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FINANCIAL PERFORMANCE AFTER ACQUISITION ON INDONESIA STOCK EXCHANGE

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ABSTRACT
The study set out to evaluate the financial performance before and after acquisitions by examining metrics such as the Current Ratio (CR), Asset Turnover (TATO), Debt to Asset Ratio (DAR), Net Profit Margin (NPM), and Price Earnings Ratio (PER) for companies listed on the Indonesian Stock Exchange (IDX) from 2013 to 2019. Utilizing the Wilcoxon Signed Ranks test, it was found that the Total Assets Turnover (TATO) exhibited changes following the acquisition. Conversely, CR, DAR, and PER did not demonstrate any significant differences. The NPM showed variation both one year before and one year after the acquisition, as well as one year before and two years post-acquisition

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1. INTRODUCTION

Business development, synonymous with expansion, hinges on investment choices. Expansion enhances efficiency, competitiveness, and profits. Companies typically expand through internal (organic) growth or external growth via business combinations. External expansion, facilitated by mergers or acquisitions, allows for swift growth without the need to build from scratch. Descriptive statistical analysis indicates that the fixed asset turnover ratio, debt to asset ratio, and return on equity generally improve following acquisitions, suggesting that acquiring companies benefit from synergistic effects.[1]. After the acquisition, the company's financial performance experienced significant changes, particularly in liquidity, leverage, and activity ratios compared to pre-acquisition levels.[2]

An acquisition involves one company taking ownership of another company's shares or assets, while both entities typically remain separate legal entities. Acquisitions are believed to generate synergy, optimizing value and benefits for both parties through enhanced operational efficiency, leveraging economies of scale to increase output and outcomes. [3]. The expectation post-merger or acquisition is often an increase in the company's value. However, not all companies witness improved performance; some experience no change or even a decline in financial performance. This observation extends to multinational companies, where the financial performance post-acquisition doesn't significantly differ from pre-acquisition levels. [4]. There was no significant difference in the company's financial performance when comparing the two years before and the two years after the merger.[5]

Research by Aprilia, Nur Syilvia & Oetomo (2015) reveals a significant disparity in the Current Ratio (CR) between the three years before the acquisition and the three years after. While the study's findings by Edi & Rusadi (2017) lead to the conclusion that there is little to no significant variance in the Current Ratio (CR) between the period three years before and three years following the acquisition. Serenade (2018) indicates that there is a marked difference

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in the Total Assets Turnover (TATO) variable between the three years preceding and the three years following the acquisition. Contrarily, the findings by Dewi (2015) demonstrates that there was no significant difference in the Total Assets Turnover (TATO) variable over the entire observation period. Research results by Serenade (2018) indicates that there is a notable difference in the Debt to Assets Ratio (DAR) variable between the three years before and the three years after the acquisition. The findings of the study do not align with those of previous research conducted by Aprilia, Nur Syilvia & Oetomo (2015) that there is no substantial difference in the Debt to Assets Ratio (DAR) variable between the three years before and the three years after the acquisition. Aprilia, Nur Syilvia & Oetomo (2015) suggests a significant difference in the Return on Equity (ROE) variable between the three years before and the three years following the acquisition. The results of the study diverge from those of previous research conducted by Dewi (2015) suggests that there is no significant difference in the Return on Equity (ROE) variable over the observation period. However, a notable difference was observed specifically between the one year before and one year after the acquisition. Research results by Aprilia, Nur Syilvia & Oetomo (2015) highlights a substantial difference in both the Earnings Per Share (EPS) and Price-Earnings Ratio (PER) variables across the three-year periods before and after the acquisition.

Amidst the recovery period post-Covid-19 Pandemic, companies are confronted with formidable challenges to ensure their survival. Considering acquisition decisions becomes crucial as successful acquisitions can enhance efficiency, assets, working capital, market share, and reduce costs. However, such decisions necessitate careful consideration and maturity due to the potential negative impact on financial performance if executed incorrectly. This study seeks to empirically examine whether there are significant differences in the Current Ratio (CR), Asset Turnover (TATO), Debt to Asset Ratio (DAR), Net Profit Margin (NPM), and Price-Earnings Ratio (PER) before and after a company undergoes an acquisition.

Definition of Acquisition

According to Abdul Moin (2010), an acquisition involves one company taking ownership of another company's stock or assets, while both entities continue to operate separately. The acquiring company must consider various factors when selecting the target company, including the acquisition cost and understanding the complexity of integration and post-acquisition stages. [11].

Types of Acquisitions

According to Kamaludin (2015) in research by Esterlina & Firdausi (2017) acquisitions can be grouped as follows; (1) horizontal acquisitions-this involves acquiring companies that operate in the same industry or line of business. Both the acquired and acquiring companies typically compete in the same market with similar products or services., (2) vertical acquisitions- companies at different stages of the production process are acquired. This can involve acquiring suppliers or distributors to gain control over the supply chain. and (3) conglomerate acquisitions- This type of acquisition occurs when a company acquires another company that has no direct relation to its current business operations. Conglomerate acquisitions are often made to diversify the acquiring company's portfolio or enter new markets.

Why Companies Make Acquisitions

According to Hanafi. & Halim (2016) the reasons for a company to merge with an acquisition, namely: (1) through growth or diversification via acquisitions, a company can decrease the number of competitors or mitigate competition., (2) synergies are attainable when acquisitions yield economies of scale. Such synergies become apparent especially when the acquiring company operates in the same industry, as there is greater potential to eliminate redundant functions and personnel, (3) companies often pursue acquisitions with firms possessing high liquidity to bolster their borrowing capacity and diminish financial liabilities. This strategy enables them to augment funds at reduced costs., (4) enhanced liquidity resulting from acquisitions can afford the company greater financial flexibility. Additionally, if the company is sizable, it can broaden its presence in the stock market., (5) shield themselves from potential takeovers, companies often implement strategies to deter becoming acquisition targets. According to Haryani, et al. (2011) in reserach by Faranita Fitriasari (2016) the reasons underlying a company making an acquisition are: (1) creating company synergy factors, (2) increasing the company's working capital, (3) increasing sales turnover, (4) controlling a larger market share, (5) increasing the number of company assets, (6) making the company's operational costs decrease, (7) obtaining professional employees and managers, (8) reducing the level of business competition, (9) increasing the trust of banks and other financing institutions, (10) reducing risk by entering relatively new business fields, (11) sharing risks with other shareholders, (12) increasing efficiency related to economies of scale, (13) required by laws and regulations, (14) increasing the prestige and reputation of the company.

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Benefits of Acquisition

According to Widjanarko (2004) in research by Rey Arinta (2017) acquisitions offer several benefits: (1) complementarities: combining similar companies horizontally can generate synergies in various aspects, such as product expansion, technology transfer, and leveraging strong human resources, (2) research and development efficiency : consolidating research and development functions becomes more effective when companies with these capabilities merge, (3) reduced competition : merging similar companies can decrease competition between them, leading to market consolidation, (4) financial stability : acquisitions can rescue financially distressed companies from bankruptcy by aligning with stronger entities, thereby improving liquidity and alleviating pressure from creditors

Acquisition Excellence

According to Abdul Moin (2010) the advantages of acquisition include: (1) rapid cash flow:acquiring clear products and markets enables swift cash flow generation, (2) enhanced funding accessibility: established companies often enjoy easier access to funds or financing as creditors trust them more, (3) experienced workforce: acquiring companies can gain access to skilled and experienced employees, (4) expedited market entry: acquisitions provide a shortcut to entering new markets, saving time, (5) established operational systems: acquirers benefit from inheriting operational and administrative systems already in place, (6) access to established customers: acquisitions offer access to a ready-made customer base, eliminating the need to build from scratch, (7) reduced business failure risk: acquirers can mitigate the risk of business failure by inheriting existing customers, (8) infrastructure for growth: acquisitions provide infrastructure that accelerates business expansion.

Acquisition Weaknesses

The weaknesses in the acquisition are: (1) difficulty in accurately valuing the target company, (2) high consultant fees, (3) no guaranteed increase in company value, (4) no guaranteed increase in shareholder wealth, and (5) challenging integration process [10]. According to Aprilita et al. (2013), the losses incurred in an acquisition are: (1) a merger if the company takes over all purchased shares, (2) the acquisition failing if enough minority shareholders disapprove, and (3) high legal costs for transferring asset ownership.

Research Hyphotesis

The aim of an acquisition is to enhance the company's state. A company is deemed to be in good condition when it maintains a high level of liquidity. This capability to settle debts fosters external confidence in the smooth operation of the business. A higher liquidity ratio signifies an improved company condition. The current ratio (CR) assesses this liquidity, revealing efficiency improvements in managing current assets and liabilities one year prior to, compared to two, four, and five years subsequent to mergers and acquisitions. [11]. The notable increase in the current ratio post-acquisition signifies improved liquidity. A higher current ratio indicates that the company has enhanced its liquidity position.[6]

Aprilia, Nur Syilvia & Oetomo (2015) states that There exists a substantial disparity in the Current Ratio (CR) when comparing three years before and three years after the acquisition. This is attributed to current assets surpassing current liabilities, signaling favorable liquidity conditions for manufacturing companies post-acquisition. This heightened liquidity enables the company to effectively meet short-term obligations. Nevertheless, the CR demonstrates variability and tends to diminish over time.[17]. The average Current Ratio (CR) decreases in the first and second years following mergers and acquisitions, but shows a subsequent increase in the third year.[12]. The test results of financial performance, as indicated by the Current Ratio (CR), demonstrate a distinction between periods before and after the merger announcement. [18]

H_1 : The company's Current Ratio (CR) exhibits a notable difference before and after the acquisition

Total Asset Turnover (TATO) quantifies how effectively a company utilizes its assets to generate sales. A higher TATO signifies superior management and increased efficiency in converting assets into sales. While the TATO value fluctuates, it generally shows an upward trend over time.[17].

Serenade (2018) noted that there is a noteworthy difference in the Total Asset Turnover (TATO) variable between the three years before and the three years after the acquisition. The decrease in TATO post-acquisition suggests a reduction in the efficiency of utilizing the company's assets to generate sales. On average, TATO declines in the years following mergers and acquisitions, whether it be one year, two years, or three years thereafter.[12]. Other variables such as total asset turnover, fixed asset turnover, net profit margin, return on equity, return on assets, and earnings per share, which were examined in this study, showed a notable decrease and significant difference.[19]. Following the acquisition, three key ratios—Total Asset Turnover (TATO), Return on Equity (ROE), and Operating

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Profit Margin (OPM)—have all shown a decline.[20] The analysis revealed variations in Total Assets Turnover (TATO) pre- and post-acquisition. [21]

H_2 : The company's Total Assets Turnover (TATO) significantly differs before and after the acquisition

The acquisition is aimed at risk minimization and achieving cost-effective operations. Through merging, the company not only expands its asset base and enhances profitability but also gains the capability to leverage these assets as collateral for debt, thereby reducing overall risk. The Debt to Assets Ratio (DAR) serves as a gauge of this strategy, reflecting the proportion of debt secured by the company's assets. A higher DAR indicates higher risk, as more assets are allocated to debt backing. Essentially, the decision to acquire influences the company's liquidity, debt structure, and operational efficiency.[2]

Serenade (2018) states that there is a significant decrease in the Debt to Assets Ratio (DAR) observed between the three years before and the three years after the acquisition. This decline indicates an enhancement in the company's ability to use its total assets to meet its obligations. But the results of the study by Safitri et al., (2019) reveals an increasing trend in the Debt Ratio (DR). Furthermore, there is a significant difference in the calculation of the debt to total asset ratio before and after the acquisition.[22].

H_3 : There's a significant contrast in the company's Debt to Assets Ratio (DAR) before and after the acquisition

The company's strategy focuses on accelerating growth through acquisitions. By merging with or acquiring other entities, the company expands its asset base, which, when managed effectively, contributes to increased profitability. The Net Profit Margin (NPM) serves as a critical metric in this context, providing insight into the overall efficiency of the company. A higher NPM signifies enhanced operational efficiency.

Serenade (2018) reveals that there is a significant disparity in the Net Profit Margin (NPM) observed between the three years before and the three years after the acquisition. This variation is attributed to increased sales alongside heightened operating costs, which have impeded the company's objective of achieving cost-effective operations to boost profitability. As a result, the performance indicated by NPM shows a marked contrast before and after the mergers and acquisitions. [23]. The proxy testing of financial performance using Net Profit Margin (NPM) indicates a difference before and after the announcement of the merger. [18]. Testing the net profit margin revealed significant differences in the company's financial performance before and after the merger and acquisition. [24]. The financial performance metrics—total asset turnover, earnings per share, net profit margin, return on assets, and return on equity—exhibit variations before and after the merger and acquisition.[25]

H_4 : A notable contrast exists in the company's Net Profit Margin (NPM) before and after the acquisition

The Price Earnings Ratio (PER) assesses a stock's market price relative to its earnings, providing insights into its future outlook. A high PER indicates optimistic expectations for future profitability, typically associated with anticipated earnings growth. In contrast, a low PER suggests less favorable prospects for the company's future earnings potential.

Aprilia, Nur Syilvia & Oetomo (2015) indicates that There is a notable difference in the Price Earnings Ratio (PER) observed between the three years before and the three years after the acquisition. A high PER indicates a high growth rate, as the company retains profits for reinvestment rather than distributing them entirely to shareholders. Using PER as a proxy for testing financial performance reveals disparities before and after the merger announcement.. [18].

H_5 : A substantial variance exists in the company's Price Earnings Ratio (PER) before and after the acquisition

2. RESEARCH METHOD

The research focuses on a company listed on the Indonesia Stock Exchange (IDX) that conducted acquisitions between 2013 and 2019. Secondary data was utilized for this study, gathered through mechanical observation techniques. The variables employed to evaluate financial performance include:

1. Current Ratio (CR)
   The Current Ratio (CR) reflects a company's ability to meet its short-term financial obligations using its current assets According to Hery (2016), the Current Ratio (CR) is determined by dividing a company's current assets by its current liabilities
2. Total Asset Turnover (TATO)
   Total Asset Turnover (TATO) is a metric that evaluates how effectively a company utilizes all its assets to generate sales revenue. It quantifies the amount of sales produced per unit of assets owned by the company. According to Fahmi (2017), total Asset Turnover (TATO) is computed by dividing a company's sales by its total assets.
3. Debt to Assets Ratio(DAR)
   The Debt to Assets Ratio calculates the proportion of total debt to total assets, revealing the degree to which assets are financed through creditors. According to Hery (2016), the Debt to Assets Ratio is computed by dividing the total debt of a company by its total assets, illustrating the proportion of assets financed through debt.

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4. Net Profit Margin (NPM)
   Net Profit Margin (NPM) is a metric used to evaluate a company's ability to generate net profit in relation to its sales revenue. According to Hery (2016) The Net Profit Margin (NPM) is determined by dividing the company's after-tax profit by its total sales revenue.
5. Price Earnings Ratio (PER)
   The Price Earnings Ratio (PER) is used to assess how the market values a company relative to its Earnings Per Share (EPS). According to Fahmi (2017) The Price Earnings Ratio (PER) is calculated by dividing the market price per share of a company's stock by its earnings per share (EPS).

The data in this study will be analyzed using paired sample t-tests for normally distributed data and Wilcoxon signed-rank tests for non-normally distributed data, both conducted at a significance level of 5%.

3. RESULTS AND ANALYSIS

Table 1. Wilcoxon Variable Current Ratio (CR) Rating Test Results Before and After Acquisition

Observed Period	Z value	Sig. value	α value	Conclusion
CR-1 and CR+1	-1,048	0,278	0,05	No different
CR-1 and CR+2	-0,639	0,492	0,05	No different
CR-2 and CR+2	-1,377	0,179	0,05	No different

Source : Data processed (2021)

The outcomes of Wilcoxon's test for the Current Ratio (CR) across the three observation periods showed a p-value exceeding 0.05. This suggests there is no significant difference in the Current Ratio (CR) when comparing the periods: one year before to one year after acquisition, one year before to two years after acquisition, and two years before to two years after acquisition. Consequently, H_1 was rejected. The findings of this study align with the results of the previous research by Edi & Rusadi (2017), Maulidina et al., (2018), Varana & Rusliati (2018), I Gusti Ary Suryawathy (2014), Herwin Kurniawan (2020), Khairunnisa et al. (2018), and Aprilita et al. (2013) which states that there is no significant difference in the Current Ratio (CR) variable. This lack of significant difference could be attributed to insufficient resources for repaying short-term debt, and the company's potential inadequacy in developing capabilities to improve short-term liquidity after the acquisition.[7]. Following the acquisition, it is likely that the company allocates more assets towards long-term investments. As a result, short-term liquidity conditions may remain similar to pre-acquisition levels, with no significant increase. Typically, mergers and acquisitions do not immediately affect the company's financial performance within the first year post-merger or acquisition.[31]. The Current Ratio, Debt to Equity Ratio, and Debt to Asset Ratio variables showed no significant differences. [19]

Table 2. Wilcoxon Rating Test Results Variable Total Assets Turnover (TATO) Before and After Acquisition

Observed Period	Z value	Sig value	α value	Conclusion
TATO-1 and TATO+1	-2,465	0,006	0,05	Different
TATO-1 and TATO+2	-2,563	0,007	0,05	Different
TATO-2 and TATO+2	-3,752	0,002	0,05	Different

Source : Data processed (2021)

Wilcoxon's test results for Total Assets Turnover (TATO) across the three observation periods revealed a significance value below 0.05. This indicates a significant difference in TATO between the periods: one year before and one year after the acquisition, one year before and two years after the acquisition, and two years before and two years after the acquisition. Therefore, H_2 is accepted. The results of this study are consistent with the findings of research conducted by Herwin Kurniawan (2020), and Serenade (2018) indicate a notable difference in the Total Assets Turnover (TATO) variable. This significant disparity suggests a shift in the company's efficiency in utilizing assets to generate sales post-acquisition. Surprisingly, one and two years after the acquisition, there was a decline in asset management effectiveness rather than improvement, possibly due to integration challenges. Furthermore, several other variables investigated in this study, such as fixed asset turnover, net profit margin, return on equity, return on

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assets, and earnings per share, also displayed significant differences and decreased values.[19]. The noticeable increase in total asset turnover following the acquisition signifies an enhancement in the company's performance. This higher ratio reflects effective management and the company's capability to maximize all assets for generating sales. [6]. The findings of the study do not align with the research conducted by Aprilita et al. (2013), Varana & Rusliati (2018), Khairunnisa et al. (2018) and Maulidina et al., (2018), the marginal decrease in the Total Assets Turnover (TATO) ratio, while not statistically significant, hints at inefficiencies in leveraging all assets to generate sales.[32]

Table 3. Wilcoxon Variable Debt To Assets Ratio (DAR) Rating Test Results Before and After Acquisition

Observed Period	Z value	Sig value	α value	Conclusion
DAR-1 and DAR+1	-1,676	0,087	0,05	No different
DAR-1 and DAR+2	-1,567	0,093	0,05	No different
DAR-2 and DAR+2	-1,090	0,131	0,05	No different

Source : Data processed (2021)

Wilcoxon's test results for the Debt to Assets Ratio (DAR) across the three observation periods showed a significance value exceeding 0.05. This indicates there is no significant difference in the Debt to Assets Ratio (DAR) between the periods: one year before and one year after the acquisition, one year before and two years after the acquisition, and two years before and two years after the acquisition. Therefore, H_3 was rejected. The results of the study align with the findings of research conducted by Aprilia, Nur Syilvia & Oetomo (2015), Yunia & Mira Mardhiyah Al Baab (2017), Enny Tiya Rosyandy (2017), I Gusti Ary Suryawathy (2014), and Octaviani (2018) which indicates that there is no significant difference in the Debt to Assets Ratio (DAR). The Debt to Assets Ratio (DAR) showed no significant variation before and after the merger and acquisition across all observed periods.[12]. The absence of a significant difference in the Debt to Total Asset Ratio post-acquisition indicates consistent risk levels. A higher ratio implies greater risk, often appealing to investors seeking higher returns, whereas a lower ratio suggests lower risk. [6]. The current ratio, debt to equity ratio, and debt to asset ratio showed no statistically significant differences. [19]

Table 4. Wilcoxon Variable Net Profit Margin (NPM) Rating Test Results Before and After Acquisition

Observed Period	Z value	Sig value	α value	Conclusion
NPM-1 and NPM+1	-2,667	0,008	0,05	Different
NPM-1 and NPM+2	-3,990	0,000	0,05	Different
NPM-2 and NPM+2	-1,199	0,231	0,05	No different

Source : Data processed (2021)

The Wilcoxon's test results for Net Profit Margin (NPM) across the three observation periods revealed a significance value below 0.05 for the first and second periods, indicating a significant difference in NPM between one year before and one year after the acquisition. However, in the third period, the significance value exceeded 0.05, suggesting no significant difference between two years before and two years after the acquisition. Therefore, H_4 is supported for the period of one year before and two years after the acquisition but not for the period of two years before and two years after the acquisition. The findings from the period one year before and one year after the acquisition align with the results of research conducted by Aquino (2019) and Serenade (2018) which also suggests significant differences in the variable Net Profit Margin (NPM). Similarly, the results of the study for the period two years before and two years after the acquisition are consistent with the findings of research conducted by Rahayu et al., (2015) and Dewi (2015) indicate that there was no significant variance noted in the Net Profit Margin (NPM) variable throughout the observation period. Nevertheless, a notable contrast emerged between the periods two years prior to and one year subsequent to the acquisition. This discrepancy could be linked to the company's struggle to boost sales post-merger, resulting in stagnant profits following the merger.[16]. After the acquisition, this ratio actually decreased, suggesting that the company did not achieve enhanced efficiency in the short term.

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Table 5. Wilcoxon Rating Test Results Variable Price Earnings Ratio (PER) Before and After Acquisition

Observed Period	Z value	Sig value	α value	Conclusion
PER-1 and PER+1	-0,119	0,905	0,05	No different
PER-1 and PER+2	-1,178	0,239	0,05	No different
PER-2 and PER+2	-0,660	0,510	0,05	No different

Source : Data processed (2021)

The Wilcoxon's test results for the Price Earnings Ratio (PER) across all three observation periods showed a significance value exceeding 0.05. This suggests there is no significant difference in the Price Earnings Ratio (PER) between the period one year before and one year after the acquisition, as well as between two years before and two years after the acquisition. Therefore, H_5 was rejected. The results of the study align with findings from research conducted by Hamidah & Noviani (2013) indicate there was no significant difference in the Price Earnings Ratio (PER) variable. This outcome may be attributed to a decline in investor confidence regarding the company's long-term performance.[11]. Following the acquisition, the Price Earnings Ratio (PER) actually decreased, indicating a failure to demonstrate the anticipated profit growth.

4. CONCLUSION

There were no significant changes observed in the Current Ratio (CR) one year before and after the acquisition, nor two years before and after. However, Total Assets Turnover (TATO) showed significant differences between one year before and after the acquisition, as well as between two years before and after. Debt to Assets Ratio (DAR) did not exhibit significant changes between one year before and after the acquisition, nor between two years before and after. Net Profit Margin (NPM) demonstrated significant differences between one year before and after the acquisition, and also between one year before and two years after. Notably, there was no significant difference in NPM between two years before and two years after the acquisition. Finally, the Price Earnings Ratio (PER) did not show significant changes between one year before and after the acquisition, or between two years before and after.

Limitations of this study include: (1) a relatively short observation period, spanning only one year before and two years after the acquisition, and (2) a narrow focus on limited financial ratios, with only one ratio chosen for each category. Suggestions for improvement could include: (1) extending the observation period both before and after the acquisition to provide a more extensive analysis, (2) incorporating additional financial variables such as Quick Ratio (QR), Fixed Asset Turnover (FATR), Gross Profit Margin (GPM), and Price to Book Value (PBV) to obtain a more comprehensive view of the company's performance post-acquisition, and (3) broadening the scope of the study to encompass multiple companies for a more comprehensive analysis.

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