Do Japanese Acquisitions Improve Target Firm Financial Performance? A Case Study in Thailand

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Article info

Abstract

This paper examines how mergers and acquisitions (M&A) by Japanese firms affect the performance of local companies in Thailand. Japan is one of Thailand's three largest acquirer countries, along with the United States and China, making this case an important one to study. The empirical analysis uses a paired t-test based on company-level financial data. The results show that M&A activity by Japanese firms leads to changes in the average values of several financial ratios and indicators, including Return on Equity. In contrast, changes in Return on Assets and Gross Profit are not statistically significant. Although further research is needed to establish causality, the observed performance shifts may be linked to cross-border transfers of intangible assets and synergy benefits gained through the M&A process. Overall, the statistical findings suggest qualitative changes in the financial items and ratios examined, following cross-border acquisitions by Japanese firms.

Introduction

From a broader perspective and for most emerging countries, including Thailand, the benefits of foreign direct investment (FDI) have been recognized as significant elements in fostering growth and productivity of the economy; these benefits are embedded in the intangible assets; such as technology transfer, local network, marketing and reputation, operating and managerial process improvement, new labor and management skills, and know-how (Fukao et al., 2008). The investment opportunities for Thailand in post-COVID are in its recovery with a growth rate in GDP projected to be 2.7-3.7% in 2023 (Board of Investment, 2023b). After

the pandemic recovery, potential foreign investment into Thailand continues to receive more for greenfield investment, cross-border mergers and acquisitions (CBM&A), and international project finance, although foreign investment in all fields is at a more cautious pace.

This study focused on the impact of cross-border M&A on the financial performance of target companies. This study pays particular attention to Japanese companies as acquiring firms, while the target companies are those companies that operate in Thailand. The reason for emphasizing only Japanese and Thai companies falls into two main reasons. First, Japan has long been in a trade and investment relationship with Thailand, the governments

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of both countries have shared a relatively open-door policy to foreign investment and have a mutual interest in boosting economies. Second, Japan is ranked among the top three major investors in Thailand, among the US and China, and Japan yields the highest number of investment projects in Thailand. The two-country partnership and connections show a sign of continuous relation, and in fact, it is relatively well-developed. Further, the agreements between the governments of the two countries to support Thailand toward infrastructure development and bolster socioeconomic are strengthening. Aside from the two government bodies and private enterprises working together to strengthen the overall ties, there is also a growing number of Japanese citizens who have moved to Thailand either to work or to retire.

Trade and Investment Relationship between Japan and Thailand

Japan and Thailand have long been in diplomatic relations since 1887, this close relationship includes politics, economy, and culture. Japanese companies vigorously moved into Thailand since the early 1980s. In terms of cumulative investment in Thailand, there are more than 5,800 Japanese companies in Thailand, or nearly 16% of all direct investment in Thailand coming from Japan (Ministry of Foreign Affairs of Japan, 2023). Also, when comparing Japanese companies investing in Thailand and a total of 14,846 Japanese firms in ASEAN countries, Japanese companies hold about 39% shares of FDI in Thailand; and 36% based on shares in stock base (Japanese Chamber of Commerce, 2018); this proves that Japan is a major investor in Thailand, and its investment proportion is larger than that of any other ASEAN country. The top five industries in which Japanese companies invest are: holding companies, commercial banks, steel production, automobiles and parts, and electronics and electrical appliances. In the past five consecutive years, Japan has ranked among the top three investors in Thailand, besides the US and China. Recently, Thailand's Board of Investment (BOI), announced that in the year 2022, Japan ranked at the top list of investment projects in 293 projects with a combined investment value of 50,767 million Thai Baht (Board of Investment, 2023a). Reasons that Japanese companies choose to continuously invest in Thailand include the following: 1) attractive and stable investment policies by the Thai government. 2) Thailand's connectivity with neighboring countries in terms of logistics, and supply chain with lower costs. 3) Improvement in infrastructure, especially in industrial estate areas. 4) Prominent Thai industrial clusters within ASEAN, and 5) Thai bond of friendship with Japanese (Japanese Chamber of Commerce, 2018).

Review of Literature in CBM&A on Financial Performance of the Target Firms

The topics of mergers and acquisitions and financial performance of the target firms provided the body of knowledge in this study, and are reviewed in this section. Merger and acquisitions (M&A) are the combination of two or more companies, and the identity of one company remains, while the others are dissolved (Fatima & Shehzad, 2014). In general, M&A is carried out by the company with the expectation of bringing mutual benefits and deriving a synergy. The reasons behind the M&A transactions are usually to gain market share, competitive advantage, increase revenue and reduce risk, and product diversifications (Fatima & Shehzad, 2014). Ang et al. (2021) explained that synergy is a situation where two companies join in the M&A activities, and the value of the company after M&A becomes higher than standing by themselves. According to Ang et al. (2021), four benefits arise from the synergy effect: First, is operating savings which result from economies of scale of management, such as marketing, production, or channel distribution. Second, financial savings, which means lower transaction costs and better evaluation by securities analysis. Third, increasing in assets utilization efficiency, and more productivity. Fourth is reducing competition, and as a result, increasing market share.

To keep pace with rapid changes in global trade and investment, many companies face challenges in strategic selection and to keep pace with global competitors, companies usually establish their new footstep into new foreign markets. CBM&A has become a common phenomenon of globalization, and it usually leads to the largest proportion of capital inflows. Other foreign investment choices range from FDI (or greenfield investments), CBM&A, and partnering with host country firms in the form of joint ventures and alliances (Collins et al., 2009). CBM&A occurs when the operating company acquires control over the other enterprise outside its country. Opportunities from a CBM&A are truly related to creating value in terms of optimizing costs, maximizing profits, and keeping the competitiveness of the company in the global market (Neary, 2007). Cioli et al. (2020) stated the effect of CBM&A comes from many dimensions such as financial performance, productivity, and synergy effects.

Financial performance indicators, such as financial items in financial statements and financial ratios, are useful in accessing company financial performance, including the pre-and post- M&A activity. Financial items and ratios highlight the strengths and weaknesses in a firm's performance, and it should receive attention from managers since they can provide some feedback to improve business operations. Most researchers investigated the impact of M&A on the share price data, and productivity or operation performance, but the impact of M&A on financial performance in the long and short run should eventually appear in the target company's accounting records and should receive financial attention (Tuch & O'Sullivan, 2007).

The impact of pre- and post-M&A on financial performance both short-run and long-run has been in mixed results which may be due to different data quality and availability (Bellak, 2004). The research by Mahesh and Prasad (2012) also showed no significant difference in financial performance between before- and after-- M&A in airline companies in India. The study by Zuhri et al. (2020) stated that there was no significant difference in a firm's profitability before- and after- M&A, however, they found that the company's leverage increased significantly after M&A. The study by Patel (2018) showed mixed results with some negative impact on ROA, and ROE ratios, and a positive trend in earnings per share, and profit per employee after M&A. The studies with the positive impact of M&A such as; Francoeur (2006) identified the long-term success of the acquiring firm's financial performance in a cross-border M&A but only under certain conditions such as high level of R&D, and existing of intangibles. A study by Fatima and Shehzad (2014) examined the financial performance of banks in Pakistan, it showed that only ROE is significantly impacted by M&A, while other financial performance ratios had no impact from M&A. On the contrary, many studies indicated the negative impact of pre- and post- M&A. The study by Tuch and O'Sullivan (2007) showed a negative return on the long-run financial performance of target companies, while the short-run acquisitions have at best an insignificant impact on shareholder wealth. Findings by Rao-Nicholson et al. (2016) showed the holistic view of M&A activity in the ASEAN region with a negative impact on profitability of post- M&A activity.

Previous studies have been carried out in many countries and in various industries, yet there are no conclusive results, therefore, it leaves the gap for this research to explore further especially the cross-border activities. The objectives of this study are to observe the pre- and post-M&A impact on firm performance, selecting Japanese companies as the acquirers and Thai companies as target firms, since companies in both countries have mutually been in trade and investment relations and improved Thailand's economy.

Objectives

This research begins with two research questions; 1) what impact does CBM&A have on the financial performance of the companies? 2) after CBM&A, does the financial performance of target firms improve? To answer the research questions, the objectives of this research are; 1) to explores the impacts on the financial performance of companies in Thailand, by analyzing pre- and post-CBM&A for target firms in Thailand; 2) evaluating the impact of CBM&A on company financial performance on some relevant financial items and ratios.

Conceptual Framework

From our research questions and research objectives, we focus on the main hypothesis as follows:

H0: CBM&A has no significant impact on the financial performance (relevant financial items and ratios) of the target firms.

H1: CBM&A has a significant impact on the financial performance (relevant financial items and ratios) of the target firms.

For each variable independently; H0 = μpost - μpre = 0, and H1 = μpost - μpre $\neq$ 0.

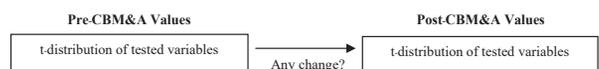| Pre-CBM&A Values		Post-CBM&A Values
t-distribution of tested variables	Any change?	t-distribution of tested variables

Figure 1 Conceptual framework with paired t-test

Research Methodology

Population and Samples

Our research objective is to analyze the pre- and post-merger impact of cross-border M&A financial performance of target companies in Thailand. We collected data only for Thai listed companies as target firms in cross-border M&A by Japanese companies. This study collects secondary financial data from the S&P CAPITAL IQ database. The research population are those 66 companies which are target companies in Thailand. Table 1 presents a summary of the research sample.

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Table 1 Summary of Research Samples

Cross-border M&A Transaction by Sector during year 2010-2022	Number of Target Companies in Thailand
Energy	2
Real estate	1
Materials	24
Industrials	4
Consumer discretionary	8
Consumer staples	5
Health care	1
Financials	6
Information Technology	7
Communication services	2
Utilities	5
No primary industry assigned	1
Total Number of Transactions by CBM&A (Japanese firms as acquirers)	**66**

Source: Collected data from S&P Capital IQ database (date: February 22, 2023)

Research Instrument

This research conducts a "paired t-test (two-tailed)" to test the difference between pre- and post- CBM&A, with means at a confidence level of 0.05 or 95%, and 0.10 or 90% to analyze pre- and post-CBM&A financial performance, and to explore whether there are any statistically significant changes in the performance of target companies. Due to the small number nature of the observations, no fully-fledged reliability checking or normality testing is made, and the focus is placed on whether there was a statistically significant change after the incident of CBM&A. The research findings are presented in Table 4.

Collection of Data

The research data is collected from 66 companies which are merged during the period 2010-2022. This

Table 2 Research Variables and Descriptions

Variables	Descriptions
Revenue (US$ million)	It is the top line figure on income statement; which is the money generated from normal business operations. Revenue of the target company significantly impact a company's reported financial performance which in turn affects valuation, due diligence, and post-acquisition process.
Gross Profit (US$ million)	Gross profit = Revenue – Cost of goods sold.\nAcquirers may want to ensure the acquisitions can grow successfully, while improving revenue and at the same time lower COGS.
Earnings from Continuing Operations (US$ million)	Also known as "Operating income". This is the primary source of income for most successful businesses. It focuses on company's core operations. Often becomes important for investors (or acquirers) for M&A activities.
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (US$ million)	In M&A, EBITDA provide understanding on the accurate valuation of companies. EBITDA provide a snapshot of a target company's financial health and whether the company's financially attractive, from the eyes of acquirers.
Net Income (US$ million)	NI = Revenue – Cost of goods sold – general expenses – Interests paid – taxes Net income (NI) is the bottom line of income statement. It is a useful number to assess how much revenue exceeds all expenses, and it is an indicator of a company's profitability.
Normalized Net Income (US$ million)	Net Income with an adjustment made to Net Income for cleaning out some impacts of recurring items to better capture the firm's ongoing net income. This is a refined indicator of a company's profitability.
Depreciation & Amortization, Total (US$ million)	Costs of tangible as well as intangible assets expensed over the firm's business periods. With CBM&A, the scale of this financial item is expected to be bigger due to an enhanced level of the company's value-adding activities.
Income Tax Expense (US$ million)	Amount of money a company owes to a taxing authority on taxable income. With CBM&A, the efficiency of this financial item is expected to improve, backed by the acquirer company's managerial know-how on how to economize on target company's value-adding activities.
Cash And Equivalents (US$ million)	These are company assets that can be converted into cash immediately. As part of a M&A deal, cash and equivalents mut be analyzed, quantified. It is one of a crucial indicator of a company's financial health.
Accounts Receivable (US$ million)	The proceeds or payment which the company will receive from its customers who purchased good or services but not yet paid. In M&A, account receivable forms an integral part of a due diligence process. A well-managed and efficient account receivable system signals not just a financial advantage, but also strategic elements underlie business operation's efficiency, and adds value during M&A.
Total Current Assets (US$ million)	The sum of all current assets that expected to be converted into cash within one year. Total current asset is not considered by alone by itself for M&A. M&A usually considers NWC (net working capital)
Net Working Capital (US$ million)	NWC = total current assets – total current liabilities.\nNWC offers a snapshot of target firm's short-term financial health, and it is the fundamental metric that measures a company's ability to meet its near-term obligations. Acquirers will seek to ensure company has enough working capital to continue operating successfully after the acquisition closes. Therefore, during the process, NWC of the target firms impacts negotiation process and can significantly influence the final purchase price.
Total Liabilities (US$ million)	Any debts and obligations that a company has to outside parties. With CBM&A, credit-worthiness of the target firm might become higher, hence a higher level of liabilities is expected for pursuing long-term and innovative production of goods and services.
Return on Assets (ROA) (%)	= Net income / Average Total Assets
Return on Capital (%)	= Net income / Sum of debt and equity value
Return on Equity (ROE) (%)	= (Net income – preferred dividends) / Average common equity fund

Source: Developed by authors

research uses the all-year pre-merger and all-year post-merger average figures of firm-level financial items and ratios to test the hypothesis. A total duration of seven years is taken into consideration. The key statistic is the difference of statistics between post-merger and pre-merger. Variables indicating the financial performance (relevant financial items and ratios) of the target firms are listed in Table 2.

Data Analysis

Table 3 gives the descriptive statistics of target firms' financial performance. Note that these financial performances are the research variables which have been selected mainly based on data availability and in lieu of the M&A descriptions in Table 2. Salient observations are as follows: From Table 3, we found that there was an increase of financial items after CBM&A (in terms of means or simple average), these financial items are revenue, gross profit, earnings from continuing operations, EBITDA, net income, normalized net income, depreciation & amortization, income tax expense, total current assets, and total current assets. This implies that after CBM&A, these financial items of target firms have the potential to improve. While there was a decrease of financial items after CBM&A (in terms of simple average), these financial items are cash and equivalents,

account receivable, net working capital, return on assets, return on capital, and return on equity. This implies that after CBM&A, these financial items of target firms have the potential to decline. All in all, profitability-oriented financial ratios, including ROE and ROA, have registered a decrease, yet financial performance (including earnings and net income), mostly the indicator of scale, have registered an increase. This contrast in performance seems to imply that CBM&A of Thai target firms by Japanese acquirer firms in our dataset has a scaling-up impact on the local target firms.

Results

This study is performed using two sets of analysis: (1) a comparative analysis of various financial performance variables of the target companies concerning pre- and post-merger periods (as mentioned above) and (2) the pre- and post-merger financial performance. The research findings in terms of (2) are presented in Table 4.

In response to our two research objectives:

1) By analyzing pre- and post-CBM&A for target firms in Thailand, the research results showed that Revenue and financial items related to earnings and profitability were positively impact by CBM&A activities. This might due to the synergy effects after

Table 3 Descriptive Statistics

Variables	No. of firms used for t-test (after selecting firms with CBM&A and dropping those with incomplete data)	Before CBM&A				After CBM&A				Simple average (means) changes after CBM&A
		Simple average	Max.	Min.	Standard deviation	Simple average	Max.	Min.	Standard deviation	
Revenue (US$ million)	9	10627.28	40693.25	1091.43	12552.86	18108.69	77847.37	1080.42	23672.83	7481.41
Gross Profit (US$ million)	11	0.050	0.192	-0.129	0.102	0.085	0.278	-0.044	0.096	0.035
Earnings from Continuing Operations (US$ million)	12	638.70	2916.83	27.44	812.87	1898.29	8586.09	-78.55	2624.95	1259.59
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (US$ million)	10	1420.91	7444.95	90.30	2237.36	2288.57	6711.78	-69.00	2801.65	867.66
Net Income (US$ million)	12	629.68	2811.23	29.96	785.51	1885.36	8527.23	-84.04	2610.57	1255.68
Normalized Net Income (US$ million)	12	454.89	1927.84	31.12	540.23	1286.20	5222.80	-81.99	1692.12	831.31
Depreciation & Amortization, Total (US$ million)	12	373.71	1978.76	12.78	581.40	627.61	2543.68	33.26	788.11	253.9
Income Tax Expense (US$ million)	12	106.18	299.22	-18.45	119.19	267.75	724.04	-11.61	290.51	161.57
Cash And Equivalents (US$ million)	12	889.98	2394.87	10.97	777.04	2793.30	11309.56	38.55	4030.00	1903.32
Accounts Receivable (US$ million)	10	1358.44	3083.240	56.620	1019.47	3480.96	9022.29	115.04	3342.52	2122.52
Total Current Assets (US$ million)	9	4204.40	14575.73	368.66	4586.66	9773.54	26885.30	427.09	9379.35	5569.14
Net Working Capital (US$ million)	9	-2012.59	14196.07	-19047.02	8842.39	-2423.62	26066.82	-26481.27	14519.65	-411.03
Total Liabilities (US$ million)	12	7707.85	28963.36	379.65	9583.47	16619.90	73515.99	783.58	22440.20	8912.05
Return on Assets (ROA) (%)	12	0.05	0.07	0.00	0.02	0.03	0.12	-0.05	0.04	-0.02
Return on Capital (%)	12	0.08	0.23	-0.01	0.06	0.04	0.13	-0.07	0.06	-0.04
Return on Equity (ROE) (%)	12	0.15	0.34	0.05	0.08	0.10	0.23	-0.10	0.10	-0.05
Return on Common Equity (%)	12	0.16	0.34	0.05	0.08	0.10	0.23	-011	0.10	-0.06

Source: Calculation by the authors based on S&P Capital IQ (S&PCIQ) data

CBM&A which strengthening competitiveness and broadening the market, or in better management of operating expenses, or both.

2) By evaluating the impact of CBM&A on company financial performance on some relevant financial items and ratios. Our results indicated that Revenue, Earnings from Continuing Operations, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), Net Income, Normalized Net Income, Depreciation & Amortization (Total), Income Tax Expense, Cash and Equivalents, Accounts Receivable, Total Current Assets, Total Liabilities, Return on Capital, and Return on Equity, are significantly increased after the CBM&A activities. Our results statistically proved (for most of the financial items) that CBM&A impact earnings, and profitability of target firms. That is, a majority of items in the monetary unit (US$ million) registered an increase after CBM&A (with the only exception of "Working Capital", whose average value degreased after CBM&A). As for financial ratios, all the listed items, i.e., Return on Assets, Return on Capital, Return on Equity and Return on Common Equity, registered a decrease, and the paired t-test proves that the change is statistically significant for Return on Capital, Return on Equity and Return on Common Equity (at the 10 percent significance level).

Due to the negative impact of COVID-19, the results might be influenced. Nonetheless, these results seem to indicate that there was a qualitative change in

the financial items and ratios of those target companies' financial performance after the incidence of CBM&A. (The figure in the year of CBM&A is treated as part of the "after M&A." For example, if the CBM&A took place in 2015, the data in this year is included in the "after CBM&A" data.)

Discussion and Conclusion

The empirical part of this study focused on the paired t-test which uses S&P CIQ's company-level financial data and reveals that Japanese acquirer companies' M&A of target companies in Thailand changed the average values (or means) of the following financial variables and ratios: Revenue, Earnings from Continuing Operations, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), Net Income, Normalized Net Income, Depreciation & Amortization (Total), Income Tax Expense, Cash and Equivalents, Accounts Receivable, Total Current Assets, Total Liabilities, Return on Capital, and.Return on Equity.

Our results are mixed, while most financial performances in related to profitability such as net income, and ROE were significant and consistent with Fatima and Shehzad (2014), and Francoeur (2006) with positive impact of CBM&A on firm's performance. On the other hand, Gross Profit, net working capital, and Return on Asset did not show statistical significance in terms of average differences between pre- CBM&A and post- CBM&A values. While causality testing is awaited, it is conjectured cross-border transfer of intangible assets and synergy effects realized through CBM&A might be the source of performance change of those target companies. Overall, the statistical analysis (paired t-test) seems to point to qualitative differences, after CBM&A, in the value of those financial variables and ratios covered under this study. As mentioned in the previous section, the scaling-up impact of financial items is shown to be statistically significant, despite the deterioration of some financial ratios.

This research addressed the impact of Japan's mergers and acquisitions (M&A) of Thai local companies on those local companies' performances. Japan is among the top three acquirer countries in Thailand, together with the US and China, hence making this case study meaningful. The empirical part of this study focused on the paired t-test which uses S&PCIQ's company-level financial data and reveals that Japanese acquirer companies' M&A of target companies in Thailand changed the average values of the financial items and

Table 4 Results of the paired t-test for target companies invested by Japanese acquirers.

Variables	p-value under the paired t-test
Revenue	0.049**
Gross Profit	0.235
Earnings from Continuing Operations	0.020**
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	0.08*
Net Income	0.020**
Normalized Net Income	0.019**
Depreciation & Amortization, Total	0.004***
Income Tax Expense	0.0183**
Cash And Equivalents	0.044**
Accounts Receivable	0.012**
Total Current Assets	0.0074***
Net Working Capital	0.4220
Total Liabilities	0.020**
Return on Assets	0.11
Return on Capital	0.07*
Return on Equity	0.07*
Return on Common Equity	0.07*

Notes: *** significant at 1%; **significant at 5%; and *significant at 10%
Source: Calculation by the authors based on S&P Capital IQ data.

ratios mentioned in the previous section. On the other hand, Return on Asset and Gross Profit did not show statistical significance in terms of average differences between pre- CBM&A and post- CBM&A values. While causality testing is awaited, it is conjectured cross-border transfer of intangible assets and synergy effects realized through CBM&A might be the source of performance change of those target companies. Overall, the statistical analysis (paired t-test) seems to point to qualitative differences, after CBM&A, in the value of those financial items and ratios covered under this study.

Our research findings answered the two research questions in the following way: Cross-border M&A in Thailand by Japanese acquirers in the dataset seems to have changed the financial performance of the local companies; some financial items and ratios registered a decrease, and the decrease was shown to be statistically significant; on the other hand, financial items especially those in related to profitability mostly showed an increase after the CBM&A. Due to the impact of the pandemic COVID-19, the performance of post-CBM&A might be negatively influenced, making it difficult to judge whether the financial performance of target firms has improved or not. That said, a recommendation arising from these observations and findings is that CBM&A might have a scaling-up impact, hence some sort of stabilizing effect. This remark implies that since a larger-scale business operation could secure funds for developing intangible assets (e.g., intellectual property rights and other off-balance, knowledge-related capabilities of the target firm), CBM&A at its core might be targeting off-balance issues beyond observed on-balance and short-term performances.

Suggestions

This research paper has contributed in terms of empirically highlighting the firm-level performance of target firms of CBM&A in Thailand by Japanese firms. As for an extension of this study, a comparison of CBM&A and domestic M&A would be needed: it is important to know whether CBM&A has a higher impact than domestic M&A. Another issue is that due to limited data availability by sector, the issue of whether there are any industry-level variations, albeit important, remains our future research agenda. A more comprehensive dataset in terms of coverage and time period, would be needed. Methodologically, more refined research along this line, including a difference-in-differences (DID) approach, is much awaited.

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