UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

An Evaluation of the Success of M&A Within Different Industries and with Different Motives

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Supervisor: Anders Axvärn

Authors:

Lukas Lindblad 900326–

Carl Ihrelius 900129-

Abstract

M&A is a real keystone in the field of corporate restructuring and strategy, yet statistics prove that very few corporations succeed in their M&A operations. We therefore want to contribute with an investigation of whether the level and likelihood of success in M&A varies among different industries, as well as if it varies depending on the motives behind the merger. In this thesis such correlations will be tested on a sample of mergers by analyzing their change in market value. As a result we learned that mergers indeed are unsuccessful in general, and that some correlations could be found. For instance, only the telecom industry has managed to show positive results whereas the biotech and energy industries for instance are destroying significant parts of their market value by merging. However it was more difficult finding that different motives would have different outcomes on the merger success, since the motives are often vague and implicit.

Keywords

M&A, Merger, Acquisition, Motive, Industry, Market value, Valuation

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1. Introduction

1.1. Background

Mergers and acquisitions are one of the major subjects in the world of corporate finance and are, in order for corporations to grow, of vital importance. The value of deals within mergers and acquisitions can amount to as much as many hundreds of millions or even billions of dollars, merging two corporations into one. M&A's have increased significantly in the two last decades and thus partially follows a rather linear increase with time (Copeland, 2005). M&A's do however also follow other trends. For example there is a clear positive correlation between number of M&A's and flourishing economy, and between 2003-2008 during the 6th wave of M&A there was a massive boom in the number of M&A´s, which has now stagnated along with the economy (KPMG, 2011). We are now currently in the 7th wave of M&A.

The main goal behind Mergers & Acquisitions is for corporations to create a shareholder value greater than that of the sum of two corporations individually, which can be referred to as synergy (Ross, 2010). There can be many motives to go through with M&A and thus try to achieve this synergy, such as maintaining the competitive advantage, gaining market share and becoming more cost-efficient, or it may simply be the only way to survive for a target firm that could not without being acquired (Ross, 2010).

There are two different steps in which shareholder value, or synergy, is added in the context of M&A's, value creation and value capturing (Schweiger, 2003). Value creation is, as the term suggests, when new value is created and is achieved when the return on capital employed in an acquisition exceeds a target's weighted average cost of capital (Copeland, 1995). Value creation results from new or improved products, effective and integrated use of resources and production, successful management, etc, that results from the merger. Value capturing on the other hand reflects how much of the created value and synergy is being captured by the company (Schweiger, 2003). As the value creation says nothing about profits, value capturing determines how much profit can be made by factors such as optimal pricing on products after the merger, negotiating a

good price for the target firm, and so forth. Consequently it is important for a firm to capture as much value as possible and thus also important to create much value since, at least in theory, the more value you create the more you can capture, adding shareholder value to the company.

To achieve synergy and to add shareholder value between two different firms however, and capture the value created, is unfortunately not normally as easy as predicted since the synergy rarely is realized automatically from the merger. In this case the synergy becomes negative, meaning that the shareholder value of the two merged companies is now less than the sum of these two individually. This failure to realize the synergy can occur due to different reasons. Overpaying with premiums for the target firm is a big factor (Price, 2012). Therefore, in order for M&A:s to become successful one must first determine what the target firm is worth. Consequently company valuation is a major part and is a difficulty of the M&A process where the various parties normally valuate firms differently, leaving room for speculative measures in addition to inspection of the financial numbers and ratios. Another factor that could explain the failure is that those who benefit the most from the merger, that is the corporate leaders and decision-makers, try to create an image that increased value or synergy from the merger exists, when in reality it does not. This unethical behavior is known as the principal agent problem where the manager acts in the best interest of himself rather than of the firm (Moeller, 2001). Given the high risk associated with M&A's it is important to make as accurate valuations as possible of the project to avoid making big losses, lowering the shareholder value of the stock.

Although M&A is a major strategy to remain competitive, statistics prove that the vast majority of mergers fail to be profitable, making it a risky project (KPMG, 1999). That is, most corporations fail to capture the value added and realize the synergy and consequently do not increase the shareholder value. This indeed makes it questionable why corporations still go through with M&A:s in order to grow.

1.2. Problem

M&A is a frequently discussed subject within the field of corporate finance. There are several earlier studies covering most areas, providing with theories, statistics and generalizations. The motives behind the acquisitions are widely discussed in dissertations and reports, as are the explanations why companies succeed or fail with the operation. However there are no, or incomplete, studies on within which industry corporations are more likely to perform successful M&A:s. We therefore find it interesting to investigate if the likelihood of success varies within different industries. Additionally there are no studies that explain if certain motives for acquisitions might result in different or destined levels of success. We believe these areas needs complementation, which we strive to add to the extensive subject of M&A, by writing this thesis.

Accordingly, our problem is stated as follows:

- ➔ Have M&A:s within any industry been more or less successful than within another, and is there a connection?
- ➔ Is there a connection between the motives behind M&A and the level of success?

Additionally we examine whether the previous studies on why M&A:s succeed or fail match the outcomes from our observations by applying the theoretical factors of success.

1.3. Purpose

Our main purpose of this thesis is to provide empirical evidence if the likelihood of success in M&A differs within various industries. Similarly we will additionally investigate whether the stated motives for the acquisition correlates with the result of the merger.
We will also try to identify factors that might be behind these correlations.

Our ambition is to present a complete and explicit thesis of the objectives above, easy for the reader to grasp.

2. Methodology

In this section we clarify and outline the issues of the methodology, including our research approach, data collection and analysis. The choice of sources are motivated and explained and furthermore the validity and reliability of the data used is discussed. The aim is to give a better understanding of the practical design of our research.

2.1. Deductive vs. Inductive approach

Two common approaches that can be utilized while conducting reports are the deductive and inductive approaches. An inductive logical argument add undergird for the thesis but makes room for potential or exceptional error, since it only suggests the validity of your conclusion but does not fully entail it. This approach enables us to apply general knowledge and theories to our studies and also allow us to explain cases that are not behaving as according to previous generalizations. Studies that use the inductive approach usually begin with observations, independent from previous theories or studies. In out case, we have used previous theories and knowledge regarding the subject as our foundation but we have treated the collection and usage of the data inductively, thus making our conclusions and analysis more versatile and, the inductive approach suits our report better.(Carlson, 2009)

One could argue that we derive our studies with a deductive approach, where the reasoning begins at the top with general theories and statements connecting the observations and finally reaching a conclusion. (Sternberg, 2009). This is not the case since we treat our observations and data from the “bottom-up”, and finally possibly connecting your conclusions with generalizations.

2.2. Research approach

In our research we are examining however M&A-s have been successful, if there is a difference between industries and if there are common factors or certain prerequisites such as motives that contribute to the success. In order to answer our research questions, to gather knowledge on the subject and to construct a solid foundation as our vantage point we are primarily using quantitative data when

calculating the historical market values. Soft values will also be added since qualitative aspects data is necessary to connect theories and to add a broader perspective with more depth. Qualitative analysis enables an interpretation of the gathered data, making a more nuanced report and enables broader conclusions. Combined, our sources will give us a solid basis for conclusions, discussions and further analysis. The educational foundation has been given through our bachelor programme at the University of Gothenburg, School of Business, Economics and law. Our supervisor has provided with advice regarding literature on the subject.

Our primary sources of data have been the university database, the school library and the Internet where several scientific reports concerning the subject are to be found. The gathered data and literature is approached inductively, where we draw conclusions from empirical experiences and results. By using inductive reasoning as our scientific approach we enable the possibility of making generalizations from our observations in corporations market value and also allows for disproving conclusions (Carlson, 2009). This choice increases flexibility, enabling us to apply general principles and data to our research and to present our gathered information and conclusions using and applying framework and theories.

2.3. Choice of Valuation method

There are different methods to valuate the success of a merger. Those are mentioned in section *3.4. Valuation*. We have however decided to measure the success of all mergers in our sample by change in market value long-term. That is, the change from one year prior to the merger to 3 years after.

2.4. Procedure: Collecting and Using the Data

Our procedure can be explained by dividing the process into 6 steps:

1. Collecting data and calculating market values

The market values of the companies in our sample have been calculated by one of the three following methods depending on the different information accessible:

- In some cases the market value or market capitalization of the company is simply listed, either in the annual report or on databases such as Yahoo Finance, Ycharts or Bloomberg.
- By multiplying shares outstanding with the share price of the company. This information is in most cases given in the annual reports but occasionally taken from databases such as the ones mentioned above.
- By dividing the price/deal value with the (1 + premium paid) which represents overpaying percentage from the actual market value. This information is normally taken from merger announcements made.

Firstly the market values have been calculated for both the acquirer and target firm separately, and as a follow up, the combined, consolidated market value three years after the acquisition. Why we chose to use the market value three years after the merger is because we feel the market value just after the merger might be a little deceptive, long term, even though market value takes expectations into account etc.
Furthermore all numbers presented in other currencies than USD will be converted to USD with the exchange rates of the respective dates. In this stage we also collected the motives from the acquirer, mostly to be found in the annual reports and in official statements, and gathered these in different categories.

2. Adjusting market values

In order to give a fair and correct result, an adjustment of the market values three years after the merger must be made. We will adjust the market values using indices for the different industries. By making these adjustments we eliminate upswings or downturns caused by different economic cycles that cause stock market volatility, which affect some industries more than others. In other words we will now receive a

change in market value of the company that has resulted from other reasons than those that affect the entire industry. This leaves much smaller room for error and misleading results when evaluating the mergers in terms of change in market value. We consider this to be a necessity in order to compare the different companies and industries on fair grounds. The equations below will summarize the entire valuation process. A and B are the two firms pre-merger while AB is the post-merger firm.

$$\frac{()_{t=3}}{((A)_{t=-1} + (B)_{t=-1})} - 1$$

$$= \%\ change\ over\ the\ 3\ years,\ unadjusted\ to\ industry\ index$$

$$Unadjusted\ \%\ change\ -\ Industry\ index\ \%\ change\ over\ same\ time\ period$$

$$= \%\ change\ in\ MV\ adjusted\ to\ industry\ index$$

If, for instance, the company has a +20% change in MV before adjusting to industry index, and the industry has gone +10% during the same time period, the change in MV after adjusting it to the industry index is +10%. Note also that the time t= -1 can range from a few months up to a year before the merger due to the information accessible. However the same dates have been used when adjusting to industry index so the adjustments are as accurate.

3. Determining the level of success/failure.

After adjusting the market values we simply analyze whether or not the merger has been successful in terms of market value and gains to the shareholders. If the adjusted post-merger market value is higher than that before the merger the conclusion is that the merger was a successful one, and vice versa.

4. Collecting motives behind the sample mergers.

The motives behind each merger is collected mainly through annual reports of the year of the merger, though there are exceptions.

5. Analyzing potential connections between motives, industry and likelihood of success.

When the results of the mergers and acquisitions in our sample have been determined, we will investigate within which industries most M&A:s have turned out to be successful. Naturally, we in contrast also examine within which industry they have failed, and if there are any connections at all. Same procedure goes for the motives.

6. Identifying the factors causing the effects.

We ultimately try to identify common factors shared by both successful and non- successful mergers. These factors can be for example motives to merge, overpaying, or geographical factors, etc.

2.5. Limitations

Limitations in Sample Selection

First of all, since we measure the success of each merger 3 years after, the latest mergers in our sample will be from 2010 whereas the earliest will be from 2006 due to the lack of information prior to that. Furthermore the merging companies we include in our study must be listed on the stock exchange in order to find sufficient information and data. We have also chosen mergers with high deal values in our study, since these naturally are made by large firms which makes the data more accessible. With the criteria above we looked into the biggest mergers worldwide 2006-2010, which was around 75-100 mergers. However surprisingly many mergers lacked in information accessible and thus the final number of mergers in our sample is 33 which we believe to be sufficient to base our thesis on, even though it does not make an optimal base for our statistical study. This fact might make the results and conclusions less generalizable but will account as a good framework for these types of studies in the future. We believe this makes a good basis for analysis and provides the answers we do require in our stated questions.

Limitations in Data Management

By solitarily using market value and the motives, we have limited the extent of the study, making the mergers easier to grasp and analyze. Valuating the merger by market value is one of the most proven methods to determine the success and outcome of an acquisition, as argumented in the theory section, and we believe this is the most convenient method to use in this case. Even though it would have been interesting to do this study using more different valuation methods, we have to limit ourselves to using one due to our restrictions in time.

We do believe our study will be accurate and hopefully distinguish differences between mergers within industries, and even if a larger numbers of mergers in sample selection might make more defined results, we are confident we have sufficient material to conduct a professional and accurate report.

2.6. Collection of data

Since our vantage point will be drawn from our calculated market values and from the stated motives, the data we have depended on is market values, share prices, shares outstanding, deal values and premiums paid. These have mainly been found in the annual reports of the chosen corporations. The annual reports have mostly been found on the official websites of the corporations, where a range of several years has been accessible in the majority of the cases. When lacking these numbers in the annual reports, we have used databases where historical share prices are listed, and in some cases, the official deal value and premiums paid which are to found in the official announcement of the acquisition, have been used.

Since our thesis and conclusions will be based on the market values, no primary data will be needed and the gathered secondary data is sufficient. The theoretical foundation is to consider as qualitative, and gives the report a better understanding on the subject and enables us to connect theories, previous dissertations and to explain the results.

2.7. Reliability and Validity

Two crucial factors regarding the quality of a study are the reliability and the validity of the conclusions and results. A brief summary of the term validity is to "measure what is supposed to be measured and is of high importance regarding the integrity of the results and for the level of professionalism of our studies. The validity can be divided into Internal Validity and External validity.

Internal Validity

The internal validity is connected with the preciseness and accuracy of the conclusions and results. (Brewer, M. 2000). If the observations proves that there is a clear connection between an independent and a dependent variable that can cause a causal inference, we could say that the result shows a level of internal validity. If the variable that is being used causes the effect, you could argument you have reached internal validity. In our example, if the merger caused the synergies that were wanted and expected, without any other factor causing the effect, the result could then be proven to have internal validity. The internal validity can be inaccurate if the selection of observations is not chosen randomly. In our case, we have chosen the largest mergers the past 10 years, without any knowledge of the level of success, which makes the study rather objective and in the sample data there is a range of industries. There could be difficulties generalizing the studies, since the small number of observations, and also the level of success differs in individual cases as a result of different factors that are hard to extract.

External validity

The grade of External validity is defined by how easily and precise the effect can be replicated using the same method, process or variables. If you can generalize the results you could say you have reached a certain level of external validity. Whether the results of our observations can be applied to other context is strongly connected with the external validity and also to what extent the study can be applied and generalized to an entire population. In order to make our study even more broad and with a higher level of external validity we could have used a larger number of corporations in our calculations (increase sample size), but due to the limitations of

time and accessibility we believe our study provides with valid results and conclusions based on our observations.

Reliability

Reliability is another factor that is of great importance in order to construct a solid research paper, and is associated with the trustworthiness of the tool of which the measurements are taken with. Reliability is also concerned with consistency and repeatability of the study. (Trochim, 2006). In order for an observation or measurement to be reliable, the outcome should show the same result while being repeated, while also being indifferent as to who are taking the measurements. We believe our results are reliable, and our measurements are legit, thus creating a trustworthy study. Validity and reliability does not necessarily operate dependently whereas you can reach a high level of validity while lacking some reliability.

3. Theoretical Framework

3.1 Disposition

This chapter provides a theoretical base for our study.

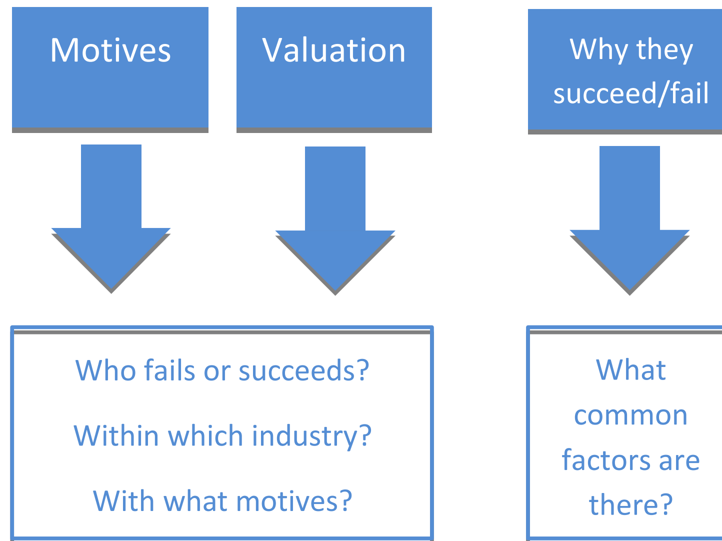


Figure 1: Theoretical Framework

The figure above summarizes our theoretical framework, which paves the way to answer our main problems, and to give a clear picture of our disposition. As can be seen in the figure, we divide our theoretical framework into three subheadings or pillars, to which we will relate our analysis. The first of the three pillars is "motives", where the motives for M&A are presented based on researchers and literature on the subject. Our second pillar is "Valuation", on which subject we will need the theoretical knowledge in order to determine whether or not the various M&A:s in our sample have been successful or not. The first two "pillars" of theory will help answering who generally is more successful in M&A between different industries and with different motives. Ultimately the third pillar is "Why they succeed/fail", where we will account for earlier studies on what common factors there might be behind successful and unsuccessful mergers.

3.2. Motives

Given the high percentage of failures, there must be clear motives why the corporations and their decision-makers choose to go through with the merger. They must somehow overlook or misjudge the high risk involved, emphasizing the positive aspects the M&A brings with it. In this section we will break down and describe these different motives. According to Larsson & Wallenberg (2002), motives for M&A can be divided into explicit and implicit motives. Explicit motives derive from reasons that are officially given by the company management, such as synergy, diversification, stagnation and internationalization. Implicit motives on the other hand are reasons that might be suspected but unspoken of by the management. Hubris or replacing management are implicit motives. However we feel that Motis (2007) has made a more complete thesis on the subject of motives, which is why we will refer to his dissertation in this chapter. He identified that the motives can be derived from either shareholder gains, or managerial gains. In the following section we present the different motives behind M&A. Although we divide the motives into the following subheadings, many of the motives overlap each other, and the effects from one merger motive may generate benefits from other motives as well.

3.2.1. Shareholder Gains

Shareholder gains means an increase in market value of the firm as a result of the merger. This increase is a direct gain for the shareholders, thus the term shareholder gains. The motives that are based on the goal of shareholder gains can be reached by either efficiency gains, synergy gains, cost savings, financial cost savings, enhancement or strengthening of market power, preemptive and defensive motives, or disciplinary motives, each of which we will go through in this section.

Efficiency Gains

Gains derived from other sources than synergy, that is gains in efficiency that can be achieved by other strategies and measures than M&A, normally by internal growth, specialization, licensing, etc. Note however that his does not imply that they cannot be

achieved or improved as a result from M&A, and can be a motive. Efficiency gains can be achieved by economies of scale, economies of scope and vertical integration.

Synergy Gains

In contrast to efficiency gains in section 2.1.1.1, synergy gains can only be achieved from M&A. As mentioned in the background section, synergy is when the performance of the two firms after the merger is higher than that of the two firms put together before the merger. The reason synergy gains only can be achieved through M&A is because that they do not solely result from technical efficiencies (economies of scale etc.), but also require processes of learning and know-how that arises from efficient integration of the knowledge of both firms. If the two merging firms possess different patents, cultures, technological capabilities or knowledge that efficiently, this diffusion of know-how, as Motis (2007) refers to it, occurs.

Additionally, Research & Development (R&D) can be a major driver of synergy gains, and corporations might target and buy R&D-intensive companies instead of investing in its own R&D, with the belief of achieving higher profits with the technology-transfer.

Cost Savings

Cost savings is a very broad concept and always a keystone in order to increase profits. Cost savings can take shape in various different ways, such as reduction in fixed costs, average costs or marginal costs. The motive of cost savings can be linked to, and included in most other motives, as it is such a vital part of a corporation's strategy in order to maximize efficiency and profits. An additional way of cost saving, is creation of internal capital markets. When external capital markets such as banks or stocks are not efficient, M&A allows for the company to become multidivisional, consisting of various divisions (geographical or by product line, etc). The company thus creates internal capital markets. The divisions are decentralized and independent in decision-making but the company's headquarters allocates the resources to the divisions, to a better cost of capital than banks.

Financial Cost savings

Whereas savings of average and marginal costs is associated to reducing production costs, financial costs savings is minimization of a firm's administration costs and optimal distribution thereof. Reducing the financial costs is another motive for M&A and can be achieved by beneficial outcomes regarding taxes and interest rates, etc.

- **Taxes**

The reason tax advantages might appear from mergers is that when a premium is paid for acquiring the target firm, a price higher than the market value that is, the buying company can benefit from higher depreciation charges. By merging, another result could be lower payments of taxes, in comparison with the two individual pre-merger firms. This can be achieved when one of the firms has tax deductions, which they will not be able to use since they are losing money, given that the other company has income on which they pay significant taxes. Tax benefits from a merger can also occur when assets of the target firm could be written up to reflect the new market value.

- **Interest rates**

Normally smaller firms cannot raise funds borrowing at competitive interest rates because of their insufficient liquidity. By Merging, they could possibly achieve a higher debt capacity and eliminate such problems allowing the corporation to fund its operations by debt, enabling a wider range of loans with more beneficial rates.

- **Diversification**

This motive originates from portfolio theory. According to this theory, the investor (acquirer) reduces the risk of the portfolio by diversifying its assets (Lintner, 1965). M&A can often result in such diversification and is a motive often used.

- **Cash slack**

When merging a combination of a cash-rich company with one with company with great cash-dependent projects, the combined conditions could then complement each other efficiently creating a more successful company (Stone, 1993).

Enhancement or Strengthening of Market Power

Market power is the degree of influence that a company has on its industry, and the capability of a firm to manipulate the price of a product by affecting the supply or demand of it. Corporations that possess market power can be referred to as price makers, as they can set a products price while still not losing market shares. High market power often results in elimination of competitors and increases competitiveness and this is a common motive for merger. A few examples of how market power is achieved and identified, is by cost advantages, entry barriers, multimarket contact, product differentiation.

Preemptive and Defensive Motives

Corporations often buy smaller firms, avoiding for that firm to be acquired by another company. Motis (2007) states that it is better being an insider than an outsider, so companies make anticipatory acquisitions in order to avoid becoming an outsider. Other defensive motives could be simply buying a competitor, getting rid of its competition and capitalize on its assets.

Disciplinary Motives

Mergers with disciplinary motives take place particularly in favor of the shareholders and serve as an assurance that the managers' action remain within the frames of maximizing shareholder value.

3.2.2. Managerial Gains

Motives based on managerial gains originate from the theory of internal inefficiency within the firm, which states there is a difference between the firm-efficiency behavior in theory and its observed actual behavior, due to the complexity of organizations. This complexity is based on the disparities between the objectives of the managers and that of the shareholders, as the principal-agent problem states. The motives in this section are motives of the managers searching for gains to merge, at the cost of the shareholders.

Empire building

A motive to merge might be for the managers' wish to increase the size of the corporation. Since acquisition is the fastest way to grow this may seem like the perfect strategy for the managers, whose wish might either be to grow as a known face in the business world, or has their rewards directly correlated to the size of the corporation.

Hubris

Managers often overrate their ability to manage etc. This makes them believe they can take on new firms by acquiring them, often by overpaying.

3.3. Why Mergers Succeed or Fail

In this part we discuss and plot the critical factors for a successful merger, and also on the contrary, why they fail. The motives that are earlier described can to some extent be applied to this section too; hence a merger either manages to reach the favorable outcome of the motives, or do not, which can define the level of success or failure of the operation. We will in this section analyze other aspects that have been proven to be key factors, or factors that has led to failure. We will highlight the factors that are not been taken into account in the motives section and briefly mention the ones earlier mentioned.

3.3.1 Integration of firms and cultural aspects

" *The primary reason many mergers and acquisitions do not deliver longer-term value is because they lack a strong cultural-integration plan*"- Gerri Knilans

"Two cultures must be brought together and blended to create a collaborative, high-performance new company,"- Mark Brenner

Two merging corporations are very unlikely to have similar core values, standard procedures, corporate design and other factors that define the company and its culture. Even if they operate within the same markets, industries or with similar products or services, the favourable outcome of the integration is difficult to forecast. The degree of the similarity or cultural fit, of the merging firms is to be considered as of immense importance regarding the result. It is important to understand the perspective of the employees in the situation of an acquisition whether it is a friendly or a hostile takeover, since it affects their daily routines and work considerably. In some cases, the mergers can be described as an arranged marriage, where the deal

making is made in isolation, without the majority of employees knowing the current situation (Booz, 1985). Booz further explains that in this scenario the decision makers of respective firms act as "parents" whom determine the benefits, conformation of the operations and the plan of the integration. The involved people, employees and shareholders, will find themselves in a situation where the visions, core values, corporate culture and structure changes basically overnight. It has also been proven that managers often underestimate the cultural differences between corporations. "An Anglo-French merger between packaging companies Metal Box and Carnaud, for instance, was notorious for the refusal of managers from different cultures to work with each other" (Hindle, 2009)

A big issue regarding the integration process is the lack of experience for these kinds of actions by the organizations. It is common for companies to manage the integration as a one off-activity, learning as they go, instead of having a strategy considering all aspects in order to make the process as successful as possible, enabling efficiency and synergies rapidly(Ashkenas,1998).

3.3.2 Overpaying with premiums

The reasons for overbidding in order to gain control of another firm are many, even if it has been proven to lead to underperformance in many cases (stark, 2011). Stark argues that, sometimes acquirers pay large premiums due to miscalculations of the target firms-value, where he refers to the intangible assets and goodwill which can be hard to estimate. There can also be cases of "winners curse", which Moeller (2007) explains as when multiple investors enter a bidding war, which results in a price, often higher than the value of the target firm. Historically there have been waves of mergers, where the market has been more M&A –intensive, and we are currently in the seventh wave. The characteristics of a wave is an increase of acquisitions (KPMG,2007), and more turbulence and rumours on the M&A scene. Since a wave triggers the will for acquisitions, the more likely companies are to overpay for their target since there is a larger risk of other companies bidding on the same targets. Another factor that could lead to overpaying is according to Ryan (2013), the fact that the buyers are willing to pay for the expected synergies, which he believes is dangerous and not to be

recommended. Lomax (2011), argument for the downsides of overpaying, and refers to major acquisitions such as the merger between eBay and Skype, where EBay wrote off $1,4 billion, due to the acquisition, and the Gillette acquisition by Procter and Gamble where P&G wrote off $ 1,5 billion due to overpaying.

Overpaying does not necessarily lead to worse performance, but has been proven to be an Achilles heel of mergers. Ryan (2003)

3.3.3 Achieving synergies

By merging two companies, the acquirer wishes to create a value that is larger than the sum two companies individually: $V() > V(A) + V(B)$

The expected synergy effects are often the main reason and driving force for companies to acquiring another firm and accounts for a large part of the motives behind an acquisition (Goold, 1998). Therefore the level of success though a merger can be determined by to which extent they have managed to achieve the wished synergy-effects.

A big argument for initiating an acquisition, and therefore crucial factor for the success of the merger, is whether the firm manages to reduce the costs. Achieving this is more common in vertical mergers; hence you are controlling more of the chain of production (Thompson, 1996). If a company manages to achieve this synergy they should have a greater operating margin than the weighted operating margin of the separate firms. Sources for economies of scale (operational synergies) can be; sharing expenses for R&D, sharing production facilities, using a common sales force and shared advertising just to name a few. Even if you would believe that merging firms would achieve this cost reduction, so is not always the case. According to a study made by Bill Duncan (2009), 39% of the companies, in his study, that initiated a merger, stated that they would reduce the operating costs by this action. Only 35 % of those companies managed to actualize that goal, which yet again proofs that it is difficult to achieve successful mergers. In the same study, 9 % of the companies announced that they were

reducing indirect and overhead costs by merging. Also here the outcome was disappointing with only 39 % of those 9%, managing to achieve that goal.

Strategic, operational synergies could be that the merged firm accesses the acquired firms established distribution channels, which improves the market access. Associated with the increased market access, the merged firm could also possess a larger assortment of products or services, and also shared experiences regarding markets and products, enabling new market opportunities. Other factors that can improve due to operational synergies are the reinvestment rate, the Return in capital (ROE) and longer growth period, all these are considered operational growth synergies.

3.4. Valuation

There are many different methods to measure the success of M&A from a variety of aspects. According to Kaplan (2006), the most common measure is the change in market value at the time of announcement. Since market values include intangible measurements such as expectations, this method tries to determine in particular the market's expectations to the change in market value due to the merger. In order to do this, you look at the market values of both the acquirer and the target, as well as the value of the combined companies. Kaplan states that it is appropriate to measure the total economic impact of the merger/acquisition by using the combined change in market value of both the companies. According to Kaplan you can also look at changes in market value over the longer run, which normally is defined to three to five years. M. L. Sirower also underlines that either short-term or long-term periods of one to five years can be used for these measurements, confirming Kaplan's statements.

In addition to the measures of market value changes, Kaplan accounts for a couple of other methods to determine the success. These can be accounting-based for instance, looking into the change of different key numbers over time, such as earnings, margins, cash flow or productivity. Since measuring market value changes is one of the most common methods, and we feel that this information is easier to access, the market value method is the one we have chosen to use in our report.

Moeller (2009) confirms, in his article on intelligent mergers, that most observers use

the shareholder gains and thus market value, over a time range ranging from a couple of months to a few years after the merger to measure M&A success. Furthermore he points out three important problems to keep in mind while setting the conditions for the measuring of the success.

- A pre-merger starting point. That is, do you use the share price and market value yearly or daily etc. in advance of the merger to set the pre-merger value?
- A post-merger end point. Do you use the share price and market value immediately after the merger or a couple of months or years afterwards to set the post-merger value?
- Which index to compare the share performance against. Do you compare it to the historical performance of the company itself or use an industry index etc. We will examine this further in section 2.4.2.

Despite that using market values to measure success is the most common way for external analysts and academics, Moeller states that for the internal evaluation, the accounting-based methods are used more frequently, which argues against our method of choice.

4. Results and analysis

4.1. Outcome: Changes in Market Value

Year	Acquirer	Target	Deal Value (bil. $)	Over-paying Premium	Change in market value adjusted to industry index
2007	Unibail Holding	Rodamco Europé	15	26%	+ 33%
2008	InBev NV	Anheuser Busch Cos Inc	52	31%	+ 20%
2008	Westpac Banking	St George Bank Ltd	19	3%	+ 18%
2009	Suncor Energy Inc	Petro-Canada	18	40%	+ 18%
2010	America Movil	Carso Global Telecom	28	3%	+ 15%
2009	Berkshire Hathaway	Burlington Northern S.F.	36	40%	+ 12%
2009	Oracle	Sun Microsystems	6	12%	+ 11%
2006	AT&T Inc	BellSouth Corp	73	45%	+ 7%
2008	Verizon Wireless	Alltel Corp	28	23%	+ 5%
2008	Teck Cominco	Fording Canadian Coal	13	18%	+ 2%
2009	BlackRock Inc	Barclays Global Investors	13	33%	- 1%
2010	Newcrest Mining	Lihir Gold Limited	8	10%	- 7%
2007	Rio Tinto PLC	Alcan	38	9%	- 8%
2009	Merck & Co Inc	Schering-Plough Corp	46	64%	- 14%
2008	BASF	Ciba	5	32%	- 15%
2008	TEVA	Barr Pharmaceuticals	8	9%	- 22%
2007	Blackstone Group	Hilton Hotels	26	40%	- 25%
2007	Blackstone Group	Equity Office Properties	39	56%	- 25%
2009	Roche Holding	Genentech	47	9%	- 31%
2009	Exxon Mobil Corp	XTO Energy Inc	31	68%	- 32%
2008	Novartis AG	Alcon Inc	51	20%	- 32%
2007	UniCredit SpA	Capitalia SpA	30	22%	- 35%
2009	Pfizer Inc	Wyeth	64	27%	- 36%
2008	Bank of America	Merrill Lynch & Co Inc	49	3%	- 43%
2009	Xerox	Affiliated Computer	6	34%	- 43%
2008	Dow Chemical Co	Rohm & Haas Co	15	34%	- 47%
2007	Heidelberg Cement	Hanson PLC	16	66%	- 48%
2008	Lloyds TSB Group	HBOS PLC	24	64%	- 55%
2006	Cemex SAB de CV	Rinker Group Ltd	14	16%	- 63%
2009	Enel SpA	Endesa SA	43	40%	- 75%
2007	Transocean Ltd	GlobalSantaFe Corp.	17	22%	- 78%
2009	Kraft Foods Inc	Cadbury PLC	19	6%	- 96%
2008	Gas Natural SDG SA	Union Fenosa SA	23	10%	- 106%

Table 1

The table above shows the outcome of our evaluation of a sample of 33 mergers in terms of change in market value, adjusted to industry indices.

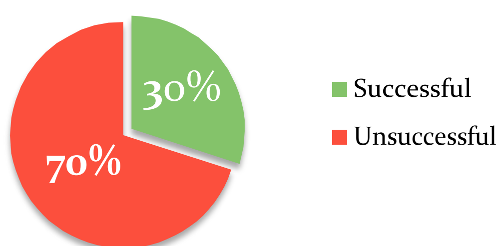


Figure 2

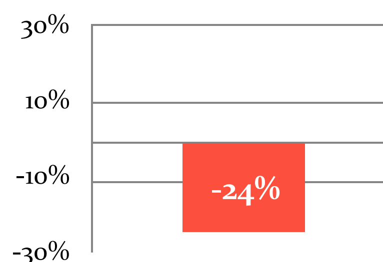


Figure 3

As figure 2 shows, in our M&A evaluation, 30% (10/33) were successful in terms of change in market value, while 70% (23/33) were not. According to KPMG (1999) and Holthausen (2013) 17% of all mergers succeed in creating value, while 83% fails to. Out of those that fail, 53% actually destroy value whereas in 30% of the cases there is no noticeable difference. These are quite similar results to those of our evaluation which could indicate that our outcome is relatively accurate. Furthermore figure 3 shows that the average percentage change in market value after adjusting to industry indices is -24%, meaning that the average firm undergoing a merger destroys 24% of its market value.

4.2. Outcome: Industries and Level of Success

One of our two main purposes with this thesis was to investigate what potential connections there might be between what industry in which the firm operates, and the likelihood of success in M&A.

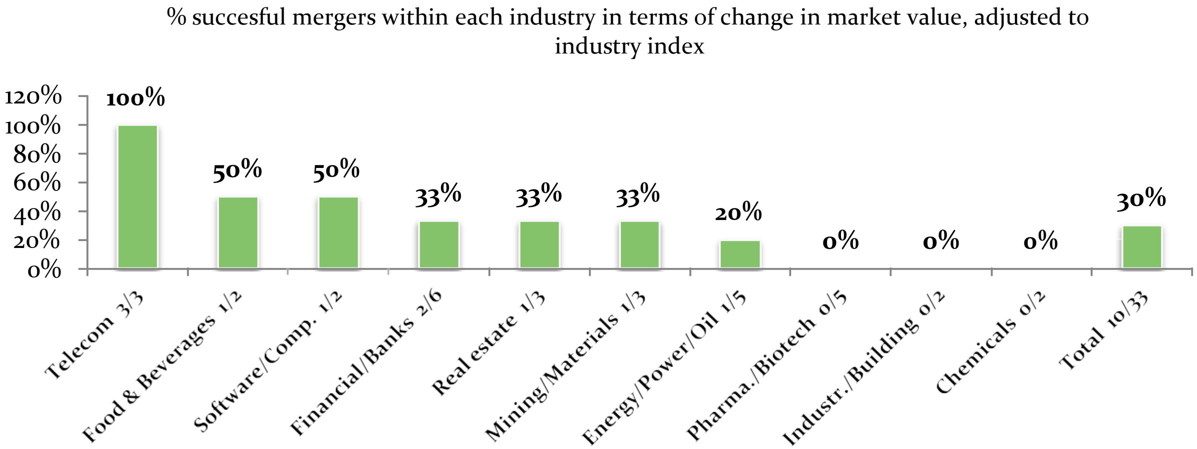


Figure 4

In figure 4 above we have categorized the mergers of our sample into its 10 different industries. The figure shows how many percent of the mergers in each industry that showed positive results. For example the Telecom industry showed a 100% success while all mergers in the Pharmaceuticals/Biotech, Chemicals and Industrial/Building industries failed to create value.

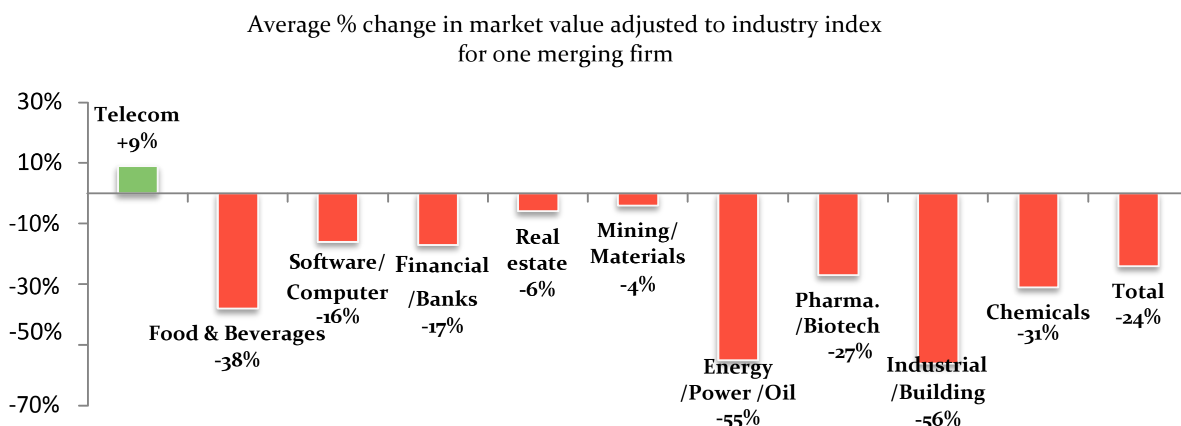


Figure 5

Figure 5 shows the average percentage change in market value after adjusting to industry indices. You can see that only one industry (Telecom) shows an increase on average.

Financials / Banks

Year	Acquirer	Target	Deal value	Over-paying Premium	Country	% Change in market value adjusted to industry index
2008	Westpac Banking	St George Bank Ltd	19	3%	Aus/Aus	18%
2009	Berkshire Hathaway	Burlington Northern	36	40%	USA/USA	12%
2009	BlackRock Inc	Barclays Global	13	33%	USA/USA	-1%
2007	UniCredit SpA	Capitalia SpA	30	22%	Italy/Italy	-35%
2008	Bank of America	Merrill Lynch & Co	49	3%	USA/USA	-43%
2008	Lloyds TSB Group	HBOS PLC	24	64%	UK/UK	-55%

Table 2

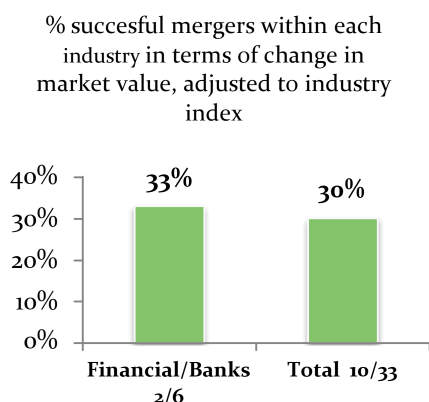


Figure 6

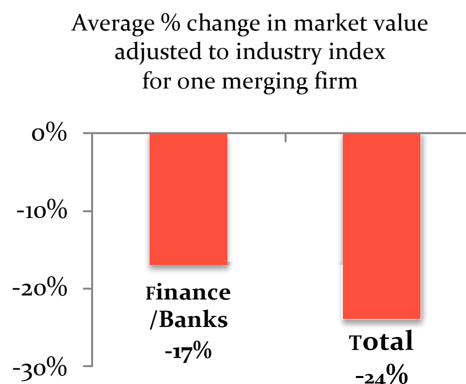


Figure 7

The financial/bank - industry performs above average on both “average change in market value per merging firm” and on ‘share of mergers that result in an increase in market value’, as can be seen in figure 6 and 7. Even though this industry performs better than the average industry it still destroys 17% of the market value per merger,

with only 33% of the mergers showing positive results. We can see no clear pattern comparing the mergers within this industry. There is great variation in level of success where the Westpac – St George merger is among the most successful, regardless which industry, while Bank of America and Lloyds TSB have performed among the worst.

Table 3	Average premium	Average deal value bil $
Banks/financial	28%	29
Total	28%	28

Furthermore we can see in the table to the left that there are no deviations in this industry from the overall average neither in overpaying (premium 28%) or in deal value. Additionally all mergers in this industry are domestic.

Mining / Materials

Year	Acquirer	Target	Deal value Bil $	Over-paying Premium	Country	% Change in market value adjusted to industry index
2008	Teck Cominco	Fording Canadian	13	18%	Canada/Canada	2%
2010	Newcrest	Lihir Gold Limited	8	10%	Aus/ P.N. Guinea	-7%
2007	Rio Tinto PLC	Alcan	38	9%	Canada/Canada	-8%

Table 4

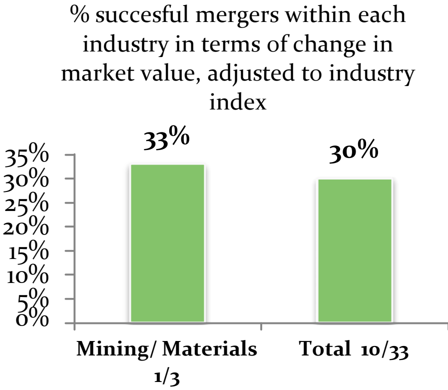


Figure 8

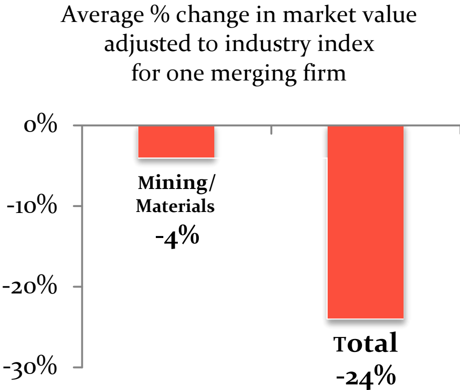


Figure 9

The mining/materials industry performs well in comparison to the other industries. It has the second best 'average change in market value per merging firm' with -4%, seen in figure 11 above, and one out of three mergers created value, which is decent in the context. A pattern the mergers in the mining industry follows is that the changes in market value are very non-volatile, as can be seen in table 3 above. There is thus very little variation in the changes and they are all close to 0%. In other words the mergers in mining industry have barely had any impact on the market value of the corporations.

Table 4	Average premium	Average deal value bil $
Mining/Materials	12%	20
Total	28%	28

As table 4 shows M&A in the mining industry has been of slightly lower deal values than the overall average and also with significantly less overpaying, which seems natural as the two should correlate. This might have contributed to the relatively stable outcomes of the mergers in this industry. Moreover one out of three mergers in the mining industry was cross-border, hardly that is, given that Papua New Guinea is a neighboring country of Australia.

Pharmaceuticals / Biotech

Year	Acquirer	Target	Deal value Bil $	Over-paying Premium	Country	% Change in market value adjusted to industry index
2009	Merck & Co	Schering-Plough	46	64%	USA/USA	-14%
2008	TEVA	Barr Pharmaceuticals	8	9%	Israel/USA	-22%
2009	Roche	Genentech	47	9%	Switzerland/USA	-31%
2008	Novartis AG	Alcon Inc	51	20%	Switzerland/USA	-32%
2009	Pfizer Inc	Wyeth	64	27%	USA/USA	-36%

Table 5

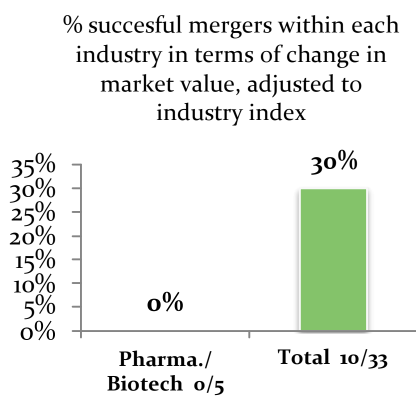


Figure 10

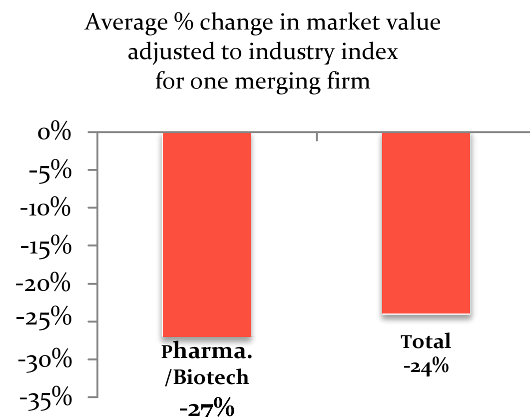


Figure 11

The industry that performs worst of all in terms of number or share of mergers with positive outcomes is the pharmaceuticals/biotech industry. As can be seen in figure 10 0/5 mergers in this industry succeeded to create value and the average merger within this industry destroyed 27% of the firm market value, as figure 11 shows. Like in the mining industry the change in market value is relatively non-volatile, but negative.

Table 6	Average premium	Average deal value bil $
Pharma./Biotech	26%	43
Total	28%	28

A potential explanation to the big likelihood of failure in M&A within the biotech industry might be the significantly higher deal value in comparison to the overall average. Despite the similar premium paid, it

might be harder realizing the potential gains with more expensive acquisitions. In addition to the higher deal value the lack of success in M&A in the biotech industry might be explained by that only 2/5 of the mergers are domestic, making post-merger integration a lot more difficult and consequently leading to unsuccessful mergers. Additionally the result can be explained by the difficulties for innovation-dependent companies to achieve synergies regarding the “know how”, innovation and the transfer of technology.

Telecom

Year	Acquirer	Target	Deal value bil $	Over-Paying Premium	Country	% Change in market value adjusted to industry index
2010	America Movil	Carso Global	28	3%	Mexico/Mexico	15%
2006	AT&T Inc	BellSouth Corp	73	45%	USA/USA	7%
2008	Verizon	Alltel Corp	28	23%	USA/USA	5%

Table 7

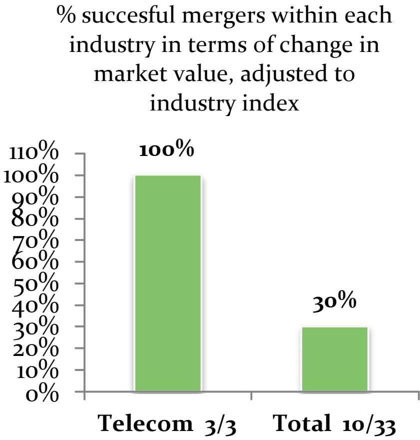


Figure 12

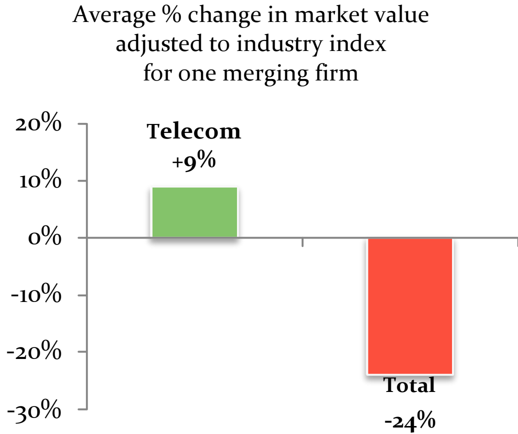


Figure 13

Based on our research the telecom industry is indeed the best performer in the field of M&A. Three out of three mergers turned out to be profitable within this industry which in the context must be seen as impressive despite the modest average increase in market value of 9%. The telecom industry too has a stable and non-volatile change in market value.

Table 8	Average premium	Average deal value bil $
Telecom	25%	43
Total	28%	28

The average deal value in the telecom industry is as high as in the biotech industry, making the assumption made about the negative correlation between level of success

and deal value questionable. The premium paid however is slightly lower than that of the overall average merger, and none of the mergers were cross-border, facilitating for post-merger integration.

Energy / Power / Oil

Year	Acquirer	Target	Deal value bil.	Over-paying Premium	Country	% Change in market value adjusted to industry index
2009	Suncor	Petro-Canada	18	40%	Canada/Canada	18%
2009	Exxon Mobil	XTO Energy Inc	31	68%	USA/USA	-32%
2009	Enel SpA	Endesa SA	43	40%	Italy/Spain	-75%
2007	Transocean	GlobalSantaFe	17	22%	Switzerland/USA	-78%
2008	Gas Natural	Union Fenosa SA	23	10%	Spain/Spain	-106%

Table 9

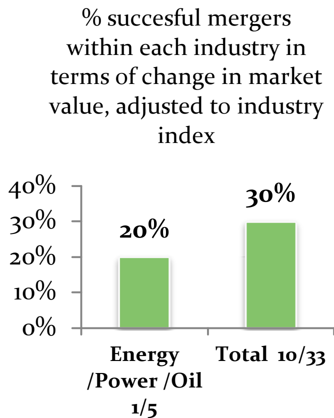


Figure 14

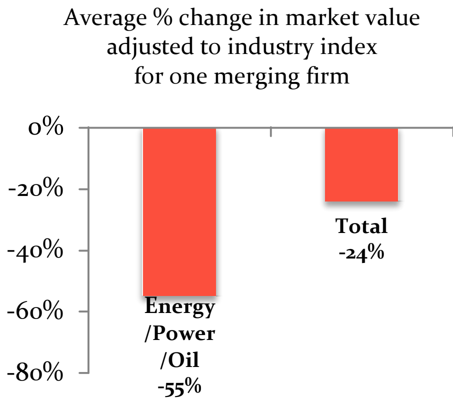


Figure 15

The energy/power/oil industry, together with the building/industrial industry, results in the worst change in market value and destroys 55% of the company's market value on average. Only 1/5 mergers showed a positive outcome within this industry. Similarly to the biotech industry this might partially be explained by the cultural differences and integration difficulties that can arise, and in this case 2/5 mergers were cross-border.

	Average premium	Average deal value bil $
Energy/power/oil	36%	26
Total	28%	28

Additionally the premium paid in this industry is significantly higher (36%) than that of the overall average merger, which naturally makes the likelihood of failure bigger.

Real Estate

Year	Acquirer	Target	Deal value bil. $	Over-Paying Premium	Country	% Change in market value adjusted to industry index
2007	Unibail	Rodamco Europé	15	26%	France/Netherlands	33%
2007	Blackstone	Hilton Hotels	26	40%	USA/USA	-25%
2007	Blackstone	Equity Office	39	56%	USA/USA	-25%

Table 11

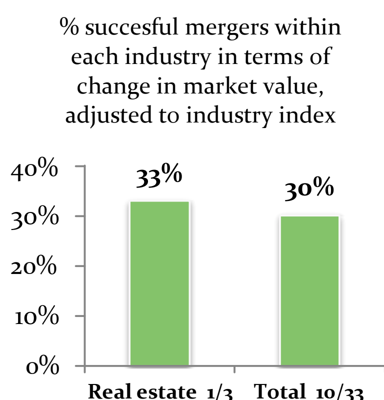


Figure 16

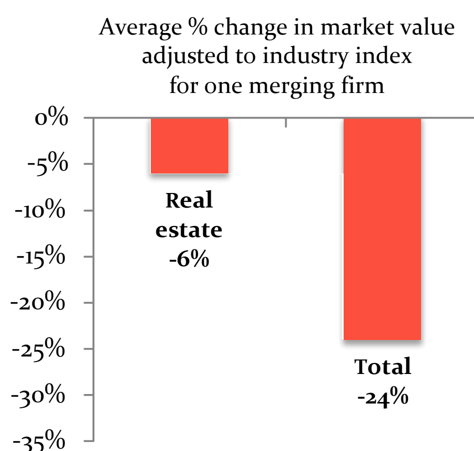


Figure 17

The real estate industry performs relatively well in its M&A operations and shows an above average share of 33% in number of profitable mergers. Furthermore it has the third best 'average change in market value per merging firm' with -6% as figure 11 shows. The real estate industry's performance is similar to that of the mining industry in every aspect except of the very volatile changes in market value in this industry. The overall best performed merger is the one between Unibail and Rodamco in this industry while the other two are low performers.

Table 12	Average premium	Average deal value bil $
Real estate	41%	22
Total	28%	28

As a consequence of Blackstone's very high overpayment, the average premium for the real estate industry is very high with 41%. This makes it hard to evaluate this industry by that factor.

Food & Beverages

Year	Acquirer	Target	Deal value bil.	Over-paying Premium	Country	% Change in market value adjusted to industry index
2008	InBev NV	Anheuser Busch	52	31%	Belgium/USA	20%
2009	Kraft Foods	Cadbury PLC	19	6%	USA / UK	-96%

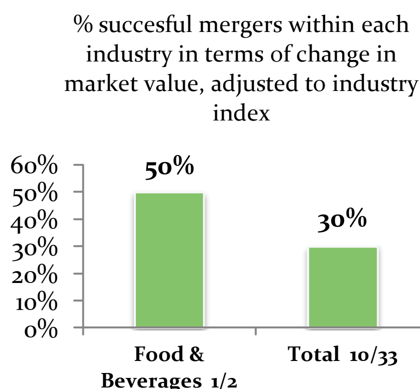


Figure 18

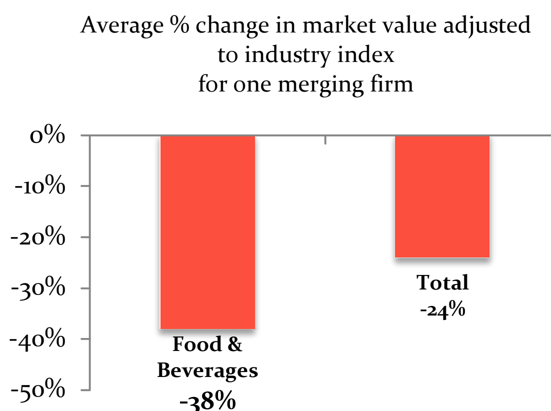


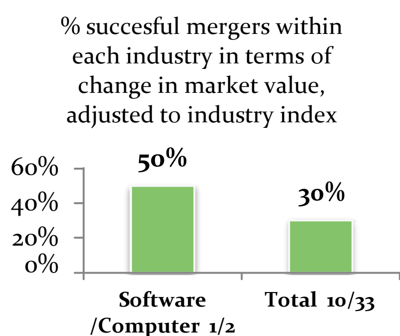
Figure 19

Since there were only two mergers in the food & beverages industry in our sample and one of them were successful and the other was not, the information is a bit too inadequate to come to fair conclusions. Moreover two mergers in this industry do follow any patterns that have been accounted for in earlier industries.

Software / Computer

Year	Acquirer	Target	Deal value bil. $	Over-paying Premium	Country	% Change in market value adjusted to industry index
2009	Oracle	Sun Microsystems	6	12%	USA / USA	11%
2009	Xerox	Affiliated	6	34%	USA / USA	-43%

Table 13



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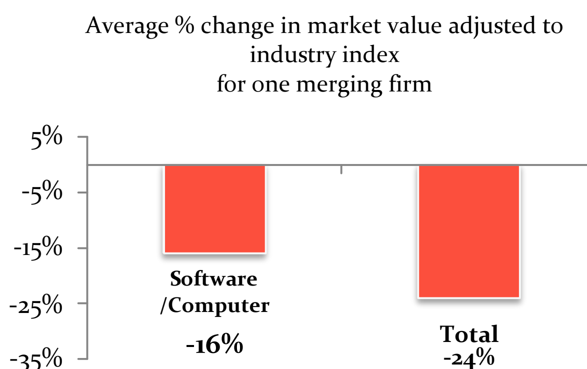


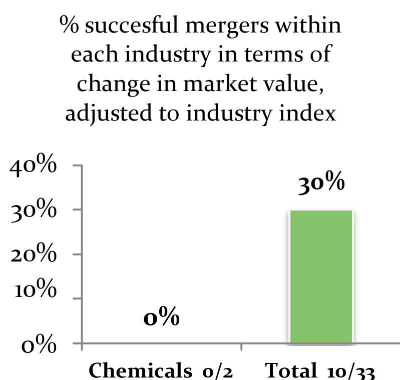
Figure 21

With the same conclusion as in the food & beverages industry no conclusion can be made in this industry either.

Chemicals

Year	Acquirer	Target	Deal value bil.	Over-paying Premium	Country	% Change in market value adjusted to industry index
2008	BASF	Ciba	5	32%	Germany/Switzerland	-15%
2008	Dow Chemical	Rohm & Haas Co	15	34%	USA/USA	-47%

Table 14



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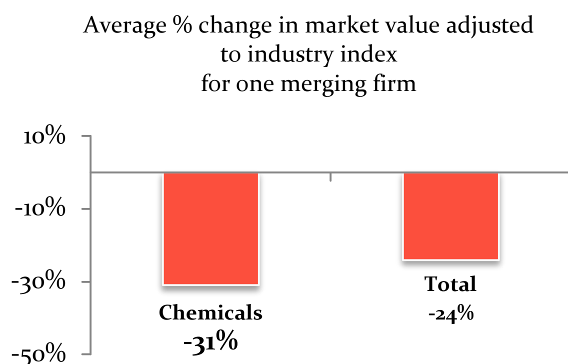

Figure 23

Table 15	Average premium	Average deal value bil $
Chemicals	33%	10
Total	28%	28

Both mergers in the chemicals industry were unsuccessful and the industry destroyed 31% of the market value on average, 7% more than the overall average merger. One of the two mergers was cross-border but between Germany and Switzerland so geographical and cultural differences are not of major significance. The premium within the chemicals industry however was 5% higher than the overall average.

Industrial / Building

Year	Acquirer	Target	Deal value bil	Over-Paying Premium	Country	% Change in market value adjusted to industry index
2007	Heidelberg	Hanson PLC	16	66%	Germany/UK	-48%
2006	Cemex SAB	Rinker Group Ltd	14	16%	Mexico/Australia	-63%

Table 16

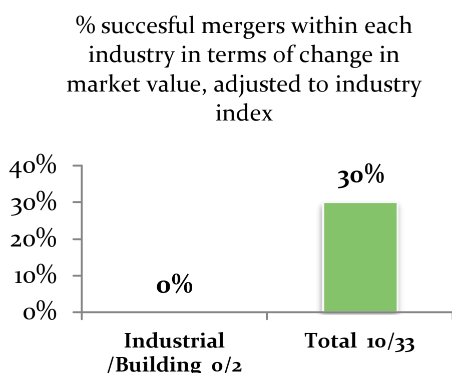

Figure 24

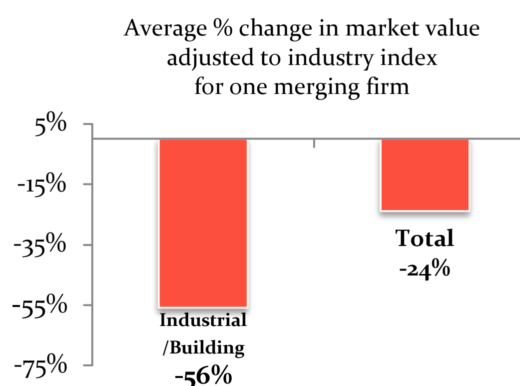

Figure 25

	Average premium	Average deal value bil $
Industrial/Building	41%	15
Total	28%	28

None of the two mergers in our sample that were in the industrial/building industry were profitable, in fact they showed the largest decrease in market value per merger of -56%. This might be due to the high overpaying (41%) and the both mergers being cross-border.

4.2.1. Analysis of Industries and Level of Success

As we showed in the section above the only industry in which M&A was proven to be successful is the telecom industry, whereas all other industries fail to create shareholder value, some much more than others. Seen from a broader perspective you could, based on our results, further categorize these industries into three groups after their performance in M&A operations;

- The only successful player in the field of M&A: the telecom industry.
- The mid-performers: the financial/banks, real estate, mining/materials, software/computer and food & beverages industries.
- The value destroying under-performers: the energy/power/oil, pharmaceuticals/biotech, chemicals and building/industrial industries.

As our theoretical framework supports we can see some negative correlation between the premiums paid in addition to the fair market value and level of success. Furthermore patterns exist of another negative correlation between the number of cross-border merger within the industry and level of success, which can be connected to the difficulties of post-merger integration in our theoretical framework. This leads to the questions why M&A among the under-performing group is characterized by higher overpaying and more cross-border activity if there are any other explanations to their lack of success. Similarly we may ask ourselves how the success of the telecom industry can be explained in addition to the high rate of domestic M&A and relatively low overpaying. Surely there are other factors affecting the outcomes than the ones pointed out above. To find these however one must dig much deeper into each merger.

4.3. Outcome: Motives and Level of Success

By observing the motives for the merger by the acquiring firm, we wish too examine whether there might be a connection between the motives and the outcome. This aspect is interesting since the motives and objectives should function as foundation for the merger, and in order for a successful merger to happen, realize those motives. Are some motives more achievable than others and can some motives, meaning an expectation in a certain improvement of the earlier described motives and synergy-effects, make a larger impact than others. Is it for example interesting discussing whether an estimated cost-reduction can make a larger impact on the merged form compared to a combined R&D –branch or the access to a new market or customer segment? It is also interesting to investigate whether some motives might be used by several firms, and if these could only be "for show", meaning they are standardized motives, widely used even though it might not be the true objective.

We hope to find patterns and common motives, which are being connected with the result of the merger, distinguishing whether we can find ground for conclusions, generalizations. We also examine if there are motives that are being used independently to the nature of the companies and its merger, making it possible to find motives that are about window dressing. Naturally this discussion is to some extent made with assumptions, but we strive to make our interpretation as objective as possible.

Acquirer	Target	Motives	% change in market value adjusted to industry index
Unibail Holding	Rodamco Europé	Multimarket contact & geographical reach, market power, risk diversification	33%
InBev NV	Anheuser Busch Cos Inc	Product Differentiation, multimarket contact & geographical reach, market power, human capital & know-how	20%
Westpac Banking	St George Bank Ltd	Market power, risk diversification, human capital & know how	18%
Suncor Energy Inc	Petro-Canada	Market power, Techonological benefits, risk diversification, efficiency gains	18%
Americ a Movil	Carso Global Telecom	Risk diversification, product differentiation, multimarket contact and geographical reach	15%
Berkshire Hathaway	Burlington Northern Santa	Market power, risk diversification	12%
Oracle	Sun Microsystems	Technological benefits, market power	11%
AT&T Inc	BellSouth Corp	Market power, product differentiation, multimarket contact & geographical reach, cost savings	7%
Verizon Wireless	Alltel Corp	Market power, product differentiation, multimarket contact and geograpohical reach, technological benefits, cost savings	5%
Teck Cominco	Fording Canadian Coal	Market power, vertical integration, risk diversification	2%

BlackRock Inc	Barclays Global Investors Ltd	Risk diversification, human capital & know-how, market power	-1%
Newcrest Mining	Lihir Gold Limited	Multimarket contact & geographical reach, Market Power, Financial cost savings	-7%
Rio Tinto PLC	Alcan	Vertical integration, market power	-8%
Merck & Co Inc	Schering-Plough Corp	Human capital & know-how, multimarket contact & geographical reach	-14%
BASF	Ciba	Market power, Cost savings, Efficiency gains, Increased sales	-15%
TEVA	Barr Pharmaceuticals	Market power, multimarket contact, geographical reach,	-22%
Blackstone Group	Hilton Hotels Corporation	Risk diversification, market power	-25%
Blackstone Group	Equity Office Properties Trust	-	-25%
Roche Holding	Genentech	Economies of scale, risk diversification,	-31%
Exxon Mobil Corp	XTO Energy Inc	Multimarket contact, geographical reach, market power, risk diversification	-32%
Novartis AG	Alcon Inc	Product differentiation, human capital & know-how, market power, synergy gains	-32%
UniCredit SpA	Capitalia SpA	tax savings, market power, cost savings	-35%
Pfizer Inc	Wyeth	Market power, product differentiation, economies of scale, cost savings	-36%
Bank of America	Merrill Lynch & Co Inc	Market power, Multimarket contact and geographical reach, cost savings	-43%
Xerox	Affiliated Computer	Cost savings (debt reduce), Technological benefits	-43%
Dow Chemical	Rohm & Haas Co	Cost savings, market power, risk diversification, vertical integration, multimarket contact &geographical reach	-47%
Heidelberg Cement	Hanson PLC	Market power, vertical integration, multimarket contact & geographical reach	-48%
Lloyds TSB Group PLC	HBOS PLC	Market power, risk diversification, economies of scale	-55%
Cemex SAB de CV	Rinker Group Ltd	Market power, synergy gains	-63%
Enel SpA	Endesa SA	Market power, Efficiency gains, multimarket contact and geographical reach	-75%
Transocean Ltd	GlobalSantaFe Corp.	Market power, Technological benefits, economies of scale,	-78%
Kraft Foods Inc	Cadbury PLC	Risk diversification, market power, geographical reach, product differentiation, cost savings	-96%
Gas Natural	Union Fenosa SA	Geographical reach, market Power, cost savings, diversification	-106%

Table 17: Compilation of official motives

4.3.1. Analysis of Motives and Level of Success

Surprisingly, we could distinguish certain motives that were broadly used, motives that a large percentage of the acquiring firm used to motivate the merger. 26 (79%) of the acquiring companies listed "market power" as one of the main objectives. The elimination of competition (defensive or preemptive strategy) and the increase of their own competitiveness is undoubtedly a major strategy for companies. In many industries this has been a usual feature, where companies strive to grow and eliminate competition, resulting in fewer, larger and more influential companies with higher levels of market power. The reason many companies stated marker power as a main objective can also be related with empire building, where managers believe acquisitions of other firms is a good way to grow and make a name for themselves. Out of the 33 mergers, 16 (48%) mentioned that geographical reach was a main objective of the acquisition. By acquiring a firm the result could be the access to new markets and areas, and according to our study this seems to be a major aim for companies. 52 percent of the companies stated "diversification" as a motive, where 7 (42%) stated they wished to minimize the risk of their operations and the other referred to the expanded product portfolio, although these two motives are somewhat connected. It was mostly holding companies (investment companies) that sought to decrease the levels of risk by acquiring another firm, and in one case where the acquirer wished to decrease the volatility from the cost off commodities by vertically integrate themselves with a supply-chain company. The remaining companies wished to increase profits from a wider range of products and services, making their company more competitive and complete, trying to achieve synergy effects. 42 % mentioned that by merging, they were expecting a reduction in costs, which can be referred to as economies of scale, fixed costs, average costs, marginal costs or financial costs. Only 18% mentioned that an objective was to increase innovation, the "know-how" and to improve the human capital by combining the personnel of the merged company. Additionally 15 % thought they would have synergy effects considering the technology transfer, where the company gains access to new innovations through patents, systems and products. Etc.

4.4. Conclusion

Judging by the outcomes, it is very difficult distinguishing whether certain motives are more destined to make the merger successful or not. Even if you might find patterns, it is extremely different verifying these conclusions since you cannot eliminate outstanding factors that are affecting the result. Although the assumption could be that the more precise the forecast of the merger is, and the more thorough the grounds for motives are based on, the more likely the merger is to achieve its goals. By analyzing the stated motives, you get the feeling that the motives might not always be drafted to perfection, since the majority of the examined mergers resulted negatively (regarding Market Value), and also that the same motives are used by several companies, even though they are active in different industries, with different prerequisites. It is very likely to believe that the true motives of some mergers, which identify the wanted outcomes of a merger, might be implicit, and the ones that are shown on the official statements and annual reports are perfunctory giving the concerned (shareholders, stakeholders) a positive image of the operation.

In the section where we analyze the success of different industries, we give some clarification and common factors that could also be applied to this part, since certain motives might be more profitable for certain industries. To clarify this statement it could for example be favorable trying to achieve cost savings by economies of scale if you are merging two manufacturing companies, and merging in order to diversify if you are an investment company, spreading the risk of your portfolio of assets.

While no correlation between success and motives could be found in our study, in the context of industries and level of merger success however, a connection could be found. In the financial/banks, real estate, mining/materials, software/computer and food & beverages industries mergers resulted in a change in market value relatively close to 0%, that is, they did not destroy too much value. The energy/power/oil, pharmaceuticals/biotech, chemicals and building/industrial industries on the other hand destroyed very large parts of the market value and proved to be very unsuccessful in their M&A operations, mainly due to high overpaying and many cross-border mergers. There was though one industry that performed significantly better in M&A and where no single merger destroyed value.

This industry is the telecom industry. Even though one is eager to find more factors behind the success in M&A in the telecom industry, the only factors that can be seen in our analysis is the relatively low overpaying and all mergers being domestic. This leaves room for further investigation in the field of the M&A success and type of industry connection.

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6. Appendix

6.1. References: Data and Market Values

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