



LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

Mergers, Acquisitions and Corporate Restructurings (Session 3 – The Corporate Strategy used by M&A)

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ECONOMIC MOTIVES OF M&A

Economic motives of M&A: Creating value for Shareholders

- Target company management is inefficient
 - The new team will create value
- Target company is undervalued – e.g. asymmetric information
 - The new shareholders will benefit from market inefficiencies
- Target company is valued adequately by market
 - Corporate Synergy is the source for value creation
 - Strategic alignment
 - Operational synergy
 - Financial synergy



CORPORATE STRATEGIES AND M&A

Growth Strategies Matrix

Product Market	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Ansoff (1965)

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Strategies for Growth and Diversification

		New Products	
	Product Customer	Similar Technology	Diferent Technology
New Markets/Mission	Same Customer	Horizontal Diversification	
	Target is customer or supplier	Vertical Integration	
	Similar Customer	(1)	(2)
	New customer	(3)	Conglomerate

*Concentric
Diversification*

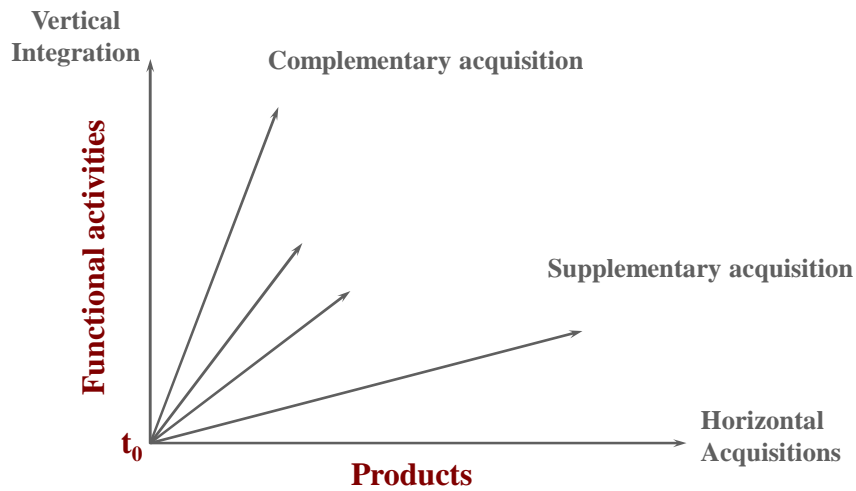
- (1) - Marketing and technology are similar
 (2) - Marketing is similar
 (3) Technology is similar

Ansoff (1965)

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Acquisition of related businesses



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Type of M&A and related synergies

M&A \ GAINS	HORIZONTAL	VERTICAL	CONGLOMERATE
MARKET POWER	Possible	Improbable but may happen	Improbable
OPERATIONAL	Possible	Possible	Improbable
FINANCIAL	Possible	Possible	Possible
STRATEGIC	Possible	Possible	Possible

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Distribution of synergy gains

$$\text{SYNERGIC GAINS} = V_{TB} - (V_T + V_B)$$

- Synergy gains obtained by Target Company (T):

$$\text{Gains for T} = P - V_T$$

- Synergy gains obtained by the Bidder/Buyer (B):

$$\text{NPV} = V_{TB} - (V_T + V_B) - (P - V_T)$$

Rational for horizontal M&A

- Value Maximization Theory
 - Increase of efficiency in production, distribution, etc.
 - Increase of market power
 - Increase of negotiation power
 - Rationalization of processes
 - Reconfiguration of businesses
 - Better use of competencies
 - Economies of scale and scope
- Management Inefficiency Theory
 - The management of the target company is inefficient

Example of horizontal M&A

Travel agency

M&A Rational

- Extension of distribution channel – looking for national coverage – network of agencies
- Increase negotiation power with supplier of services (Hotels, resorts, transportation services)
- Rationalization of processes and better user of human resources competencies
- Internacionalization – diversification of markets



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Rational for vertical M&A

- Enter in phases of the value chain with more value added
- Access to newmarkets
- Obtain economic benefits of technology
- Elimination or reduction of costs such as advertising, communication, coordination – i.e. transaction costs
- Improvement of inventory planning and production – i.e. transacations cost
- Reduction of risk of market failures
- More proximity with the final customer or better access to raw materials

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Example of vertical M&A

Foundations and Geotechnical Company
Acquires a metalworking company

Rational for the M&A

- Entry in a new business that has synergy with the existing business both from technology and marketing
- Reduction of risk for periods of inactivity because of breakdown of materials
- Economies in the acquisition of parts/components
- Better control of the process in the value chain



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Rational for Conglomerate M&A

- Types of conglomerate
 - Financial control
 - Strategic control
- Advantages
 - Diversification of risk
 - Search for opportunities
 - Easy to enter, easy to divest

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Example of conglomerate strategies

- Mitsubishi
- Siemens
- General Electric
- ...

By Alphabetical Order

A	B	C	D	E	F	G	H	I	J	K	L	M
N	O	P	Q	R	S	T	U	V	W	X	Y	Z

By Industry

Banking & Securities	Foods	Nonferrous Metals	Services
Chemicals	Hotel	Organizations	Steel Products
Commerce	Incorporated Foundations	Precision Machinery	Temporary Work Services
Construction	Information, Communication & IT	Pulp & Paper	Textiles & Apparel
Consulting & Research	Insurance	Real Estate	Transport Equipment
Elderly Care	Machinery	Resources & Energy	Travel & Recreation
Electrical Machinery	Metal Products	Rubber Products, Ceramics & Glass	Warehousing & Transport
Environments	Mining		

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Rational for concentric M&A

- Concentric M&A search for benefits of being part of na industry matrix
- Markets, Processes or Technologies may have something in common
- Typical case is banking and insurance businesses - bancassurance

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Assignment

- Case studies on:
 - Vertical integration M&A
 - Horizontal M&A
 - Conglomerate M&A
 - Concentric M&A
- Objectives
 - Describe the strategy and the rationale behind the acquisition and the benefits realized by the shareholders

Ideas for research projects

- Relation between the strategy and economic performance
- Relation between strategy, structure and performance
- Analyse sectorial M&A and their performance – e.g. health sector, insurance sector, banking sector, Tourism sector, etc.