7 Mergers and acquisitions

7.1 About business Risks and opportunities in M&A

Internet research

Search for the keywords *surviving a merger* to read about people who have experienced takeovers and the advice they give.

Discussion

1 How is a merger like and unlike a marriage?

How are mergers and acquisitions perceived by:

- employees?
- shareholders?
- customers?
- the general public?

Skim reading

2 Read the article opposite and answer the questions.

1 Who are the students and why do they want M&A classes?
2 What lessons do they learn?
3 What are good reasons for mergers and acquisitions?
4 What are the wrong reasons?

Reading for detail

3 Read the article again. The words in grey are explained in the *Wordlist* on page 157. With a partner, discuss why these statements are T (true) or F (false).

1 Every year over 500 mergers and acquisitions in the US fail to deliver increased value. ☐
2 American executives are keen to get a share in multi-billion dollar takeovers. ☐
3 Executives wishing to attend M&A courses have to have an MBA. ☐
4 Experienced managers tell attendees about typical mistakes they have made. ☐
5 Because of the risks, business school professors do not recommend mergers. ☐
6 Shareholders can often only judge the success of their CEO's acquisitions policy several years after a takeover. ☐
7 Austin says that empire-building, diversification and increasing debt are the wrong reasons for a merger. ☐
8 According to Austin, many CEOs embark on mergers and acquisitions for irrational, emotional reasons. ☐

Listening for gist

4 3:01 Listen to an interview with Bernard Degoulange, an M&A specialist at Banque de Reims, who talks about choosing targets for acquisition. What are the five Gs?

Listening for detail

5 Listen again and answer the questions.

1 According to Bernard Degoulange, what is the best reason for a merger?
2 Explain how he uses the example of champagne and whisky to show why external growth is necessary.
3 Explain each of the points summarized by the five Gs.
4 What opportunity does a merger offer the competition, and why is it possible?
5 Why is a merger a traumatic period according to Bernard Degoulange?
6 How does he say companies should help people get through this trauma?

Discussion

6 You are the owners of Bradburgers, a hamburger restaurant in your town. With your five employees, you have established a reputation for fast, good quality food, and the business is making a good profit. One of your competitors in the next street is Kadri's Kebabs, which sells takeaways and delivers kebabs to homes and offices. There are fifteen employees. Kadri and his two brothers are excellent cooks, but poor managers; their kebab house is losing money, and is up for sale. What are the pros and cons of taking over the business? Think about the five Gs in particular.

Lessons in M&A

SOME 1,500 TO 2,000 mergers and acquisitions are completed per year worldwide, of which around half are in the US. With deals worth astronomical sums, ($25bn for HP-Compaq, $35bn for Daimler-Chrysler, and $77bn for Exxon-Mobil,) it comes as no surprise that American executives are queuing up to go back to school for M&A classes. And although it's true that improving earnings and asset growth are not the only goals in takeovers, the fact that many mergers result in a net loss of value suggests that schooling is sorely needed!

Every year hundreds of executives attend M&A courses at prestigious institutions from New York to L.A. In these 'open enrolment' classes, the only condition of attendance is your, or rather your company's, ability to pay the fees: as much as $1,000 per day. At least that seems to demonstrate that the B-schools know something about improving earnings!

So what do you learn in a week with America's top finance professors? 'We aim to equip participants with techniques based on best practice in the key areas of merger activity performance,' says Ted Austin from the Delaney School of Business. 'We cover all aspects of the conception, planning, due diligence, negotiation and integration stages.' Austin also draws on case studies and guest speakers to illustrate some of the most common acquirer errors: over-valuation, over-confidence, 'under-communicating', and underestimating the value of your newest assets – the people in the company you've just bought. In the turmoil of integration, your best engineers and managers may be more susceptible to attractive offers from the competition.

There is no doubt that M&A is a risky business. With a 70% plus failure-rate, you might think that B-school professors would do well to discourage their students from launching takeover bids. But you'd be wrong. Austin describes some of the other (good) reasons for mergers and acquisitions: 'I suppose the most popular reasons invoked in CEOs' messages to shareholders are developing synergies and making economies of scale – these are sometimes conveniently long-term goals! Other objectives may be increasing market share; cross-selling, when for example a bank can sell insurance to its existing clients; diversification, if a company is perceived to be too dependent on a niche market; or quite simply taking on debt, the so-called poison pill, in order to make itself a less attractive target for would-be buyers.'

The bankers, brokers and lawyers will be pleased to know there are still many good reasons to merge. But what about the wrong reasons? 'They mainly involve excessive pride or arrogance on the part of management,' says Austin. 'Wanting to build too big an empire, too quickly, and overextending the financial, commercial and human capacity of the organization. These courses aim to help executives bring their CEOs back down to earth: learning to follow your head rather than your heart is the key lesson in avoiding very expensive mistakes.'