



Geely's Internationalization Strategy and Effects ----- Taking the Acquisition of Daimler's Shares as an Example

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Abstract. Geely is an emerging force in China's automotive industry, and has been expanding its influence in recent years through an aggressive internationalization strategy. Its performance in the domestic market in recent years has been very good, not only in the domestic auto sales rankings of the top weed, but also in the international market has achieved certain results. However, Geely still faces many challenges on the road to internationalization, such as low brand awareness and relatively backward technology level. In order to accelerate the process of internationalization, Geely began to seek cooperation with internationally renowned automobile enterprises. Geely's acquisition of Daimler's shares is an important attempt on the road of globalization. This paper will take Geely's acquisition of Daimler's shares as an example, and adopt the comparative analysis method and DuPont analysis method to process Geely's financial data, and conduct an in-depth discussion on Geely's internationalization strategy and effects. The analysis concludes that Geely's acquisition of Daimler's shares is a very successful internationalization strategy. Through this acquisition, Geely not only obtained Daimler's technical patents and brand resources, but also expanded more opportunities for it in the domestic and international markets. At the same time, the cooperation between Geely and Daimler also makes China's automobile industry further enhance its position in the inter-national arena.

Keywords: International Acquisition, Geely, Financial Performance.

1 INTRODUCTION

Against the backdrop of global integration, economic ties between countries have become increasingly close. China being among the most important trading partners for most developed economies, China has succeeded in attracting foreign direct investment (FDI) from many developed economies [1]. Various industries are also constantly upgrading their technology and innovating their business to adapt to the changing market demands and competitive environment. China, as one of the world's largest automobile markets, is particularly concerned about the development of its automobile industry. With the growing awareness of environmental protection and the continuous

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R. Magdalena et al. (eds.), *Proceedings of the 2024 9th International Conference on Social Sciences and Economic Development (ICSSSED 2024)*, Advances in Economics, Business and Management Research 289,

https://doi.org/10.2991/978-94-6463-459-4_47

advancement of technology, new energy vehicles have gradually become a hot topic of the times. Chinese automobile companies, Geely, BYD, Tesla and Xiaopeng are leaders in research and development in the field of new energy vehicles. They have not only made significant breakthroughs in the research and development of electric vehicles, but also innovated and optimized battery technology and charging facilities. The research results of these companies have not only injected new vitality into the development of China's automotive industry, but also contributed to the development of the global new energy vehicle sector. Unlike other car companies, Geely, as an old Chinese automobile company, even though its products were not in the first-class ranks in the era of the internal combustion engine, has reached a strategic partnership with them through mergers and acquisitions of foreign companies, such as Volvo, and the acquisition of shares of foreign companies, such as Daimler and Aston Martin, thus continuously strengthening its own capabilities, learning and mastering the technology of Daimler, and now Geely's Sales volume has been realized to turn the tide against the wind. Carrying out cross-border mergers and acquisitions on the one hand, in order to adapt to the new economic situation, on the other hand, also helps to enhance their market value and expand the influence of the brand, at present, cross-border mergers and acquisitions is one of the most commonly used ways for many companies in China to enter the overseas market [2]. Geely Automobile took possession of 9.69% of Daimler's shares at a price of about 9 billion dollars in 2018, and its market share rapidly expanded from the previous 0.29% to 5.95%. These qualitative improvements make Geely Automobile one of the theoretical research objects.

This paper examines Geely's acquisition of shares in Daimler to analyze the motivation behind the acquisition and the impact of the acquisition on its performance. By analyzing the financial data of Geely Holding's acquisition of Daimler's shares five years after the acquisition, the paper examines whether the acquisition has had a driving effect on Geely Holding's performance. Summarize and reflect on the various problems of Geely Holdings in the acquisition, to provide a certain reference and reference for other automobile enterprises in China, so that other automobile enterprises in China in the acquisition of shares of other companies in a smoother process.

China's new energy vehicle sector is developing rapidly and the market scale is expanding. How-ever, compared with the international advanced level, there is still a certain gap in the domestic technical level. In order to improve the technological level, domestic automobile enterprises began to actively seek cooperation with foreign excellent companies. Among them, acquiring shares of other countries' excellent companies has become an important way of cooperation. Through the acquisition of shares, domestic automobile enterprises can obtain advanced research and development technology and resources to further promote the development of new energy automobile field. Therefore, the acquisition of shares of other countries' outstanding companies has become the preferred program. Behind the frequent occurrence of overseas mergers and acquisitions, the success rate of China's corporate mergers and acquisitions is very low, according to McKinsey's statistics in recent years, less than 40% of Chinese enterprises can succeed in overseas mergers and acquisitions, and the number of cases that died halfway through overseas mergers and acquisitions is even more countless [3]. There are all kinds of risks in the acquisition process, therefore,

through the study of Geely Holding's acquisition of Daimler's shares, analyze its motivation and performance impact, summarize its problems so as to achieve the purpose of encouraging other Chinese automobile enterprises to actively carry out acquisitions in order to achieve their own comprehensive development, and to further improve the level of products.

2 GEELY'S MOTIVATION TO ACQUIRE DAIMLER SHARES

In view of the importance attached to ecological and environmental protection in recent years by the state and countries around the world, automobile fuels have gradually changed from traditional gasoline and diesel to electricity, hydrogen and solar energy, with the most rapid development of electricity based on its advantages of low cost, ease of storage, and relative stability of properties, etc. Due to the lack of innovation capacity of China's local new energy vehicle companies, on the other hand, the importance of the new energy vehicle industry to support domestic economic growth has led the Chinese government to implement a series of policies in the context of overcapacity to stimulate and encourage the competitiveness of Chinese enterprises [4]. The Chinese government issued the "New Energy Vehicle Industry Development Plan" as early as 2009, which clarified the target of the proportion of new energy vehicles in motor vehicle ownership by 2020. Subsequently, in 2016, the State Council issued the "13th Five-Year" national strategic emerging industry development plan, the development of new energy automobile industry was selected as a strategic emerging industry. The introduction of the policy has brought infinite vitality to China's new energy vehicle market. According to Figure 1, China's new energy vehicle sales are increasing year by year, especially in 2021-2022, the largest increase and increment, reaching 195%. Enough to see the development of China's new energy vehicles. Although the sales volume is on the rise, but in terms of production efficiency, product quality, technical level and other aspects of the well-known foreign car companies there is not a small gap between. Geely, for example, is a veteran private automobile company in China, mainly operating low-end cars, and in recent years it has been unable to break through bottlenecks in technology, so its market share in China has not expanded further. Daimler has great influence in the fields of electric vehicle R&D, intelligent technology and shared transportation. In order to complete the upgrading of its industrial chain and further expand its domestic market share, Geely wants to expand its influence in the international market and improve its brand awareness so as to develop foreign markets. Geely also hopes to obtain more international cooperation opportunities through the acquisition of Daimler's shares and strategic partnership to further expand its business scope. At the same time, Daimler has formed strategic synergies with Geely and Volvo, which Geely acquired in 2010.

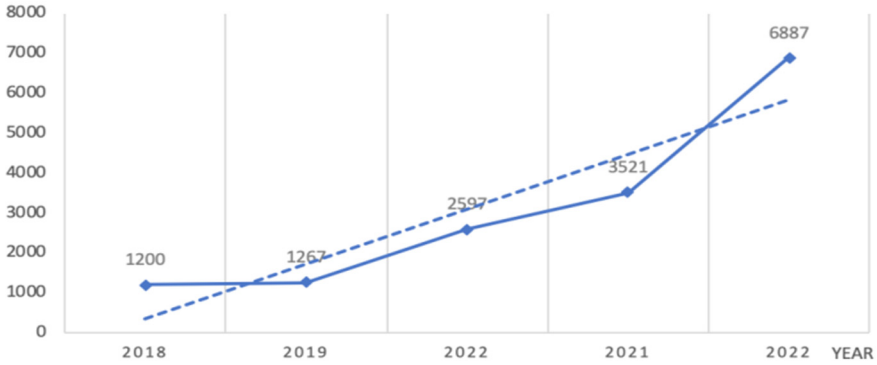


Fig. 1. New energy vehicle sales (Thousand cars) 2018-2023

3 IMPACT OF GEELY'S ACQUISITION OF DAIMLER SHARES

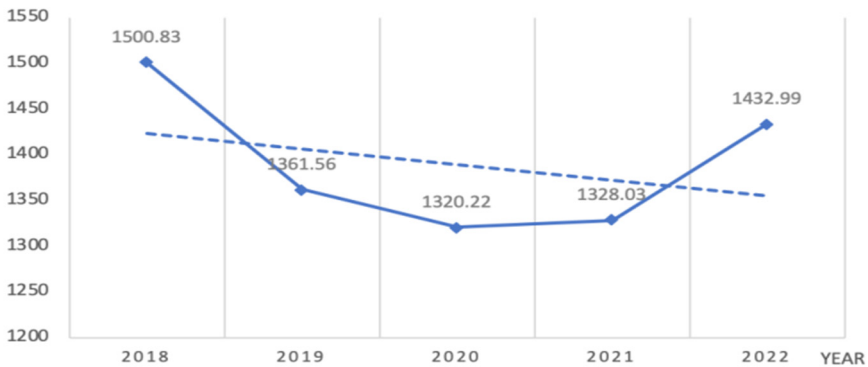


Fig. 2. Geely car sales (Thousand cars) 2018-2022

3.1 Financial Performance

As can be seen from Figure 2, Geely's sales were very good in 2018, but it was limited by the brand influence, the single product line plus the decrease in market demand due to the arrival of the epidemic. Its sales have been declining in the two years 2019-2020 due to the global epidemic factor, which does not indicate the failure of the acquisition of Daimler shares. Turning to the two years 2021-2022, Geely Automobile has further strengthened its cooperation with Daimler in these two years, realizing technological innovation, resource sharing, complementing each other's strengths, and thus enhancing their respective competitiveness and market position. Thus, after the end of the epidemic, its car sales surged.

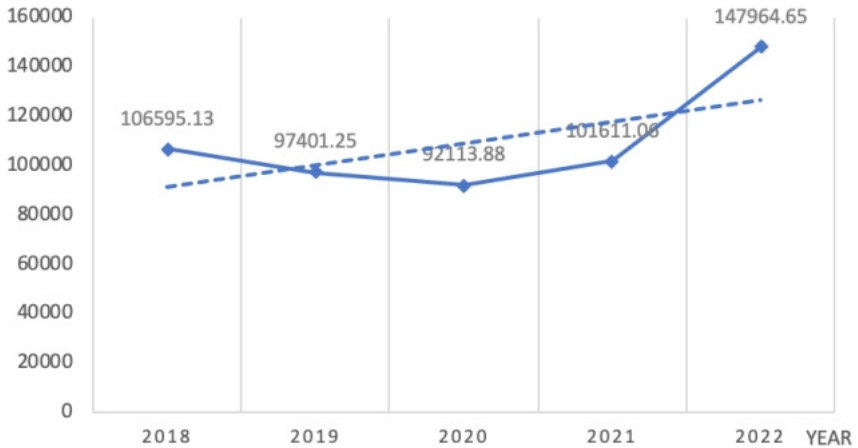


Fig. 3. 2018-2022 Geely Revenue (RMB thousand)

Geely Automobile with the acquisition of shares in Daimler Automobile in 2018. From Figure 3, although there is a decline in its earnings in 2019, the turnaround year after the acquisition of the shares, this is due to the external epidemic factor. Thus the decline in 2019 and 2020 does not indicate the success of the decision to acquire the shares. Analyzing the data of 2022 after the epidemic is more convincing, in 2022 earnings have risen significantly, Daimler has improved the Geely new energy car battery technology, chassis tuning capabilities and automobile configurations, so that the quality of the car has been significantly improved. Therefore, it is believed that Geely's decision to acquire a stake in Daimler and enter into a strategic partnership with the company is a very good one, which further optimizes Geely's industrial chain, improves Geely's market performance, and makes its position in China's automotive market more competitive, and maintains low leverage, excellent liquidity, and net cash performance in the past to provide important support for maintaining an investment-grade rating.

The results of the company's operations during the reporting period can be objectively reflected through the financial data in the income statement, which reflects the revenue, expenses and profit of the enterprise during a certain period. Table 1 shows the items related to Geely's income statement for 2018-2022.

Table 1. Profit and related data 2018—2022 (RMB billion).

Project/time	2018year	2019year	2020year	2021year	2022year
revenues	106.55	97.40	92.11	101.61	147.97
business costs	85.08	80.49	77.38	84.20	127.07
sales expense	4.52	4.29	5.07	6.32	8.23
financial cost	0.079	0.108	0.208	0.265	0.551
R&D costs	1.93	3.07	3.74	5.52	6.77

net profit	12.55	8.19	5.53	4.85	54.65
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As shown in Table 1, the trend of operating income and operating cost changes of Geely remain consistent from 2018 to 2022, both decreasing first and then increasing significantly. In 2022, the operating income increases by 45.62% to reach the maximum value of 147,965 million yuan, indicating that the demand for Geely's previously launched brand new models further increases, while the sales of other existing models remain stable. In 2019 and 2020 operating income decreased by 9,149 million and 5,287 million Yuan, respectively. Mainly due to the global chip supply shortage, the epidemic sweeping the world, making the automotive industry productivity and purchasing power dropped significantly as well as the negative impact of the soaring raw material prices, the rise in operating income in 2021 is mainly due to the weakening impact of the epidemic [5]. In 2018, Geely acquired a 9.69% stake in Daimler in order to further secure a stable supply chain for electric vehicle batteries, and to gain advantages, resources, and expertise in new energy electric vehicle batteries, entering into a strategic partnership with Daimler through the acquisition. In 2021, through the study of Daimler's advanced automotive technology, the new new energy vehicles manufactured by the company have been significantly improved in terms of appearance and configuration compared with the previous year, and although the operating costs have also increased, the more exciting thing is that the operating income has increased significantly compared with the previous year. The increase is 10.31% in 2021, when the epidemic is in its aftermath, and 45.62% in 2022, when the epidemic has completely disappeared. This demonstrates the success of the strategic partnership with Daimler through the acquisition of shares.

Selling expenses, financial expenses and research and development expenses have become an increasing trend year by year since 2018 until the end of 2022, indicating that Geely is paying more and more attention to external marketing, automobile research and development personnel and management personnel investment. This helps Geely's image in the outside world to become better and more standardized management. The year-on-year increase in R&D expenses is due to this decision of its acquisition of Daimler's shares in 2018, Geely Automobile has more research and development projects available in R&D, making the new output of cars with better performance.

Table 2. Short-term solvency ratios.

year	current ratio	quick ratio	cash ratio
2018	0.98	0.88	0.36
2019	1.03	0.93	0.40
2020	1.22	1.13	0.45
2021	1.08	0.99	0.46
2022	1.15	0.99	0.48

Generally, if a company's current and quick ratio values are between 1.5-2.0 and 0.8-1.0, and the cash ratio is not less than 0.2, then it means that the short-term solvency is

qualified. As can be seen from Table 2, Geely's current and quick ratios in 2018-2019 are generally on a downward trend, which shows that the source of the more than \$9 billion spent on Geely's acquisition of Daimler was borrowed from outside sources. 2020-2022, Geely's current and quick ratios will first fall and then rise 2020 Both current ratio and quick ratio reached the highest value in the year with 1.216 and 1.128 respectively. it is due to the consolidation of Geely's internal funds in order to reduce the amount of current liabilities after the acquisition of the shares of Daimler Corporation, which decreased from 48.526 billion in 2019 to 41.887 billion yuan in 2020, a decrease of 15.85%. Current assets increased from 50.014 billion in 2019 to 50.939 billion in 2020, a rise of 1.85%.The current ratio and quick ratio achieved an increase in 2022, which indicates that Geely's current ratio and quick ratio are in a relatively reasonable and controllable range of changes and do not need to worry too much. Its cash ratio is increasing year by year, which also further shows that Geely's short-term solvency is in good condition.

Table 3. Long-term solvency ratios.

year	gearing	equity multiplier	Interest coverage multiple
2018	50.39%	2.02	111.25
2019	49.11%	1.97	64.75
2020	42.05%	1.73	33.39
2021	47.73%	1.91	16.44
2022	51.72%	2.07	8.44

The above figures are from the annual report on Geely's official website, and the results have been calculated after the statistics. The gearing ratio in general, the value of 0.4-0.6 is the appropriate level. As shown in Table 3, Geely Automobile's gearing ratio has been in this range from 2018 to mid-2022. it continues to decrease between 2018 and 2020, reaching a minimum of 42.05% in mid-2020, and then turns to continue to increase from 2020 to 2022, but the peaks at only 51.72% in 2022 and does not exceed 60%. This indicates that the debt incurred by Geely Automobile through the respective financing raised by Societe Generale and Morgan Stanley in the acquisition of Daimler shares has not caused a serious financial crisis for Geely Automobile. The equity multiplier reflects the size of the financial leverage of a company. The larger the equity multiplier, the smaller the shareholders' input of capital in assets and the larger the financial leverage. After Geely spent more than 9 billion dollars to acquire the shares of Daimler, the equity multiplier still maintains a very healthy state. It indicates that Geely's creditors' rights are highly protected, its assets are less dependent on its liabilities, and subsequently the company's risk of bankruptcy is low. Interest coverage multiple is the ratio of EBITDA earned from production and operation to interest expense, which is a measure of the long-term debt servicing ability of a company. It is observed that Geely's interest coverage multiple has been decreasing year by year and has dropped to 8.44 by 2022, which indicates that Geely's profit is not enough to cover the debt interest payment. This is related to the intensification of competition in the

domestic auto-mobile market in recent years, such as the rise of new energy vehicles such as Xiaopeng and Azure, coupled with the fact that well-known foreign luxury brands have also set new energy vehicles as their main development strategy, such as Porsche, Mercedes-Benz, BMW and so on. In addition rising costs is also a key factor, Geely's new cars launched in recent years are known for their cost-effective performance, as it has learned from Daimler's advanced technology, and its new cars have been greatly upgraded in terms of functionality, e.g., upgraded battery technology, drive system technology, intelligent technology, and electric vehicle platform technology. Compared to the price of cars with the same features, Geely is much lower. Based on the analysis of the above three types of data, on a consolidated basis, Geely's long-term solvency is still excellent.

Table 4. Profitability values and ratios.

year	Gross sales margin	Net sales margin	Return on Assets (ROA)	Return on net assets (ROE)
2018	0.20	0.12	0.14	0.32
2019	0.17	0.09	0.08	0.17
2020	0.16	0.06	0.05	0.09
2021	0.17	0.04	0.04	0.07
2022	0.14	0.03	0.03	0.06

Gross sales margin, net sales margin, return on assets and return on net assets can best visualize the profitability of a company. As shown in Table 4, Geely's gross and net sales margins have been in a state of decreasing in recent years. The two years 2019-2020 are due to the epidemic that makes these two major interest rates decrease, but the other two years are due to the increasing cost of Geely's new automobiles, while the price has always remained in a stable range. Return on Assets and Return on Net Assets are the same as the first two major interest rates, which are also decreasing from year to year. All of these figures indicate that Geely's profitability is getting worse and worse [1]. In 2018, China released a new policy on automobile import tariffs, and due to the significant reduction in the tax items of automobile vehicles and parts, foreign imported automobiles generally lowered their selling prices, and a large number of them seized China's market for independent automobiles; on the other hand, due to Daimler's poor operating conditions, its net profit slipped from \$8.4 billion in 2018 to \$3 billion in 2019, a drop of nearly 60%. The combination of the two reasons led to Geely's profitability falling off a cliff.

3.2 Internal and External Risks

In the cross-border acquisition of Daimler by Geely Automobile, it is important to acquire theoretical knowledge of collar options in advance, to clarify one's own risk appetite, and to rationally utilize the collar option strategy. Collar option strategy is a combination strategy to reduce risk and improve financing efficiency by buying call options and put options. Geely Automobile chose to use the collar option strategy to

ensure the smooth implementation of the acquisition activities, reduce the financial risk, and ensure the normal operation of production and business activities after the acquisition [6]. In 2018, Geely Automobile acquired 9.69% of Daimler's shares at a price of more than \$9 billion, which is the largest overseas acquisition in Geely's history. In order to obtain the funds, Geely borrowed from banks, a move that put it under pressure to take on a huge amount of debt. However, after the acquisition, both parties were operating well and profitability increased, thus making Geely's debt pressure much lower. As a result, Geely successfully completed its cross-border acquisition of Daimler and reduced its financial risk by utilizing the collar option strategy and rationally planning its financing. The operational risks that Geely needs to face after acquiring Daimler's shares should not be ignored. Many companies still have disadvantages in resources and capabilities to support their high-quality innovation in open economies [7]. On the one hand, Geely may have deficiencies in R&D investment, technical talent reserves, and intellectual property rights. These factors will limit Geely's room for development in the innovation process and reduce the success rate of innovation. On the other hand, enterprises also need to cope with fierce market competition in an open economy and maintain a keen market insight and rapid response capability [8]. This is undoubtedly a formidable challenge for enterprises with limited resources. Daimler is a globally recognized automobile manufacturer with a large scale and wide range of operations. Geely needs to face not only management challenges but also various market risks and uncertainties after acquiring the shares [9]. Daimler adopts the management mode of dual shareholding structure, Geely's share acquired through the acquisition is only 9.69%, and joins Daimler's supervisory board rather than the board of directors, therefore, Geely is not able to influence Daimler's decision-making, and also unable to concentrate on Daimler's core business, which shows that Geely does not have any advantage. Geely needs to cooperate deeply with Daimler to realize resource sharing and complementary advantages, and also needs to maintain the brand image and cultural differences between the two sides [10]. These are all issues that require great efforts and costs to solve.

4 CONCLUSION

This paper summarizes the event of Geely Automobile's acquisition of Daimler's shares and the financial impact of this event on Geely Automobile. By combining and analyzing the financial data of Geely Automobile in recent years, it mainly studies the acquisition motive, financial impact, market reaction and strategic layout. According to the study, in terms of financial aspects, Geely's annual sales, annual revenue and profit volume in the past five years (2018-2022) are in the growth trend, short-term solvency and long-term solvency have improved significantly, but the profitability is declining year by year. Geely Group's continuous acquisitions are not blind, but long-term and strategic, and the corresponding target companies are selected according to the strategies of different time periods and whether the timing is appropriate. Geely's acquisition of shares at the right point in time and its good handling of the problems it faced after acquiring Daimler's shares provide a good case study for subsequent cross-border

acquisitions by Chinese companies. Geely should maintain the healthy debt structure it has had in recent years, while finding ways to reduce costs and increase profitability, as well as expanding into overseas markets. With the development of personal transportation, Chinese manufacturers are likely to take advantage of the opportunity of autonomous new energy vehicles to gain a lead ahead of established multinationals. will face is finding a business model that will make the industry attractive. This is also the challenge for multinational companies. Chinese automobile enterprises have to adapt to this trend of the times early and seize the opportunity to further develop their business in the future. this trend of the times and seize the opportunity to further expand the influence of domestic cars in the international arena. Although the research has achieved certain results, there are still some shortcomings that need to be further deepened. Future research can be carried out from the comprehensive use of a variety of research methods, strengthening the prediction and analysis of future trends, and the role of other influencing factors in the mechanism and path of action, in order to provide more valuable reference for the relevant enterprises.

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