



OULU BUSINESS SCHOOL

Value creation in mergers and acquisitions

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26.10.2010



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Do M&As generate value?

- Mixed results regarding the extent to which the bidding firm's shareholders benefit from M&As.
 - Most of the studies find evidence that bidding firms' shareholders at best break even.
- Shareholders of target firms are found to benefit from becoming targets. But the extent of the benefits is within a wide range.



Why do firms acquire?

- Why do firms try to acquire other firms when there is ample evidence that they are simply transferring wealth from their own shareholders to those of the target?
- Why do the shareholders of the bidding firms allow this wealth transfer to take place?



The state of the research

- A lot of mixed evidence about the share price reactions to M&As. Do they reflect the reality?
- Why do firms undertake M&As in the first place? What are the underlying motives?
- What are the challenges in the post-acquisition integration?



Pyykkö (2009)

- Investigate M&As as matching processes
 - All M&As are individual cases with different combinations.
 - How do acquirer's and target's characteristics interact in the success of M&As.
- Objective to proxy for the motive behind the M&A.



Research setting

- Approach the success of M&As from two interrelated perspectives.
 1. What interactions do both investors and managers expect to generate synergies from the M&A?
 2. Which interactions eventually generate synergies?



Data

Panel A: M&As by year

	Year													Total
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
M&As	4	7	20	44	51	46	24	23	31	23	33	26	10	342

Panel B: M&As by industry

Industry	Acquirers		Targets	
	Number	Percent	Number	Percent
Consumer Nondurables	1	0.3%	5	1.5%
Consumer Durables	5	1.5%	5	1.5%
Manufacturing	55	16.1%	49	14.5%
Oil, Gas, and Coal Extraction and Products	7	2.1%	7	2.1%
Chemicals and Allied Products	19	5.6%	13	3.9%
Business Equipment	175	51.3%	166	48.4%
Telephone and Television Transmission	1	0.3%	3	0.9%
Utilities	1	0.3%	2	0.6%
Wholesale, Retail, and Some Services	17	5.0%	14	3.9%
Healthcare, Medical Equipment, and Drugs	43	12.2%	52	15.0%
Finance	1	0.3%	1	0.3%
Other	17	5.0%	25	7.4%



The generation of synergies?

- Strategic fit through improved operating efficiencies
 - Production capacities
 - Growth opportunities
 - Market-to-book, mismatch between growth prospects and liquidity position, tangible assets
- Technological strategic fit
 - R&D bases of the firms



Other motives for M&As

- Agency problems
 - Excess free cash flows

- Managerial hubris
 - Large firms
 - High market-to-book firms



Results: expectations of synergies

- The investors expect less synergies from M&As involving large and highly valued firms.
- However, the only characteristic that both the market and managers expect to generate more synergies is the high R&D intensity of both firms involved.



Results: generated synergies

- The characteristics that eventually generate synergies are those that indicate less managerial hubris and fewer agency conflicts.
- The most influential source of synergies generated is the acquirer's R&D base as such.



Implications

- Comparing the expectations of synergies with the generated synergies provides a new perspective on assessing different motives for M&As
- Using quantitative data shows that in addition to the quality of the management, the R&D capacities of the firms involved appear to play a key role in the (expected) success of M&As.
- Reflects the challenges and the points which firms should emphasize in the post-M&A integration.

