

Takeovers 'enhance share value'

News analysis

Research refutes the belief that acquisitions destroy performance, writes **Steve Johnson**

Listed companies that make significant acquisitions are sharply outperforming wider equity markets, according to new research, refuting studies suggesting that most takeovers destroy shareholder value.

European companies that completed deals worth at least \$100m saw average share price returns of 12.2 percentage points above the wider market in the first quarter of 2011, the highest figure on record, according to research by Towers Watson, the consultancy, and London's Cass Business School.

With acquisitive North American and Asia-Pacific companies also beating their indices, the data pointed to a "sustained out-performance for acquirers over the last three years of the research", Towers Watson said.

The figures appear to contradict academic studies that indicate about 60-70 per cent of deals destroy value for shareholders of the acquiring company, a find-

ing attributed to a failure to deliver the promised synergies, integration issues and incentive systems that can encourage management to seek expansion even at unattractive prices.

Professor Scott Moeller, director of the M&A Research Centre at Cass, who led the research, said in 2006: "Almost every significant research study argues that acquiring companies lose value for their shareholders when they attempt takeovers."

Anna Faelton, a colleague of Prof Moeller, said: "In the 1980s and 1990s it was the general perception that mergers destroyed share value, but the studies we have done, from 2008, have shown that in every quarter, with the exception of two, [acquirers] have outperformed in the following quarter."

Since 2008, acquiring companies have, on average, outperformed the market by 3.4 percentage points in the quarter in which a deal was completed, according to the research.

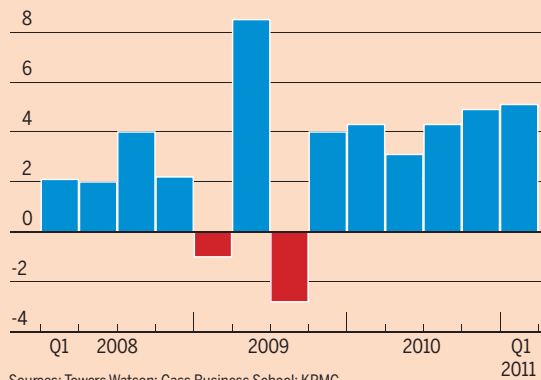
Steve Allan, M&A practice leader for Europe at Towers Watson, attributed the sharp reversal from earlier decades to greater selectivity in acquisitions.

"Companies have got better at doing this, they are doing proper due diligence and having the courage to



Acquiring companies

Share price performance relative to MSCI World Index, percentage points



Sources: Towers Watson; Cass Business School; KPMG

Proportion of takeovers that significantly enhance or reduce shareholder value

Latest survey figures

2007-09

Enhance Reduce

31% 32%

2005-06

Enhance Reduce

27% 39%

turn down some deals," he said. "There is much more rigour about whether a deal can be put before shareholders."

John Kelly, head of transaction services at KPMG Europe, argued that companies had been forced to up their game after a period of being "outsmarted" by private equity firms. "Due diligence on deals up to the mid-1990s was pretty amateurish. That element of the M&A process really professionalised through the last five years of the 1990s and

continues to do so," he said.

However, Mr Kelly argued the Cass/Towers Watson data, which only measures share price performance to the end of the quarter in which a deal completes, was too short term to allow any meaningful conclusions. "Three months is much too short. You haven't got much chance to integrate the business and get the synergies out. In effect the market has no new information," he said.

KPMG's own data, which encapsulate the 12 months

after a deal is announced, show a more modest improvement in performance by acquirers; of deals struck in 2006-07 27 per cent enhanced valued and 39 per cent reduced it (with the remainder being broadly neutral), while from 2007-09, 31 per cent enhanced value and 32 per cent reduced it.

However, Mr Allan said longer-term studies suggested the share price performance in the immediate aftermath of a deal was a good leading indicator of longer term performance.