate of growth over time.

The express delivery business recorded an operating income of 5.303 billion yuan, marking a year-on-year growth of 11.78%. The total weight of delivered goods rose by 9.14 million kilograms, with the unit price per kilogram increasing by 2.42% compared to the previous year. The number of tickets issued also rose by 5.73% year-on-year to reach 183 million, with an average weight per ticket of 10.7 kilograms. Express business 1 reported an operating income of 2.440 billion yuan, down 8.54% compared to the previous year. The total weight of invoiced goods also decreased by 9.79% year-on-year, while the unit price per kilogram increased by 1.39% year-on-year. The company's other business operations focus on warehousing and supply chain, generating an operating income of 272 million yuan in the current year. This represents a year-on-year growth of 5.87%. Deppon's revenue before and after the merger is as shown in Fig. 2 and Table 1.

**Table 1.** Deppon's revenue before and after the merger.

| RMB Hundred million | 7-9 2021 | 7-9 2022 | Variation(%) |
|---|---|---|---|
| Revenue of each business | | | |
| express business | 47.44 | 53.03 | 11.78 |
| delivery business | 26.68 | 24.4 | -8.54 |
| Other business | 2.57 | 2.72 | 5.87 |
| Total income | 76.69 | 80.15 | 4.51 |

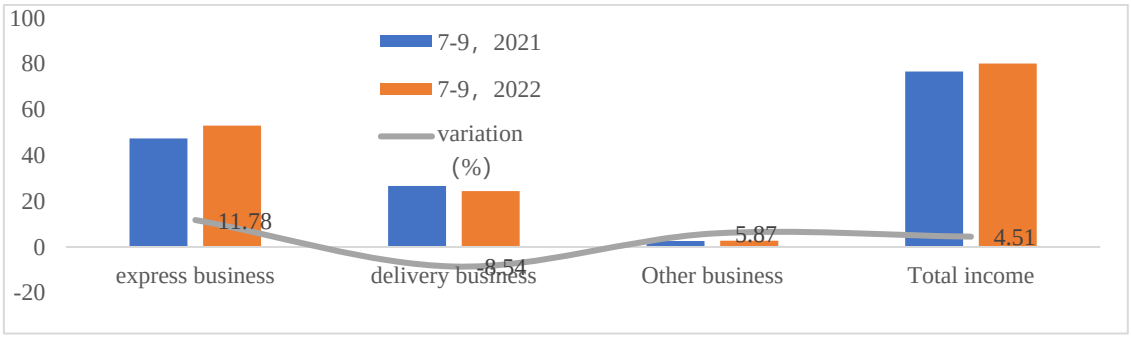



**Figure 2.** Deppon's revenue before and after the merger.

The report shows that in the first three quarters of 2022, Deppon recorded a 4.51% rise in operating income compared to the previous year, while revenue remained relatively stable. However, the net profit attributable to the company's shareholders reached 256 million yuan - a surge of 1996.87% year on year, and the non-net profit also achieved a turnaround. Earnings per share increased from 0.03 to 0.35, an increase of 1167%; According to JD Logistics' report for the third quarter of 2022, JD Logistics' srevenue achieved steady growth during the same period, up 38.9% year-on-year to RMB35.77 billion: Exdluding Deppon, its total revenue was 29.95 billion yuan, an increase of 16.3% year-on-year. Summary of Financial Report of Jingdong Logistics in the Third Quarter of 2022 is as shown in Table 2.

**Table 2.** Summary of Financial Report of Jingdong Logistics in the Third Quarter of 2022

| | Unaudited 2022 | 2021 | variation |
|---|---|---|---|
| | (RMB Hundred million) | (RMB Hundred million) | % |
| Revenue | 35,770,506 | 25,749,276 | 38.9 |
| Gross profit | 2,649,007 | 1,269,808 | 108.6 |
| Loss before tax | -111,937 | -1,064,202 | -85.9 |
| Period loss | -148,687 | -1,051,257 | -85.9 |
| Non-international financial | | | |
| reporting quasi earnings | 446,765 | -567,106 | Not applicable |
| or losing for the period | | | |

### 3.3. Feasibility analysis-Cost & Expense Aspects

Overall rental expenses in the third quarter were RMB2.88 billion, the 19.3% year-on-year growth in the logistics industry can be attributed primarily to the expansion of logistics venues, including warehouses, and sorting centers. Additionally, the industry was also impacted by the merger of Deppon. On September 30, 2022, JD Logistics, incuding Deppon, operated more than 1,500 warehouses and managed a total logistics infrastructure area of more than 30 million square meters, including cloud warehouses. The overall rental expense as a percentage of total revenue in the third quarter was 8.1%, down 1.3% from 9.4% in the same period last year, mainly due to Deppon's lower rental expense ratio to revenue than JD Logistics' original business, and the overall proportion after the merger; and the release of economies of scale in the original business and the year- on-year increase in the proportion of revenue from other businesses such as express delivery to total revenue in the quarter.

Overall expenses for the third quarter of 2022 were $2.66 billion.up 16.5% year-over-year. As a percentage of total revenue was 7.4%, down 1.4H compared to the same period last year. Sales and marketing expenses amounted to MOP 980 million, accounting for 2.7% of total revenue and 3.9% of external revenue, down 1.5% from the same period last year. The decrease was mainly due to the decrease in the overall sales and marketing expenses as a percentage of revenue due to the merger of Deppon. JD.com's acquisition of Deppon has achieved the goal of reducing costs and increasing efficiency. which just shows that this acquisition is beneficial to both JD.com Group and Deppon Logistics, and the two sides have achieved synergistic and complementary effects.

## 4. Suggestions & Implications

Under the competition in the logistics industry. mergers and acquisitions are the main ones for the development and expansion of various enterprises, but mergers and acquisitions can only achieve the expansion of the enterprise territory, want to play the maximum role of mergers and acquisitions, so that the two companies develop healthily, cannot only after the merger of the two companies to resume the previous work, must integrate the various resources of the two parties, research out the two enterprises of the cooperation plan strategic plan and the rational use of resources of the two parties. Hence, the two enterprises can be full of confidence, find the way to develop efficiently on both sides.

## 5. Conclusion

In summary, this study investigates significance of corporate acquisitions. The cooperation between the two companies marks the complementary advantages of their businesses and can promote the concentration of the logistics industry. This forms the foundation for promoting a robust, top-notch, and eco-friendly growth of the local logistics sector and both companies can better realize their potential. Rational and wise M&A choices can help enterprises quickly expand their scale and improve their competitiveness to enhance their strength. On the one hand, cooperation between the two companies can expand the market size and gain competitive advantage. on the other hand, the complementarity between the two companies can bring strong synergies.JD.com and Deppon complement each other on different tracks. which can not only complement each other in terms of network resource capabilities, but also help to further reduce costs and increase efficiency in terms of operation model. Nevertheless, this study has some shortcomings, just looking at the M&A cases of two logistics companies does not give a good picture of the situation in the industry. It does not reflect whether mergers and acquisitions are good or bad for other industries. In the future, we will study M&A cases in more industries to understand the M&A situation in other industries. Overall, these results offer a guideline for future research on M&A cases in other industries.

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