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# Analysis of The Financial Performance Of Selected South Korean Entertainment Companies Before And After Acquisitions

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**Abstract.** *An acquisition is quite common among big companies, including South Korean Entertainment companies. Where the acquisition was chosen in order to expand the market and improve the company's financial performance. This study aims to analyze whether there are significant differences in the financial performance of South Korean Entertainment companies between before and after the acquisition. Company performance is measured using financial Ratios: Return On Equity (ROE), Return on Assets (ROA), Net Profit Margin (NPM), Gross Profit Margin (GPM), Earning Per Share (EPS), Total Asset Turnover (TATO) and Fixed Asset Turnover (TATO). This research was conducted using a quantitative method, namely by collecting data from 4 entertainment companies that made acquisitions in the 2018-2022 period through the Korean Composite Stock Price Index (KOSPI), Korean Securities Dealers Automated Quotations (KOSDAQ) and through the company's official website. The non-parametric tests used are the Paired Sample t Test and the Wilcoxon Signed Ranks Test. The results of this study shows that testing of 6 financial ratios namely ROE, ROA, GPM, EPS, TATO and FATO shows that there is no significant difference between before and after the acquisition while the NPM shows a significant difference between before and after the acquisition*

**Keywords**: *Acquisition; Financial Performance; Financial Ratio*

## 1. INTRODUCTION

Sustainable Development (SDGs) pioneered by the United Nations (UN) is a guiding principle for global development until 2030. There are 17 goals with 169 different indicators from each of the goals that have been set. Governments, businesses and the general public are urged to help in efforts to fight current problems such as inequality, poverty, climate change to environmental degradation. Business executives now see the SDGs as new prospects for expanding their initiatives. 71% of companies currently aim to incorporate SDGs into their work, and 89% of CEOs note that the promise of sustainable development has had a significant impact on their industry (Makarenko and Plastun 2017).

Recently, companies are required to make decisions based on market demands for sustainable business performance. Every company always trying to improve its performance, which results in intense competition between one company and others (Ni Putu Linda Kusuma Dewi 2021). This conditions encourage businesses to survive better to face potential changes that occur in the future (Septian and Diana PD 2021). One of the strategies used by companies to survive the changes that occur and develop their business is to make acquisition. Acquisition is often be chosen by companies that are expanding, both domestic and international companies (Waskito and Hidayat 2020).

One of the international phenomena that is currently in the spotlight in society is the Hallyu wave or Korean wave. This phenomenon illustrates how the spread and consumption of various South Korean products and culture has spread through the international market. In the current era of globalization, it facilitates the spread of culture and also allows hybridization of existing cultures, as an example is South Korea, which has succeeded in carrying out cultural hybridity to the world it is today. Korean cultural products that are popular among the international community include K-pop, dramas, films, and even traditional Korean food has many fans (Cho, Chung, and Young 2019).

Due to the large number of enthusiasts in the Korean entertainment industry, this has triggered very tight competition among entertainment companies there. In addition, this competition is also supported by progress in the field of technology which is very rapid which makes companies vying to be the best by developing strategies in order to survive and win the competition.

Many acquisitions are carried out by companies with different motives including economic, strategic, synergy, diversification and non-economic motives. Most of the reasons for choosing the acquisition were due to economic and synergy motives (Waskito and Hidayat 2020). Acquisitions are only made if both parties benefit, both the acquiring company and the acquired company. This advantageous situation arises when the synergy of combining two companies increases, or the sum of the values of the two companies (Ni Putu Linda Kusuma Dewi 2021).

The success of South Korean Entertainment Companies in acquiring and expanding their business to the international market is inseparable from excellent financial management. Because good financial performance is very important as material for company valuation. One measure to assess whether the acquisition was successful is to look at the company's performance after the acquisition, especially in terms of its financial performance (Ni Putu Linda Kusuma Dewi 2021). Financial performance results reflect the company's financial health in a certain period. Acquisition doesn't always work out for some companies. Success and failure will definitely occur in acquisitions but the failure and success of acquisitions can be judged from the results of the company's financial performance after the acquisition (Yunus, Rasuli, and Lukum 2021). Financial performance can be calculated in various ways including using several financial ratios such as: Return on Equity (ROE), Return on Assets (ROA), Net Profit Margin (NPM), Gross Profit Margin (GPM), Earning Per Share (EPS), Total Asset Turnover, Fixed Asset Turnover.

## 2. LITERATURE REVIEW

### *1.1 Acquisition*

Based on PSAK No. 22, an acquisition is a merger between two or more companies where there is one company that has control (acquiring company) over another company (acquired company). In practice, the acquiring company has more control than the acquired company (Zalfa 2022). In other words, an acquisition is the taking over of part or all of a company through the purchase of company shares or assets (Ii, Teori, and Kerangka 2018). To be considered an acquisition, the company must take over at least 51% of the company's entire stock or assets (Ni Putu Linda Kusuma Dewi 2021). Acquisition is the choice of many companies to expand and also opens opportunities for companies to grow even more broadly and target a larger market share than before (Amudha and Kaviarasan 2015).

### *1.2 Acquisition Stages*

Haspeslagh and Jemison (1991) divide acquisition into 4 main phases, namely: idea, acquisition justification, acquisition integration and results. The first two processes are referred to as pre-combination and the last 2 are called post-combination stages (Ginting 2021). Meanwhile, according to Lohrum, integration is divided into several different phases to facilitate understanding of what happened during the acquisition process. Lohrum divides it into 5 stages, namely: observation, planning, execution, consolidation and maturity stage (Risberg 2010).

### *1.3 Financial Performance*

Pandey (2004) defined financial performance as a measure of how well a corporation generates revenue using resources from its core business. The phrase may also be applied as a broad indicator of a company's long-term financial situation. Financial performance can also be used to compare similar companies in the same industry around the world or to compare industries or sectors in aggregate (Gofwan 2022). The financial performance of a company can be a benchmark for whether the company is in good condition or not in terms of the company's financial health, so that financial performance is very important for a business (Bhunia, Mukhuti, and Roy 2011).

Financial analysis is useful for assessing the performance of a company's management to identify weaknesses and strengths. Financial analysis includes several financial ratios that can be used to provide an indication of whether a company has enough cash to meet its obligations, a reasonable amount of debt, good inventory management, and a solid capital structure to maximize shareholder wealth (Ginting 2021).

### *1.4 Financial Report*

The purpose of preparing financial reports is to provide financial information to support decision making, especially in the field of corporate finance (Los, n.d.). With the financial information presented in the financial statements, it will be easier for companies to make decisions and make predictions about what will happen in the future. Through further processing by comparison, evaluation and analysis of trends will be able to help predict the company's finances in the future (Ginting 2021).

### *1.5 Financial Analysis*

Generally, financial analysis is carried out by comparing the performance of one period with another during a certain period. Several ways can be used to analyze the financial condition of a company, namely using financial ratio analysis. This analysis is carried out based on the company's financial statements by analyzing the development of the company's performance in terms of its finances during a certain period. Financial ratios and company performance are closely related to see and evaluate the effectiveness of company activities (Ginting 2021).

## 3. RESEARCH METHODS/METHODOLOGY

This research was conducted at South Korean Entertainment companies that made acquisitions in the 2018-2022 period and can be accessed through the Korea Composite Stock Price Index (KOSPI), Korean Securities Dealers Automated Quotations (KOSDAQ) and also from the company's official website. The sample companies in this study were determined by several criteria as follows:

a. South Korean Entertainment company that made acquisitions during the 2018-2022 period

*b.* South Korean Entertainment company listed on the Korea Composite Stock Price Index (KOSPI) and Korean Securities Dealers Automated Quotations (KOSDAQ)

*c.* South Korean company that has a major market in the field of Entertainment

Based on the criteria above, the sample population in this study was 4 Korean Entertainment Companies that made acquisitions during the 2018-2022 periods.

To measure financial performance in this study, using 7 financial ratios including namely Return on Equity (ROE), Return on Asset (ROA), Net Profit Margin (NPM), Gross Profit Margin (GPM), Earning Per Share (EPS), Total asset turnover (TATO), and Fixed asset turnover (FATO).

The Statistical Product Service Solution (SPSS) was employed in this study's data analysis, and the traditional assumption test was performed to check the data's normality. The purpose of a data normality test is to ascertain if the data are regularly distributed. After the data had been gathered, the normality of the data was evaluated using the Shapiro Wilk method. The data is regarded as normal if the significance level is greater than 0.05. Using the Shapiro-Wilk approach because the study's sample size is less than 50 (Mishra et al. 2019).

The Wilcoxon Signed Ranks Test was employed in this study to test hypotheses, with alpha or a significance level of 0.05, depending on whether the data were normally distributed or not. The paired t-test will be used to compare the financial results of the two pre-acquisition periods and the two post-acquisition periods. $H_0$ is rejected while $H_a$ is accepted if the sig value is 0.05. While $H_0$ is approved and $H_a$ is denied if the sig value is more than 0.05.

Although the Wilcoxon Signed Ranks test's goal is to compare financial performance between two pre- and two post-acquisition periods (Ni Putu Linda Kusuma Dewi 2021). $H_0$ is rejected while $H_a$ is accepted if the sig value is 0.05. In contrast, $H_0$ is approved while $H_a$ is denied if the sig value is more than 0.05.

## 4. RESULTS AND DISCUSSION

### *4.1 Data Collection Result*

This study compares many financial measures using data from two years before and after the purchase. The performance of these firms will undoubtedly improve as a result of the merging of two or more businesses as compared to their pre-merger performance. This study makes use of information from four South Korean entertainment firms. Financial data was gathered from these companies' official websites as well as from a number of other websites that offer information about their financial statements.

**Table 4.1 Company Sample**

| Company Name | Year | ROE | ROA | NPM | GPM | EPS | TATO | FATO |
|---|---|---|---|---|---|---|---|---|
| Company A | 2018 | -0.81 | -0.45 | -0.23 | 0.37 | -2057.43 | 1.47 | 1.47 |
| | 2019 | 0.42 | 0.13 | 0.12 | 0.34 | 2155.46 | 1.62 | 34.9 |
| | 2021 | 0.05 | 0.02 | 0.11 | 0.50 | 3625.08 | 0.27 | 5.30 |
| | 2022 | 1.87 | 1.09 | 0.03 | 0.42 | 1265.21 | 0.37 | 6.30 |
| Company B | 2019 | -0.06 | 0.02 | -0.10 | 0.26 | -755.19 | 0.35 | 5.32 |
| | 2020 | 0.02 | 0.03 | 0.04 | 0.52 | 367.62 | 0.35 | 5.29 |
| | 2021 | 0.12 | 0.02 | 0.22 | 0.54 | 3221.49 | 0.27 | 3.14 |
| | 2022 | 0.14 | 0.06 | 0.19 | 0.55 | 3106.16 | 0.31 | 2.73 |
| Company C | 2019 | 0.19 | 0.15 | 0.20 | 2.54 | 946.77 | 0.75 | 4.01 |
| | 2020 | 0.16 | 0.13 | 0.20 | 2.62 | 892.36 | 0.64 | 3.56 |
| | 2021 | 0.27 | 0.13 | 0.35 | 2.58 | 2038.21 | 0.61 | 5.06 |
| | 2022 | 0.25 | 0.19 | 0.20 | 0.44 | 2038.90 | 0.95 | 9.16 |
| Company D | 2019 | -0.01 | 0.07 | 0.12 | 0.32 | 407.11 | 0.83 | 1.10 |
| | 2020 | -0.08 | 0.07 | 0.12 | 0.32 | 543.97 | 0.42 | 0.69 |
| | 2021 | 0.13 | 0.08 | 0.12 | 0.29 | 1000 | 0.59 | 1.45 |
| | 2022 | 0.44 | 0.32 | 0.62 | 0.20 | 45.61 | 0.44 | 1.23 |

**Source**: secondary data, 2023

### *4.2 Data Normality Test Result*

**Table 4.2 Tests of Normality**

| | Shapiro-Wilk |
|---|---|

| | Statistic | df | Sig. |
|---|---|---|---|
| The Average of ROE Before Acquisition | .967 | 4 | .821 |
| The Average of ROA Before Acquisition | .917 | 4 | .520 |
| The Average of NPM Before Acquisition | .908 | 4 | .471 |
| The Average of GPM Before Acquisition | .654 | 4 | .003 |
| The Average of EPS Before Acquisition | .970 | 4 | .840 |
| The Average of TATO Before Acquisition | .872 | 4 | .304 |
| The Average of FATO Before Acquisition | .839 | 4 | .192 |
| The Average of ROE After Acquisition | .793 | 4 | .089 |
| The Average of ROA After Acquisition | .885 | 4 | .362 |
| The Average of NPM After Acquisition | .987 | 4 | .941 |
| The Average of GPM After Acquisition | .827 | 4 | .160 |
| The Average of EPS After Acquisition | .951 | 4 | .720 |
| The Average of TATO After Acquisition | .890 | 4 | .382 |
| The Average of FATO After Acquisition | .950 | 4 | .718 |
| a. Lilliefors Significance Correction | | | |

**Source**: secondary data, 2023

Based on table 4.2, using a significance level of 5% or α = 0.05 it can be concluded that the data is normally distributed since the average ROE prior to the acquisition is > 0.05, which is equal to 0.821. Similar results were obtained with an average ROA of 0.520 and an average NPM prior to the purchase of 0.471. The data is regularly distributed because both have sig values > 0.05.

In contrast to the average GPM before acquisition where the sig value <0.05 is 0.03 so it can be said that the data is not normally distributed. Furthermore, for the average EPS, FATO, and TATO, the three data are normally distributed because the significance numbers are > 0.05, which are 0.840, 0.304 and 0.192.

For data after acquisition such as average ROE, average ROA, average NPM, average GPM, average EPS, average TATO, and average FATO are data that are normally distributed because they have sig> 0.05 namely 0.089, 0.362, 0.941, 0.160, 0.720, 0.382, 0.718. So that for all data except the average GPM before acquisition using the paired t test as a hypothesis test and GPM before acquisition using the Wilcoxon Signed Ranks Test because the data is not normally distributed.

### *4.3 Paired Sample t Test Result*

**Table 4.3 Paired t Test Result**

| Ratio | t-value | df | Sig. (2-tailed) | Result |
|---|---|---|---|---|
| ROE | -1.739 | 3 | .180 | No Different |
| ROA | -1.307 | 3 | .282 | No Different |
| NPM | -4.193 | 3 | .025 | Different |
| EPS | -2.388 | 3 | .097 | No Different |
| TATO | 1.091 | 3 | .355 | No Different |
| FATO | .805 | 3 | .480 | No Different |

**Source**: secondary data, 2023

Based on table 4.3, the test's findings indicate that there is no statistically significant difference between ROA, ROE, EPS, TATO, and FATO since their significance values are >0.05, or 0.180, 0.282, 0.97, 0.355, and 0.480, respectively. On the other hand, for NPM is 0.025, indicates that there is a significant change between the pre- and post-acquisition states. However, at an alpha of 10%, or 0.1 EPS shows a significant difference between before and after the acquisition.

### *4.4 Wilcoxon Signed Rank Test Result*

**Table 4.4 Wilcoxon Signed Rank Test Result Gross Profit Margin (GPM)**

| | Average GPM Before Acquisition - Average GPM After Acquisition |
|---|---|
| Z | .000b |
| Asymp. Sig. (2-tailed) | 1.000 |
| a. Wilcoxon Signed Ranks Test | |
| b. The sum of negative ranks equals the sum of positive ranks. | |

**Source**: secondary data, 2023

Based on table 4.4, the test results show that the average significant level of TATO before acquisition and the average TATO after acquisition is 1 or > 0.05. As a result, Ha is disapproved while H0 is accepted. Therefore, it can be said that there was no significant change in TATO before and after the transaction.

### *4.5 Discussion*

According to the analysis of the research, there was no discernible difference between the financial performance of the company before and after the acquisition as indicated by Return on Equity (ROE), Return on Assets (ROA), Gross Profit Margin (GPM), Earnings Per Share (EPS), Total Asset Turnover (TATO), and Fixed Asset Turnover (FATO). Even yet, there is a substantial variation in financial performance as determined by Net Profit Margin (NPM).

To ensure that there is no change in the variables Return on Equity (ROE), Return on Assets (ROA), Gross Profit Margin (GPM), Earnings Per Share (EPS), Total Asset Turnover (TATO), and Fixed Asset Turnover (FATO) between before and after the purchase. Of all the factors put up to gauge the financial success of NPM firms, those that were approved and shown a discernible difference between the two times.

A corporation makes a strategic purchase when it buys another business in order to further its corporate strategy. The acquirer companies need additional capacity by purchasing other entertainment companies that experience excess capacity and are thought to have the potential to grow even better. As a result, the acquiring company might generate more income by expanding its product line or controlling the market. When one business buys another, the acquired company is merged into the acquiring company, meaning that the acquiring company now holds all of the acquired company's assets and obligations and the acquired firm is no longer in existence. This implies that the acquiring company fully assumes control of the acquired company's management. If the acquiring firm is able to increase the value of the acquired company above the premium to be paid, the acquisition is considered to be successful. Additionally, whether the acquiring company can improve the company's profitability and growth from what it was before the purchase. Acquisitions will also be beneficial if the acquiring company focuses on the purchasing operations of businesses within its area of expertise and skills. The four corporations in this study try to buy similar entertainment businesses with limited resources that have the ability to compete in worldwide marketplaces, just as the acquiring companies in this research.

This analysis discovered a considerable difference in the Net Profit Margin (NPM) before and after the acquisition. This may be brought on by the anticipated increase in profits for the acquired business as a standalone unit as well as the synergistic effects that result from the merger of two or more businesses.

## CONCLUSION

The acquisition itself was carried out with the hope that it would make a significant difference to the company's performance to be better than before the acquisition. Basically, acquisitions are not only made for economic motives but also for various other motives such as synergy, strategic, diversification and also non-economic motives.

According to research done on four major South Korean entertainment companies for the years 2018 through 2022, there were no appreciable differences in their financial performance between before and after the acquisition, as measured by the variables Return on Equity (ROE), Return on Assets (ROA), Gross Profit Margin (GPM), Earnings Per Share (EPS), Total Asset Turnover (TATO), and Fixed Asset Turnover (FATO). However, evaluations utilizing the Net Profit Margin (NPM) variable reveal a sizable variance in financial performance between the periods before to and following the purchase.

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