



LISBON  
SCHOOL OF  
ECONOMICS &  
MANAGEMENT  
UNIVERSIDADE DE LISBOA

## Mergers, Acquisitions and Corporate Restructurings (Corporate Strategy and 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	<b>Market Penetration</b>	<b>Product Development</b>
New Markets	<b>Market Development</b>	<b>Diversification</b>

Ansoff (1965)

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## Strategies for Growth and Diversification

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

Concentric  
Diversification

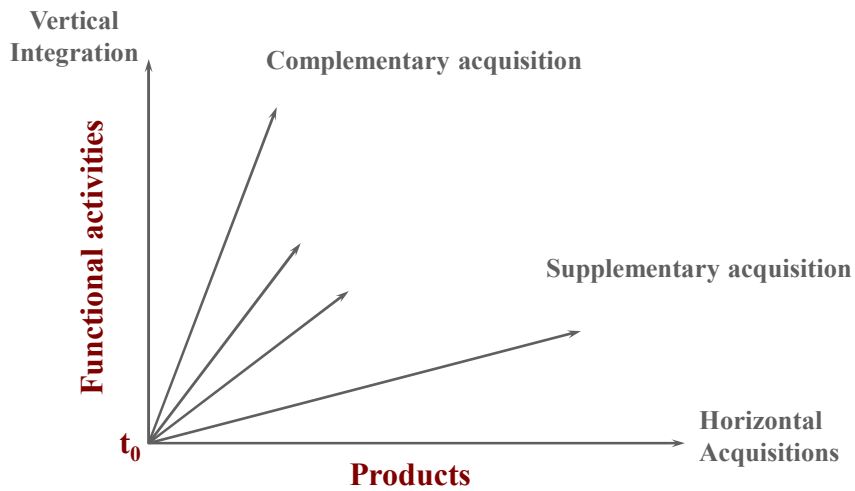
- (1) - Marketing and technology are similar
- (2) - Marketing is similar
- (3) Technology is similar

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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
- ...

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## Rational for concentric M&A

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

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## 1. Type of essay: Issues in value creation in M&A

- Do mergers create value?
- Why do merger fail?
- What are the successful factors of M&A?
- Select one company as an example of the topics discussed previously

## 2. Type of essay: Strategic rational of a M&A

- Select one case study where you can identify:
  - Vertical integration M&A
  - Horizontal M&A
  - Conglomerate M&A
  - Concentric M&A
- Objectives of the essay:
  - Describe the strategy of the bidder
  - Identify the rational behind the acquisition/merger
  - Identify the benefits realized by the shareholders
  - Identify any stakeholder in risk of obtain losses with the M&A deal

### 3. Other type of essays

- 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.