MERGERS & ACQUISITIONS

SCHÖNBOHM

STRATEGIC OPTIONS FOR GROWTH

TEACHING NOTE

DRAFT 2020

6 Strategic Mergers and Acquisitions

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6.1 Introduction to M&A

Mergers and Acquisitions are essentially the sexiest aspects of business: Mergers of equals, epic takeover battles, white knights and poison pills are part of the vocabulary of transaction advisors around the globe and can be read in the international business press.

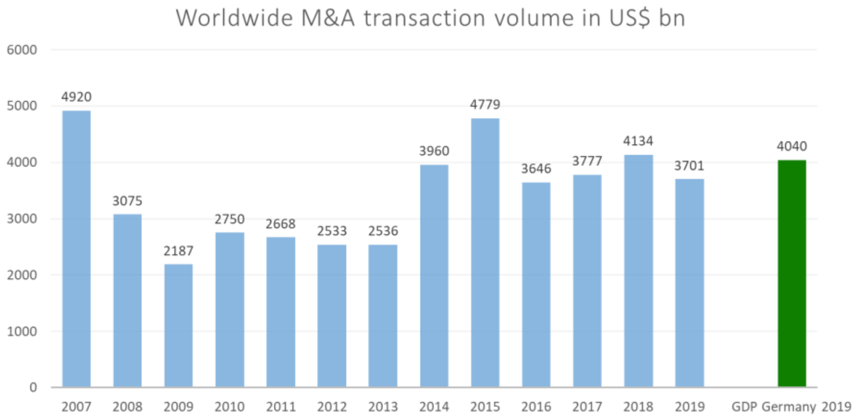


Figure 6-1: M&A Transactions volume 2007-2019 (Statista)

M&A activities form part of the strategic management options and are a special case within investments. The importance of such investments can be substantiated by looking at the total M&A transaction volumes of the last years. With the exception of the financial crisis year 2009, every year has seen transactions worth more than 2,000 bn USD, which is the equivalent to the GDP of Italy or even more than 4,000 bn USD which is equivalent to the GDP of Germany in 2019

The M&A activities though are not equally distributed across industries.

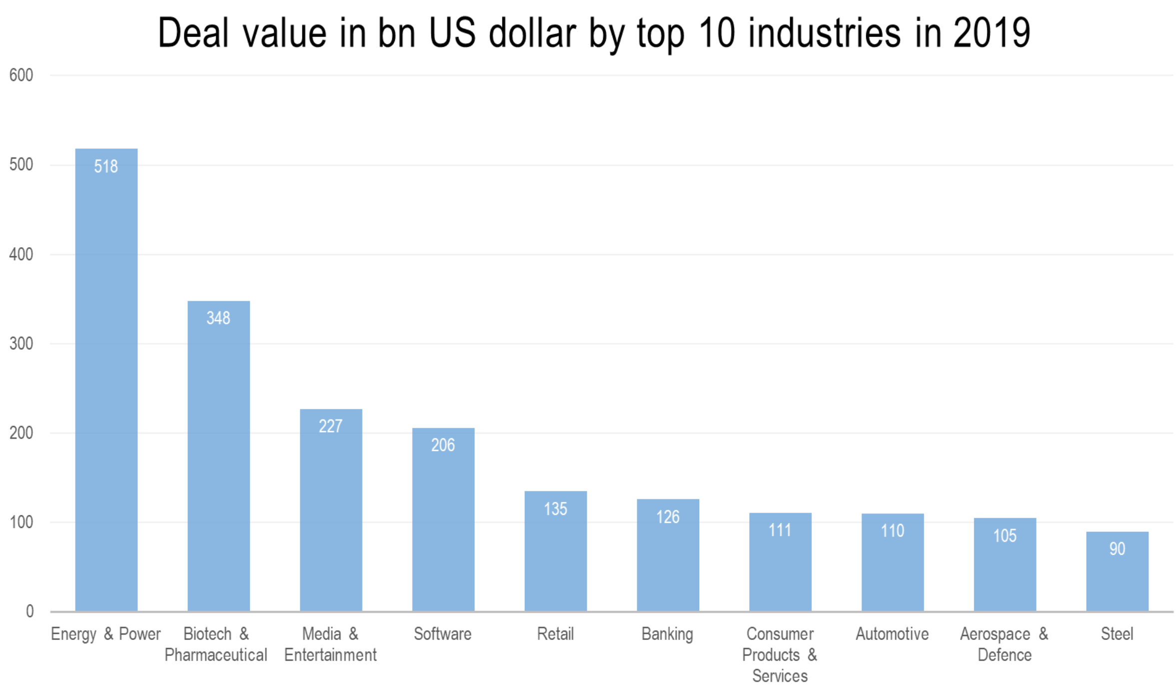


Figure 6-2: M&A market share by industry (Source: Statista 2020)

The following table, listing 6 recent M&A deals.

Year	Acquiring Company	Acquisition Target	Deal Value bn USD
2014	Facebook	WhatsApp	19
2015	Dow Chemical	DuPont	130
2016	Linde AG	Praxair	85
2017	Bayer	Monsanto	64
2018	Walt Disney	20 Century Fox	85
2019	Bristol-Myers Squibb	Celgene	74

Figure 6-3: Spectacular M&A deals between 2014 and 2019

Like other business investments, up to 70% of M&A activities do not achieve their intended goals, but rather substantially underperform. To the critical mind M&A also includes skepticism and the acknowledgement of irrational attributes to deal-making.

Mergers & Acquisitions is a catch phrase to describe a variety of financial activities in which companies are bought (acquired) and sold. There is a distinction between acquisitions or takeovers and mergers:

An acquisition includes the transfer of ownership as well as the handover of management and control rights. The transfer can either be completed through the acquisition of assets (“asset deal”) or the majority of shares of the target company (“share deal”).

A merger is more complicated. Although a transfer or transformation of ownership and control is included, both companies decide to combine forces. This could be a “merger of equals” like the DaimlerChrysler merger, where a new entity was founded and the old ones ceased to exist. Or, in the case of a merger of unequal partners, the smaller partner might be integrated into the bigger partner. In fact, these “mergers” are in many cases “friendly” takeovers. Friendly means in this case that the management of the acquired company is in favor of the deal, whereas “hostile” takeovers are opposed by the management of the acquisition target.

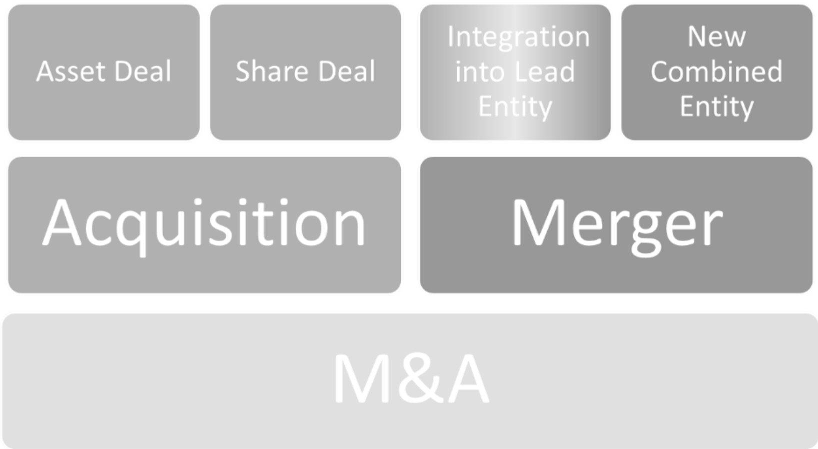


Figure 6-4: M&A definitions

6.2 Merger Motives

Profitable growth is the driving force for most companies and a strategic option for achieving this goal, includes buying other companies. The motives for engaging in M&A activities can be divided into various categories. The classical motives are strategic, but other motives like financial or psychological or irrational motives in reality play a certain role. Reality is not black and white and every transaction is driven by various obvious and hidden motives, which might overlap or contradict each other.

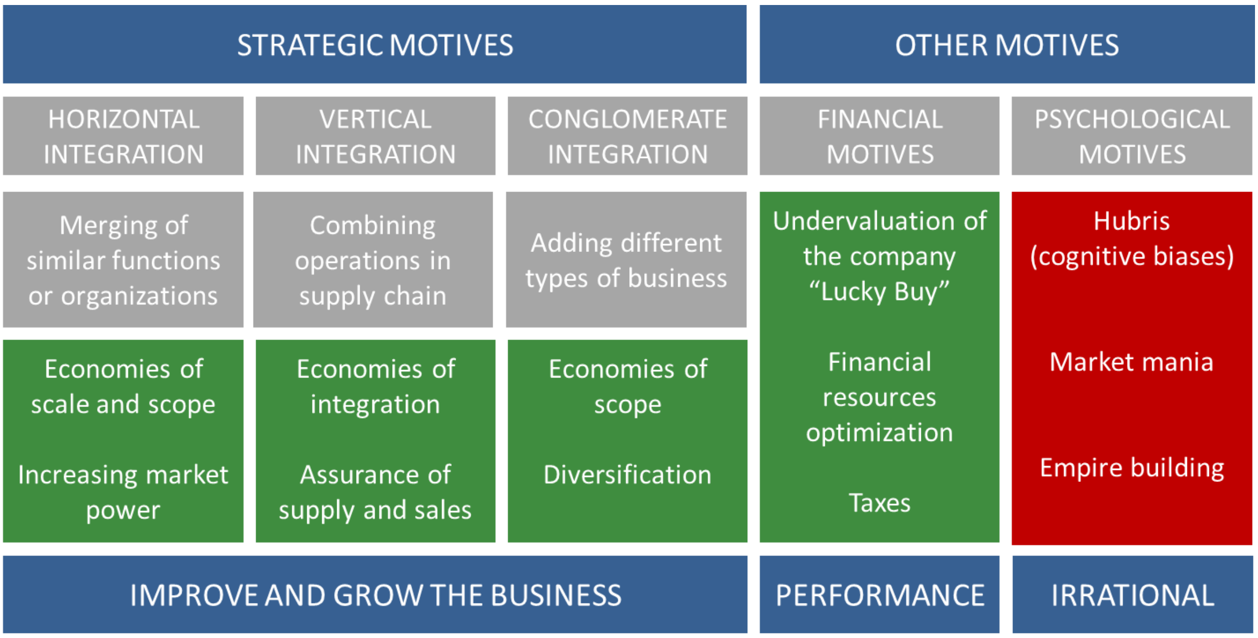


Figure 6-5: Motives for M&A transactions

6.2.1 Strategic Motives for M&A

The strategic motives which ultimately all aim at improving or growing the operating business can be divided into three main classes: horizontal integration, vertical integration and conglomerate integration.

Horizontal integration also referred to as lateral integration is the consolidation of two competitors operating in the same industry, such as one car manufacturer buying another (Fiat buys Chrysler) or one telecommunication provider buying a competitor (Deutsche Telekom buys MetroPCS). The result is a combined business with a larger market power in a more consolidated market. The enhanced market power ideally translates itself into economies of scale and scope and higher prices for the customer. This could mean that one is able drive down supplier prices due to higher buying leverage or synergies within the increased product portfolio. The intended cost savings stem from the integration of similar business functions like purchasing, R&D or production and usually lead to cutting down related workforce. For this reason trade unions generally tend to be skeptical about horizontal mergers. The strategic rationale and the success rate of a horizontal merger, however, are generally very good. The most important impediment for horizontal integration could be relevant monopoly and merger commissions, anti-trust agencies and cartel offices, whose raison d'être is to prevent a point of market consolidation where real competition ends and a monopoly or oligopoly can exercise unrestricted market power at the expense of other market participants.

Vertical Integration: a merger between two companies working at different levels in the value chain of the same industry. A chemical company might for example buy an oil exploration company or a car manufacturer might buy a tire maker which was previously a main supplier to the acquiring company. This could be helpful if the supply is critical to the acquiring company (like rare earths, carbon or high power batteries) and having direct access could thus assure sales and supply. Economies of integration include the merging of different functions like R&D, marketing, etc. On the other hand, production cost, in the long run, tend to go up at the target company since it is insulated from market pressure (D'Aveni/Ravenscraft, 1994). The other risk is that the target company might lose access to several former customers who do not want to buy from their direct competitors.

Conglomerate Integration: if a company that builds paper machines decides to buy a company which operates hydroelectric power plants, it is engaging in a conglomerate merger. The two unrelated businesses might especially in cyclical industries reduce the overall risk exposure from a single market. Economies of scope could be another motive: the given administrative overhead structure or management umbrella could be spread over a larger business. However, the potential downside is also obvious. If the unrelated business, market, technology and customers far are away from the core business than there are no potential synergies and the strategic management of such entities might be poor since the management of the acquiring company has little acumen for the business. The American investor assumption that conglomerates are not as well run as specialized companies has been a long standing mantra, but especially in Asia conglomerates like Samsung have seen great success over the last years.

6.2.2 Other Motives for M&A

Many **OTHER MOTIVES** for M&A activities could be classed as either financial or psychological.

Financial Motives. It could be perfectly rational to buy a company for purely financial motives without a deeper strategic rationale. This could be the case when a company is substantially undervalued due to a financial crisis or distorted investor perception. Although it is worth asking the question why one would be in the position to be able to better assess the value of a company than the market if a so called “lucky buy” is presenting itself and the acquiring company has excess capital, this could be an opportunity to create shareholder value not to be missed.

Financial Resource Optimization spans a wide array of cases. There could be the case that the acquiring company is buying a business entity that has large cash reserves. Thus the merger pays for itself and might even free up additional short-term cash pools. The takeover of the German construction group Hochtief by the Spanish competitor ACS seemed to be motivated by a thirst for liquidity. Another case might be that a foreign subsidiary has accumulated huge amounts of cash that can only be transferred back at great (tax) costs or not at all. In such a case it might be interesting to use the cash to invest in the same isolated market and wait for regulatory changes.

Taxes. Last but not least, tax reasons play an important role for mergers. The international regulatory environment is complex and changing, but tax is often stated as a driver for M&A activities. The first consideration is the deductibility of the interest paid on loans for the leveraged acquisition. This creates a tax shield for the investment and increases the shareholder value. Tax loss carry forwards (accumulated net losses) of a target company might also create an effective tax shield for the merged group and thus save taxes for the future. As such, and depending on the relevant tax regime, it would make sense to buy a company with no strategic future just to get hold of the tax loss carry forwards. The latest trend in the United States of America is the inversion merger for tax reasons. The rationale is to buy a company to take advantage of the official low-tax home of the merger partner, where the combined entity will be domiciled. Although the operations might still be managed out of the US, the official home might be on the Bermudas, Cayman Islands or low-taxed countries like Ireland, the Netherlands or Great Britain. The regulatory changes usually lag the tax opportunities that creative deal making offers for multi-national companies.

Overall, tax planning is a considerable value and performance driver for M&A activities.

Psychological motives. Like in other large investment decisions, irrational behavior is part of business reality. The list of cognitive biases in M&A is long and the price for the individual or group hubris of the decision makers at the acquiring company could be hefty. Overconfidence, mental accounting, group think and other biases lead to a distorted view on reality and misguided business decisions. Deal making can become like an addictive drug to the individual.

Merger mania can become the fashion in corporate planning. It becomes like a bandwagon effect and every company stands under scrutiny to develop and deliver on its own M&A strategy. This in itself leads to high prices and evaluations and increases the risks of irrational behavior. M&A advisory companies profit from any deal (usually with a fixed percentage of the purchase price) regardless of the long-term performance of the deal.

Last but not least the personal motives of the deal maker come into focus. Power and influence are gained by closing important deals and deal-making could become the source of individual and corporate empire building endeavors.

6.3 The M&A Process

The opportunity for an acquisition can present itself at a dinner party of senior industry executives and might in all urgency be dealt with. This kind of opportunistic deal-making, however, bears many risks. Many acquisitions or mergers are not ad-hoc decision but the product of a strategic decision making process, which will be presented in an idealized form below:

Phase	M&A Planning	Target Screening	Transaction	Integration
Activities	Strategic planning	Target research	Non Disclosure Agreement	Integration planning
	M&A strategy	Long listing	Due Dilligence	People
	Acquisition objectives	Criteria development	Evaluation	Operational excellence
	Implementation plan	Business case	Deal strategy	System selection
	Dedicate Resources	Short listing	Closing	Business development
Results	M&A Plan	Short List	Deal	Synergy

6.3.1 M&A Planning

In order to develop a M&A strategy for profitable growth a premeditated and goal-oriented utilization of M&A is essential. Short-term opportunities will still present themselves, but they can quickly be assessed as to whether they fit into the M&A strategy and annual M&A plan, whether they could serve financial motives or whether they are mostly psychologically driven.

Strategic Planning. The basis for developing an M&A strategy is a thorough strategic planning process. Based on a strategic assessment of the business models and the respective markets and products, possible M&As are put into strategic perspective. The strengths and weaknesses of the current business as well as future threats and opportunities are identified. The strategic plan also includes a long-term growth plan. Some of the growth might be organic, driven by R&D, new products and investments in new markets and machinery. However, some of the growth probably has to come from external growth, e.g. mergers and acquisitions. A question that remains to be asked is: where does the money come from to serve the shareholders, to pay back loans or to pay for investments and M&A activities?

M&A Strategy. The question is what kind of strategic options to pursue: horizontal, vertical or conglomerate integration? Where does the biggest potential for synergies and value added lie? Which industries claim to offer the biggest growth possibilities or the best opportunities for the development of the existing business? Where are potential threats that we might counter by buying, for example, a supplier or do we eventually need to buy a company to get access to a certain technology or knowledge? The M&A strategy depicts the grand vision of the role acquisitions should play in the next years as part of the business development. It serves as a blueprint for the acquisitions of the next years. Concrete M&A opportunities have to be judged against this long term M&A strategy. The M&A strategy might also identify business areas to be carved out and sold (disinvestments).

Acquisition Objectives. The strategy has to be translated into annual objectives and plans. How much money should be set aside for transactions? How many transactions should be pursued? Is there a clear industry or country/region focus? These annual objectives should be operational and feasible.

Implementation Plan. The annual M&A objectives have to be backed up by concrete measures and responsibilities in order to be achieved. Will the company rely on its on M&A department to build a project team or will it outsource further processes to professional advisors? This includes the dedication of relevant resources and a reporting plan to the executive team.

Dedicate Resources. It makes a huge difference if the amount set aside for acquisitions is 10m € or 10bn € aside for acquisitions. If one is already clear that no money should be invested in buying companies then one should not waste energy and money on target screening or intensive due diligence. Communication regarding the M&A plan is part of the standard communication with investors.

6.3.2 Target Screening.

Target Research. Once the M&A plan is decided on, the research and quest for potential target companies can start. This is a process like discreet applied research inside and outside of the company. In the case of horizontal mergers, it would be wise to talk to the marketing and sales people to get information about competitors. The strategic planning department might start going to related trade fairs to learn more about the market and its international players. In some cases the company might directly be approached by competitors to enter into M&A activities. It is important to stress that this is a highly confidential and professional process. This phase is more about getting information than telling everyone that one is in search of a concrete company.

Long Listing. Talking to various market players and consultants and doing research on the internet will lead to a pool of potential acquisition targets. This pool is also referred to as the long list. The long list should be already well researched so that the target screening team is able to assess the size, legal form, ownership structure and strategic and operational capabilities of the different potential targets. The long list is also a milestone for presenting the status of a project to the executive team.

Criteria Development. Together with the executive team the M&A project team should build clear criteria for assessing the different options. Among the criteria could be transaction volume, business reputation of the target, profitability, country risk profile, technological capabilities, market exposure, synergy potentials and cultural fit.

Business Case: Based on preliminary and available data one has to think of and assess potential business models of the combined entity. As with every investment decision, here a lot of creativity and time to plan the details of the respective market developments is needed. Preliminary sales and cost projections, synergy potentials and resulting cash projections together with a risk assessment should flow into net present value calculations. The business case development for each potential target on the long list will make it easier to reduce the number of projects to be further pursued.

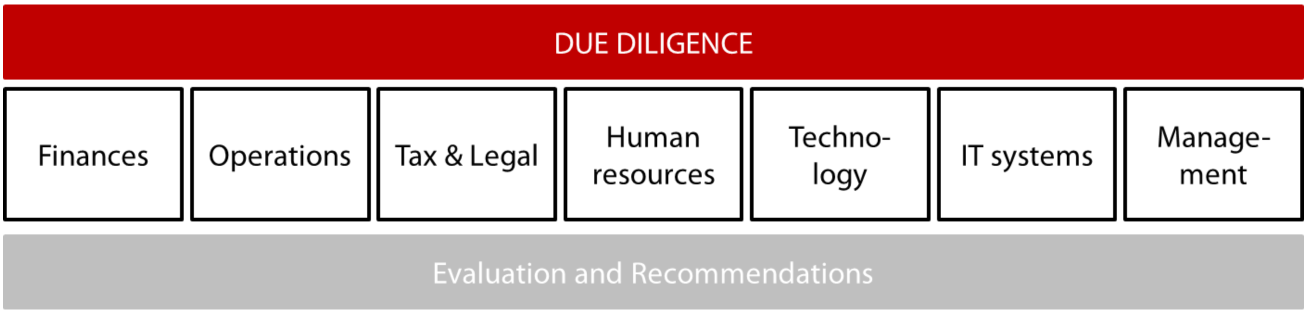
Short Listing. In line with the executive team the merger team develops a short list of acquisitions targets. It might be useful to formalize the multidimensional decision factors into a scoring model. The resulting short list will show the ranked projects to be followed up on.

6.3.3 Transaction

Non-Disclosure Agreement. In the case of a friendly merger plan, the target has to be formally approached and both parties sign a Non-Disclosure Agreement (NDA) or confidentiality agreements in which they provide each other a legal framework for engaging in serious discussions about going together. This might include understanding each other's finances, product pipelines and business processes for the purpose of evaluating the joint business. These data are sensitive and should not be disseminated or used for purposes other than the mutually agreed uponone.

Due Diligence. The due diligence is a planned and systematic endeavor to get a comprehensive picture of a potential target company. This includes auditing various perspectives of the business. Although information gathering seems to be the focus, the importance of the due diligence (DD) for the integration process is non-negligible. Therefore it is recommended that the due diligence team partly consists of employees who might in the case of a successful deal be key personnel to work with the entity. Nevertheless, especially smaller companies might not have all the experts in house needed to reject the help of outside advisors.

With due care the DD team assesses the credibility of the business plan and the financial position of the company. Are there hidden reserves or liabilities? Assessing the business processes in operations which might include manufacturing will be insightful with regard to compatibility and synergies. Potential contamination of real estate due to manufacturing operations might reduce the evaluation of a company.



The analysis of the legal and tax situation can uncover various risks like ongoing litigation s for patent infringement or product liabilities. Tax-loss carry forwards might on the other hand create opportunities for increasing the deal value. What about the quality and education level of the employees? Would they culturally fit into the combined entity? Is the pay level in line with the corporate pay structure of the purchasing company? In some cases, getting access to high-potential personnel might be the trigger for M&A activities.

If the business case is based on acquiring a certain technology, it is useful to validate the potential of the technology, check the patent situation and identify key employees. For the integration process a common IT infrastructure like SAP is helpful. Analyzing the nature and quality of the used IT systems and the compatibility with the potential purchaser gives insight into integration difficulties or costs involved. If the data in the system are not reliable, this should raise awareness for potential surprises. Last but not least, the DD is a good opportunity to assess the management team of the target company and get psychological insight about the owners of the company. Overall, the DD should answer the questions about the target company that the decision makers need for evaluating the transaction. Potential deal-breakers might surface in the course of the due diligence. If this is the case then the due diligence has served its purpose and saved the acquiring company many problems and destruction of shareholder value.

Evaluation. If no roadblocks have been identified, the process can move on. With the data from the due diligence, the merger team can start calculating the value of the deal for the company taking into account all potential synergies plus restructuring and integration costs. The risks should be clearly defined and eventually be priced into the maximum purchasing price the company would be willing to pay. Since this topic merits further elaboration, please look below for evaluation techniques.

Deal Strategy. Based on the risk and opportunity profile of the target company, the deal strategy can be worked out. On the one hand, there is on the legalistic framework: should it be a merger or a takeover and will it be a cash and/or share deal?

Pricing the deal is always tricky. And the negotiations about price and other aspects of the deal need thorough preparation. In the case of a perception gap between what an acquiring company thinks a business is worth and what the selling entrepreneur expects to receive, an **earn-out** might reconcile the two sides. The earn-out is only paid if the business performs in a special way in terms of sales, cash flow or profit. Maybe only a special part of the business is of interest: can it be carved out and sold? Could an asset deal limit exposure to risks from old liabilities? Another area is finance: How should the deal be paid for? How should a potential deal be communicated to the stakeholders?

Closing. If everything runs smoothly, the deal is closed, communicated and celebrated.

6.3.4 Integration Strategies

The integration strategy should depend on the ulterior motives of the merger. Is it intended to realize synergies or to conserve the status quo? Is there an interest to learn from the acquired entity or is polite oblivion the goal? Based on the two axes of learning and synergies, I offer four different types of integration strategies: Quarantine, partnership, fusion, and evisceration.

Quarantine

It could be legitimate not to formally integrate the new entity, if the idea is to hold it until an opportunity to sell to a strategic investor arrives. The main idea is not to touch the entity, in order not to destroy a running system. In some cases of smaller acquisitions and depending on the accounting standards one might even avoid a formal consolidation within the books. The quarantine approach might also be interesting if the business has no relation to the core business of the predator company and serves as a diversification of market risks. The integration is then limited to the financial process side of the business, internal controls and risk management. Maybe after a cooling-off period, the integration strategy may change. The quarantine strategy is also the integration strategy by default, which means the case in which there is an absence of an integration plan and top management attention for integration.

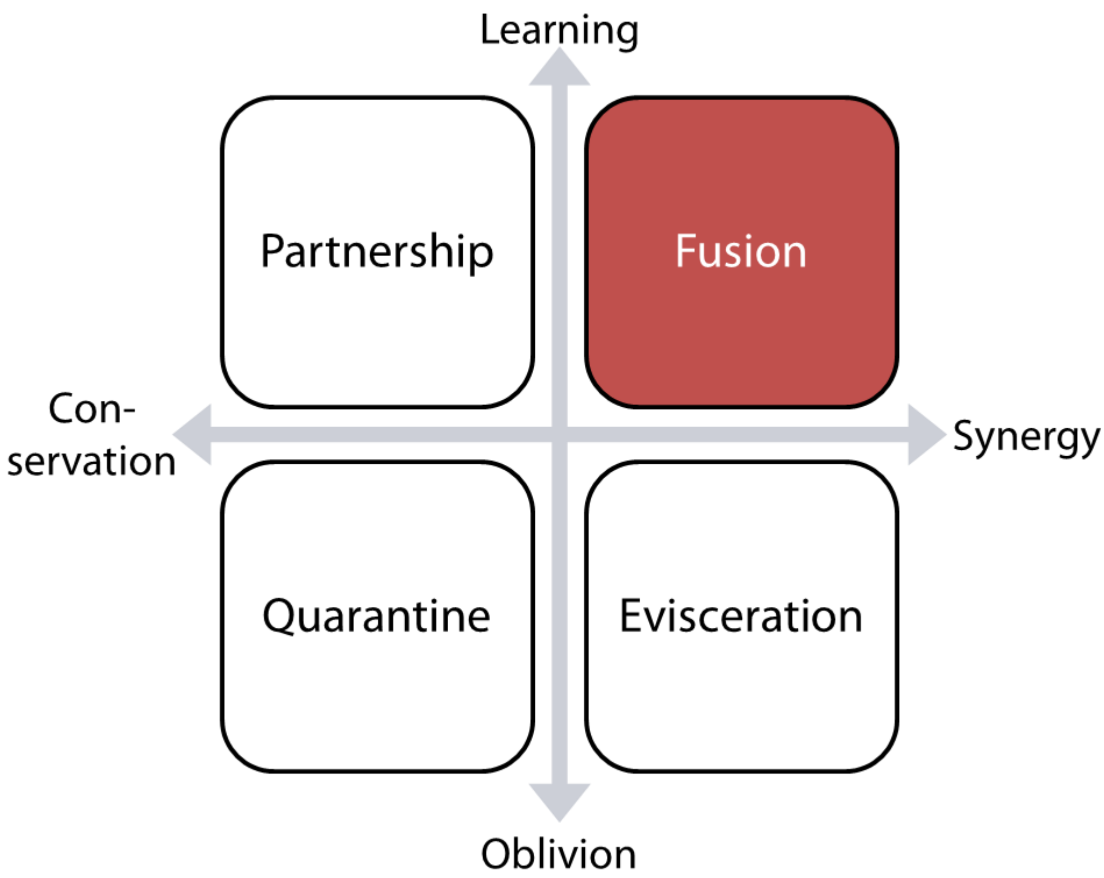


Figure 6-6: Integration strategies

Partnership

Leaving the target entity intact, including the brand name and the business model, does necessarily imply foregoing a learning experience: the partnership strategy involves encouraging close business ties between the predator and the acquired entity. This might be useful in the context of a vertical integration but could also be possible for non-related business. The joint development of the supply chain or joint R&D efforts could be interesting projects to foster a culture of partnership and mutual respect within the same family of businesses.

Fusion

Taking the best of two companies, e.g. the best products and the best systems, and allowing a fusion of culture while realizing the intended cost and revenue synergies is the high art of integration. The so called merger of equals demands substantial learning and transformation efforts from all sides. Parts of the executive team of the target company will participate in the management of the combined entity and ensure an even-handed dealing of the process. It is obviously most practical in horizontal mergers.

Evisceration

Some takeovers are perceived as relatively brutal and merciless in their integration. The management team, culture, all systems and business processes will be transplanted from the predator. While this ensures the realization of cost synergies, there is little learning involved. Buying a competitor and using its market access to grow while downsizing the target organization and selling value assets like landmark buildings, leads to frustration at the target company. The target company might even cease to exist under its old brand name or at least will only continue as a façade or business zombie.

6.3.5 Integration process

Integration Planning. If strategic motives were dominant in the rationale for pursuing the transaction then most of the synergy has to be earned by actively integrating the newly acquired company. This needs to be planned and coordinated. In many cases, the team changes after the closing and only a few players from the DD are left for implementing the necessary changes and successfully integrating the new business into the acquiring company.

The first challenge is to bring onboard the new employees. Most businesses depend on **people**. Trainings, cultural events and endless communication are needed to create a new identity for the fresh employees. The feeling of being “sold out” to a predator company might be a first obstacle to surmount. On the other side, the realization of synergies might also depend on the reduction of the workforce.

Operational Excellence. During the due diligence phase the acquiring company had the opportunity to understand first hand business processes and the operational business. In many cases there is a huge improvement potential for how to run operations. The standards of the acquiring company (or the best practice of both) concerning internal controls, quality and safety have to be implemented.

System Selection. An important question is the choice of the business system. Will the fresh acquired company be allowed to run their own systems or shall the corporate SAP/Oracle/Navision system be rolled out there?

Business Development. Business development does not stop at the closing date. Sales enhancement programs, restructurings, profit engineering, refocussing of R&D efforts, new investments and even the envisioning of further M&A activities are needed to realize the anticipated synergies and make the deal successful.

6.4 Evaluations

Evaluating a company is not a science but an art with a wide color palette. The evaluation is based on assumptions against an uncertain future. Therefore, equity evaluations are models of the future rather than fair understandings of the company. In the following a few concepts are introduced, which try to emulate the fair view on the value of a company.

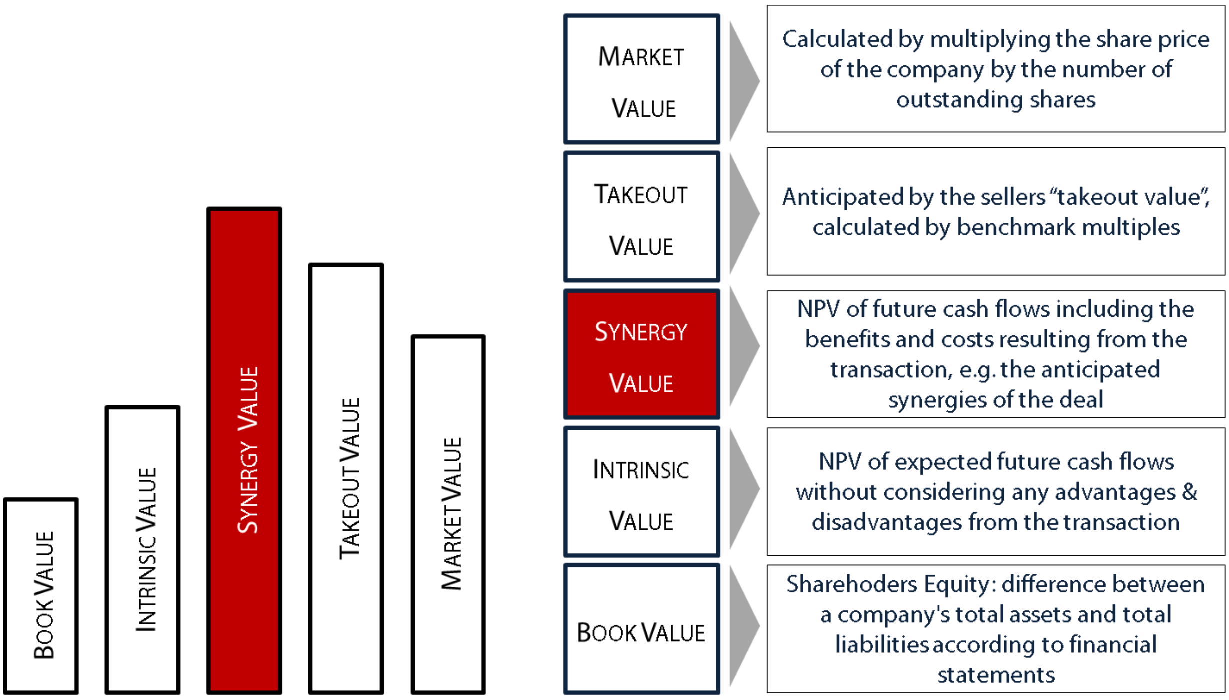


Figure 6-7: M&A Evaluations

The **book value** is the value of the company according to the accounting books. It means that it is roughly the value of the assets minus the value of the liabilities. This is also called Shareholders' Equity. The book value depends on the regulation, for example IFRS or US GAAP and the exercise of certain valuation choices. Many assets of companies are not included like the brand value or the knowledge and innovation potential of its employees, since they are difficult to evaluate objectively.

The **intrinsic value** is the net present value of future cash flows of the current business model of the company. In the case of a takeover, the intrinsic value is calculated without taking into account any synergistic effects from a potential merger. If the intrinsic value is higher than the book value, there might be some hidden reserves in the book value. These can stem from not capitalizing intangible assets or depreciating/amortizing assets faster than the real value erosion. If the intrinsic value is lower than the book value, the assets will probably not perform as well in the future than in the past. This could be due to a foreseeable technology change.

The **synergy value** is the highest price the buyer would be willing to pay for the target company. The synergy value can be calculated by taking the intrinsic value of the target company, adding the synergy value added and subtracting the discounted restructuring, investment and financing cost.

Table 1: Types of Synergy

Synergy	Explanation
Sales Growth	Additional growth rate due to cross selling potential.
Price Quality	Higher prices due to increased market power.
Material Cost	Cost reduction on material prices due to economies of scale.
Tax Synergies	Tax shield from loss-carry forwards and additional interest payments
Restructuring	Annual cost reduction by reduction of employees.

The synergies can stem from various angles of the combined business. Some potential synergies are explained in the table above. Investors prefer cost synergies to growth synergies, since the control over costs is higher than over revenues.

The **synergy cost** cannot be ignored. They are the costs for restructuring, the costs for the process of the integration and the restructuring of the joint enterprise. This includes severance packages, the roll-out of IT systems and so on. There could also be a reduction in sales, in the case of a vertical integration. One should also consider the costs that the merger team incurred adding the legal and other advisory costs.

If the synergy value of a transaction is lower than the intrinsic value of the target entity, which means that synergies are negative, it would not be wise to proceed with the deal.

The **takeout value** of a company is the price based on a **multiplier** evaluation of a similar company which was taken over before. An example could be company X which had sales revenues of 100 m€ and an EBITDA of 10 m€ was sold for 80 m€. The company had a comparable set-up and business model to the target company Y which has reported revenues of 120 m€ and an EBITDA of 9m€.

The takeout multipliers of company x were:

Sales multiplier Com X: 80 m€ takeout value/ 100m€ sales = 0.8

EBITDA multiplier ComX: 80m € takeout value/10 m€ EBITDA= 8.0

Like this two different takeout values for the target company X can be calculated:

Takeout Value ComY$_{\textbf{Salesmultiplier}}$ =0.8 * 120 m€ sales = 96 m€

Target Value ComY$_{\textbf{EBITDAmultiplier}}$ = 8.0 * 9m€ EBITDA= 72m€

This little example already shows the beauty and difficulty of the evaluation with multiples. They are easy to calculate, but to a certain extent arbitrary. The sales multiplier is relatively stable, since sales are more difficult to manipulate. However, the EBITDA is closer to net cash flows. On top comes the overall market volatility and lack of true comparability of two companies. But this little exercise shows that the takeover value for company will probably be between 72 and 96 m€.

If the synergy value of the transaction with Company Y is below 72m€, the probability for a successful deal is rather low. In general, a deal makes only sense, if the synergy value of the transaction is higher than the takeout value of the target company.

The **market value** of a company is equal to the market capitalization of the company of a publicly listed company. It is calculated by multiplying the current share price with the number of shares. If the market value is smaller than the intrinsic value of a company, it might be worth buying shares of the company to exploit market inefficiencies. Unfortunately, the market value tends to be smaller than the takeout value of a company. The difference can be understood as a control premium. If a publicly listed company is “in the play”, which means it announces being in negotiations for being taken over by another company, the share price goes up.

6.5 The role of management accountants in M&A teams

The management accountant is well positioned to play an important role as performance consultant in the M&A process. His interdisciplinary background between accounting, management and strategy gives him the edge in strategic planning and should provide him with the procedural knowledge in investment techniques like net present value, risk management and scoring models. During the due diligence he can well analyze the financial and business model aspects of the target company. His expertise in IT systems and internal controls makes him a valuable part of the DD team.

The creation of business models and budgeting are his home territory and he will probably be able to structure and critically comment the evaluation process.

Multiple Choice questions (please mark all applicable)**:**

1. When the rights of ownership are transferred from Company A to Company B, one is speaking about:
   a) A Merger
   b) An Acquisition
   c) Can be both

2. What is a reason for a lateral integration?
   a) Increasing buying leverage
   b) Assure suppliers delivery of resources
   c) Lower dependence on one product

3. Why is it necessary to thoroughly conduct a Due Diligence?
   a) To assess the compatibility of business cultures
   b) To discover potential risks
   c) To evaluate Patents and IT-Systems
   d) All of the above

4. If the acquiring company preserves the status quo of the target company by continuing to run its normal business model, this would represent which of the integration strategies?
   a) Quarantine
   b) Partnership
   c) Fusion
   d) Evisceration

5. Why is it necessary to on-board new employees from the acquired company?
   a) To maintain knowledge within the company
   b) To harmonize both corporate cultures
   c) To ensure them that their jobs are safe
   d) All of the above

6. What is a poison pill with regards to M&A?
   a) It describes the excavation of assets by the acquiring company
   b) Means that management is being fired and replaced by the acquirer
   c) Is a defensive strategy to fight of hostile takeovers

7. What is most influenced by local GAAP when it comes to valuations?
   a) Book Value
   b) Net Present Value
   c) Sum of future cash flows

8. Why do M&As typically underperform?
   a) Due to cognitive biases of management
   b) Merger Manias
   c) A & B

9. Why should there be a management accountant in a due diligence team?
   a) His economic thinking
   b) His reporting skills
   c) His interdisciplinary background and critical thinking
   d) He knows how to use MS Excel
   e) All of the above

10. What is the synergy value of the following case:

Shareholders' Equity	NPV future cash flows w/o synergies	NPV future cash flows w synergies	Discounted Restruc, Investment & Financing Cost	Synergy Value
100.000.000 €	250.000.000 €	286.000.000 €	25.000.000 €	?

   a) 11.000.000 €
   b) 161.000.000 €
   c) 261.000.000 €

Answer sheet:

Question	Correct Answer
1	C
2	A
3	D
4	A

5	A & B
6	C
7	A
8	C
9	A&B&C
10	A

Questions

- What percentage of M&A activities underperform?
- What is the difference between an acquisition and a merger?
- Differentiate between a "friendly" and a "hostile" takeover.
- True or False, the motives behind M&A transactions are hidden/ not obvious.
- What are the three classical motives for M&A?
- Under which motive would a "lucky buy" fall?
- Which type of classical/ strategic motive generally results in higher prices for consumers?
- Who is responsible for preventing an extreme level of market consolidation?
- Research an example where a trade union fought against a merger. What kind of merger was it? What were the trade union's reasons for opposing it.
- Name one negative aspect often associated with vertical integration.
- Name the three different types of strategic integrations, and briefly describe each one in a sentence.
- A lightbulb manufacturer acquires an online travel agency, how would this type of integration/ merger be described?
- Identify a successful example of conglomerate integration.

- What role do taxes play in M&As?
- How does the bandwagon effect lead to higher prices and evaluations?
- Why should one have a M&A strategy and annual plan?
- After a M&A strategic plan has been developed, which stage comes next?
- How does the transition from the long-list to the short-list occur, regarding potential acquisition targets.
- What is the role of due diligence?
- Why would a company add outside advisors to its due diligence team?
- What is an earn-out and how is it used?
- Why would one use a quarantine strategy?
- Which integration strategy would be considered the most brutal?
- Name two challenges of integrating a new business with the company which acquired it.
- What is the difference between book value and intrinsic value?
- The intrinsic value of the target company is higher than the synergy value of the transaction. Should you make this deal? Why or why not?

Further readings:

Classics:

Brealey, R. A., Myers, S. C., & Allen, F. (2011). Principles of corporate finance (10th ed). New York: *McGraw-Hill/Irwin*.

Busco, C., Frigo, M. L., Giovannoni, E., Riccaboni, A., & Scapens, R. W. (2006). Intergrating global organizations through performance measurement systems. *Strategic Finance*, *87*(7), 30-35.

Chatterjee, S. (1986). Types of Synergy and Economic Value: The Impact of Acquisitions on Merging and Rival Firms. *Strategic Management Journal*, *7*(2), 119-139.

Damodaran, A. (2006): Damodaran on valuation security analysis for investment and corporate finance. *Wiley.*

DePamphilis, D. (2012). Mergers, acquisitions, and other restructuring activities. *Academic Press.*

Devos, E., Kadapakkam, P., & Krishnamurthy, S. (2009). How Do Mergers Create Value? A Comparison of Taxes, Market Power, and Efficiency Improvements as Explanations for Synergies. *Review Of Financial Studies*, *22*(3), 1179-1211.

Kanter, R. M., & Seggerman, T. K. (1986). Managing Mergers, Acquisitions, and Divestitures. *Management Review*, *75*(10), 16.

Petitt, B. S. P., & Ferris, K. R. (2013). Valuation for mergers and acquisitions (Second edition). Upper Saddle River, New Jersey: *FT Press.*

Reed, S. & Lajoux, A. (1999): The Art of M&A: A Merger Acquisition Buyout Guide. *McGraw-Hill*

Wakefield, B. (1965). Mergers and Acquisitions. *Harvard Business Review*, *43*(5), 6-184.

Current research:

Brotherson, W. T., Eades, K. M., Harris, R. S., & Higgins, R. C. (2014). Company Valuation in Mergers and Acquisitions: How is Discounted Cash Flow Applied by Leading Practitioners?. *Journal Of Applied Finance*, *24*(2), 43-51

Gamache, D. L., Mcnamara, G., Mannor, M.J., & Johnson, R.E. (2015). Motivated to acquire? The impact of CEO regulatory focus in firm acquistions. *Academy Of Management Journal*, *58*(4), 1261-1282.

Humphery-Jenner, M. (2014). Takeover defenses, innovation, and value creation: Evidence from acquisition decisions. *Strategic Management Journal*, *35*(5), 668-690.

Melkonian, T., Monin, P., & Noorderhaven, N. G. (2011). Distributive justice, procedural justice, exemplarity, and employees' willingness to cooperate in M&A integration processes: An analysis of the Air France-KLM merger. *Human Resource Management*, *50*(6), 809-837.

Sinkin, J., & Putney, T. (2014). Do's and Don'ts of Due Diligence. *Journal Of Accountancy*, *217*(6), 26-29.

Tiemann, D., & Hartman, J. (2013). Data Analytical Due Diligence is Driving M&A Deals. *Financial Executive*, *29*(3), 32-35.

Current Business Application:

Bain & Company: 2009 *The 10 steps to successful M&A integration*

http://www.bain.com/publications/articles/the-10-steps-to-successful-m-a-integration-newsletter.aspx

EY: Transaction Advisory Services

http://www.ey.com/GL/en/Services/Transactions

EY (2015): Innovation, complexity and disruption define the new M&A market

http://www.ey.com/GL/en/Services/Transactions/EY-capital-confidence-barometer?gclid=Cj0KEQjwgLGuBRCqptLsnJCvh-wBEiQAiNRjsXY9CuaN1rx1Jut--hcG2PNubsT0-sfFzUiBMJJbIrsaAgSN8P8HAQ

Fubini, D. (2014): Before a Merger, Consider Company Cultures Along with Financials

https://hbr.org/2014/12/before-a-merger-consider-company-cultures-along-with-financials

McKinsey & Company: The five types of successful acquisitions

http://www.mckinsey.com/insights/corporate_finance/the_five_types_of_successful_acquisitions

Reuters : Mergers & Acquisitions

http://www.reuters.com/finance/deals/mergers

The Wall Street Journal: The Rise of the ‘Stichting,’ an Obscure Takeover Defense

http://www.wsj.com/articles/the-rise-of-the-stichting-an-obscure-takeover-defense-1429716204

Roland Berger Strategy Consultants: MERGERS & ACQUISITIONS ADVISORY http://www.rolandberger.com/expertise/functional_issues/corporate_finance/mergers_and_acquisitions/

Videos/ Others:

Ashridge Business School: Mergers and Acquisitions: The world's best lecture tutorial in a nutshell

https://www.youtube.com/watch?v=sQ6xACl8hJk

CFA Institute: Mergers and Acquisitions

http://www.cfainstitute.org/learning/products/publications/inv/Documents/corporate_finance_chapter10.pptx

Institute of Mergers, Acquisitions and Alliances (IMAA): Studies & Other Publications

http://www.imaa-institute.org/publications-studies-mergers-acquisitions-alliances.html

Top 10 Disastrous Mergers & Acquisitions (M&A)

https://www.youtube.com/watch?v=9dFvhq2sKfM

Entrepreunrial Insights: Finance & Accounting - Different types of Mergers and Acquisitions

http://www.entrepreneurial-insights.com/different-types-of-mergers-and-acquisitions-ma/