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Industry-specific M&A strategies: a case study approach

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Abstract

The aim of this work is to investigate whether industry is a determinant of the scope and the frequency of mergers and acquisitions (M&A) activity. In other words, the objective is to understand if there is a specific M&A strategy that proves particularly successful only, or predominantly, in a specific industry or set of industries. To do this, the work hereby presented considers the case of two Italian companies, operating in different sectors: *Campari Group*, a major player in the global alcoholic beverages industry and *Webuild S.p.A.*, the leading Italian infrastructure constructions player. In the last decade, both these companies have executed a number of M&A transactions, which are the subject of this analysis.

The content of this work is structured in three chapters.

The first chapter, entitled *Corporate Growth Strategy*, explores the strategic decisions taken by the management to generate growth in their organizations and which are the possible mechanisms to realize such strategies. Then, the final part of the chapter seeks to provide a decisional framework for the choice of the right mechanism, based on a set of internal and external conditions.

The second chapter, entitled *M&A: trends, motives, and value creation*, begins with the description of the seven merger waves, an important historical concept useful to understand the trends affecting M&A. Secondly, the rationale and drivers of merger activity are analysed, focusing on the most recent strategies characterizing the market for corporate control. Then the concept of synergy, the most important driver of M&A activity, is presented together with the theory behind its valuation. Finally, the last paragraph tries to respond to a very debated question, “Does M&A pay?”, with the help of up-to-date evidence from academic papers and market research.

The third and last chapter, reserved for the case study, begins with a section dedicated to the Italian M&A market, analysing its past, current, and future outlook. Then, each of the two companies is presented, with a general overview, and the industry and competitive landscape are explored. Next, two sub-paragraphs are dedicated to the examination of the M&A portfolio of the company and the strategy behind it. Finally, a section is dedicated to the evaluation of the performance of the company, both economic and financial.

The work then ends with the conclusions, which try to build up a comparison between the two companies.

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Chapter 1 – Corporate growth strategies

1.1 Introduction: the centrality of growth

Mergers and Acquisitions (M&A) are a core part of a developed corporate's business strategy. But these operations, defined as extraordinary, are only one of the possible choices to be taken by the management to generate growth and thus create value.

In the development of a corporation, the ability of making profits, that can eventually be distributed to shareholder thus maximising their value, is deeply connected with the existence of growth (Penrose, 1959). Companies can either target growth internally, with the so-called greenfield expansion, or look for it externally with a brownfield expansion. Internal growth, often defined as organic, is where a company shape its own infrastructure and sets up its own production, distribution, and sale networks or builds an ecosystem, internally, without any impact on its original structure or business model. (Kumar & Sharma, 2019). On the other hand, inorganic growth (i.e., external), can take the form of a strategic alliance, a merger, or an acquisition.

In order to eventually examine M&A strategies, which are among the external growth alternatives, it is therefore important to establish whether there is an alternative to a merger or an acquisition, the characteristics of each strategy and which one is more suitable for a particular industry and at a defined stage of a company's life.

A successful growth strategy mainly depends on four aspects, which can be summarized as follow: (1) content, (2) process, (3) pace of growth and (4) mechanism (Mennillo et al., 2012). *Growth content* is basically the rationale behind it: whether within the core business or in totally new areas, decision makers must establish a clear agenda for the value creation process of their organization. *Growth process* refers to the characteristics of the application of the growth process inside a company, i.e., how it is organized and executed. The *growth pace* is evidently linked to the optimal growth rate. Raisch and Von Krogh (2007) highlight the concept of growth corridor, which is a range between minimum and excessive growth that determines how fast a company can safely and healthily grow. Finally, *growth mechanism* refers to the "make, ally or buy" decision (White, 2000): in other words, choosing between organic or inorganic growth.

1.2 Growth mechanisms

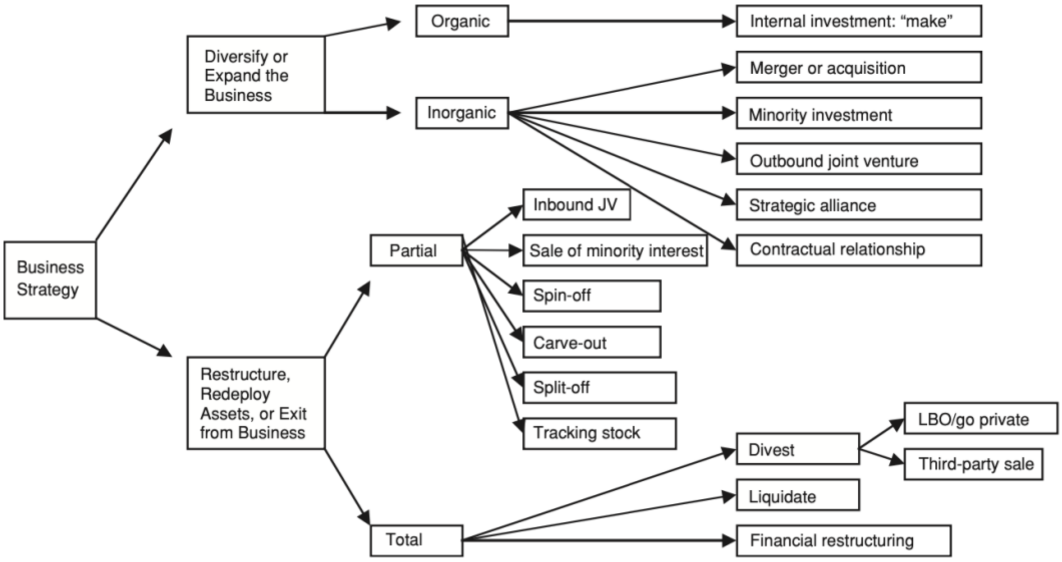

Figure 1*: Growth and restructuring decisions (Source: Bruner & Perella, 2004)*

The purpose of this paragraph is to analyse the possible decisions that the management of a firm can take to realise growth and restructuring targets, as illustrated in Figure 1.
Designing the firm's strategy is a core activity in the life of an organization, but it must be preceded by a clear definition of mission and objectives together with an analysis of the company's strengths, weaknesses, opportunities, and threats (SWOT) and its market position (Bruner & Perella, 2004).
The mission statement defines a series of characteristics of a corporation like its identity, purpose, activity, and values. For example, the mission of Ferrari N.V., one of the global leaders in sports car manufacturing, states *"We build cars, symbols of Italian excellence the world over, and we do so to win on both road and track. Unique creations that fuel the Prancing Horse legend and generate a World of Dreams and Emotions"* [1]. This short assertion often incorporates the strategic objective of the company: in Ferrari's case this is *"to win on both road and track"*. Therefore, mission and strategic objectives stand as the pillars accompanying the firm's executives throughout the design process. The output of this procedure is a set of documents that generally includes a SWOT analysis: an

[1] This passage was extracted by the corporate website of Ferrari N.V. at the following address: corporate.ferrari.com/en/about-us/ferrari-dna. The webpage was visited in July 2021.

assessment of internal and external factors, such as available resources and market positioning, that provides a useful insight in the evaluation of the feasibility of the proposed strategy.
What follows is the examination of all the different strategic decision originating from the planning process and the analysis of the respective advantages and disadvantages, with a focus on the effectiveness of each of them in specific circumstances.

1.2.1 Internal development

When growth is generated without relying on external partners, practitioners generally speak of internal development and define that growth as organic. This strategy is still believed to be the most common and often predominant. A 2017 research from McKinsey collected data on share-price performance over 15 years for a panel of 550 US and European companies revealing that for all levels of revenue growth, the ones with more organic growth generated higher shareholder returns than those relying more on strategic alliances and M&A (see Figure 2).

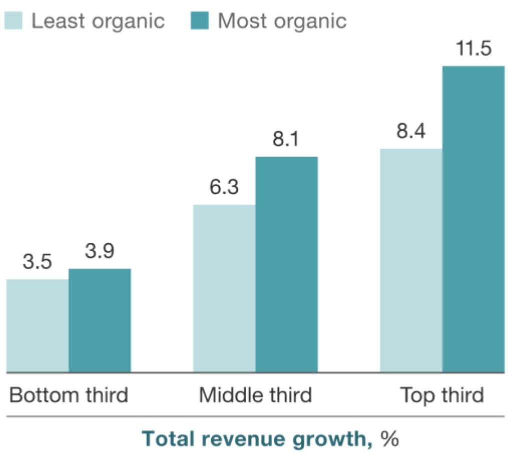

Figure 2*: Annualized excess shareholder return relative to the S&P 500[2], 1999-2013, % (Source: McKinsey, 2017)*

Given the results of this study, a question arises naturally: why companies do not rely exclusively on organic growth? In order to answer this, it is first necessary to explore the

[2] The sample excludes banks, insurance companies, extraction companies and cyclical commodities.

characteristics that allow to gain a competitive advantage and therefore to grow at a faster pace than the peers. Porter (1985) described these strategies as cost leadership, differentiation, and focus:

- **Cost leadership.** In this strategy, the company's objective is to be the lowest-cost producer of its industry, whose product or service is generally a commodity. Thus, the output is often standard, without frills and the firm is concerned with economies of scale and raw materials agreement with suppliers. However, the main disadvantage of this strategy is the risk of the product not being perceived as equal to the competitors' one: in this case, the quality and pace of research and development (R&D) in the industry plays a crucial role in the strength and duration of this leadership.

- **Differentiation.** The objective here is to achieve enough uniqueness in the industry to market a product or a service at a higher price. In this case the offer to the customer, that includes the output, the brand image and all the supplementary services included must be hard to replicate by competitors. Unlike cost leadership, differentiation requires substantial investments in R&D therefore who pursuit this strategy is subject to the risk of it not being cost-effective.

- **Focus.** This strategy takes advantage of either cost leadership or differentiation to serve a particular niche where consumers needs are not completely satisfied by the existing offer. Clearly, focus is ideal when an industry is characterized by segments with specials needs and where is possible to serve them better. For example, a low-priced smartphone accessories producer is cost focused while a high-end luxury car manufacturer is differentiation focused. These companies however face considerable risks because of their lack of diversification.

This generic competitive strategy could be also replicated inorganically, by allying with a partner or by executing acquisitions.
What makes companies able to realize them inside their perimeter can be resumed in two key features: recruiting and retaining superior human capital and innovating through internal R&D spending (Rothaermel & Hess, 2010). The upside and downsides of these methods are shown in Figure 3.

STRATEGY	UPSIDES	DOWNSIDES	SOME EXEMPLAR COMPANIES	REQUIREMENTS
Recruiting and Retaining Superior Human Capital	• Better control of IP • Long-term growth focus • Difficult for competitors to imitate	• Organic growth is slower • Challenge of identifying and valuing superior human capital	• Goldman Sachs • Google • Merck • Research In Motion • Southwest Airlines • W.L. Gore	• Astute strategic human resource management • Organizational flexibility
Internal R&D Spending	• Internalization of skills and capabilities • Full capture of returns	• Full risk exposure • Long time horizon • Uncertain returns	• Apple • BMW • Hewlett-Packard	• Culture of risk tolerance • Organizational flexibility • Long-term commitment

Figure 3*: Approaches to organic growth (Source: Rothaermel and Hess, 2010)*

Combining a strong R&D department with adequate budget and quality human capital is thus a key for growing organically. This development is often the less risky and may help building a durable competitive advantage with respect to competitors. However, companies do not rely exclusively on it because, especially with R&D, returns are uncertain and require long time horizons. Therefore, in certain circumstances buying the innovation has a lower risk and provides growth at a faster pace.

At this point, having already determined the necessary resources to generate organic growth, it is necessary to understand which are the practical actions to be taken, building on the general competitive strategies defined by Porter. A survey by McKinsey, whose result is displayed in Figure 4, asked executives which were the single or multiple strategies used in their organization to grow internally.

Figure 4*: Strategies used to generate organic growth, past 3 years[3] (Source: McKinsey, 2017)*

[3] Values in percentage points. Number of respondents: 1,175.

Respondents had to choose between “investing in existing high-growth activities by reallocating funds from a variety of sources”, “creating new products, services, or business models” and “performing better by constantly optimizing their core commercial capabilities, such as sales, pricing, and marketing”. 93% of the interviewees stated they had pursued at least one strategy to generate organic growth in the past three years, and nearly two-thirds agreed or strongly agreed that organic growth was at the top of their executive teams’ plans. Moreover, the majority of respondents stated that the majority of their past growth came from investing in existing activities, even at companies using multiple strategies. But when executives were asked which strategy they were going to pursue in the future, over 50% responded “creating new product and/or services”, motivating this with the lack of growth in their primary markets: as a matter of fact, this is another important motive that leads companies towards inorganic growth.

1.2.2 Contractual relationships and strategic alliances

The mechanism of a contractual relationship (CR) is perhaps the simplest of all inorganic expansions. It involves an agreement between two parties with regard to a variety of business matters like distribution, operations, and R&D. It is a form of cooperation between organizations with limited exposure in terms of contractual obligations.
Bruner & Perella (2004) provided the following example of CR:

- **Licensing agreements.** Where a company borrow from the partner a trademark for a particular technology, a brand, or an asset, exploiting it for its production and/or sales.

- **Co-marketing agreements.** Where the owner of a product allows another company to produce and sell the product under a different brand in exchange for a fee and profits on inputs sold to the partner.

- **Co-development agreements.** When two or more partners agree to share R&D investments necessary to develop a new product or process.

- **Joint purchasing agreements.** When two or more partners agree to pool purchases of raw materials to take advantage of economies of scale.

- **Franchising.** When a company grants to its partners an exclusive market territory in exchange for a fee.

- **Long-term supply or toll agreement.** When a company commits to a determined volume of purchases for a period of time at a favourable price.

On the other hand, a strategic alliance (SA) is more complex and constitute a more serious, long-term commitment between the parties (Bruner & Perella, 2004). SA have three important characteristics: (1) the firms involved remain independent after the alliance; (2) there is constant mutual interdependence, therefore one party is vulnerable to the other: this, unlike CR, generates a condition of shared control and management, thus creating overhead administrative costs; (3) since the partners remain independent, there is uncertainty as to what one party expects the other to do (Inkpen, 2008).
Again, the SA can take various forms, but what differentiate it from a simple CR is the sharing of human capital, assets, knowledge and even equity stakes. Figure 5 portrays a conceptual framework useful to distinguish between these two mechanisms.

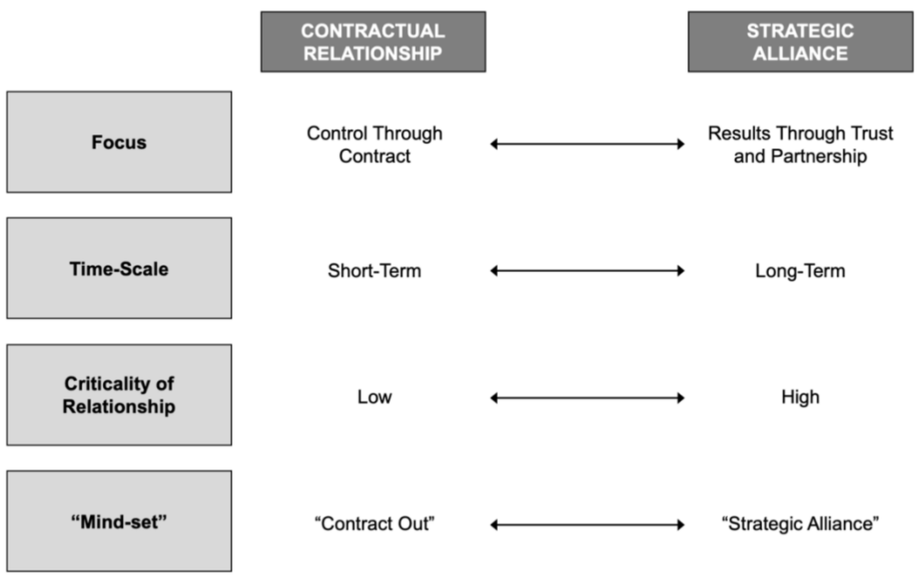

Figure 5*: Contractual relationships and strategic alliances (Source: personal elaboration based on Willcocks & Choi, 1995)*

Among these forms of alternative deal-making we find: equity alliances (EA), including corporate venturing, and joint ventures (JV).

- **Equity alliances** involve a direct investment in the counterparty, thus they include an equity contribution in the form of a minority interest or equity swap. Sometimes this stake is acquired reciprocally, in a mechanism called *cross-shareholding arrangement*. Equity alliances also relate to corporate venture capital (CVC) deals: in this case the deal is generally done between established company and a start-up and may also comprise a technological transfer.

- **Joint ventures** involve the creation of a separate entity, with stakes by both the counterparties. The partners can decide to contribute technology, knowledge, other assets, and/or capital to the new venture. The development of this form of SA was mainly driven by the extensive globalization wave of the 1990s. For example, in order to access to the Chinese market, foreign companies needed to create JVs with local partners.

Strategic alliances, whether in the form of EA or JV, allow for share risk between the partners, limiting the potential loss in case of an unsuccessful deal. Also, the growth generated by these investments can be obtained way faster than internal development and executing multiple small-scale investments can generate diversified strategic options. On the other hand, integration is an issue, especially when the parties have to align their strategies and goals. All in all, for a SA to work, partners have to establish a dedicated internal function for the management of partnerships (Rothaermel and Hess, 2010).
SA also happen when the minority interest is part of a stake-building process in which the acquirer plans to take over the full control of the target company. This process generally takes place when the buyer does not have enough resources to acquire a majority stake, or it wants to hedge its bets before doing so.
The relevance and frequency of SA deals is gaining increasing importance in global markets. According to a BCG research (2020), technology and business model change are the main drivers of the surge in alternative deal-making. For example, a large part of automotive players is investing or co-investing in numerous start-ups that are developing new technologies for batteries and autonomous driving. Also, digitization remains an

important driver for many traditional industries and SA are seen as the fastest and safest mechanism providing access to these digital capabilities[4]. A shown in figure 6, the last three years registered a steady rise in SA, with 2019 seeing an all-time high of 11.000 deals.

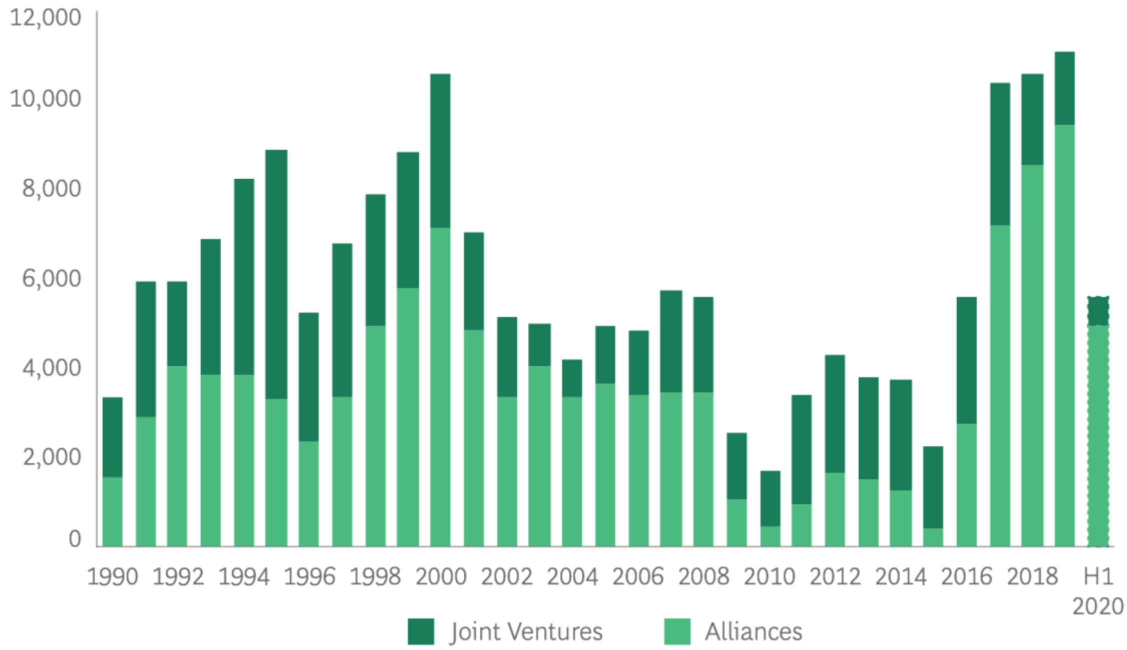

Figure 6*: Number of joint ventures and alliances, 1990-2020 (Source: BCG, 2020)*

1.2.3 Mergers and acquisitions

Differently from contractual relationships and strategic alliances, in case of a M&A the target company loses its economic and decisional autonomy when a controlling majority is sold (Hoffmann & Schaper-Rinkel, 2001). This characteristic imply that M&A reduces the reversibility of a determined corporate strategy and with that, its flexibility (Mennillo et al., 2012).

Academically, a *merger* is defined as the combination between two previously distinct firms into a new legal entity while an *acquisition* takes place when one company acquire

[4] For example, Campari Group and LVMH recently formed a joint venture to create a pan-European Wines & Spirits e-commerce player. Campari had previously acquired a minority stake in Tannico, a major Italian player in the industry, and announced its inclusion in the JV.

a controlling stake in another firm, whether a business or part of its assets (Mariani, 2017)[5]. Regardless of the legal structure of the deal, M&A is the key mechanism of what is referred to as the “market for corporate control” (Berk & DeMarzo, 2020).
A takeover (an alternative way to define M&A) can occur in multiple circumstances and with different structures and objective: the following is a non-exhaustive description of the various form a deal can take.

- **Horizontal M&A.** This kind of merger and acquisition refers to combinations between two companies operating in a similar line of industry. Essentially, it refers to buying or merging with actual or potential competitors (Kumar & Sharma, 2019). The primary objective of this type of deals is undoubtedly to gain a greater competitive advantage in the segment, by taking control of the target’s market share. With a horizontal M&A, the newco[6] can in fact hope to become one of the top players in the industry, benefitting from a stronger buyer power and greater brand recognition. Additionally, such a transaction can address economies of scale goals, thus generating operating synergies, a concept that will be explored in depth in the following chapters.
  Merging two businesses in the same industry is reasonably expected to have a greater likelihood of success, since integration issues are less likely to affect the outcome of the deal, nevertheless horizontal M&A can still present its own challenges (Gaughan, 2013).
  An example of horizontal integration can be seen in the case of the Italian conglomerate Luxottica, the world's largest company in the eyewear industry. In the 1990s, it completed a series of three horizontal deals, taking control of Vogue Eyewear (1990), Persol (1995) and Ray-Ban (1999). This flow of bolt-on acquisitions[7] allowed the company to diversify their offer and build a portfolio of highly attractive brands, therefore gaining market share and contractual power.

[5] Mergers and acquisitions generally differs only under a legal perspective. From this point forward, they will be referred to as M&A, with no distinction.

[6] The newly formed entity after a merger.

[7] A bolt-on acquisition is one that is consistent with a company's existing activities (Gaughan, 2013). The target is generally smaller in dimensions and the rationale of the operations presents strategic value. This kind of deals allow the buyer to enhance its leadership position with limited investments.

- **Vertical M&A.** In this case, the buyer makes a transaction either with its raw material supplier or a player involved in its distribution network. The first is the case of a *backward integration*, while the latter is defined as *forward integration*. Vertical integration is a key strategy when the company has an important resource from which it is dependent. In fact, the main advantage of this type of deal is to hedge the risks faced in the market. For example, a backward integration can help secure a supply source that is cheaper and whose quality can be controlled. On the other hand, in the case of forward integration, the buyer can gain better access to the ultimate consumer by controlling the whole marketing and sale strategy as well as the presence of the product in every targeted touchpoint. Also, a vertically integrated player may be able to develop a competitive advantage by preventing competitors from accessing determined resources, like a supply source or a distribution network, without violating any antitrust regulation (Gaughan, 2013).
  However, vertical M&A also presents some critical aspects. Bidder must seriously evaluate the logic of its industry and its value driver: for example, acquiring a supplier whose market is characterized by a large number of players may be detrimental, since the competition itself would let the best player prevail at a lower cost.
  Looking again at Luxottica, the eyewear manufacturer managed to complete a series of deals that secured its distribution to the ultimate customers. In 1995 it entered into the optical retail market by acquiring LensCrafters, then in 2001 it completed the Sunglass Hut takeover. These transactions fortified Luxottica's business model as, in addition to its own brands, the company could grant privileged access to the retailers also to its licensed brands. This strategy proved successful also when, in 2007, the group tried to target Oakley: after the first rejection, Luxottica partially stopped the distribution of the smaller eyewear brand's products in its proprietary stores and this eventually convinced Oakley to sell, since it was dependent on that distribution[8].
  Another key transaction of Luxottica's history was the merger with Essilor, a

[8] The Luxottica case has been extracted and elaborated from: Gaughan, P.A. (2013), Maximizing corporate value through mergers and acquisitions: A strategic growth guide, John Wiley & Sons, Somerset.

global leader in lens manufacturing, in 2017. This deal allowed both companies to boost their product mix and optimize the supply chain, thanks to the complementarity of their products.

- **Conglomerate M&A.** This is the case of a transaction between two companies which are not related to each other and are operating in different segments. Here the buyer is trying to diversify i.e., growing outside its current industry. Clearly, one may question such a strategy since shareholder could easily achieve this by themselves, holding a portfolio of diversified stocks, in a more cost-effective way. In fact, when the bidder takes over the target, it usually has to pay a control premium. Moreover, if it chooses to integrate the acquired business, it has to invest time and resources in the process.

  Therefore, which are the advantages of creating a conglomerate? First of all, a diversified company can generate economies of scale, by reducing its costs, especially the overheads. But to do so it is critical to evaluate how much a different business could contribute to the overall cost saving. Another benefit of this strategy is from a financial perspective: when a company has volatile earnings (e.g., a commodities trader), it may create value by acquiring a target with no or different volatility in profits, pursuing the so-called earnings smoothing (Gaughan, 2013). Additionally, a conglomerate could benefit from its large cash flows to buy underfunded gems and financially sustain their growth.

  An example of a diversified company is Samsung, famous for being the world's biggest smartphones producer, is also active in constructions, chemicals, financial services, shipbuilding, and medical services, with a portfolio of more than 80 affiliates.

Independently from its purpose and structure, M&A has the advantage of securing full control of the acquired entity, making it easier to establish a hierarchy. Also, this is the faster strategy among the proposed ones and allows the management to swiftly execute its development plans.

At the same time, M&A requires an often-large investment, not only financial but also physical and mental. This goes along a persistent threat of failure, that starts at the beginning with the risk of overpaying and continue after the closing with the challenge of cultural integration (Mennillo et al., 2012).

1.3 Restructuring mechanisms

1.3.1 Motives and objectives

In paragraph 1.2 all the possible mechanism to be implemented to generate growth were examined. While the field of M&A is mostly focused on corporate expansion, sometimes companies have to contract and downsize their business (Gaughan, 2017). In these situations, practitioners speak of corporate restructuring, a general term for transactions that alter the original structure of a firm, including M&A itself. However, they refer to restructuring mechanisms when these operations involve the divestiture, partial or complete, of a poorly performing business or simply one not in line with the firm's strategic objectives.
What are the motives of corporate restructuring? Clearly, not all the acquisitions are a success and for every buyer involved in a M&A process, there is always a counterparty that sells, aiming to create value in doing so. In fact, the motives for exit mirror those for entering (Bruner & Perella, 2004). Among them, we find:

- **Poor strategic fit.** This issue is more common when a company detains a portfolio of businesses that are unrelated to each other, as in the case of a conglomerate. The divestiture of a nonstrategic entity gets complicated when the unit is performing well. In fact, a superior performance can restrain the management in its decision to divest, especially if the latter is focused on short-term financial performance, a factor that could potentially mask the lack of strategic fit (Gole & Hilger, 2008).

- **Reverse synergy.** The concept of synergy, that will be adequately examined in the following chapters, refers to the additional gains that may be derived when two firms combine; conversely reverse synergies are realised when the parts are worth more separately than they are within the parent company's corporate structure (Gaughan, 2017). If this is the case, a buyer might be willing to pay a business more than it is worth because of the inherent value that could be extracted once outside the seller.

- **Poor performance.** When the management recognize that one of its controlled entities is not performing well, it may eventually decide to dispose of it. Often, this unit would require additional investments, but the property believes these to have a negative rate of return. Furthermore, a nonprofitable unit generally undermined the overall performance of company, thus diluting consolidated growth and profits.

- **Cash flow needs.** Even if a unit is well-performing and strategically fit (but not essential), management may decide to sell it if the overall organization has a pressing cash flow need. While the typical uses of the sale proceeds are the payment of debt principals and the restructuring of the financial position, occasionally this kind of disposals may be done to generate operating cash: this is a bad signal, suggesting structural business problems (Gole & Hilger, 2008).

- **Capital market factors.** Analysts and investors value a company based on the risk and expected growth of a particular industry. However, conglomerates and widely integrated firms may be difficult for investors to categorize and thus evaluate. Moreover, they might be wanting to invest in particular segments while they may be reluctant to do so in other ones. In this case, a divestiture could solve the issue and help the separate companies to gain a better access to capital markets. The disposal may also have a marketing rationale: for example, a division may be part of a segment whose demand in the markets is not satisfied. Consequently, its divestiture may help supplying that need and attract new investments[9].

Having determined the motives and objectives of corporate restructuring, it is necessary to understand which are the mechanisms used to divest a business: what follows is the analysis of the most common structures used in the disposal process.

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[9] These types of businesses are typically referred to as *pure plays* (Gaughan, 2017).

1.3.2 Divestiture

A divestiture, or asset sale, is referred to when an entity liquidates either the assets or a part of its business, usually, a subsidiary, to outsiders in order to focus on its core operations (Kumar & Sharma, 2019): this type of deal accounts for a large proportion of the overall M&A activity, ranging from 26% to 35%. Through this operation, the seller completely loses control of the divested unit but raises funds and dispose of a nonstrategic or nonprofitable entity. Divestiture can also occur in the form of a leveraged buy-out (LBO), in which the management of the unit organize an investor consortium and secure debt facilities to finance the transactions. To do so, the target business should be able to survive as a standalone entity and its cash flow have to be predictable enough to sustain interests and debt principal payments.

An example of divestiture through LBO can be seen in the case of Galbani, the market-leading cheese company in Italy. Previously owned by Danone, in 2002 the French multinational sold this unit to the private equity fund BC Partners, who structured the transaction as an LBO. The operation was made possible thanks to Galbani's strong competitive position in a mature market with solid margins and good cash generation[10]. Figure 7 illustrates, among the other alternatives, the divestiture structure.

1.3.3 Carve-out

An equity carve-out transaction is a form of divestiture that consists in the reorganization of a business unit as a standalone entity and a subsequent sale of a stake to the public through an initial public offering (IPO). Even if the equity interest in the unit is sold to outsiders through the markets, existing shareholder of the controlling company may decide to participate to the IPO and thus maintain a stake in the carved-out unit. This operation generates financial resources for the parent by monetizing its interest in the subsidiary and provides more transparency for investors to assess the intrinsic value of

[10] Source: lecture notes from 2020 "M&A and Investment Banking" course by Professors Luigi de Vecchi and Leone Pattofatto at Luiss Guido Carli.

the unit. Figure 7 illustrates, among the other alternatives, the carve-out structure.
Carving-out a subsidiary is generally a more complex operation than a simple divestiture. In fact, the seller has to go through all the steps of an IPO process which require a great effort and are subject to a higher execution risk, since there might be a scarce demand for the issuance, or the price may fall on the first day.
Occasionally, an equity carve-out can be accompanied by a spin-off (see paragraph 1.3.4). In this instance, the company initially execute a partial carve-out with a public offering, in order to raise cash and set a price range, then a spin-off. This combination helps creating a shareholder base for the newly issued stock, thereby making it more attractive for the existing investors of the parent company.
An example of a partial equity carve-out can be seen in the case of Ferrari: Fiat Chrysler (FCA), who controlled the sportscar manufacturer, decided to dispose of it in a hybrid way. First it held an IPO of its Ferrari division in October 2015, selling a 10% stake. Then at the start of January 2016, the parent distributed the remaining 80% of shares to FCA shareholders[11].

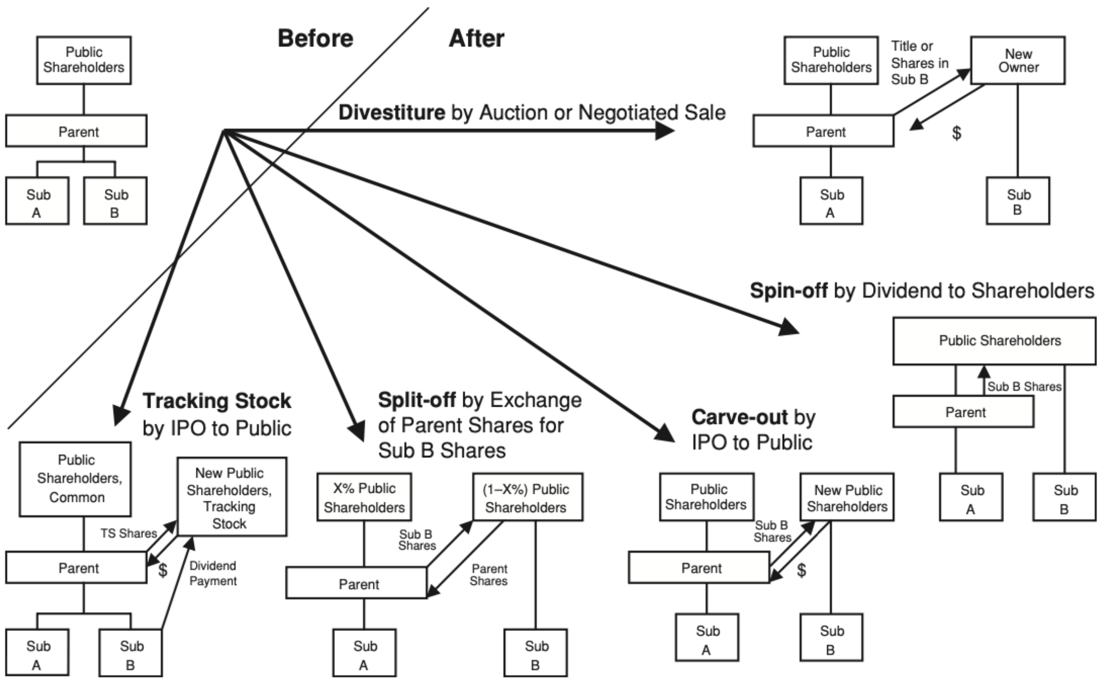

Figure 7: *Comparison of different restructuring mechanisms (Source: Bruner & Perella, 2004)*

[11] Source: Reuters, "*Factbox: European spin-offs and carve-outs*", November 29, 2016.

1.3.4 Spin-off

Similarly to the equity carve-out, a spin-off involves the creation of a new entity that is publicly listed. However, in this case, the company does not receive any cash infusion and instead executes a pro-rata distribution of the new stock to the parent's shareholders, which is generally done with a dividend. Through this mechanism, the same shareholder group becomes owners of both the entities, but it can eventually decide to dispose of the newly issued shares by selling on the market.

Spin-offs are less time-consuming and risky compared to equity carve-outs. Moreover, the execution costs needed are far lower, both in terms of investment banking advisor's retainer and exchange fees. Figure 7 illustrates, among the other alternatives, the spin-off structure.

For example, in 2015 the multinational e-commerce corporation eBay Inc. executed the spin-off of its electronic payment processor division, PayPal. In the distribution, eBay Inc. stockholders received one share of PayPal common stock for each share of eBay Inc. common stock held[12].

1.3.5 Split-off

A split-off is a restructuring alternative where two entities are created from the parent company and shareholders can pick either shares in the original company or shares in the new entity (Gaughan, 2013). This results in a new standalone firm that is no longer a subsidiary of the parent and owned by a subgroup of the former shareholders of the parent. (Bruner & Perella, 2004). Figure 7 illustrates, among the other alternatives, the split-off structure.

This mechanism is particularly interesting in case of businesses growing at different paces: in order to target separately value and growth investors, these two units could be split-off.

[12] Source: press release published on eBay Inc. corporate website, June 26, 2015.

1.3.6 Tracking stock

Through this mechanism, a company can raise cash by issuing a financial instrument that do not have ownership rights and has its performance linked to the earnings of a specific unit of the company, paying dividends based on that.

This strategy is perhaps the least used among restructuring alternatives, however companies may decide to use it if they believe to have a unit whose value is not properly reflected by the market capitalization of the overall firm.

Also, tracking stock might come in handy when a unit, while important from a cash-flow generation point of view, is not perceived well by the market: instead of a sale, the management could decide for the issuance of this instrument.

Figure 7 illustrates, among the other alternatives, the tracking stock structure.

1.4 Decisional framework for mechanism selection

1.4.1 Environmental criteria

The first element to consider in the framework for mechanism selection is the environment in which the company resides in, intended as the regulatory and institutional ecosystem but also the industry or sector of interest.

From a regulatory point of view, firms' decisions concerning growth or restructuring mechanisms have to comply with the legal environment's prescriptions (Mennillo et al., 2012). For example, in certain countries there are limitations regarding foreign acquisitions and a joint venture with a local partner might be required to establish a business in those countries.

On the other hand, the features of the industry are an important determinant of the firm's growth decision. First of all the pace of sector, mainly in terms of technology, can dictate the direction of the growth strategy. In an uncertain and fast-growing segment, a strategic alliance would be the most viable, since internal development would take too long and M&A would be too risky, given a condition of rapid technological advancement. Conversely, an acquisition may be a good choice when the technology is not so volatile, but the execution speed is key in order to be the first mover.

1.4.2 Target-related criteria

Following the evaluation of the environment, after which the decision is to pursue an external growth strategy, the framework moves to the assessment of the possible targets. The first theme is clearly whether or not there are potential partners in the specific industry and country, with the required level of capabilities. If that is not the case, one should move back to the organic growth decision.

Also, the level of competition plays a crucial role in the feasibility of certain strategies. For example, when the targeted firm is the same as the competitors, the only viable mechanism might be M&A, since is the fastest and most secure way to secure the relationship with the potential partner.

Furthermore, the evaluation of the target includes the analysis of its assets: clearly, when there is the presence of undesired assets, the buyer should favour a strategic alliance or a joint venture. Moreover, even if there aren't undesired assets, in case of target that is difficult to value, M&A should be avoided, at least initially.

Finally, the last consideration on target-related criteria concerns the possibility of opportunistic behaviours. Hoffmann and Schaper-Rinkel (2001) sustain that the greater is the perceived fear that the partner's behaviour will be opportunistic, the stronger the need for control. Clearly, control is greater in an acquisition rather than in an alliance.

1.4.3 Growth strategy criteria

After the assessment of environmental and target-related aspects, decision-makers should evaluate the proposed mechanism against their growth strategy. Mennillo et al. (2012) propose three features of this strategy to be examined: (1) distance to the core, (2) cultural and geographical distance and (3) the potential for synergies.

The *distance to the core* is a measure for where the company intends to develop in the future. If the growth strategy is based on the existing competencies and expertise, the firm is better off exploiting them organically. However, if the internal know-how is not sufficient, the company should decide for an external means of development. Specifically, the greater the relationship with the core business, the greater the need for control, i.e., the need for M&A.

Cultural and geographical distance expresses the differences between two potential partners, especially in case of a cross-border transaction. An Italian company entering the Indian market with an acquisition, for example, would find the integration process extremely complex. This is why, whenever the cultural and geographical distance is high, a strategic alliance or a joint venture are preferred, given the lower management costs involved.

When choosing a growth strategy, the firm should also assess its *synergy potential*. In other words, strategies that would require close cooperation and knowledge sharing with partners are said to have potential for synergies. If this is the case, M&A is the best mechanism to implement since it allows for early-stage synergy realization potential.

In addition, the nature of the target's assets should be examined: Dyer, Kale et al. (2004) suggest that when there is prevalence of hard assets (e.g., machineries), acquisitions work better. On the other hand, when soft assets (e.g., know-how and human capital) have more importance, integration should be avoided, since key employees may react badly to the entry of the new control.

1.4.4 Firm-related criteria

The last set of criteria to consider is related to the firm itself and involves a self-assessment of its own resources, like assets, knowledge, and human capital.

First of all, management should establish if there are sufficient resources to pursue a determined strategy. Clearly, for M&A to be feasible, there must be sufficient financial resources to support the transaction. This is true for organic growth as well, since internal competencies and resources to finance R&D are an important key to success.

Secondly, the firm's track record in executing a particular strategy in the past assume a significant relevance. For example, if a firm used M&A effectively in the past, it will be more likely to opt for it in the next growth initiative (Ernst & Halevy, 2000).

Lastly, it is important to define the concepts of *absorptive capacity* and *appropriability regime*. When a firm is able to learn and adapt swiftly from partners, it is said to have absorptive capacity. Normally, the higher this ability, the lower the necessity to control a partner and hence, the more advantages can be extracted from a strategic alliance (Hoffmann and Schaper-Rinkel, 2001).

In the next page, figure 8 provides a graphical representation of the concept expressed in this paragraph, highlighting the effectiveness of the three main growth mechanisms given a particular set of criteria.

Criteria related to	The following mechanisms are: ++ = highly effective, + = effective, -- = not effective at all, when	Internal	Strategic alliances	M&A
Environment	All growth mechanisms are legally possible and not constrained by any institutional norms.	++	++	++
	Market uncertainty in terms of products and technology is high.	+	++	--
	Market uncertainty in terms of consumer acceptance of new products/services is high.	+	++	--
	First mover advantages arise in the targeted business segment.	--	+	++
Target	There are no potential partners.	++	--	--
	The competition level for potential targets is high.	+	--	++
	The targeted assets are hard to digest.	+	++	--
	The target firm's value cannot be easily assessed.	+	++	--
	The risk of opportunistic behavior is high.	+	--	++
Growth Strategy	The company grows in its core and can build on its existing skills and capabilities.	++	--	+
	The company grows in its core but is dependent on external skills and capabilities.	--	--	++
	The company grows outside its core and is dependent on external skills and capabilities.	--	++	+
	Cultural distance is high.	--	++	--
	Geographical distance is high.	--	++	--
	The potential for reciprocal synergies is high.	++	--	++
	The intended scope of the growth strategy is high.	++	--	++
	The relative value of soft to hard assets is high.	+	++	--
Firm	The company's financial strength is high.	++	--	++
	The company has an innovation capability.	++	n.a.	n.a.
	The company has a strategic alliance capability.	n.a.	++	n.a.
	The company has an acquisition capability.	n.a.	n.a.	++
	The company's ability to protect its critical knowledge is high (high appropriability regime).	+	++	+
	The company's ability to learn and absorb new knowledge is high (high absorptive capacity).	+	++	+

***Figure 8**: Effectiveness of growth mechanisms (Source: Mennillo et al., 2012)*

Chapter 2 – M&A: trends, motives, and value creation

2.1 Merger waves

In academic literature, it is common knowledge that M&A activity tends to be cyclic, through waves, and that acquisitions reveal a positive correlation between values and the country's stock index (Mariani, 2017).

Merger waves are basically time periods where there is an elevated M&A activity in many industries and where this peak is followed by a rapid drop. A common characteristic of all the merger waves is that they typically occur when markets are performing well (i.e., when they are said to be "bull") and decline when the markets go to their weak stage ("bear"). But what is the cause of these waves? According to Mitchell & Mulherin (1996), merger waves tend to be triggered by a combination of economic, regulatory, and technological shocks. For example, an economic shock generally assumes the shape of an economic expansion: this stimulates corporations to program enlargements in order to meet the rapidly growing demand in the economy. To do this, firms turns to M&A, as it is a faster mechanism of expansion than organic growth.

The waves phenomenon started to be noted in the USA market, also given its efficiency, but has now moved to a global scale. Starting from 1897, practitioners have identified between six and seven merger waves, as described in figure 9.

2.1.1 First Wave (1897-1904)

The first merger wave took place after the depression of 1883, seeing its peak between 1898 and 1902, and ended in 1904. This upsurge was mainly constituted by horizontal mergers. In fact, many corporations wanted to build market power as a response to the overcapacity generated by rapid technological innovation (Bruner & Perella, 2004). During this period, which is often defined as the "merging for monopoly" wave, the most important horizontal mergers in the basic manufacturing and transportation industries took place, giving birth to some of today's great industrial conglomerate, like DuPont and General Electrics.

PERIOD	COUNTRIES	VALUE (in $Billion)	NUMBER OF DEALS	STRATEGY	MOTIVATIONS	ENVIRONMENTAL ANTECEDENTS	COLLAPSE EVENTS	INDUSTRIES	MODES OF PAYMENT	SYSTEM EFFECTS	PERFORMANCE EFFECTS
1-wave											
1897-1904	USA	6.9	3012	Horizontal consolidations, to realize monopoly situation	Economy of scale, drive for efficiency in production	Lack of antitrust regolamentation, westward migration	Fraudolent financing, crash of the equity market 1903-1905, Sherman Antitrust Act	Metals, transportation, mining and oil	Cash	Creation giant Firm, changes in technology, economic espansion, legislation, stock exchanges activity	CAR 12%-18%
2-wave											
1916-1929	USA	7.3	4828	Vertical merger, Increasing industry concentration, to realize oligopoly	Economy of scale and scope	Restrictive antitrust regolamentation	Stock market crash of 1929 and Calyton Act	Petrolium, primary metall industries, automotive	Stock	Creation of vertical integration of medium companies	CAR 15% for the target but no effects for bidder sharholders
3-wave											
1955-1969	USA, UK, EU	46	ND	Conglomerate era	Managerial interest, diversification, false apparence on the market	Exploiting efficiency of internal capital allocation markets, economy prosperity, Celler-Kafauver Act, Agency theory	Oil crisis, crash conglomerate stocks	All sectors	Stock	Leverage stress, bidder medium firm and small firms with different line of business, Bootstrap game	Positive effects for targer firms. For bidder: positive effect at announcement, in long term insignificant
4-wave											
1980-1989	USA, UK, EU, ASIA	618	9617	Rentrechment era, specialization, corporate internazionalization	Elimination of conglomerate structure and inefficiencies, cut-costs	Antitrust lower pressure, deregulation of financial market, economy prosperity, financial engineering tools	RJR Nabisco failure, junk bond collapse, bank system crisis	Bank system	Cash	Leverage buy out, hostyle takeover, corporate raiders, junk bonds, bustup takeover	Positive effects for targer firms. Bidder results only in related acquisition
5-wave											
1992-2000	USA, UK, EU, ASIA	4.500	31.152	International expansion, cross-border	Globalization, deregulation, privatization, synergies	IT revolution, deregulation, reduction trade barriers, trend privatization	Tech Bubble (2000), financial scandals (Enron, Worldcom)	ICT, communication, internet, banks, media, luxury, utilities	Stock	Mega-deal, global deal, corporate governance mechanisms	Positive effects only for target shareholders
6-wave											
2003-2009	USA, UK, EU, ASIA	20.700	277.451	Rebirth of leverage	Financial aim, globalization of Derivates Securities, private equity	Federal Reserve low interests policy, liquidity availability	Subprime mortgages	Financial Services	Cash	Private equity, shareholder attivism, corporate governance control	Poor returns for bidders. Some positive effects for targets
7-wave											
2014-?	USA, UK, EU, ASIA, AFRICA	(1) 11.679	130.967	Global leaders, corporate reorganisations, international monopoly	Rational aims, costs cutting, new technologies, new competitive vantagies	Understimated targets worldwide, private equity and financial investors	(2)	TLC, pharma and banking , hi-tech sector, media	Cash/stock	(2)	(2)

(1) Value and numbers of deals in the period 2014-2016.

(2) Information non available.

***Figure 9**: Merger waves (Source: Mariani, 2017)*

Played exclusively in the USA, this first wave came to a halt because of financial factors. In fact, American stock market experienced a serious crash in 1904, and this was followed by the so called “banking Panic” of 1907, where many US banks were forced to close, ultimately paving the way for the establishment of the Federal Reserve System. Therefore, both a declining stock market and a weak banking system were the determinants of the decay of the first merger wave.

2.1.2 Second Wave (1916-1929)

With the new anti-trust regulation fuelling different strategies, rather than monopolistic the second merger wave was characterized by oligopolies. During this period, several industries were consolidated, creating large public utility holding companies. The main actors of this development were the medium sized companies, that looked for vertical integration to generate economies of scale and scope. Also, this wave saw for the first time the mergers of several companies in unrelated industries. This was the first large-scale formation of conglomerates.

Automotive was one of the industries that took off in this period, with the establishment of corporations such as Ford Motor Company, General Motors, and John Deere.

In the US, the post–World War I environment allowed for prosperity and economic boom. However, the large availability of capital fuelling the markets and lenient margin requirements eventually turned out to be the drivers of the stock market crash of 1929.

On European soil, only British corporation were starting to execute M&A. In Italy, this activity began only after the 1929 crisis, with the support of IRI[13], that created the system of government participation (Mariani, 2017).

[13] IRI, the Institute for Industrial Reconstruction, was an Italian public holding company established in 1933 to restructure and finance banks and private companies that went bankrupt during the Great Depression. After the second World War, IRI played a pivotal role in the Italian economic miracle of the 1950s and 1960s. It was closed in 2000.

2.1.3 Third Wave (1955-1969)

This period of well-known booming economy and bull markets led to a historically high level of merger activity. Small and medium-sized enterprises resumed the trend hinted at in the 1920s of implementing a diversification strategy by acquiring businesses that were outside their traditional areas of interest, also as a way to avoid strict antitrust laws against concentration[14]. This is why the third wave was later defined as the "conglomerate merger" period.

Thus, diversification turned out to be broadly acknowledged as effective since managers believed that their skills were easily transferable among industries and as a consequence, they sought to build the largest groups they could (Kumar & Sharma, 2019).

For example, the US based International Telephone & Telegraph (ITT) acquired more than 250 diverse companies in a decade, such as Avis Rent A Car, Sheraton Hotels and businesses like bakeries, consumer credit agencies, airport parking firms and construction firms.

The third wave was also the first that really saw European companies taking the field. In Italy however, because of a poorly efficient stock market and a persistent State interference in the governance of big corporations, M&A activity remained low, and this slowed the competitive advancement of Italian companies.

In the late 1960s, many of the newly formed diversified corporations experienced increasingly poor financial performance. In fact, many of the acquisition ended up as failures, mainly because managers of these conglomerates had little knowledge of the specific industries that they just entered. This downfall led many of these multi-business firms to revise their strategy and gradually divest previously acquired targets. By 1969, the conglomerate boom was worn-out, and this contributed to a progressive stock market collapse.

[14] Antitrust regulation of the 1960s and the Celler-Kefauver Act of 1950 contributed to the strengthening of the antimerger provisions of the 1914's Clayton Act. With these sets of more stringent rules, the US government placed increased focus on impeding anticompetitive horizontal and vertical mergers. This is why firms who wanted to enlarge had the only option to form diversified conglomerates (Gaughan, 2017).

2.1.4 Fourth Wave (1980-1989)

Notwithstanding the downturn in M&A activity throughout the 1970s, after 1980 the trend reversed sharply. This new wave was characterized by a significant portion of hostile takeovers, i.e., those deals in which the target's board of directors opposed the transaction. The surge in hostile activity was partly supported by new instruments and mechanism introduced in the market for corporate control. For example, high yield bonds were introduced to finance the transactions and LBOs became common mechanisms to implement. Also, corporate raiders and investment bankers started to represent a crucial role in the dealings.

This period generally involved larger companies in the same industries that were trying to pursue a specialization strategy. As conglomerates continued to dispose of their diversified subsidiaries, they started to execute cross-border acquisitions in fast-growing economies.

The fourth wave is defined by many as the wave of the *megamerger*. In fact, as shown in figure 10, the total value paid in acquisitions rose sharply during the late 80s and with it, also the average size of transactions.

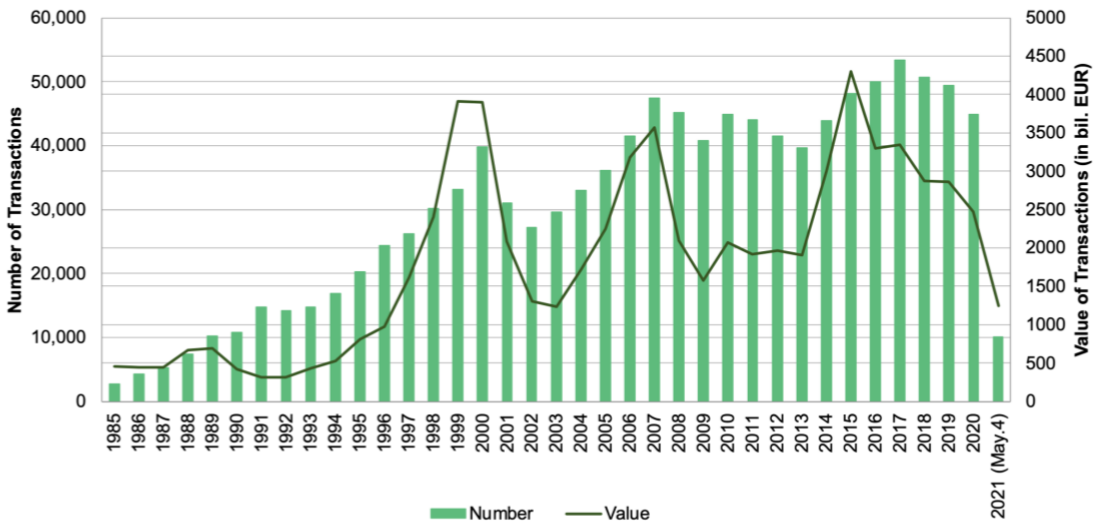

Figure 10*: Number and value of mergers & acquisitions worldwide, 1985-2021 (Source: IMAA[15], 2021)*

[15] Institute for Mergers, Acquisitions and Alliances. The chart is accessible at the following link: https://imaa-institute.org/mergers-and-acquisitions-statistics.

One of the most famous deals of this time is undoubtedly the RJR Nabisco LBO. This takeover started as a bidding war between a proposed management buy-out (MBO) led by the CEO and Kohlberg Kravis Roberts (KKR), a private equity firm. The latter ended up as the winner and executed a $25 billion LBO.
Eventually, the fourth wave reached its conclusion in 1989, following the end of the long economic expansion of the 1980s. The collapse of the junk bond market, which was a pillar in the LBO structuring, played a relevant role in the conclusion of the wave.

2.1.5 Fifth Wave (1992-2000)

Another quick look at figure 10 suggest that the fifth merger wave allowed corporate acquisition activity to reach volumes and numbers unprecedented in the history of M&A. This upsurge was fuelled by a favourable environment characterized by continue deregulation, technology innovation and internet development.
The fifth wave was the first to be truly global: in fact, the majority of notable M&A has been either entirely outside the USA or involved a non-US party. It is in this period, for example, that the largest merger ever made took place, with the $180 billion Vodafone - Mannesmann AG combination.
Having comprehended the fallacy of excessive leverage caused by LBOs, companies started to emphasize more strategic, synergy-focused deals rather than quick financial gains deals. Also, the fifth wave saw the prevailing use of equity financing, and this ended-up in less leveraged and healthier combinations.
Nevertheless, the overall feeling of excitement caused by the new internet technologies (with the so called dot.com companies) generated a systematic overpayment of the targets (Mariani, 2017). The effect of this optimism eventually led to the internet bubble burst in 2001, whose effect could be hinted at with figure 11.
In Italy, the fifth was the first real wave for local corporations. In particular, industries like banking and telecommunication assisted to the first large-sized deals (e.g., Banca Intesa, Telecom-Olivetti).

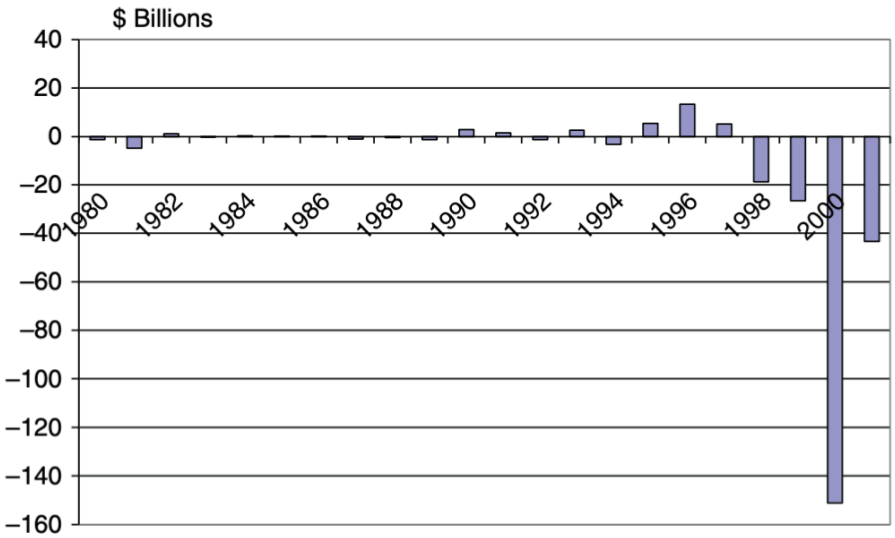

Figure 11: *Yearly aggregate dollar return of acquiring firm shareholders[16], 1980–2001 (Source: Moeller, 2005)*

2.1.6 Sixth Wave (2003-2008)

After the 2001 recession, low interest rates were established by the Federal Reserve policy. Starting from 2003, such an environment boosted the expansion of the private equity (PE) industry. In fact, low-interest rates allowed the cheap debt financing of leveraged acquisitions. Also equity financing was easily accessible, given the uprising stock markets. This growth tendency provided the perfect setting for private equity to be successful: in fact, these firms could enter targets with cheap financing and subsequently exit at higher valuations.

The sixth wave was thus characterized by a great appetite for M&A targets and PE firms. However, this did not last long: in 2007, the subprime crisis hit the markets and eventually made it harder for PE firms to obtain cheap debt and find equity investors (Gaughan, 2017).

In Italy, companies did not experience the same merger wave as everywhere else. In the period 2001-2005, M&A activity registered a negative performance of -40%, compared to the previous period (Mariani, 2017).

[16] The aggregate dollar return is defined as the sum of the product of the abnormal return of each announcement multiplied by the equity capitalization of the acquirer.

2.1.7 Seventh Wave (2014-)

Some literature (Bauer & Matzler, 2014; Mariani, 2017) has argued about the presence of a seventh merger wave. Looking at quantitative data, in the period 2014-2020 there was a total of 340.052 deals for an overall value of $25.743 billion[17]. These values, even when inflation is considered, are by far the greatest ever seen.

These years have been characterized by an M&A activity mainly focused on consolidation, especially in industries like TMT, pharmaceuticals, banking & financial services and automotive. Moreover, private equity funds are proving to have massive availability of capital, which is able to support the increased acquisition propensity driven in part by the need to acquire new technologies.

As shown in figure 12, 2014 represented a pivotal year for M&A activity in Italy, with the value of transactions growing by 61%, from 31 to 50 billion euros. The number of transactions increased as well, from 381 to 543 (+43%). The overall trend was very positive throughout the following years, with a compounded annual growth rate (CAGR) in the number of transactions of 15%.

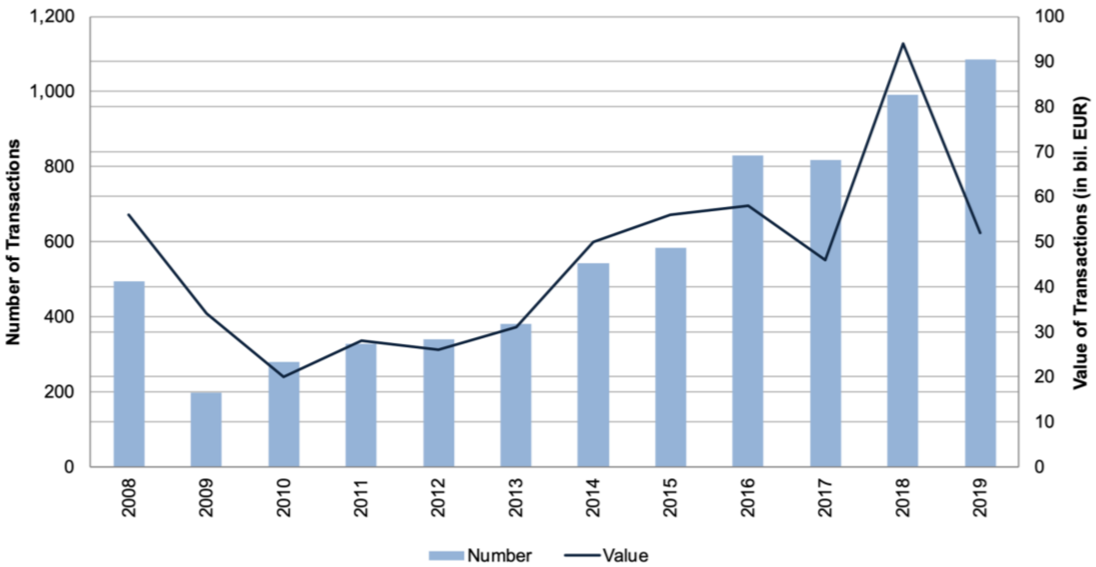

***Figure 12**: Number and value of mergers & acquisitions in Italy, 2008-2019 (Source: KPMG, 2020)*

[17] Sources: Thomson Financials for the period 2014-2017, Capital IQ for the period 2018-2020.

2.2 Rationale and drivers of M&A

2.1.1 Beyond synergies

The first and foremost motive of any M&A transaction is to create synergy through several factors (Kumar & Sharma, 2019). This key element, crucial in the definition of an acquisition strategy, will be analysed in depth in the following paragraph.

But there are also other determinants of M&A, some of them of dubious effectiveness: this paragraph will provide an overview of these motives and will attempt to put them in context.

2.1.2 Buying the growth

Growth is another important motive of M&A. Chapter 1 thoroughly described the selection process of growth mechanism and in what cases M&A could result as the final decision. As a reminder, given its speed of execution, an acquisition is preferred when, for example, there is a limited window of opportunity to gain a competitive advantage: if the company decides to pursue this objective internally, the competitors might have a quicker response or the opportunity itself might fade away.

Another instance involves mature companies. These firms often find themselves in a difficult spot, unable to let their existing businesses generate growth organically. In this case, they might literally decide to "*buy the growth*", i.e., purchasing a fast-growing business and adding it to the brand portfolio, or entering a faster-growing segment of the market, to boost the overall growth. The rationale here is that when a faster-growing unit is consolidated, the weighted average growth rate of the group should rise (Gaughan, 2013). A 2015 research from BCG has highlighted this tendency, as shown in figure 13: companies in mature industries such as industrial goods, financial services, and media and telecommunications have registered little or no organic growth in the past years, are far more likely to be buyers in M&A transactions, as they depend more on growth through acquisition, i.e., they are growth buyers. On the other hand, companies in higher growth sectors, such as health care and technology, are much more often sellers.

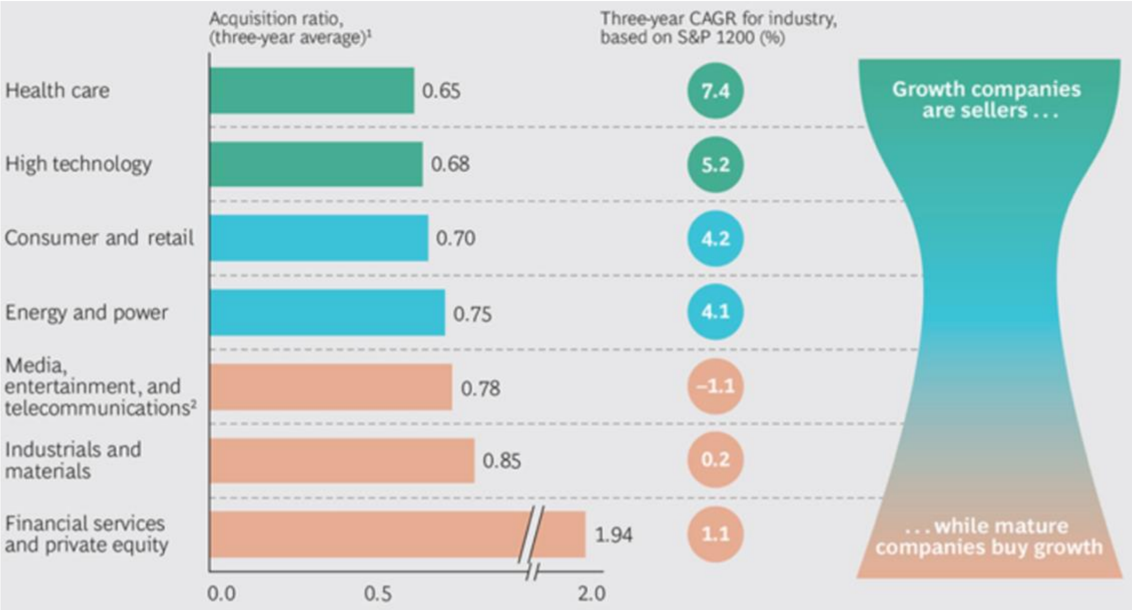

***Figure 13**: acquisition propensity for industries with different grade of maturity (Source: BCG, 2015)*

While the possibility of buying the growth sounds very positive, its shortcoming is that it has to be paid accordingly, therefore the price paid will consist of the present value of the future growing cash flows of the target. In other words, it could just turn out to be a zero (or even negative) net present value (NPV) project[18]: what would make the investment a positive one is ultimately represented by eventual synergies.

In the end, accelerating the growth with this type of deal is risky: a zero NPV project could well be substituted by a dividend distribution or share buyback that would allow shareholders to eventually invest in faster-growing stocks.

2.1.3 Buying the capability

When faced with an industry that is evolving very rapidly, as in the case of tech-related sectors, companies may struggle to keep up with the pace of innovation. Also, in

[18] The NPV of a project is derived by discounting the future net cash flows at a rate that reflects the value of the alternative use of the funds, summing them over the life of the proposal and deducting the initial cash investment (Arnold, 2014).

industries involved with consumer products, the adoption of noncore capabilities, like delivery service, e-commerce, or e-marketing tools, may be difficult or non-efficient to execute in-house. This is especially true in case of large, bureaucratic organizations where innovation is slow and can be easily outdone by more agile competitors.

In the case of biotech and pharmaceuticals corporations, R&D is slow and extremely expensive and there is no guarantee that it will eventually lead to a marketable product[19]. When it eventually does, the producer has to charge a high price to the final customer in order to recover the investment.

The above problem, in some cases, has led biotech and pharmaceuticals to abandon research & development to implement a strategy called *acquisition & development* (A&D).

This strategy has been successfully implemented also in another industry, computer, and networking, by Cisco. The US-based technology conglomerate has spent, since 1993, more than $70 billion in acquisition. Its focus is mainly on businesses where the target has already concluded the development and validation of the technology, and where the consumer demand has already been tested (Gaughan, 2013). The advantage of this strategy is that it lets the market absorb the unsuccessful technology developers (and the cost of their failures) and allows Cisco to focus on more successful targets.

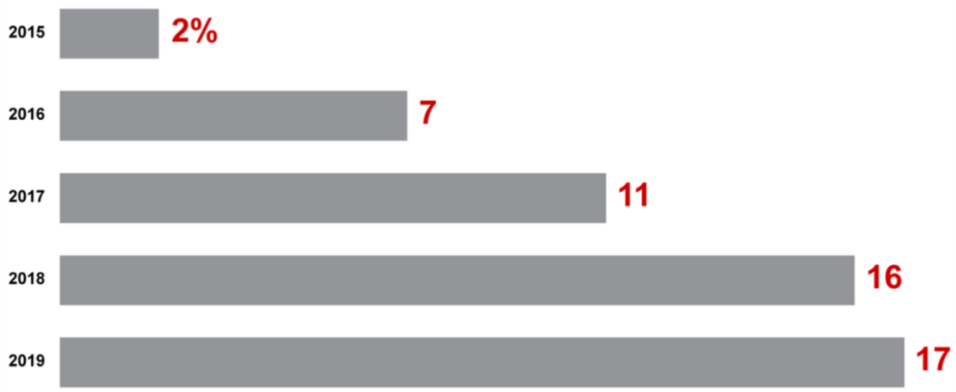

Figure 14*: Share of capability-driven M&A within deals valued at more than $1 billion[20] (Source: Bain, 2020)*

[19] This could happen for different reason. For example, during the development process, one competitor announces the introduction in the market of the same product. Another common issue is the possibility of the drug not being approved by the relative drug authority.

[20] Notes: top 250 strategic M&A deals of the year (top 165 for 2019 year-to-date until June) identified by excluding nonstrategic deals such as asset or property acquisitions, financial investment deals, government

According to Bain & Company (2020), capability deals represented around 20% of all deals valued at more than $1 billion in 2019, as companies sought to buy new capabilities to respond to business model disruption (see Figure 14).
However, buying the capability is not easily applicable to any industry. In Cisco's case, the Silicon Valley has been the ideal environment for the research of promising high-tech firms. Conversely, pharmaceuticals lacks interesting targets, mainly because of the development costs, not affordable by many small entities.

2.1.4 Geographical expansion through M&A

M&A can effectively be used to expand into another region or state. It could be the case of a regional producer that wants to gain market share at a national level or a local player that wish to initiate a process of internationalisation. Clearly, this is a strategy that can be accomplished also by organic means, i.e., establishing an organizational structure or simply a distribution network inside the desired geography. However, internal development is riskier and more time-consuming than an acquisition, especially when the expansion is international. In fact, on his own, the company would have to know how to untangle itself in the new market. It would also need to hire new local workforces and deal with language and cultural differences (Gaughan, 2013).
International expansion through cross-border acquisitions may be particularly effective when oriented towards emerging markets. Indeed, mature companies who have developed strong established brands in their home country, can leverage this into other countries characterized by a growing demand.
However, cross-border deals clearly presents more challenges than domestic ones. For example, a well-oiled business model, effective at a local level, may fail unexpectedly when exported internationally (Gaughan, 2017). In addition, language and cultural differences can be a complicating factor also in an inorganic expansion: starting from the initial approach up until the post-deal integration phase (Ahern et al., 2015).

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acquisitions, internal reorganizations, or minority stake acquisitions; deals classified by primary rationale using a Bain's proprietary classification framework, as per stated strategic rationale at the time of announcement (Bain M&A deal database, 2019).

2.1.5 Controversial motives

While the apparent motive of an announced transaction may be classifiable into one of the previously cited ones, the real motive may be less apparent and rather controversial. This happens when management takes advantage of his position to pursue opportunistic and personal objectives at the expense of shareholders, a problem that is often linked to the definition of *agency costs*. The following are examples of these questionable motives.

- **Financial Nature.** The majority of managers are affected by a behavioural bias known as managerial *hubris* or excessive overconfidence (Kumar & Sharma, 2019). Closely linked to the existence of hubris is the theory that managers of companies acquire other companies to increase their size, which, in turn, allows them to enjoy higher compensation and benefits (Gaughan, 2017). Alternatively, management's remuneration might be linked to the profits they were able to generate and entering in an acquisition might contribute to a temporary boost in profits.

- **Management intention.** Sometimes, managers pursue certain acquisitions that are against the shareholders' interests. This may be induced by their personal interest towards a particular industry or entity. To do this, they might be ready to offer a conspicuous premium and even go for hostile takeovers.

- **Fear of loss of market share.** This is a feeling that may characterise management when it is struggling in the competition with a peer. The threat of losing its market share to a competitor may lead the management to the decision of acquiring or merging with it. For example, Facebook's messenger was rapidly losing market share to WhatsApp, when the company decided to pursue a $19 billion acquisition of the instant messaging app.
  Unsurprisingly, this motive, despite being rather controversial, is one of the main factors triggering M&A activity (Kumar & Sharma, 2019).

2.3 Deal synergies

2.3.1 Definition

As hinted in the previous paragraph, synergy is perhaps the main triggering motive of any M&A activity. Conversely, many deals and strategic investments are justified with the argument that they will create synergies (Gaughan, 2013). Since they generally refer to the value generated by the combination of two entities, synergies are used as the main rationale for the payment of huge acquisition premiums. This optimistic thesis is often hard to contradict as it refers to something that will take place in the future, sometimes distant. Moreover, the announcement of a deal without foreseeable synergies may even destroy value in the long run. For sure, such a deal will do nothing for investors that they cannot do for themselves (Bruner & Perella, 2004).

In physical sciences, a synergy is an interaction producing a whole that is greater than the sum of the parts. Accordingly, in the context of M&A, a synergy is the supplementary value that is created by joining two entities, thus generating resources that would not be obtainable by these firms independently (Damodaran, 2005). Thus, a synergistic deal is one where the sum of A and B, both valued at 2, does not return 4, but 5 or more. This can also be explained with a formula, in particular that of *net acquisition value* (NAV), expressed as follows:

$$NAV = [V_{AB} - (V_A + V_B)] - (P + E) \tag{1}$$

where: V_{AB} = the combined value of the two firms

V_A = the value of A

V_B = the value of B

P = the premium paid for B

E = expenses of the transaction

Here the difference inside the square brackets is called *synergistic effect*. In a value creating M&A, this is always greater than the sum of P and E. If not, this would mean that the price paid, together with the execution costs, is greater than the target's value. According to Damodaran (2005), synergies are generally classified into two groups. *Operating synergies* are those affecting the characteristic activity of the merged entity and can take the form of economies of scale, both revenue-enhancing and cost-reducing, increased pricing power and higher growth potential. On the other hand, *financial synergies* impact on the firm's cash flows or cost of capital and usually include tax benefits, co-insurance effects, a higher debt capacity and uses for excess cash.

2.3.2 Operating synergies

Operating synergies are those synergies that allow a company to enhance revenues, lower costs, increase growth or a combination of these. The following is a list of the different types of operating synergies a company can achieve.

- **Revenue-enhancing operating synergy.** This type of synergy is perhaps the most difficult to achieve. Figure 1 shows, according to a 2004 McKinsey survey, the share of mergers achieving the stated percentage of revenue synergies. Among the

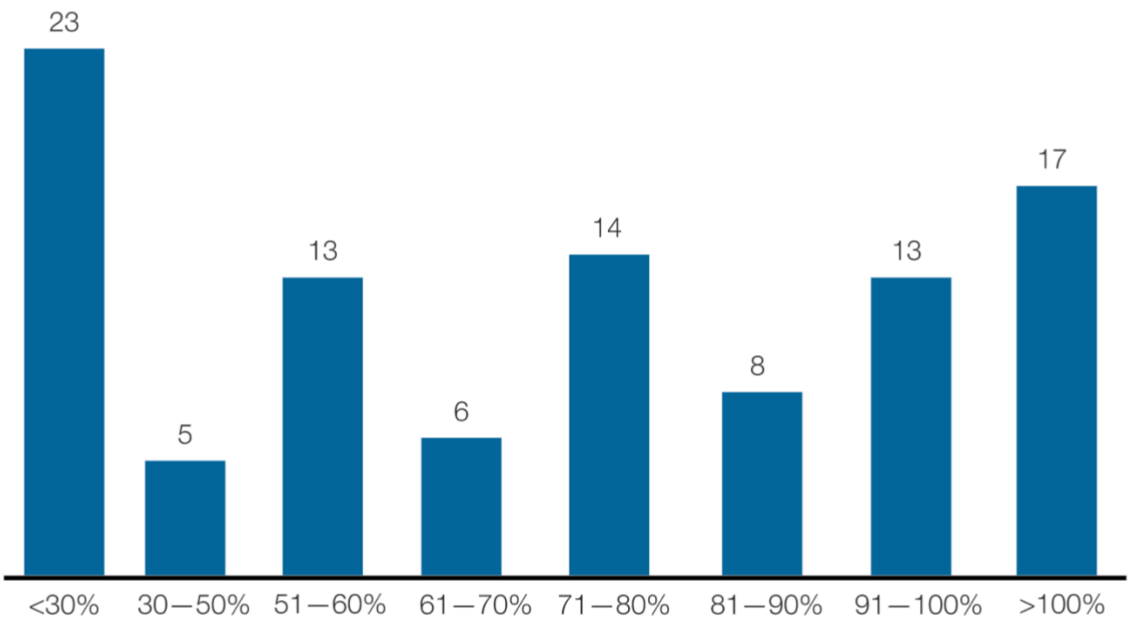


Figure 15*: Mergers achieving stated percentage of expected revenue synergies (Source: McKinsey, 2004)*

77 participants to survey, around 70% failed to achieve the expected synergies.

Revenue enhancing synergies may come from new business opportunities that the Newco was able to procure or, for example, from the cross-selling between the two merger partner's customer. Also, having a wider product line can help enhance the merged entity's competitive advantage and customer retention.
More generally, revenue enhancing synergies can have three main sources: *pricing power, combination of functional strengths and growth from faster-growth markets or new markets* (Gaughan, 2017).

The merger of two players in the same industry can be a source of **greater pricing power**. Clearly, for this to be possible, the two merged entities have to be of a certain dimension, enough to influence the competitive forces of a particular industry and gain substantial market share. As a consequence of a greater pricing power, the newco is able to obtain higher sales and margins. Furthermore, it may be able to establish a form of oligopoly in its segment. However, when a large pricing gain is hypothesized, anti-trust authorities may decide not to grant regulatory approval to the merger.

Another source of revenue enhancing synergy is the **combination of functional strengths**. For example, in an automotive merger, one of the partners might be very strong in the research of new technologies and development of modern platforms, while the other player could have a powerful marketing and sales network. Combining these two resources can increase the value of the Newco, as each player is bringing to the table something the other does not have.
A further example of an industry characterized by this type of synergy is pharma. Here there are not many players that are able to develop, through R&D, such innovative products to be pathbreaking in the market. This is why an established player with strong marketing and sales skills should look for am M&A partner like this to create revenue enhancing synergies.

Lastly, when mature companies in developed market see their product lines moving with a downward trend, they may decide to look for **growth from faster-growth markets or new markets**. In fact, for these companies to remain in their original market would involve continuing to invest increasingly large amount of resources, trying to increase their market share or sometimes to simply preserve what they have. Turning to emerging markets, where one could also exploit its existing product line, is also a faster way to growth and constitutes and important source of revenue enhancing synergy.

Since revenue-enhancing synergies are difficult to achieve, they are often not clearly defined in the marketing documents of a transactions. This is also because they are hard to quantify and build into valuation models (Gaughan, 2013). Moreover, given its outstanding track record of not being completely achieved, these kinds of synergies may be difficult to justify. This is the case of the AOL-Time Warner merger in 2002. Announced as a strategic merger of equals, the rationale was based on the combination of functional strengths, thus content (Time Warner) and distribution (AOL). However, the practical approach for realizing such revenue-enhancing synergies was unclear and not well defined. As a consequence, soon after the merger, the newco reported an astonishing $54 billion goodwill write-down that certified the failure of this deal.

- **Cost-reducing operating synergy.** This synergy is perhaps the easiest to predict and realize, as evidenced by the same 2004 McKinsey survey (see figure 16).

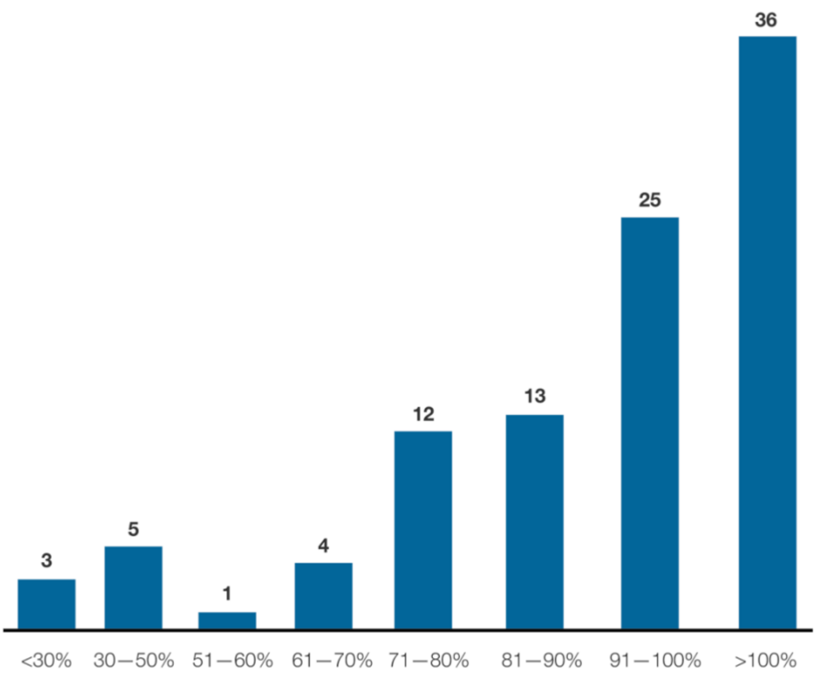


***Figure 16**: Mergers achieving stated percentage of expected cost savings (Source: McKinsey, 2004)*

According to it, about 60 percent of mergers deliver the planned cost synergies almost totally, while in about a quarter of all cases they are overestimated by at least 25 percent, a miscalculation that can easily translate into a 5 to 10 percent valuation error.

Cost-reducing operating synergies take place when the newco's unit costs decline following the transaction. Thus, they can take the form of economies of scale, economies of scope, integration economies, pricing power (as a buyer) and a combination of different operating strengths (Mariani, 2017).

In an attempt to outline the various sources of cost-reducing synergies, one could differentiate between the following: *higher capacity utilization*, *greater purchasing power* and *elimination of supply chain intermediaries*.

Synergies derived by **higher capacity utilization** are the most looked for by manufacturing firms, especially capital-intensive ones, as they typically operate at high per-unit costs for low levels of output (Gaughan, 2017). The reason of this is that, since the production capacity is not utilized efficiently, the fixed operating costs are split over a limited number of outputs.

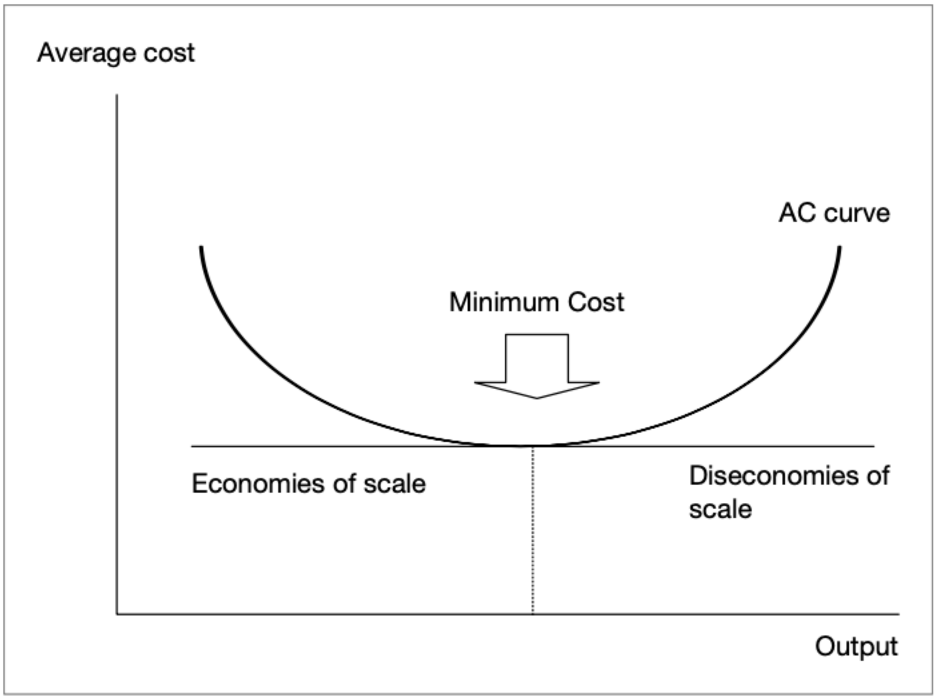


Figure 17*: Average costs and economies and diseconomies of scale (Source: Gaughan, 2013)*

In this case, a horizontal merger could help increasing the total output produced and thus lowering the costs per unit[21], as shown in figure 17. A higher capacity utilization can also lead to a more efficient use of capital equipment: in this case the cost is not fixed, but for higher levels of output the expense is optimised.
This type of cost-reducing synergy can be exploited only up to a certain point, after which the economies of scale become diseconomies (see figure 17). This phenomenon takes place when an organization gets too large and lose efficiency: in this case, the overhead expenses to coordinate such large-scale operations lead to an increase of the average cost as the output rises.

Again, a combination through a horizontal merger could lead to a **greater purchasing power**. As a consequence, this could generate cost-reducing synergies. In fact, the increase in market share and, more generally, in dimensions could lead to an augmented pressure on dependent suppliers and negatively affect their pricing (Bhattacharyya & Nain, 2011).
Greene et al. (2013) have shown that this type of synergy is also applicable to conglomerate mergers. Indeed, they prove that the bidder and target firms in a conglomerate acquisition can source their inputs from a mutual supplier hence the merger may lead to increased bargaining power with these counterparties.

Another source of cost-reducing operating synergies is represented by the **elimination of supply chain intermediaries**, or disintermediation. This concept refers to the internalisation of the value chain, i.e., doing in-house the core activities characterizing the operations. To create this kind of synergies, the M&A is generally a vertical one, whose objective is to gain ownership of a wholesaler or retailer.
Therefore, disintermediation could help reducing the total cost of sales and marketing thus allowing the company to boost margins or lower prices.

[21] This process is often referred to as *"spreading the overhead"*.

2.3.3 Financial synergies

Financial synergies relate to the effect of a transaction on the cost of capital and cash flows of the merged entity. Thus, targeting these synergies may lead to a payoff in terms of lower WACC[22] or increased availability of financial resources.
The following are the main examples of financial synergies:

- **Uses for excess cash.** This is the case of a combination between a company with excess cash (*cash slack*), with few investment opportunities, and another company with high-return projects but limited financial resources. This is typically the case of big corporations buying smaller firms in an earlier stage of their life cycle. In this instance, the value creation of synergies is represented by the additional projects that the merged entity can pursue using the excess cash (Damodaran, 2005). Thus, a deal executed with this rationale can represent a "win-win" situation for both the players.

- **Higher debt capacity.** The ability to assume more leverage can increase because of an acquisition. Indeed, as a result of the combination between two firms, the overall profitability and cash generation is generally more stable and easily predictable. Consequently, the newco is able to borrow more than the two players could do individually: this creates a tax benefit[23] for the combined firm that usually manifests itself as a lower WACC for the combined firm (Damodaran, 2005). Even if the newco does not borrow more, the increased leverage capacity makes the existing debt ideally less risky, thus lowering the cost of capital.

- **Tax benefits.** The value of this financial synergy lies around the concept of net operating losses (NOL). If a profit-making entity (with a consistent taxable income) acquires a loss-making entity (with unutilized NOL), it can use the

[22] WACC stands for weighted average cost of capital. It is the weighted average cost of the different source of capital in a company, i.e. equity, debt, and preferred stock. In other words, it represents the minimum return necessary to satisfy the equity holders, creditors, and other capital providers.

[23] The tax benefit is intended as the fiscal shield generated by the deductibility of interest expenses, allowing a reduction in the taxable income.

target's accumulated losses to set off against the profits of the combined entity, thus resulting in a tax savings for the newco (Kumar & Sharma, 2019). The value of this synergy is represented by the present value of the tax savings that could be obtained because of the merger (Mariani, 2017).

- **Co-insurance effects.** This synergy is based upon the theory of portfolio diversification: combining two cash flow streams that are less than perfectly correlated can produce a joint stream that is less risky than a simple sum of the streams would imply (Bruner & Perella, 2004). Basically, given the reduced volatility of the combined cash flow, suppliers of capital may consider the newco less risky.

  In practice, it would be the case of a small firm that is experiencing an inefficient access to capital markets, i.e., it is paying more than it should on its debt. When this company is acquired by a public corporation, it can finance projects with new cheaper instruments such as corporate bond (Mariani, 2017). Thus, through to this co-insurance effect the small company could reduce its cost of debt (Lewellen, 1971).

  The overall effect of co-insurance is a better access to capital thanks to an advantageous shift in the cost of capital curve, as shown in figure 18.

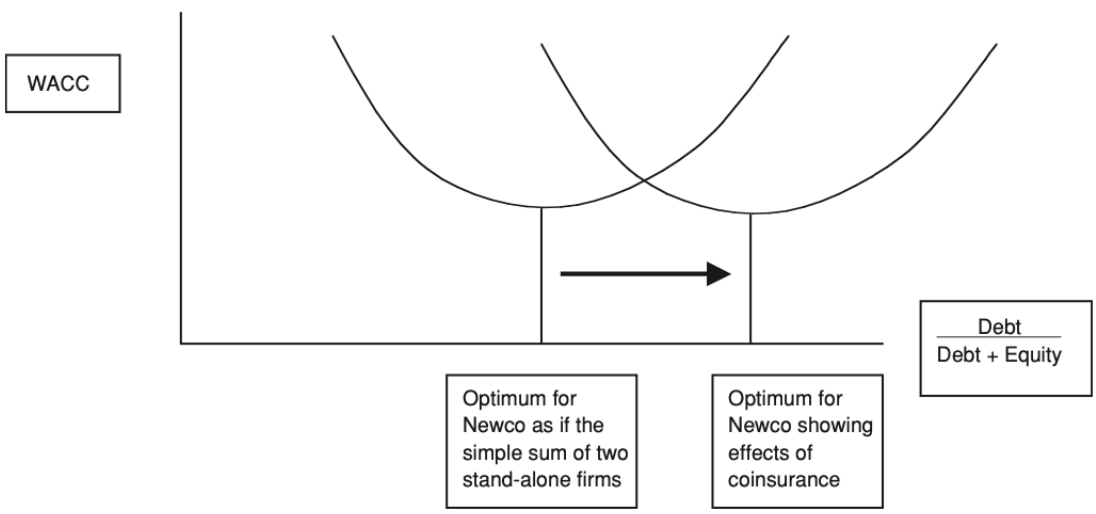


***Figure 18**: Co-insurance induced shift in the cost of capital curve (Source: Bruner & Perella, 2004)*

2.3.4 Valuation

According to Bruner (2004), synergies assessment and valuation should be the centrepiece of every M&A analysis.

First of all, because value creation for shareholders is the ultimate objective of each transaction and synergy is the most effective and efficient vehicle to deliver it.

Secondly, assessing the value of the synergies can give an important insight of the market reaction at the announcement. The buyer is in fact concerned with the investor's response to the deal: if the general belief is that the acquirer has overpaid for the target, the buyer's share price will fall at the announcement of the deal. Conversely, the market would react positively, and the share price might appreciate: this heavily depends on the existence and credibility of synergies and their relationship with the intrinsic value of the target and the effective price paid, as shown in the table above.

Buyer's Share Price Will:	***If This Equation Is Satisfied***
Rise	$P < V_{Target\ stand-alone} + V_{synergies}$
Not change	$P = V_{Target\ stand-alone} + V_{synergies}$
Fall	$P > V_{Target\ stand-alone} + V_{synergies}$

Where P is the price paid to the vendors, $V_{\text{Target stand-alone}}$ is the intrinsic value of the target and $V_{\text{Synergies}}$ is the expected value of the synergies.

Considering the pre-announcement market capitalisation of the target as its stand-alone value and taking the price paid from the press-release or conference call of the announcement, the only unobservable variable is the value of synergies. Hence, their valuation assume a strategic importance for anticipating investors' trading decisions[24] and for the perceived success of the transaction.

Valuing synergies is therefore important to achieve market's endorsement: whether or not by respecting the formula above, the firm should understand its synergies so that they can be effectively disclosed and illustrated to investors.

[24] Management would want to know whether investors will buy, hold, or sell the stock after the transaction, since a fall in the stock price can be effectively hedged using risk management strategies such ass collars, caps, and floors (Bruner & Perella, 2004)

Finally, the valuation of synergies is crucial in order to successfully plan the implementation of the post-deal integration. In fact, synergies can be forecasted but eventually is the execution that allows the company to realize them.

The first questions that managers and consultant should pose themselves when trying to value synergies is when and in what form the synergies will be delivered (Damodaran, 2005).
Hence, the first question should be "*what form is the synergy expected to take?*". As seen in the previous paragraphs, it could take the form of a cost reduction as well as an improvement in profit margins. Also, it may come in the form of increased growth rates for a certain period of time or even in the form of a change in the cost of capital. Defining these variables is a fundamental step in order to understand how the synergy will affect the firm value and choose the right valuation model.
The second question is "*when will the synergy start affecting cash flows?*". This is important to establish since the present value of the synergies is represented by the future cash flow discounted by the time period it takes to realize them.

Once the characteristic of the synergy are clearly defined, the steps necessary to properly estimate their value are the following:

- **Valuation of the stand-alone firms.** In the first passage, the value of the entities that are about to merge is assessed independently through a discounted cash flows (DCF) model using their respective cost of capital.

- **Valuation of the newco without synergies.** Next, it should be estimated the value of the merged entity, excluding synergies. In this case, no DCF model is involved since it is just a simple sum of the parts.

- **Valuation of the newco with synergies.** Finally, the value of synergies is estimated and included in the cash flows and the growth rate of the combined company. With a DCF model, the discounting is done using a new cost of capital (WACC) reflecting the riskiness of the new entity. The value for synergy is provided by the difference between the value of the merged company including synergy and the value of the merged company without synergy.

In the last part of the 3-step process, it is required to insert synergies inside the combined DCF model that includes the cash flows of the two merged companies. To do this, one need to understand which are the inputs of a discounted cash flow model that are affected by the introduction of synergies. If the focus is on the operating ones, it is possible to differentiate between *cost affecting* and *growth affecting* synergy (Damodaran, 2005).

- **Cost affecting synergies.** These synergies have a generally simple effect. If the result is a one-time reduction in costs, the cash flow of the respective period will be increased accordingly, leading to an increase in the firm value. On the other hand, if the cost saving will have a long-term impact, altering operating and profit margins, the increase in firm value will be represented by the sum of the present value of the incremental cash flows throughout the period.

- **Growth affecting synergies.** This type of synergy can be displayed in a model in multiple ways, depending on the type of growth synergy.
  If the merged company is able to earn higher return on investments (ROI) on his projects, the increase in ROI lead to the increase in the overall growth rate[25].
  Secondly, if the combined entity has more investment propensity, given the increased ability after the merger to find relevant opportunities, this is reflected in the model through an increase in the investment rate, that translate itself into a higher overall growth rate.
  Finally, if the newco is able to gain a competitive advantage vis-à-vis its peers, this will lead to a long-lasting excess return, generating a higher growth rate.

Whether affecting costs or growth, different types of synergy will always result in a higher free cash flow. The key difference is that cost affecting synergies are, by definition, limited to the entity of the cost itself, i.e., costs can be reduced only up to a certain point. On the other hand, growth affecting synergies have virtually no limit in their expansion (Damodaran, 2005).
Clearly, it is up to the deal executioners to estimate a credible amount of synergies that can be coherently explained to investors.

[25] This because the formula of growth is G = IR * ROI, where IR is the investment rate.

Bruner (2004) identifies a few important issues in the valuation of synergies that are frequently overlooked by less expert practitioners.

- **Credibility of the synergy source.** Synergy assessment requires careful due diligence and research. Moreover, how synergies can be eventually implemented is a key determinant of the success of a deal. Too many times they are just the result of a mere advertisement at the moment of the announcement. This because, as already mentioned in paragraph 2.3.1, a deal without synergies is not perceived well. If this is the case, the credibility of the synergy source is tainted and with it, the valuation model.

- **Tax adjustments.** When marketing documents following the deal announcement report the details regarding revenue and cost synergies, these will most likely be reported pre-taxes. Therefore, it is necessary to adjust for the new marginal tax rate of the combined company in order to highlight the value of the after-tax synergies. Also, in the weighted average cost of capital calculation, used to find the discount rate for the present value of synergies, the new marginal tax rate should be reflected.

- **Discount rate consistency.** Cost affecting and growth affecting synergies, but more generally all the operating and financial synergies seen in this chapter, have a different degree of risk. Corporate finance theory clearly states that one should value a stream of cash using a discount rate consistent with the risk of that stream (Walker & McDonald, 1986). Hence, synergies with different risks should be discounted at different WACC rates.

  For example, "sure things" (e.g., the sale of a very liquid non-core asset) should be discounted at the risk-free rate. On the other hand, less sure things, for example cash flows that have a volatility similar to EBIT could be discounted at the cost of debt, since they are bearing the same risk of interest expenses[26]. Increasingly

[26] Since being able to pay interest expenses, whose risk is the cost of debt, depends on the entity of earnings before interest and taxes (EBIT), cash flows with this degree of volatility are assumed to carry the same risks of interest expenses, and should be discounted as such.

risky cash flows, as that with volatility similar to unlevered or levered free cash flow can be discounted with WACC and cost of equity, respectively. Finally cash flows on very risky projects should be discounted with a speculative cost of capital, like that of venture capital.

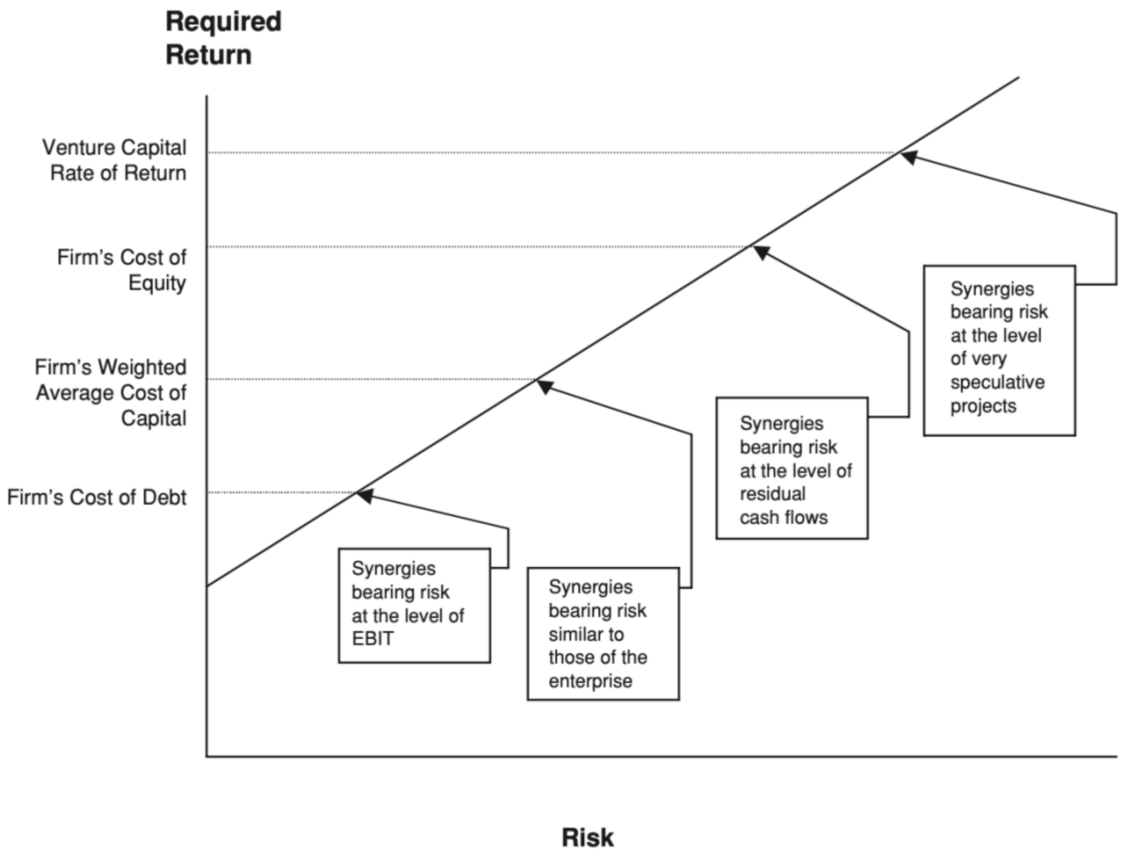


Figure 19*: Required discount rate for different types of synergy (Source: Bruner & Perella, 2004)*

More generally, as shown in figure 19, increasingly risky cash flows, whose probability of realisation is gradually remote, should be discounted with progressively higher rates of return.

The whole point of these differences is to adjust for uncertainty. A highly likely cash flow should clearly be worth more than an uncertain one.

2.4 Does M&A pay?

To conclude this second chapter on M&A, it may be useful to explore empirical evidence on M&A success. In fact, as this work approaches to its case studies part, not much has been said on the possibility of M&A failure, which is a concrete and frequent issue. However, measuring the value created by M&A activity is often an inexact science, as much of the value is difficult to intercept on a large-scale basis. Also, a deal is typically evaluated using short-term parameters, which is inefficient as one of the foundations of M&A is that the real worth develops over the longer term.

Among the many studies, Rau & Vermaelen (1998) developed an innovative contrast between *glamour firms* (companies with low book-to-market ratio) and *value firms* (with high book-to-market ratio). Through the analysis of a sample of 3.169 mergers and 348 tender offers between 1980 and 1991, they showed how glamour firms underperformed value companies. The authors attributed this underperformance to the overconfidence generated by past profitability that characterise management, investors, and public perception of glamour firms.

With a more general approach, the research review of Bruner (2004) concluded that M&A does pay, in the sense that it returns at least the opportunity cost of capital. However, in general, returns for the seller are more positive than that of the bidder.

In more recent times, a McKinsey research (2012) on M&A value creation deemed useful to distinguish between four types of M&A strategies: *programmatic, selective, tactical,* and *large deals*. Figure 1 shows the main differences between them.

***Figure 20**: M&A strategies of global 1.000 nonbanking companies, 1999-2010 (Source: McKinsey, 2012)*

The survey found out that long-term returns of firms characterized by M&A activity vary significantly by deal pattern and by industry. According to the authors: *"across most industries, companies with the right capabilities can succeed with a pattern of smaller deals, but in large deals industry structure plays as much of a role in success as the capabilities of a company and its leadership"*.

Looking at the long-term excess return of the different strategies (figure 21), programmatic approach seems to be the one yielding the best results, better than organic growth. On the other hand, large deal strategies had a consistently negative excess total return. Moreover organic approach, despite showing a majority of positive returns, resulted as the most volatile one. Therefore it seems that a tactic of small deals M&A activity may generate a higher return than no M&A activity at all.

***Figure 21**: Median excess TRS[27] of global 1.000 nonbanking companies by strategy, 1999-2010 (Source: McKinsey, 2012)*

When industry specification is added to the analysis (figure 22), it is possible to highlight a clear pattern, described as follows:

- **Large Deals.** In this category are included the deals that represents, by value, more than 30% of the buyer's market cap. This type of strategy is most effective in mature industries characterized by decaying growth. In fact, given these conditions, it makes sense to consolidate the industry by reducing excess capacity.

[27] Outperformance against global industry index for each company.

Top strategies in industry

Top strategies	Consumer discretionary	Telecom	PMP	High tech	CPG and retail	Materials	Manufacturing, other industrials	Insurance and related
Programmatic	4.2	4.5	3.1	–1.2	3.2	4.5	0.7	0.1
Selective	2.0	1.3	6.4	–2.6	2.5	–1.5	4.8	1.7
Tactical	0.4	0.7	N/A	1.2	2.6	–3.0	1.8	2.6
Large deals	–2.8	–0.9	2.0	–6.7	3.8	–0.3	3.5	4.0
Organic	–4.2	N/A	N/A	–2.0	1.4	N/A	–5.2	9.8

***Figure 22**: Median excess TRS of global 1.000 nonbanking companies by strategy and industry[28], 1999-2010 (Source: McKinsey, 2012)*

Conversely, when the sector is growing fast, as high-tech, embarking in a large deal would require an expensive focus on integration, inevitably disregarding the advancements in the industry.

- **Programmatic deals.** This was a successful strategy in many sectors. Moreover, McKinsey found that the greater number of transactions a company did, the higher the probability it would gain excess TSR. However, to be effective, the firm should be provided with an M&A division inside the organization.
- **Tactical deals.** With this approach, the number of executed deals remains pretty high, but the average value is limited. It is a strategy that works best for tech firms, where buying access to innovation and capabilities is important.
- **Selective deals.** This type of M&A activity is characteristic of organizations with a yearly acquisition spending of less than 2 percent of the market cap. Therefore the excess TSR may be partly driven by organic growth.

In conclusion, successful deal making depends largely on the deal structure. In the case of large deals, the success is largely dependent on the industry where it takes place. On the other hand, smaller, frequent deal making success depends on the internal capabilities of the buyer.

[28] Notes: PMP = pharmaceutical and medical products; CPG = consumer packaged goods.

Chapter 3 – Case study

3.1 Introduction to the case: industry-specific M&A strategies

Paragraph 2.4 outlined a key relationship between M&A returns and the industry and strategy of the bidders. Since the success of a deal appears to be closely related to the M&A approach adopted and the respective industry, this chapter will present two different cases of Italian multinational corporations which have recently engaged in transactional activity. In particular, the companies selected operate in industries with diverse characteristics and growth rates, and have a different approach to M&A.

The rationale behind this comparison is that these firms were able to create value for shareholders through a different acquisition strategy, which was industry specific. Therefore, the case will look at the activity of these companies and will provide a critical view on it, also with regard to the effects on the economic and financial performance of the two.

The two subjects of the case are Davide Campari Milano NV, simply known as Campari Group and Webuild S.p.A..

Campari is a major player in the global alcoholic beverages industry, with a portfolio of over 50 premium and super premium brands, spreading across Global, Regional and Local priorities. Its portfolio includes Campari, Aperol, SKYY Vodka, Grand Marnier, and Wild Turkey. The Group was able to build this portfolio with a 26 years' history of M&A activity, that included 38 acquisitions and 13 disposals[29].

On the other hand, Webuild, the leading Italian infrastructure constructions player, is the result of the consolidation wave that characterized the infrastructure industry in the last decade. Starting in 2013, with the merger of Salini Costruttori and Impregilo, giving birth to Salini Impregilo Group, the company completed its last deal in 2021 with the acquisition of Astaldi, the second Italian player by revenue, that preceded the recent name change to Webuild.

[29] Source: company website and filings.

This chapter will be structured as follows: paragraph 3.2 will provide an overall view on the Italian M&A market. Using data from Refinitiv and Mergermarket and the annual M&A reports of the major global advisory firms, the paragraph will offer up-to-date data on recent M&A activity and trends.

The following paragraphs, 3.3 and 3.4 will be dedicated to the analysis of the two case subjects Campari and Webuild, respectively.

Each of these cases will be divided in the following sub-sections: first, there will be a general overview of the company and its history. Secondly, the analysis will be focused on the industry and competitive landscape, with insights on the dimension and growth of the sector and the main competitors. Then, the case will move to the company's M&A activity, first with a highlight of the transaction history and then with a focus on M&A strategy. Following this part, the analysis will continue on the economic and financial performance of the firm in the selected timeframe. Finally, the last sub-section will try to draw the conclusion of the case study.

3.2 Italian M&A market outlook

From a global point of view, M&A activity was subject to a hard impact in 2020. The social and economic disruptions caused by Covid-19 led the first half of the year to close at a 6.6% year-on-year decline in the overall value of transactions. Accordingly, 1H20 registered 15,5% drop in number of deals. Instead, the second half of the year, with its USD 2.2tn of overall M&A activity, represented the highest ever half-year figure, according to Mergermarket (2021).

From a regional point of view, Asia (+26.1% vs. 2019) was the area that gained most market share, shifting to 22.9%. Europe (+5.6% vs. 2019) also showed a positive pattern, moving to 26.8% from the original 23.7%. Contrarily, North America (-22.6% vs. 2019) registered a negative trend, with a drop in market share by value to 41.9% from 50.5%[30]. Figure 23 highlights the geographical distribution of value in 2020 M&A activity.

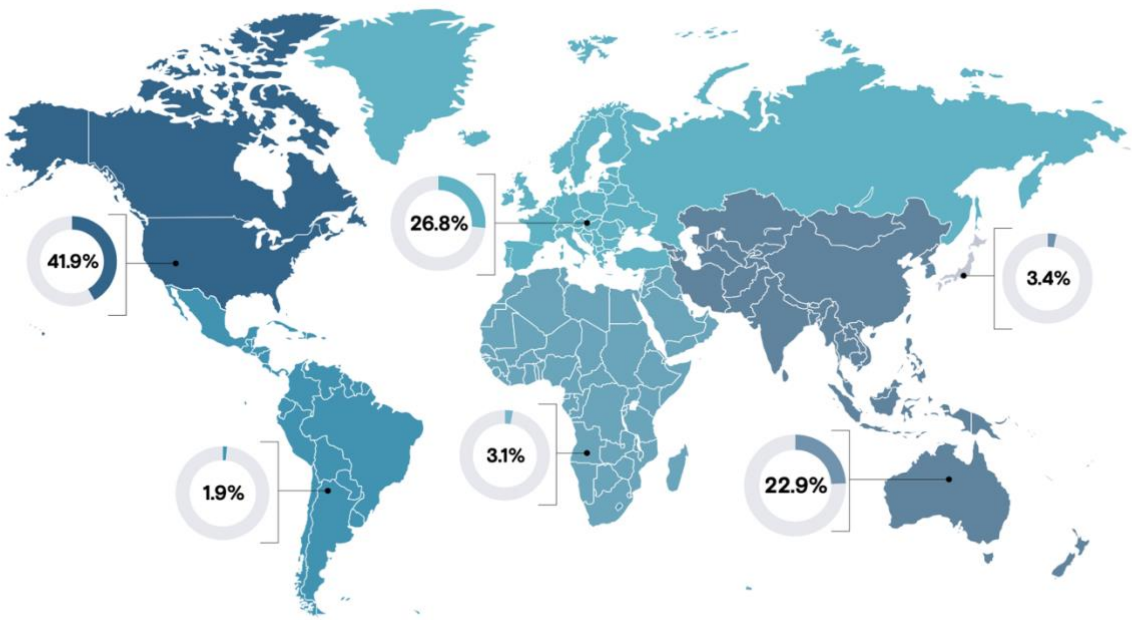


***Figure 23**: Regional market shares by value in 2020 global M&A (Source: Mergermarket, 2021)*

In Italy, the 2020 M&A market closed a very complex year with a decline, on which the pandemic had a significant influence. The emergency situation contributed to the slowdown of the transactions, imposing a setback to a decade of uninterrupted growth in

[30] Source: Mergermarket (2021).

the deal count. In particular, 2020 registered a strong contraction of foreign investments in Italy, with a drop of -68% in transactions value. As shown in figure 24, the overall value of M&A transactions fell by 16% to €44 billion. The deal count dropped as well, from 1.085 to 880 (-18.9%)[31].

	2016		2017		2018		2019		2020	
Range	Volume	€ bln	Volume	€ bln	Volume	€ bln	Volume	€ bln	Volume	€ bln
> 1,000	10	23.9	8	15.7	15	65.7	9	21.5	7	19.3
100 - 1,000	82	26.9	85	22.9	74	22.4	84	24.7	54	19.7
50 - 100	53	3.9	53	3.8	42	2.9	41	3.0	32	2.4
< 50	684	3.1	671	4.1	860	2.8	951	3.2	787	2.6
Total	**829**	**57.8**	**817**	**46.5**	**991**	**93.8**	**1085**	**52.4**	**880**	**44.0**

Figure 24*: Italian M&A market: number of transactions by value range, 2016-2020 (Source: KPMG, 2021)*

The downturn in Italian M&A activity affected transactions of all sizes. Also in 2020, in line with the trend observed the previous year, large deals (value above €1.0 billion) experienced a downsizing, both in terms of volume (-22%) and value, which fell to €19.3 billion (from €21.5 billion in 2019 and €65.7 billion in 2018) and accounted for 44% of the entire market (previously it was 41%). The relative weight of transactions with a value between €100 million and €1.0 billion (-36% in volume, -20% in value) remained essentially stable at 45%, from 47% in 2019. After the growth of 2019, even the smaller size transactions (value of less than €50 million) experienced a drop in volume, by 17%, and a 16% fall in value.

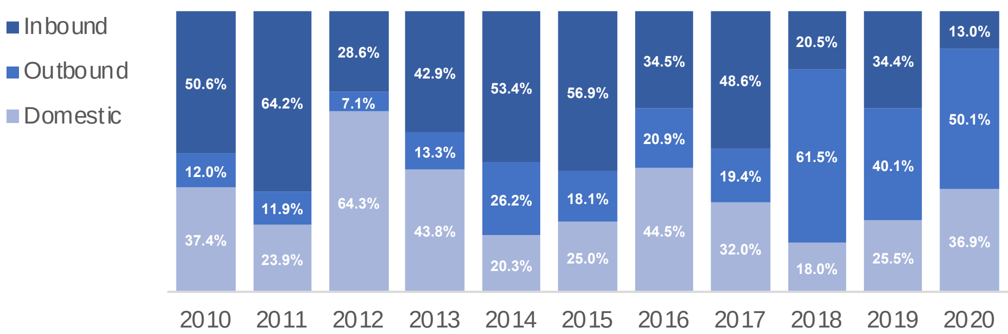


Figure 25*: Italian M&A market 2010-2020: breakdown of values by deal direction (Source: KPMG, 2021)*

After the record volumes registered in 2019, cross-border M&A activity (inbound and

[31] Source: KMPG (2021).

outbound) suffered a setback: the 370 completed transactions, down 28% from the previous year, generated an overall value of €27.7 billion (-29%). The relative contribution in value of cross-border transactions to the entire Italian market consequently fell from 75% to 63% (it was 82% in 2018 and just under 70% in 2017), as shown in figure 25.

In terms of volumes it is possible to observe that:

- With 510 deals completed (down by 11% compared to 2019), Italy-on-Italy deals (domestic) confirmed their leadership position with a 58% contribution to overall M&A activity.

- The incidence of Italy-to-abroad (outbound) activity remained substantially stable (17% of the entire market) thanks to 152 completed transactions (-23% compared to 2019)

- Abroad-to-Italy acquisitions (inbound) lost 31% and, with 218 deals, reduced their contribution to 25% (compared to around 30% in 2019).

Consequently, the net balance of cross-border activity (the difference between inbound and outbound activity) almost halved, from 120 deals completed in 2019 to 67 deals.

Industry	2019			2020		
	Value (€ mln)	% share by value	Volume	Value (€ mln)	% share by value	Volume
Financial Services	4,478	12.20%	28	13,703	35.20%	33
Consumer	4,609	12.50%	140	5,904	15.20%	100
Industrial & Chemical	5,567	15.10%	175	4,848	12.40%	137
Telecom	-	0.00%	1	3,365	8.60%	4
Business Services	496	1.30%	64	2,898	7.40%	48
Technology	8,619	23.40%	46	2,278	5.80%	60
Leisure	1,273	3.50%	19	1,709	4.40%	14
Energy. Mining & Utilities	438	11.90%	60	965	2.50%	38
Construction	3,019	8.20%	20	938	2.40%	19
Pharma. Medical & Biotech	19	5.20%	53	879	2.30%	31
Transport	1,354	3.70%	16	763	2.00%	25
Real Estate	200	0.50%	6	548	1.40%	3
Other	931	2.50%	16	169	0.70%	7
Total	**36,826**	**100.00%**	**644**	**38,968**	**100.00%**	**519**

Figure 26*: Investment activity by target sector in 2020 (Source: EY, 2021)*

Figure 26 shows the industry distribution of the overall Italian M&A activity of 2020. During 2020, approximately 519 deals with targets in Italy were recorded, compared to 644 deals in 2019 (-19.4% YoY in volume). Particularly significant was the incidence of megadeals, i.e., deals with an acquisition value in excess of €1 billion. For example:

- In the telecommunications sector, the acquisition of the telecom towers of CK Hutchinson by the Spanish operator Cellnex Telecom for €3.3 billion.

- In the financial services sector, the merger of UBI Banca into Intesa SanPaolo for a value of around € 5.5 billion. Also, Nexi, one of the major players in the payments segment, executed two major acquisitions, one of Nets and the other of SIA, with a value of €6.2 and €4.6 billion, respectively.

- In the Retail sector, the sale of 30% of Esselunga by the founder's children Giuseppe and Violetta Caprotti, to the majority shareholders Marina Caprotti and her mother Giuliana Albera (overall value of € 1.83 billion).

The reduction in the value of M&A investments is fairly generalised across all sectors, with the exception of the few which reacted best to the economic crisis of 2020, such as the Telecom and Financial Services sectors.
The financial sector is the most active by value of transactions (€ 13.7 billion), driven by the Intesa Sanpaolo-UBI Banca merger, followed by the Consumer sector. Together, these represent more than 50% of the value of M&A deals in 2020 in Italy.
The volume of transactions is decreasing in various sectors, first of all in those typical of Made in Italy, that have been most penalized by the effect of anti-Covid restrictions and the climate of uncertainty, such as retail, non-food consumer goods, industrial products, and machinery. Equally impacted were the transport, leisure, and construction sectors, in which companies were less attractive to strategic and financial investors.

In the first quarter of 2021, global M&A activity experienced a strong rebound, with a +33% year-on-year in terms of value and a +2% in volume.

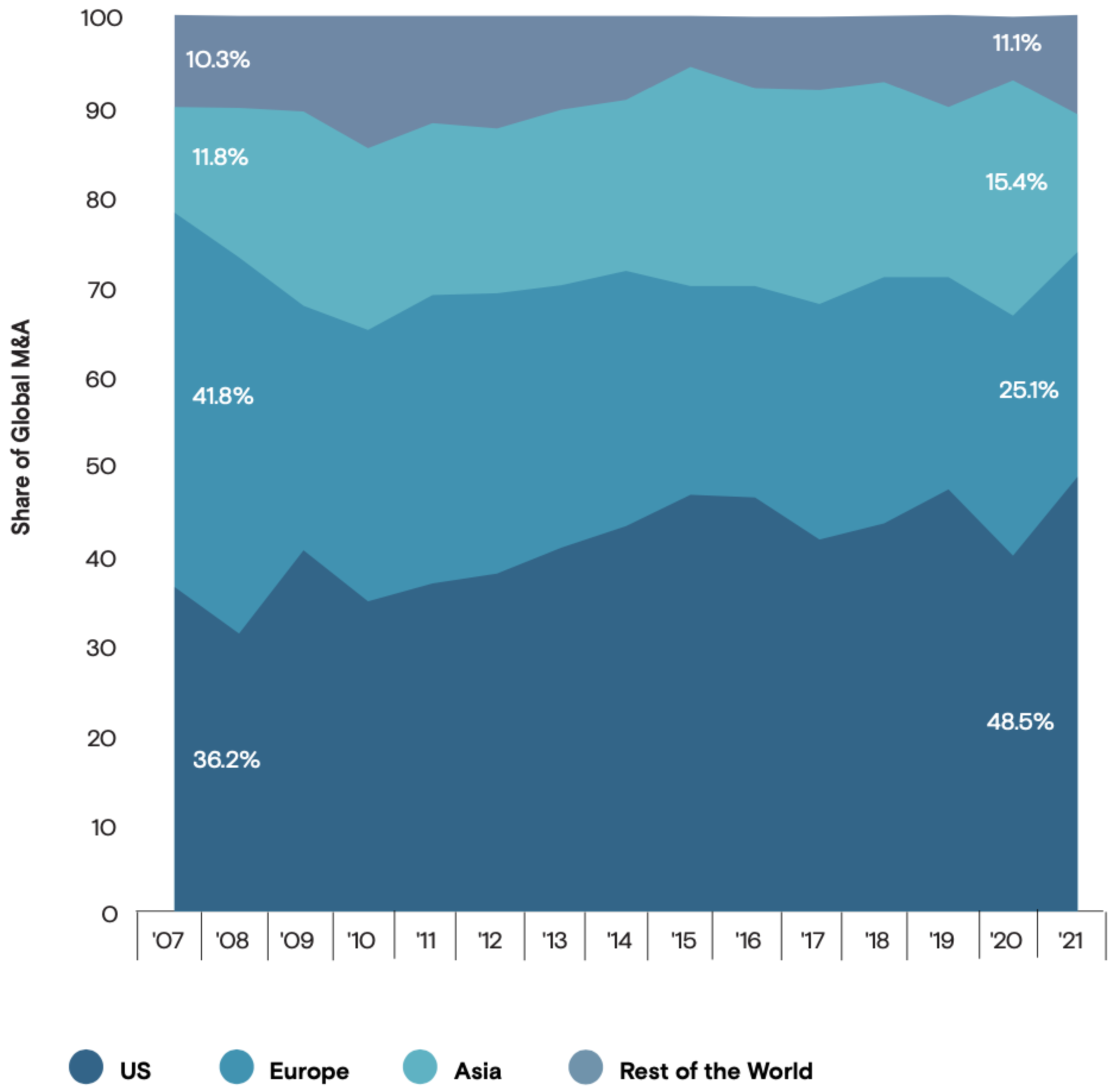


Figure 27*: Regional Share of Global M&A by Value, 2007-1Q21 (Source: Mergermarket)*

As shown by figure 27, in Q121 both US and Asia managed to gain back market share in global M&A activity, while Europe registered a downward shift.

From the Italian point of view, this translated into an impressive +161% surge in deal value, from €10.1 to 26.4 billion. On the other hand, deal volume remained stable, with a -3%, from 239 to 232 transactions[32]. The most notable deal of Q1 2021 was represented by the closing of the FCA-PSA merger, a deal valued at €19.6 billion. Additionally, the luxury fashion sector was particularly active, with the €1.2 billion acquisition of the Stone Island brand by Moncler.

[32] Source: KPMG

3.3 A serial acquirer: Campari Group

3.3.1 Company overview

Founded in 1860 in Milan thanks to Gaspare Campari, the company's first brand was the homonymous red bittersweet aperitif. From 1888 onwards, Gaspare's successor and son, Davide Campari, started to implement a development strategy to grow the brand internationally, through a successful and innovative marketing strategy: the creation of the first single-serve aperitif, Campari Soda, in 1932 and the artistic use of advertisement to enhance product promotion.

In the 1960s, Campari Group had already expanded to more than 80 countries with its distribution. Starting from the second half of the 1990s, the beverage industry experienced a generalized M&A wave which allowed for the establishment of large players with global scale and wide diversified portfolios, thus appealing to a broad customer base. Starting from 1995, Campari put in place a systematic external growth strategy, shifting from a single-brand company to a multinational corporation with a solid and diverse brand portfolio. The Group became public in 2001, with the listing on the Milan stock exchange.

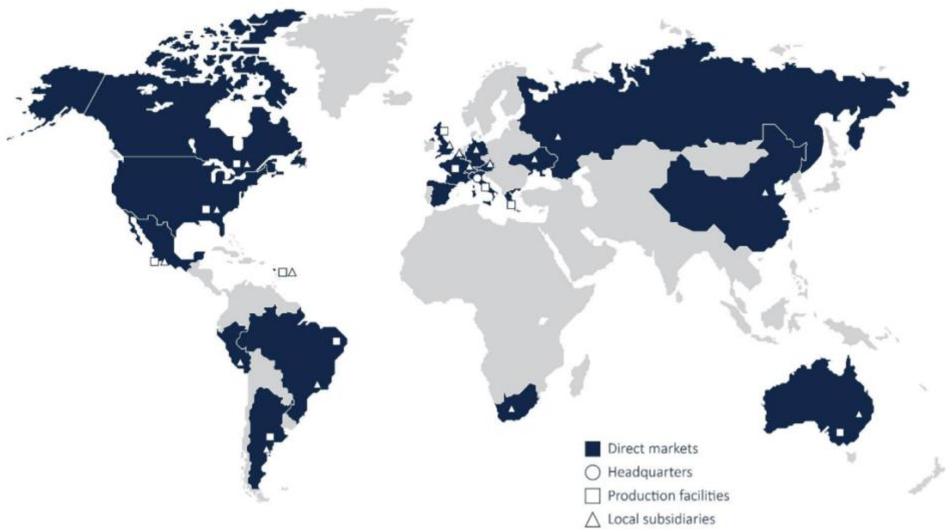


Figure 28*: Market presence and production facilities of Campari worldwide (Source: Campari presentation, 2020)*

Today, Campari is a major player in the global spirits industry, with a portfolio of over 50 premium and super premium brands. As displayed in figure 28, it distributes its products in 190 countries, with manufacturing plants established in 22 of them, and employs more than 4,000 people[33].

With €1,772 million in revenue in 2020, Campari detains leading positions in both the American and the European market. According to an Impact research (2019), the Group is the sixth-largest player worldwide in the premium spirits industry.

Figure 29*: Campari brand portfolio weights by value (Source: Campari presentation, 2020)*

The brand portfolio of Campari is mainly composed by global priorities, accounting for 57% of the total revenue, as shown in figure 29. These are brands with worldwide recognition and global appeal, like Campari itself, Aperol, SKYY Vodka, Wild Turkey, Grand Marnier, and the Jamaican rums.

The second part of the portfolio is represented by regional priorities (17%) i.e., brands that are very strong in a particular area. For example, Espolòn is a tequila brand particularly appreciated in the US, accounting for 5% of total Campari revenues.

Local priorities, weighting 11% by value, are a set of brands that have national recognition and appreciation. This is the case of Campari Soda and Crodino, together accounting for 6% of total revenues, that are very strong in the Italian market.

According to the company statements of the recent years, Campari's strategy aims to combine organic growth through strong brand building with shareholder value enhancing acquisitions, maintaining a 50/50 balance between organic and external growth.

[33] Source: company website and filings.

3.3.2 Industry and competitive landscape

Spirits represent a segment of the global alcoholic beverages industry. In 2020, this sector generated a total of around $1.514 billion, down from 2019 by -7.6%, as shown in figure 30. With an expected CAGR for the next five years standing at 5%, the alcoholic drinks market is commonly seen to be characterized by saturated volume sales. Conversely, the industry tries to tackle this with increased M&A activity as well as with premiumization strategies.

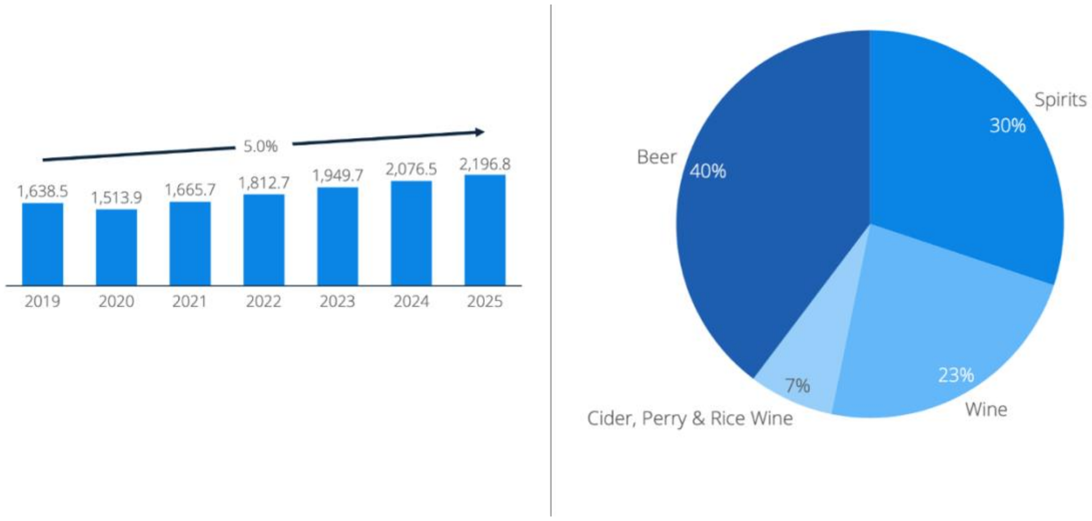


Figure 30*: Worldwide Alcoholic Drinks revenue in billion USD, and revenue share by segment (Source: Statista, 2020)*

The market can be divided into four segments: Beer, Spirits, Wine, and Cider, Perry & Rice Wine. With a share of 40%, Beer is the most important segment in value terms, followed by Spirits (30%) and Wine (23%) (see figure 30).

According to Statista (2020), the key drivers shaping the market are changing age structures across many regions and a heightened health awareness, which both put pressure on volume consumption. But a relatively good outlook for consumer spending in the industrialized countries and the continuing emergence of middle-class affluence in Asia leave room for further premiumization of the market.

This continuing trend toward premiumization, which leads to a widening field of smaller brands by craft breweries and distillers, offers opportunities for growing eCommerce sales. Online sales channels are still relatively underdeveloped compared to non-food consumer goods. But eCommerce sales of alcoholic drinks are projected to grow at above-average rates over the forecast period. Key drivers here are the relative durability of most alcoholic drinks, priming them for mail order, and the long tail of eCommerce, providing niches for small producers, which can directly connect with consumers without the need for a complex traditional distribution chain.

Alcoholic Drinks are characterized by a relatively low brand awareness in general and, overall, self-reported consumption levels correlate positively with household incomes. Apart from that, alcohol consumption varies a lot by country, as the consumer insights chapter shows, which highlights the fact that alcohol consumption is closely connected to cultural habits.

The market for Alcoholic Drinks shows a clear trend toward higher-priced specialty products that offer new taste experiences to consumers at premium prices. In the Beer segment, craft beer, after trending for a long time, is nearing saturation in the U.S. In Europe, however, there is still ample growth potential. The Spirits segment is marked by the producers' efforts to blend traditional categories into new flavour variants, whereas the Wine segment is driven by a trend toward organic wines.

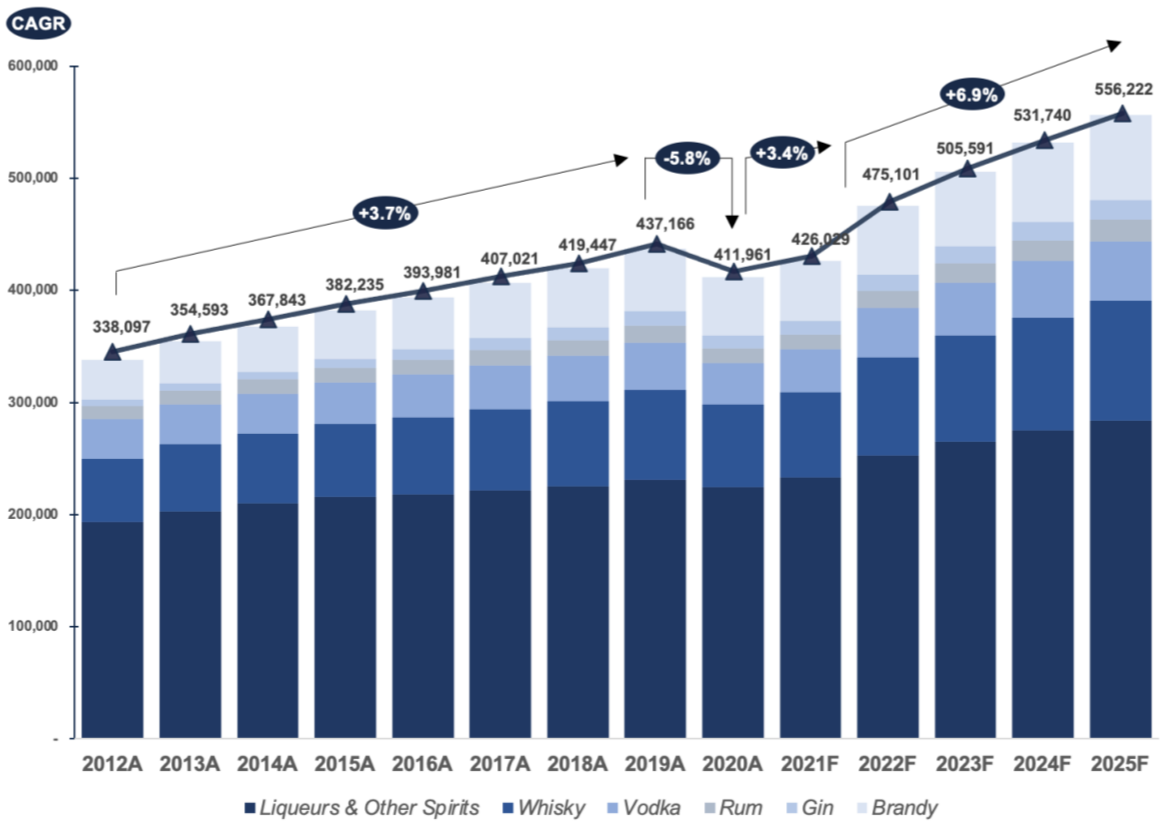


***Figure 31**: Worldwide Spirits revenue in million € (Source: Statista 2021)*

In the last decade the spirits segment showed a positive trend, with revenues registering a CAGR of 3.7% from 2012 to 2019. In 2020, the pandemic emergency caused a -5.8% fall, leading to a value of €411.961 million in global revenue, as displayed in figure 31. The market is expected to mildly recover during this year, 2021, with a +3.4% growth. Up until 2025, analysts predict the spirits industry to fully recover and grow at a CAGR of 6.9%.

While in terms of value the highlighted trend is generally positive, with a post-pandemic outlook of enhanced growth, for what concern the volumes (figure 32), the situation seems quite stable with a CAGR of 1.1%, not far from the mere growth in global population[34]. Moreover, according to data from the World Health Organization, alcohol consumption per capita is flat or falling in most countries, especially in the developed ones. This decline can be attributed to aging populations and cultural shifts that lessen the social importance of alcohol consumption and instead stress health and wellness.

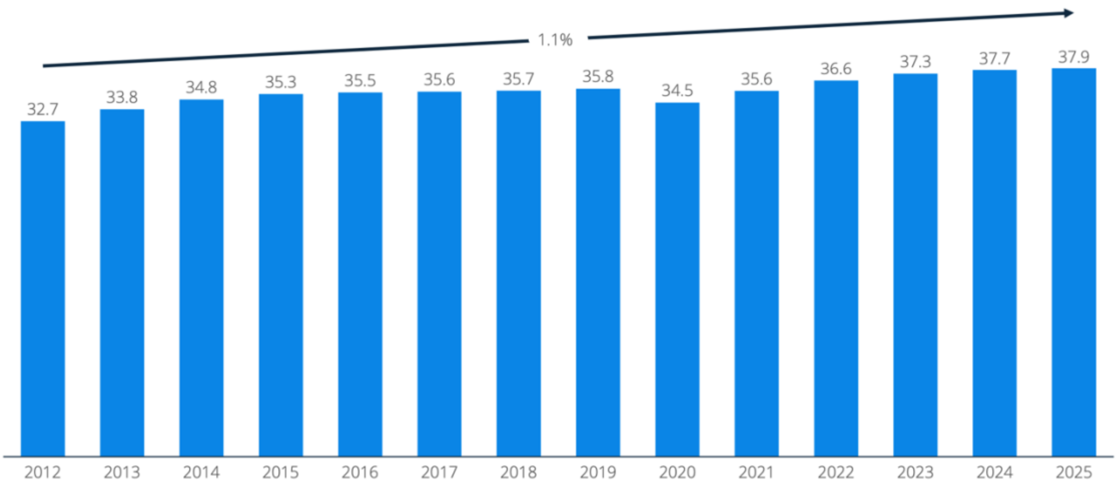


Figure 32*: Worldwide Spirits revenue in billion litres (Source: Statista 2021)*

The market for Spirits is structured into retail sales for at home consumption and on-premises or foodservice sales for out-of-home consumption.

The at-home market, that can be also defined as off-trade market, refers to retail sales via super- and hypermarkets or similar retail channels.

The out-of-home market, also called on-trade market, away-from-home market or

[34] Source: World Bank.

ho.re.ca (short for hotels, restaurants, and cafés) encompasses all sales to hotels, restaurants, catering, cafés, bars, and similar hospitality service establishments.
Both the at-home and the out-of-home market are valued at consumer prices including all applying sales and consumption taxes. Figure 33 shows the breakdown of volume and revenues by sale channel in 2020, according to Statista. When looking at volumes, the almost entirety of sprits are sold for at-home consumption (93%) while only the 7% is referred to the volume of ho.re.ca. sales. Instead, in terms of revenues, out-of-home channel accounts for a much larger share (21%), reflecting the premium that is generally applied to these sales.

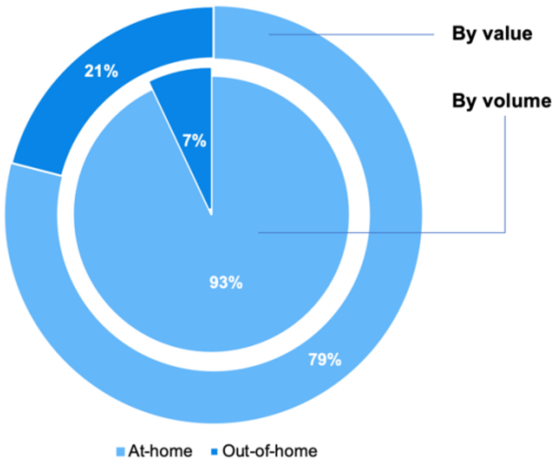
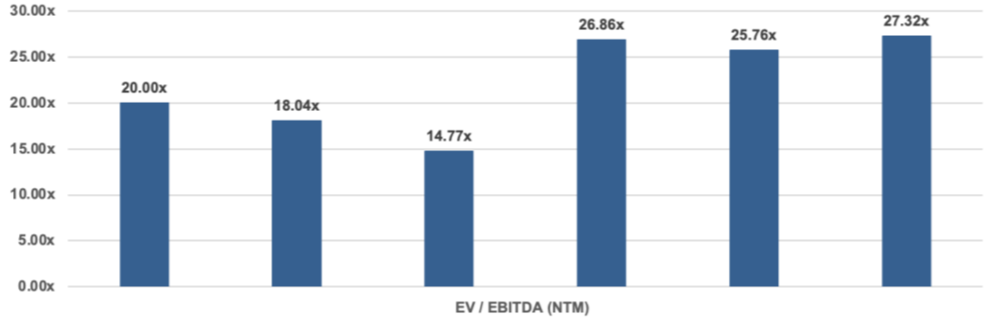


Figure 33*: Spirits segment sales channels' share by value and volume (Source: Statista, 2020)*

From a competitive point of view, Campari Group is among the global top ten spirits producers and distributors[35]. The leading player of the segment are Diageo, Pernod Ricard, and Bacardi, respectively.
Figure 34 provides an economic and financial overview for Campari's top five public competitors.
The table clearly shows two different sets of peers. First, Large Caps, composed by Diageo, Pernod Ricard, and Constellation Brands, have 40 or more billion US dollars in market cap, an average Debt/Value ratio of 15%, more than 5 billion dollars in revenue and an EBITDA margin higher than 30%. These three companies are valued, on average, with an Enterprise Value on EBITDA multiple of around 17.6x.

[35] Source: Impact's top 100 Premium Spirits Brands Worldwide by Company (2019).



Company Name	Diageo	Pernod Ricard	Constellation Brands	Brown-Forman Corp	Davide Campari Milano	Remy Cointreau
Market Cap (mln USD)	113,551	57,653	40,265	32,803	16,316	10,134
Net Debt (mln USD)	19,121	9,049	10,312	1,409	1,215	364
Revenue (mln USD)	19,311	11,602	8,929	3,822	2,615	1,457
EBITDA Margin	32.7%	31.2%	37.2%	31.4%	24.0%	27.1%

***Figure 34**: Overview of main financials, Campari peers (Source: Refinitiv data)*

The other group is defined as Small Caps and is composed by Brown-Forman, Campari itself and Rémy Cointreau. The main characteristic of this set of companies are the following: market cap is generally below 40 billion US Dollars, Debt/Value ratio is around 5%, Revenue are lower than 5 billion US Dollars and the average EBITDA margin is below the 30% level. Given the set of features that distinguishes this group of peers, their valuation stands, on average, at an Enterprise Value on EBITDA multiple of around 26.7x.

Essentially, Campari's peers are all differentiated multinationals with a wide portfolio of alcoholic beverage brands ranging from beers and wines to spirits. For example, the portfolio of Diageo, the leading player of the industry, includes a large selection of whisky from Scotland, Ireland, Canada, and US but also beers, like the renowned Guinness.

In fact, having an extensive portfolio is key in the spirits industry since this allows for more contractual power and cross-selling with distributors. Moreover, another important feature of these companies is the varied geographical distribution of the owned brands, a crucial element for diversification in a very concentrated industry.

3.3.3 M&A portfolio

Figure 35*: Campari Group acquisition history from 1995 until now (Source: Campari website)*

Starting from 1995, Campari executed a long series of M&A related to the beverage industry. In particular, the Group completed 38 acquisitions, of which 29 are cross-border, for an overall consideration of more than €3.2 billion. On the other hand, starting from 2013, it also finalised 13 disposals for a total value of around €500 million[36]. Clearly, this

[36] Source: company website

is what allowed Campari to earn the unofficial nickname of "serial acquirer". This paragraph will therefore analyse the Group M&A activity period by period.

- **1995-2000.** In this period, Campari focused mainly on aperitifs, both alcoholic and non-alcoholic, with the acquisition of Cinzano, from Diageo, for a consideration of €106.5 million and a group of brands, acquired from BolsWessanen, that included Cynar, Crodino and Lemonsoda.

- **2001-2006.** These years saw the completion of two of the most important acquisitions of Campari. In 2002, SKYY Vodka was bought for a consideration of €402.5 million. One year later, the Group acquired the 100% of Barbero1891, the producer of Aperol, for €222.4 million. Today, these two brands together represents almost 30% of the yearly consolidated sales. In addition, in 2006 Campari entered the Whisky segment for the first time, with the Glen Grant and Old Smuggler acquisitions from Pernod Ricard, for a total of €130 million.

- **2007-2012.** By far the most prolific in terms of investments, this period saw Campari investing more than €1 billion in M&A activity. First, in 2009, the Group completed the purchase of Wild Turkey, a US bourbon brand valued at €418.4 million. Next, in 2012, Lascelles de Mercado, a Jamaican rum producer, was bought for a consideration of €317.3 million. Together, these acquired brands now represent almost 15% of the Group's sales.

- **2013-2018.** In 2016, Campari completed its largest ever acquisition. For a consideration of €489.8 million, it acquired Société des Produits Marnier Lapostolle, with its renowned brand Grand Marnier, a product now generating the 7% of the consolidated sales. Also, the Group completed other 3 major deals, buying Forty Creek Distillery Ltd., Fratelli Averna S.p.A. and BULLDOG London Dry Gin, for an overall investment of €318.4 million.
  Starting from 2013, Campari also initiated a disposal activity that went on until 2018. The divestments involved non-core business that, according to the Group CEO Bob Kunze-Concewitz, did not have a strategic fit with the rest of the company. The majority of sales involved "undesired" assets that had previously

been acquired together with target brands. For example, in 2017 the Group sold Carolans and Irish Mist, bought in 2010 together with Frangelico, for €141.7 million. Campari also exited the juice business with the sale of Lemonsoda.

- **2019-2020.** During this period the Group did noy complete any major acquisition. However, it entered the online sale business with a 49% stake in Tannico for almost €25 million. Moreover, it completed the disposal of a real estate asset valued at €80 million, previously acquire together with Grand Marnier.

YEAR	ACQUISITION	COUNTRY	KEY BRANDS	DATE CLOSING	CONSIDERATION € MILLION	% OF CAPITAL
2020	Baron Philippe de Rothsch	France	Distribution company	28-Feb-20	60.0	100.0%
2020	Champagne Lallier SARL	France	Champagne Lallier	10-Jun-20	48.3	80.0%
2020	Tannico S.p.A.	Italy	E-Commerce company	29-Jun-20	23.8	49.0%
2019	Rhumantilles SAS	Martinique (Fra	Trois Rivières and Maison La Mauny	01-Oct-19	60.5	100.0%
2019	Licorera Ancho Reyes y C	Mexico	Ancho Reyes and Montelobos	20-Nov-19	32.7	51.0%
2018	Bisquit Cognac	France	Bisquit V.S. Classique, Bisquit V.S.O.I	31-Jan-18	53.9	100.0%
2017	BULLDOG London Dry Gir	United Kingdo	Bulldog	10-Feb-17	82.3	100.0%
2016	Société des Produits Marn	France	Grand Marnier	14-Jul-16	489.8	71.2%
2014	Forty Creek Distillery Ltd.	Canada	Barrel Select, Copper Pot Reserve an	03-Jun-14	132.4	100.0%
2014	Fratelli Averna S.p.A.	Italy	Averna, Braulio, Limoncetta and Fratti	03-Jun-14	103.7	100.0%
2013	Copack	Australia	Contract beverage packer	02-Sep-13	14.1	100.0%
2012	Lascelles deMercado	Jamaica	Appleton Estate, Appleton Special - W	11-Dec-12	317.3	100.0%
2011	Sagatiba	Brazil	Sagatiba cachaca	03-Aug-11	25.0	100.0%
2011	Vasco CIS	Russia	Distribution company	01-Mar-11	8.5	100.0%
2011	Cazalis and Reserva San J	Argentina	Cazalis and Reserva San Juan	10-May-11	1.1	N/A
2010	Carolans, Frangelico and I	Ireland	Carolans, Frangelico and Irish Mist liq	01-Oct-10	128.5	N/A
2010	Cabo Wabo Tequila	USA	Cabo Wabo Tequila	30-Jul-10	8.5	20.0%
2009	M.C.S.	Belgium	Brussels-based company operating ir	10-Apr-09	N/A	50.0%
2009	Wild Turkey and American	USA	Wild Turkey bourbon and American H	29-May-09	418.4	100.0%
2009	CJSC "Odessa Plant of Sp	Ukraine	Odessa, Golden Duke and L'Odessika	13-Mar-09	14.3	99.3%
2008	Cabo Wabo Tequila	USA	Cabo Wabo Tequila	02-Jan-08	56.9	80.0%
2008	Destiladora San Nicola, S.	Mexico	Espolón and San Nicolas tequilas	11-Nov-08	21.5	100.0%
2008	Sabia S.A.	Argentina	Distribution company	28-Nov-08	6.0	70.0%
2007	X-Rated from Daucourt Ma	USA	X-Rated liqueur	01-Aug-07	28.1	N/A
2006	Glen Grant and Old Smugg	UK	Glen Grant and Old Smuggler scotch	15-Mar-06	130.0	100.0%
2006	Skyy Spirits LLC	USA	SKYY vodka	02-Nov-06	49.0	11.0%
2005	Skyy Spirits LLC	USA	SKYY vodka	25-Feb-05	118.1	30.1%
2005	Vini Teruzzi&Puthod	Italy	Vini Teruzzi&Puthod	01-Dec-05	12.0	100.0%
2004	Vini Riccadonna	Italy	Riccadonna wines	01-Jan-04	11.3	N/A
2003	Barbero1891 SpA	Italy	Aperol and AperolSoda aperitifs, Mon	03-Dec-03	222.4	100.0%
2003	Sella&Mosca SpA	Italy	Sella&Mosca wines, Zedda Piras liqu	07-Jun-03	8.5	22.4%
2002	Skyy Spirits LLC	USA	SKYY vodka	15-Jan-02	235.4	50.0%
2002	Sella&Mosca SpA	Italy	Sella&Mosca wines, Zedda Piras liqu	06-Feb-02	90.0	67.6%
2002	Sella&Mosca SpA	Italy	Sella&Mosca wines, Zedda Piras liqu	26-Jun-02	3.8	10.0%
2001	Brazilian acquisition (Dreh	Brazil	Dreher, Drury's, Old Eight, Liebfraumi	31-Jan-01	113.0	N/A
1999	Cinzano from Diageo	International	Cinzano vermouth and sparkling wine	01-Jan-99	106.5	N/A
1999	Ouzo12	Greece	Ouzo12	01-Jan-99	16.2	N/A
1995	The Italian business of Bol	Italy	Cynar, Crodino and Lemonsoda	01-Jan-95	N/A	N/A

YEAR	DISPOSAL	COUNTRY	KEY BRANDS	DATE CLOSING	CONSIDERATION € MILLION	% OF CAPITAL
2019	Villa Les Cèdres	France	Real Estate sale	30-Oct-19	80.00	100.0%
2018	Lemonsoda business	Italy	Lemonsoda, Oransoda, Pelmosoda a	02-Jan-18	80.00	100.0%
2017	Carolans and Irish Mist	USA	Carolans Irish Cream and Irish Mist (I	01-Aug-17	141.70	100.0%
2017	Lapostolle	Chile	Lapostolle wines and pisco	31-Jan-17	30.00	100.0%
2017	Sancerre	France	Château de Sancerre wines	04-Jul-17	20.10	100.0%
2016	Sella & Mosca and Teruzzi	Italy	Sella & Mosca and Teruzzi & Puthod	16-Dec-16	62.00	100.0%
2015	Federated Pharmaceutical	Jamaica	N/A	31-Mar-15	13.00	100.0%
2015	Agri-Chemicals Division of	Jamaica	N/A	09-Jul-15	7.40	100.0%
2015	Limoncetta di Sorrento	Italy	Limoncetta di Sorrento	30-Jan-15	7.00	100.0%
2015	Enrico Serafino S.r.l.	Italy	Enrico Serafino wines	30-Jun-15	6.10	100.0%
2015	Casoni Fabbricazione Liqu	Italy	Company specialized in the productio	30-Mar-16	5.30	100.0%
2014	Odessa Sparkling Wine Co	Ukraine	Odessa	24-Apr-14	N/A	99.3%
2013	Punch Barbieri	Italy	Punch Barbieri	01-Mar-13	4.50	N/A

Figure 36*: Campari acquisition and disposal history with financial details, 1995-2020 (Source: Campari website)*

3.3.4 M&A strategy

Campari M&A approach is built on the overall corporate growth strategy whose aim, according to the most recent corporate presentations[37], is to combine organic growth through strong brand building with shareholder value enhancing acquisitions. The management clearly states that spirits are the company's core business and where it focuses its acquisition efforts. Also, the Group's strategic thinking is driven by the desire to reach or enhance critical mass in key geographic markets.

More in detail, the last years have shown the company's clear intention to maintain a 50/50 balance between organic and external growth. From an organic growth point of view, Campari's objectives are the following:

- Driving faster growth of global priorities and incubating regional priorities with intensive marketing, innovation, and brand building. Hence, the corporate belief is that newly acquired brands can particularly benefit from Campari's "signature" treatment and gain value. This is the case of Bisquit Cognac, a brand acquired in 2018 for €53.9 million that in 2019 was renamed as Bisquit&Dubouché and rebranded with a new super premium positioning[38].

- Generating steady growth in key local priorities through periodical renewals. For example, in 2020l, with the aim of reinforcing its presence in the non-alcoholic category, Campari decided to launch Crodino, a famous Italian non-alcoholic aperitif, outside of Italy with a brand-new mix.

- Leveraging rigorous cost discipline to reinvest savings into strategic brand building.

- Developing the Group's presence in high-potential markets.

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[37] Source: Campari website.

[38] Source: Campari FY 2019 results presentation

On the other hand, the external growth implemented by Campari tend to pursue the following objectives:

- Seeking acquisitions in markets where Campari Group controls its distribution. This also happened recently, in 2020, when the company acquired the French distributor Baron Philippe de Rothschild. Three months later it bought Lallier, a French champagne brand.

- Purchase local brands with strong equity to set up new distribution platforms. In some way, this objective can be linked to the Tannico deal. As a strong alcoholic beverage e-commerce player in the Italian market, it truly represented the best candidate to gain access to the spirits' online commerce.

- Identify Specialty Brands with strong equity and pricing power. This goes along the trend of premiumization that involve the Spirits market. For example Appleton Estate, a Jamaican rum brand acquired in 2012, was the perfect fit to this strategy.

- Maintain financial discipline. This seems to be the leitmotif of every Campari's investment. For example, the Group repeatedly applied the use of earn-out mechanisms[39] in their offer to target shareholders, as it was in the case of Grand Marnier acquisition. In this case, the earn-out mechanism was related to the potential sale of a real estate property in the French Riviera, owned at the time by Société des Produits Marnier Lapostolle (the previous owner of Grand Marnier). The property was eventually sold by Campari in 2019 for a consideration of €80 million.

[39] The earn-out (or contingent consideration) is a very structured form of payment term in the context of an M&A. It basically is an additional payment after the business is sold, dependent on specific conditions (usually future performance) after the sale (usually 1 to 3 years). It is useful to control risk in a transaction, especially when there is a strong disagreement between seller & buyer on value linked to future performance (e.g., on future growth, profitability, market opportunities and threats).

3.3.5 Performance

In the last ten years Campari showed a positive growth trend throughout the almost entire period, as shown in figure 37, with a revenue CAGR of 4.72% until 2019. Then, in 2020, the pandemic-induced contraction led to a -3.83% fall in sales that translated into a drop in EBITDA by -19.4%. The loss was even more amplified in terms of free cash flow, as 2020 showed a -34.3% reduction.

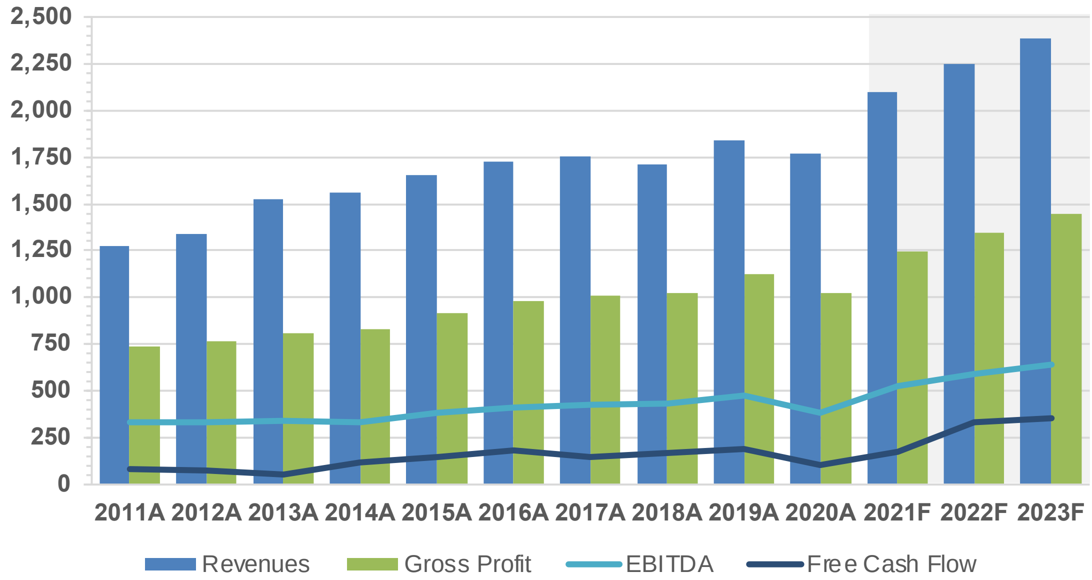

Figure 37: *Campari Group historical and forecasted key performance indicators, € million, 2011-2023 (Source: Refinitiv)*

In 2021, analysts are predicting a strong rebound for Campari[40]. In detail, revenues are forecasted to increase by 18.5%, with Southern Europe, Middle East, and Africa region (SEMEA) set to gain the most (+29.3%). EBITDA should gain as well, shifting from €381.6 million to €522.7 million, a 34.3% predicted jump from 2020.

Overall, the next three years are forecasted to report a revenue CAGR of around 6.6%. Accordingly EBITDA average growth rate is set to reach 10.6%. Also, free cash flow is expected to be around €355 million in 2023, with an implied 43.3% CAGR.

[40] As of 10/09/2021

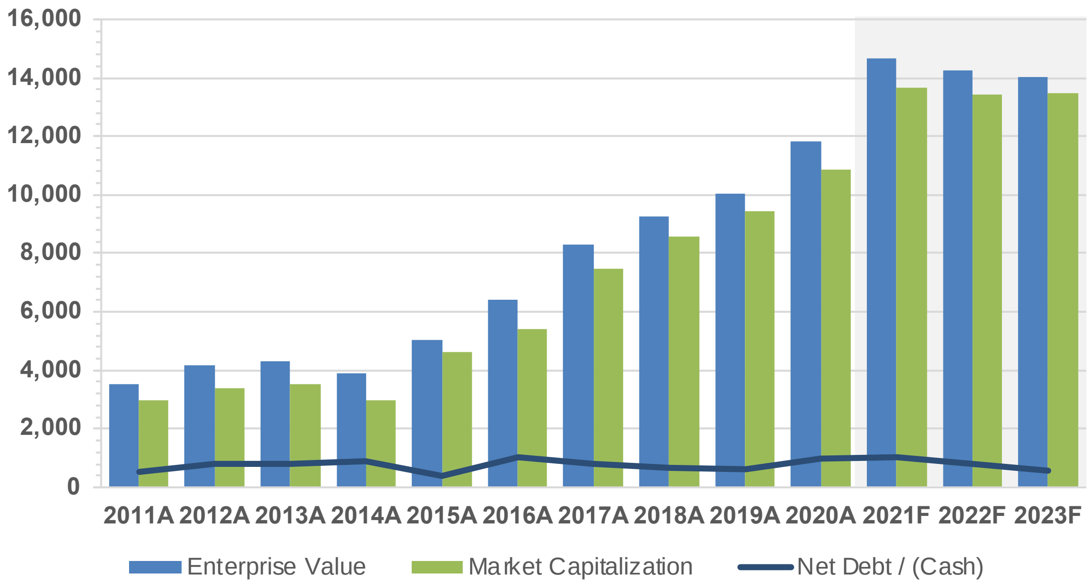

***Figure 38**: Campari Group historical and forecasted net financial position and market value, € million, 2011-2023 (Source: Refinitiv)*

Focusing on Campari's financial structure, market cap has shown a steady growth in the last decade, reaching €10 billion in 2020 after a climb resulting in a 15.5% CAGR. On the other hand the Group managed to keep the net indebtedness constant, notwithstanding the net expenditure related to M&A of more than €1 billion[41]. Clearly, as shown by figure 38, the company managed to reduce the Debt/Value ratio from 15% to 8%.

For what concerns the stock performance, figure 39 shows the total shareholder return (TSR) of the last five years for panel composed by Campari and its peers[42]. Starting from September 2016, Campari's stock (Ticker: CPR.MI) has generated a +145.8% gain for its investors. This is far more than its competitors: Diageo, the sector leader, only returned a +87.1%, close to the +89.4% of Pernod Ricard. Only Constellation Brands did worse, with a +36.9%. The second and third place were conquered by Rémy Cointreau and Brown-Forman, with +126.8% and +110.1%, respectively.

[41] Considering €1,419 million in acquisitions and €457 million in disposals since 2012.

[42] The data on total shareholder return was extracted from Refinitiv as of 08/09/2021

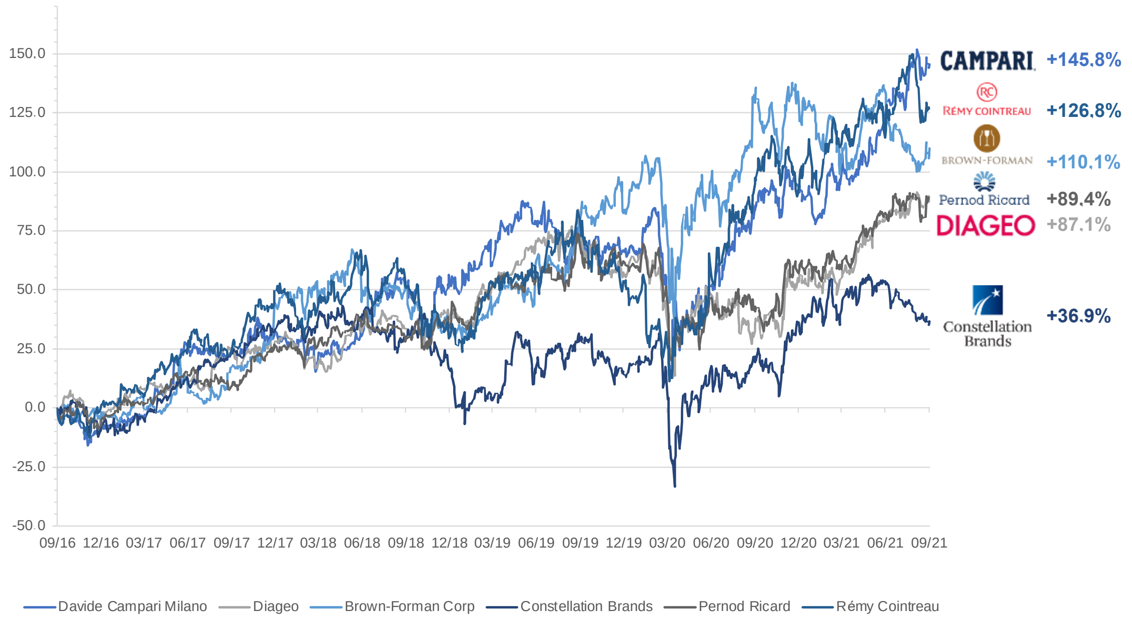

***Figure 39**: Campari Group and peers total shareholder return, last five years, rebased at 0 (Source: Refinitiv)*

Evidently, also thanks to its programmatic and methodical M&A activity, Campari was able to create more value than its peers. Moreover, even when the time-horizon is widened, for example considering the last twenty years, Campari's shares register a +2016.4%, lower only than the +2103% of Constellation Brands, but substantially higher than the other peers, like Diageo (+748.1%)[43].

Apart from any comparison between competitors, it is undisputable that the spirits industry, which has brand portfolio building, geographical differentiation, and distribution network as its main pillars, is profoundly linked to the mechanism of M&A as one of its main value creation drivers. In fact, none of the previously cited pillars can be so easily erected with just organic activity. For example, building a new spirits brand from scratch requires years of market testing and advertising, with the constant risk of failure, while buying an already affirmed brand poses much lese threats. Thereby, making M&A activity programmatic in the context of Spirits industry can be considered an effective corporate strategy.

[43] Source: Refinitiv as of 08/09/2021

3.4 Consolidating the industry: Webuild S.p.A.

3.4.1 Company overview

Webuild S.p.A. (previously globally known as Salini Impregilo) is a heavy construction contractor, leading global player in the construction of large, complex projects for sustainable mobility, clean hydro energy, clean water, green buildings, and the tunnelling sectors. The company offers design, engineering, and construction services in the context of the realization of dams, canals, hydroelectric plants, railways, bridges, metros, roads, motorways, civil and industrial buildings, and airports. Webuild is also active in underground works, and civil engineering works for waste-to-energy plants and project related to environmental protection. The company also holds concessions related to motorways, metros, and car parks. Webuild primarily cover water, renewable energy, transport, and urban infrastructure sectors.

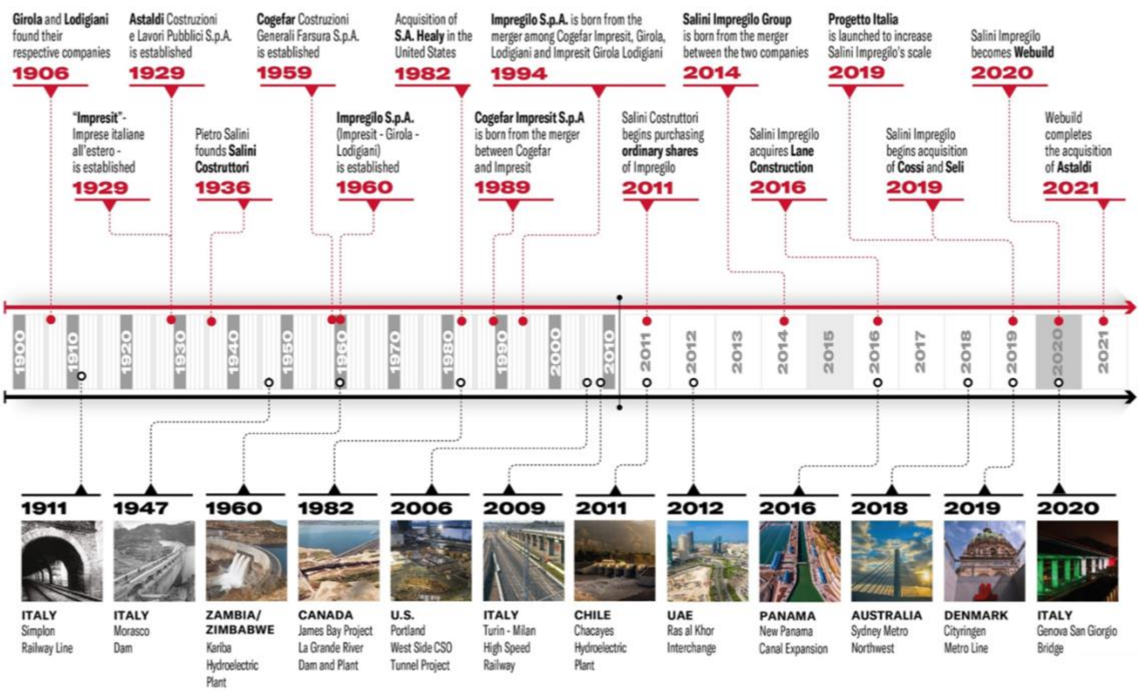

Figure 40: *History of Webuild and completed projects (Source: corporate website)*

Born in 1906, the group is the result of a continuous consolidation process that involved the major Italian players in the construction industry, as shown in figure 40. This process, which ended this year with the acquisition of Astaldi, will be analysed in detail in sub-paragraph 3.4.3.

Today, Webuild is present in almost every continent, counting more than 50 countries, operating with 60 offices around the world and with an average of 70,000 direct and indirect employees.

In 2020, the company generated sales for €4,247.2 million. Around 28% of these, as displayed in figure 41, are generated in North America, Webuild's biggest market. Europe as a whole accounts for 36% of turnover, with Italy representing the company's most important European market (22%).

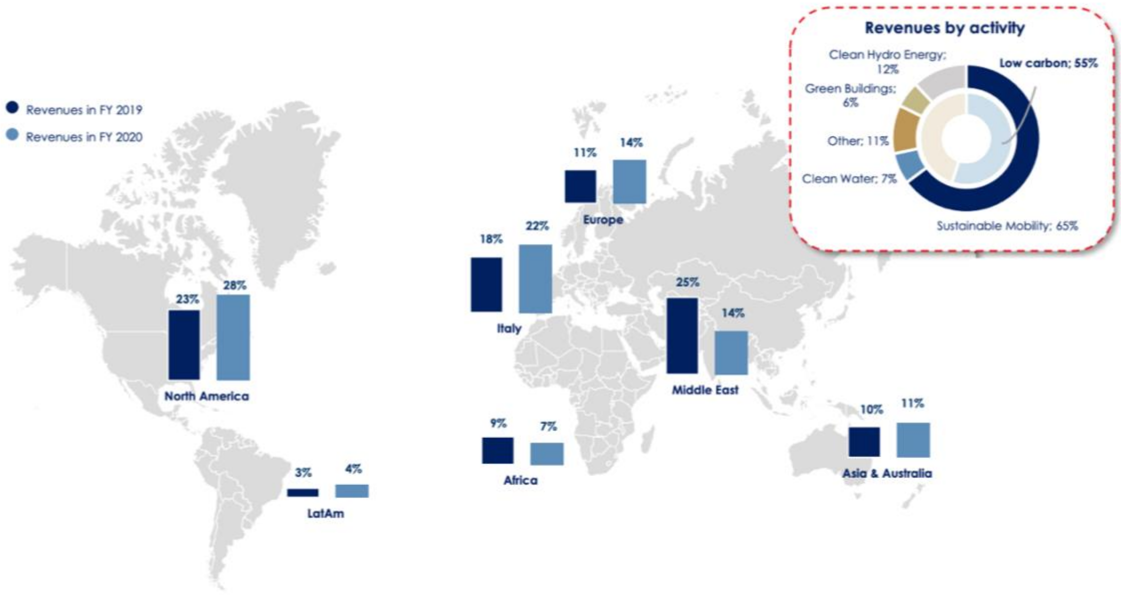

Figure 41: *Webuild revenues by geography and by activity, 2020 (Source: Webuild presentation)*

The activities of Webuild comprise more than 100 ongoing projects, for a total backlog[44] of €43.3 billion as of 30/06/2021. The main field of operations for Webuild is represented by sustainable mobility, with a 55% share, followed by hydro energy (12%), water (7%) and buildings (6%).

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[44] Backlog represents the amount of work, measured in euros, that construction companies are contracted to do in the future. The greater the value of the backlog, the more comfortable contractors can be with respect to their near-term economic circumstances (Source: Associated Builders and Contractors).

3.4.2 Industry and competitive landscape

According to McKinsey (2020), the construction industry, which includes real estate, infrastructure, and industrial structures, is the largest industry in the global economy, accounting for 13% of the world's GDP (Figure 42).

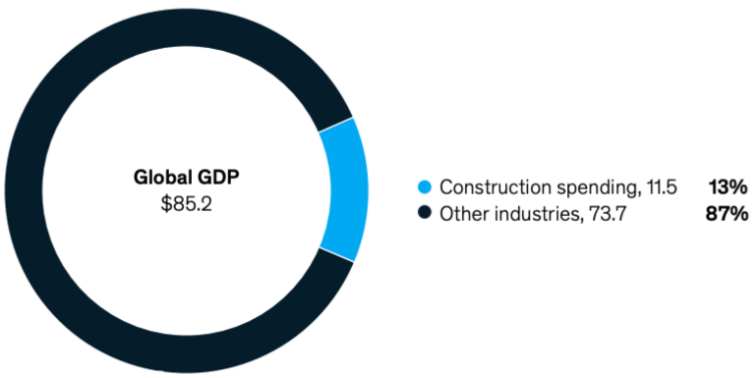


Figure 42:*Global construction spending as a share of world's GDP, trillion US Dollars (Source: McKinsey, 2020)*

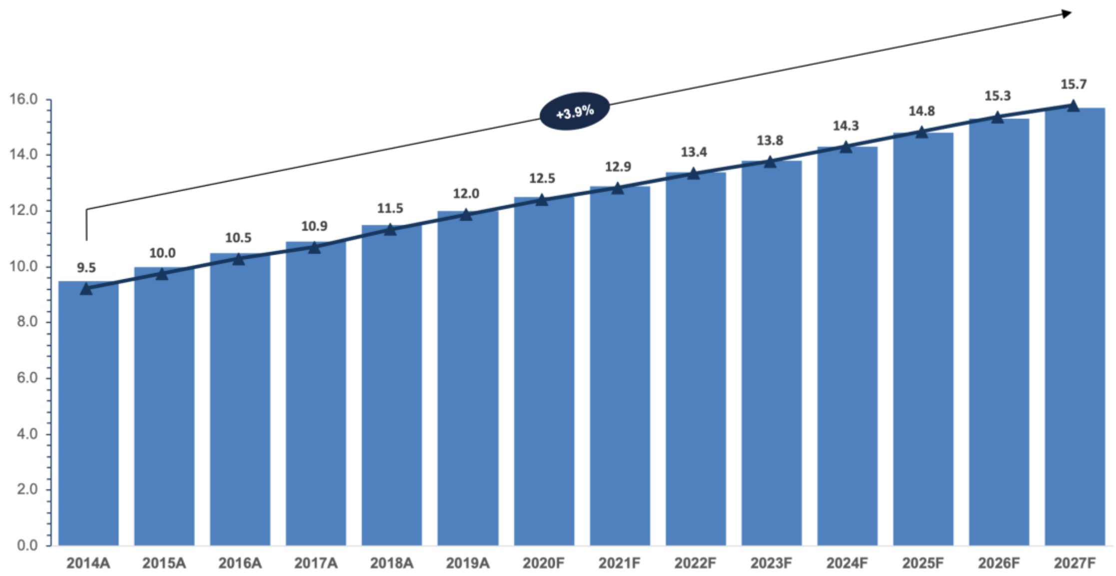


Figure 43: *Construction industry spending worldwide from 2014 to 2019, with forecasts from 2020 to 2027, trillion US Dollars[45] (Source: McKinsey, 2020)*

[45] Data not adjusted for Covid-19 impact.

As shown in Figure 43, the sector is expected to reach $15.7 billion in global spending by 2027, with an implied CAGR of +3.9%. According to Deloitte, in 2020 the world's first 100 companies in the industry generated total revenues of $1.5 trillion, representing more than 10% of the constructions business. In terms of geography, the largest corporations by value are based in China (48%), Europe (22%, in particular France and Spain), Japan (13%), the United States (8%) and South Korea (5%). Last year, among these large players, almost a half recorded an increase in sales and 18 achieved double-digit increases. On the other hand, 25 companies out of 100 reported revenue contractions greater than 10%.

The construction market is characterized by a strong yet cyclical demand that usually requires a tailored approach to customers. Moreover, the nature of the sector itself includes complicated logistics, high share of manual work on site, and low barriers to entry. However, local laws and regulations are complex and extensive, and, in the end, this led to the prevalence of the lowest cost contractor.
The intrinsic features of the market have led to development of specific industry dynamics, for example:

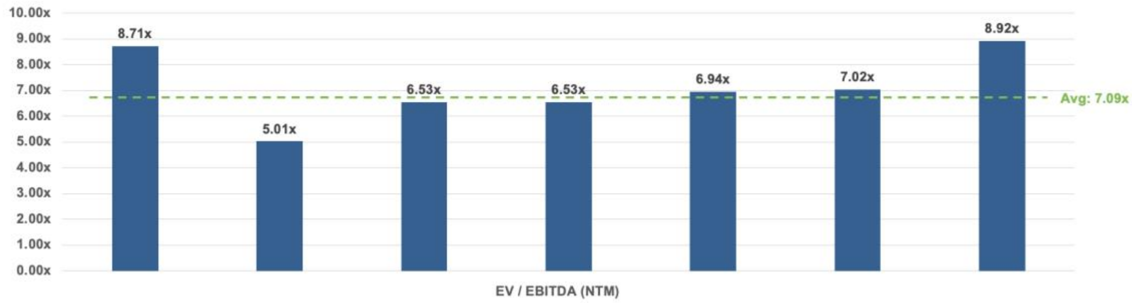
- **Project-based building approach.** Allowing to adapt to the requirements of every customer, but inevitably impacting on the growth of productivity

- **Highly fragmented ecosystem.** That lead to less opportunities for alliances and investments. This negatively affects the pace of innovation and digitalization of the market.

- **Misaligned contractual structures and incentives.** In fact, there is no clear definition of the moment in which risks and liabilities passes on to customers, resulting on disputes and bad relationships. This eventually increases the overall risks and damages profits.

- **Use of contractors and temporary staff.** Clearly, this lead to no value creating investments on human capital and limited possibilities to create valuable relationships with clients, resulting in low customer satisfaction.

The competitive landscape around Webuild, particularly the European one, is composed by six other players, ranging from 5 to 60 billion US dollars in revenues (Figure 44). These companies come from France, Spain and Germany and are regional and global leaders of the industry. Generally, they are diversified in many fields of constructions and concessions, like energy, highways, airports, and tunnelling.



Company Name	Vinci SA	Bouygues SA	ACS Actividades de Construccion y Servicios SA	Eiffage SA	Webuild SpA	Fomento de Construcciones y Contratas SA	Sacyr SA
Market Cap (mln USD)	62,141	16,217	8,266	10,096	2,774	5,520	1,575
Net Debt (mln USD)	24,612	4,516	3,236	13,558	932	3,718	6,507
Revenue (mln USD)	60,681	45,069	35,388	22,043	8,277	7,788	5,320
EBITDA Margin	14.7%	11.0%	-2.1%	15.8%	5.8%	17.6%	15.6%

***Figure 44**: Overview of main financials, Webuild peers (Source: Refinitiv data)*

The front-running position is taken by Vinci, a French concessions and construction company with more than $60 billion in revenues, followed by another French conglomerate Bouygues with $45 billion, the Spanish leader ACS, with $35 billion and Eiffage, a France-based player with $22 billion. Then, there is a smaller group of peers, more similar to Webuild in terms of turnover, consisting in FCC and Sacyr, both from Spain.

There is no clear pattern in terms of profitability. The median EBITDA margin is 14.7%, but there are important outliers like ACS and Webuild itself.

For what concerns financial structure, the median Debt / Value ratio is around 30% but again, there are some clear differences. However, there seems to be a positive relationship between EBITDA margin and D/V ratio: clearly a higher marginality lead to the ability to sustain a greater leverage.

From a valuation point of view, the average Enterprise Value / EBITDA multiple is 7.09x.

3.4.3 M&A portfolio

Year	Acquisition	Value (€ Mln)
2020	Astaldi S.p.A.	402.8
2019	Cossi Costruzioni S.p.A.	Not disclosed
2018	Seli Overseas S.p.A.	Not disclosed
2018	GLF Constructions	Not disclosed
2015	Lane Industries Inc.	375.3
2013	Impregilo S.p.A.	1,002.0

Year	Disposal	Value (€ Mln)
2018	Lane Industries Inc. - Asphalt Plants & Paving Business	485.3
2017	Impregilo Parking Glasgow Ltd.	12.0
2016	Todini Construzioni Generali S.p.A.	51.0
2014	Fisia Babcock Environment GmbH	139.3
2013	Tangenziali Esterne Di Milano S.p.A.	18.7
2012	EcoRodovias Infraestrutura e Logistica SA	1,121.3

Figure 45*: Webuild S.p.A. acquisition and disposal history from 2013 until now (Source: Webuild website, Refinitiv)*

Webuild S.p.A. is the result of a continued flow of consolidations in the Italian construction market. The first merger is dated back to 1960 and involved the aggregation of three businesses: Impresit, Girola and Lodigiani. The combination gave birth to Impregilo SpA.

On the other side, Salini Costruttori, founded in Rome in 1936, did not register any M&A activity until, in 2011, it begun to target Impregilo itself, with the aim to create a national champion in the global infrastructure sector. Salini did so by starting to purchase Impregilo's stocks in the market until, in June 2021, it reached 29.9% of the total shareholdings. After one of the most notable proxy battles in Europe, Salini finally launched a takeover offer, ended successfully in April 2013. The merger between the two, effective as of January 2014, led to the creation of a €4 billion sales global player under the new name Salini Impregilo Group.

In 2015, the company announced the acquisition of Lane Industries Inc., a leading US-based construction company, for a total consideration of €375.3 million, taking control of a company with revenues in excess of €1 billion. This transaction allowed the Group to reach €6 billion in consolidated sales and to establish a strong presence in the growing US Market with a share of 21% of total revenues.

The latest transaction of Salini Impregilo was executed in 2020, with the acquisition of Astaldi, the second largest player of the industry in Italy. The Group acquired 65% of the target by means of a capital increase of Astaldi equal to €225 million in cash and reserved for Salini Impregilo.

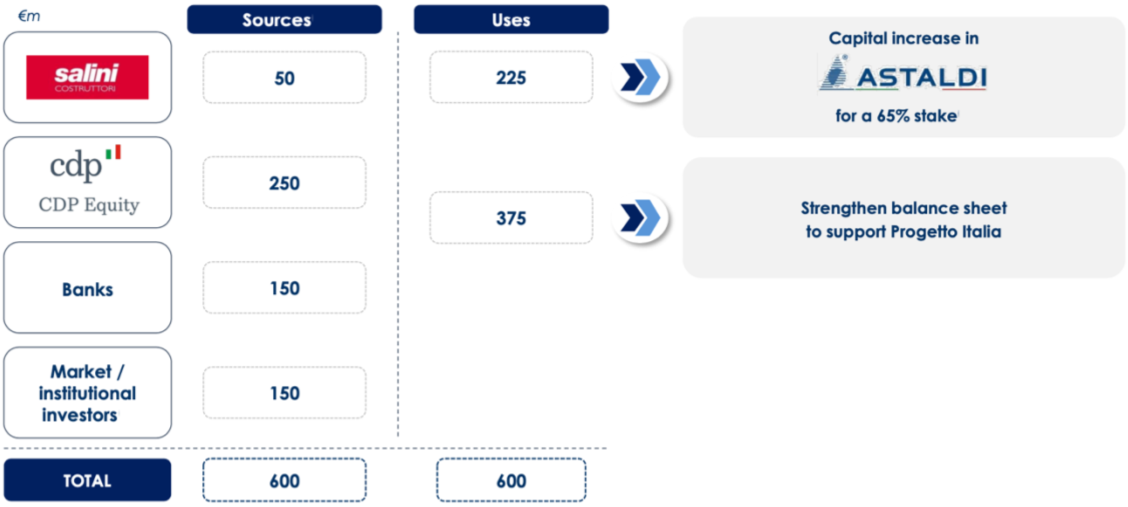


Figure 46*: Distribution of capital contributions for Astaldi deal and Progetto Italia (Source: Webuild presentation)*

The proceeds raised had the objective to finance Astaldi as an ongoing concern but also pay off privileged and pre-deductible creditors. In fact, this acquisition was also a rescue measure, given the €2 billion indebtedness of Astaldi that led it to file the request for an arrangement with creditors. The deal was financed by a €600 million capital increase of Salini, part of the so called Progetto Italia, subscribed as follows: 50 million by Salini Costruttori (the controlling shareholder), 250 by Cassa Depositi e Prestiti[46], 150 by a pool of creditor banks and 150 by the market (figure 46).

In May 2020 the Group also decided in favour of a name change, becoming Webuild SpA.

Starting from 2012, the Group (or the previous organizations) also realized a series of disposals of non-core assets. Impregilo, for example, divested its stake in EcoRodovias, a Brazilian company focused on highway concessions for a consideration of €1,121.3 million. Also, in 2015, Salini Impregilo sold the asphalt and paving division of the recently acquired Lane, for a total of €485.3 million.

[46] Cassa Depositi e Prestiti, simply known as CDP, is an Italian financial institution, controlled by the Ministry of Economy and Finance, that acts as the investment arm of the government.

3.4.4 M&A strategy

Webuild overall M&A strategy, according to company presentations and press releases, is predominantly based on the concept of **scale**. In fact, this driver allows the Group to achieve three main targets:

- **Risk diversification.** As each single project embarked by the company becomes relatively smaller in the context of an increased backlog.

- **Cost synergies.** In particular, related to procurement costs, head office general costs and savings thanks to greater efficiency in the usage of machinery and equipment.

- **Access-ability and capability.** This is a particular feature of the construction industry. In fact, achieving a greater dimension through M&A can help obtaining access to and capabilities to execute larger projects, which generally have a higher profitability.

The second driver that guides Webuild into M&A activity is **competitiveness**. Indeed, aggregation can help building a wider offer for customers, given the increased technical and managerial expertise. Moreover, according to the Group, M&A allows them to enhance their geographical coverage to select projects with best risk/reward ratios.

Another driver is represented by **complexity management**. Previously, in analysing the construction industry, it was determined that it is a complex sector, from project management point of view but also in regulatory terms. This is why executing a consolidating deal can help to manage more efficiently complex projects such as those with difficult supply chains.

Along these drivers, Webuild also follows more general M&A objectives linked to the overall corporate strategy, such as **re-focusing**, usually through the disposal of non-core activities, to concentrate uniquely on the construction business and **diversification**, both of field of operations and geographies.

In its three major deals, the Impregilo merger, the Astaldi and the Lane acquisition, Webuild applied these drivers, together with other specific objectives related to the characteristics of the target. Hence, what follows is the analysis of these three transactions from a strategic but also financial point of view.

- **Salini-Impregilo merger (2013).**

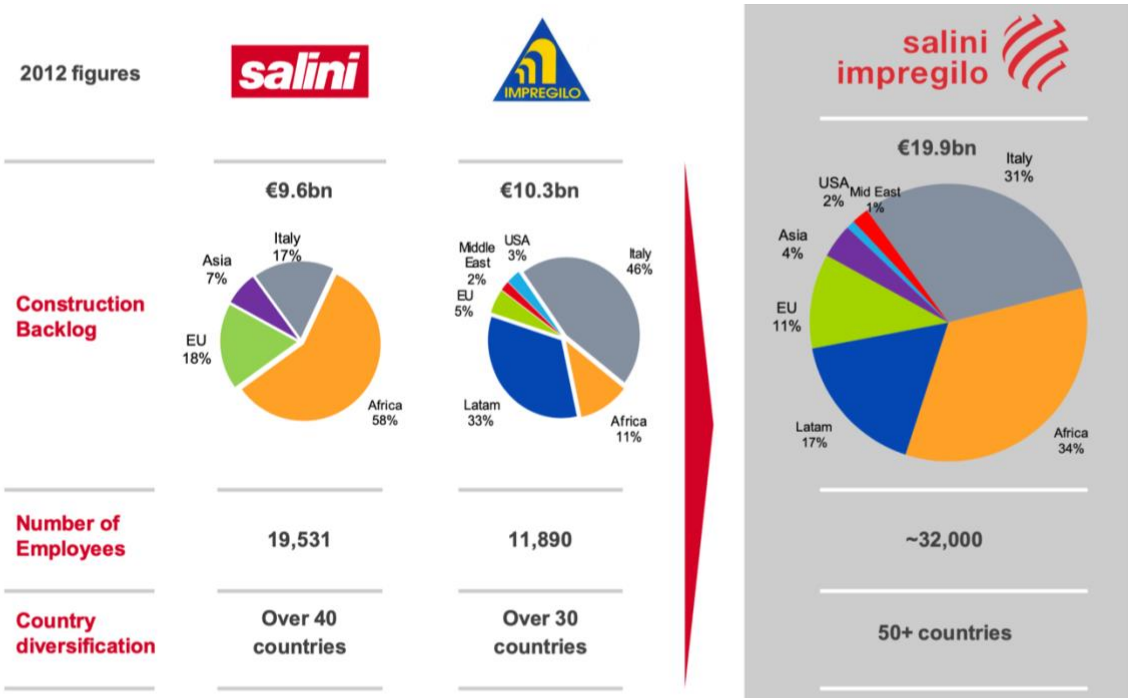


Figure 47*: Overview of the combined Salini Impregilo Group (Source: corporate presentation)*

The 2013 merger between Salini and Impregilo, as shown in figure 47, was a merger of equals that involved the two leaders of the industry in Italy. While being very similar from an activity point of view, these companies were substantially different in terms of geographical distribution of sales and construction backlog. In fact, one could even say they were complementary. Salini's core region was Africa, with 58% of backlog and 33% of sales but it had no presence at all in the Americas. On the other hand, Impregilo's main focus was Latin America, with 33% of backlog and 43% sales but Africa only accounted for 11% of backlog and 8% of sales. Thus, the newco was able to create a €20 billion backlog portfolio extremely diversified and present in every region. In particular, the Group could now boast a strong presence in attractive emerging markets, allowing to benefit from favourable long term growth opportunities. The merger returned an overall backlog that was also diversified in terms of activity segments. In particular, 27% of it was related to Hydro and Dams, 29% to Railways, 14% to Undergrounds, 14% to Motorways and Roads and 16% to Buildings.

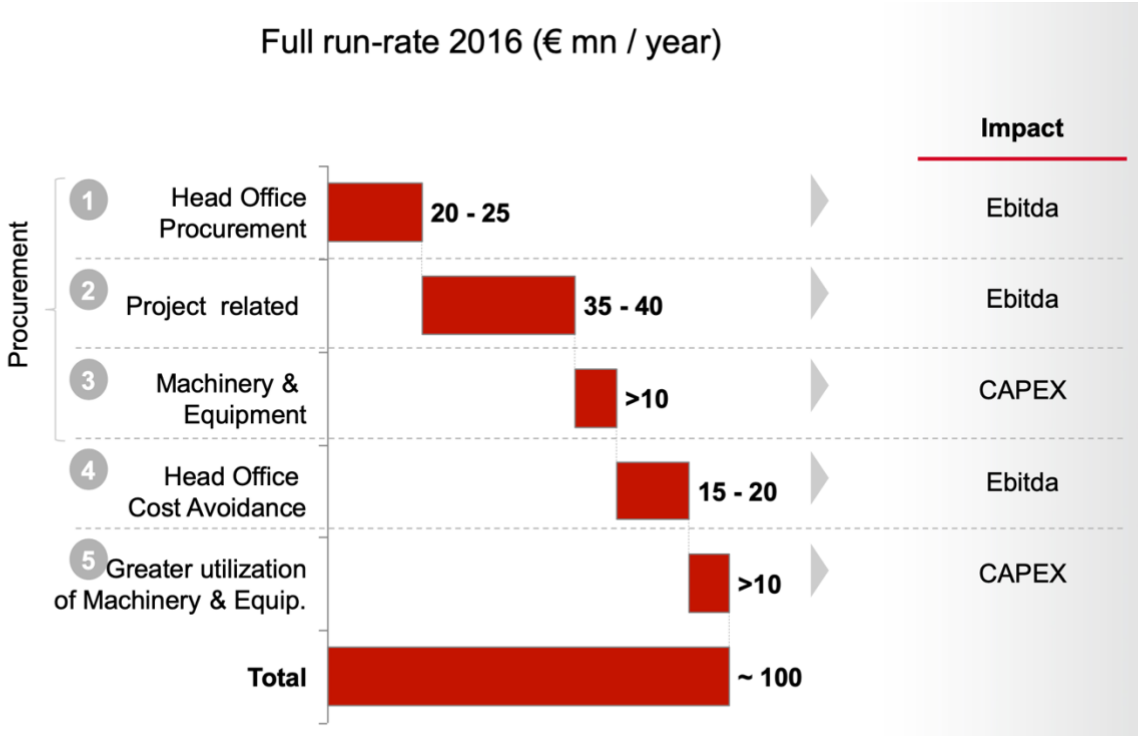


Figure 48: *Salini-Impregilo merger identified synergies (Source: corporate presentation)*

Figure 48 show the prospected synergies identified by the parties for the Salini-Impregilo merger. The majority of cost savings were expected to come from procurement. In particular, synergies were identified coming from the optimization of headquarter, project-related and plant & equipment procurement, thanks to a better supplier management and demand planning. Procurement optimization was predicted to generate more than €65 million in annual cost reduction, impacting for the greater part on EBITDA, but also on CAPEX.

Moreover the Group was forecasting more general synergies related to avoidance of overhead costs but also cost optimization in the form of a greater use of assets like machinery and equipment.

- **Astaldi acquisition (2020).**

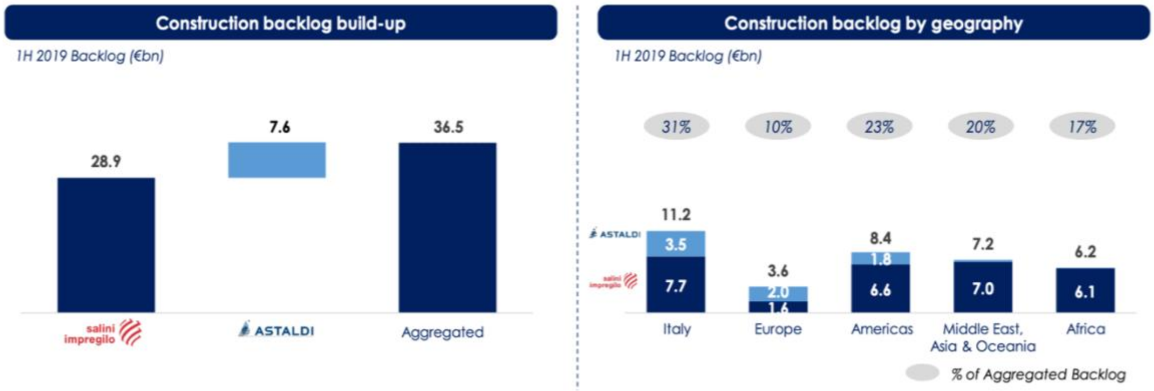


Figure 49*: Overview of the expected Group's backlog post Astaldi acquisition (Source: corporate presentation)*

The Astaldi acquisition, completed in 2020, was presented as a further concentration of Italian leading infrastructure construction players. With its €7.6 billion backlog, the Rome-based target allowed Salini Impregilo to consolidate its market share in Europe and Italy, in particular, but also in the target market of Americas (figure 49).

The transaction was executed in the context of Progetto Italia, a government promoted initiative that aimed at strengthening the national sector of public works and construction through the acquisition of Astaldi and the aggregation with other Italian sector projects and operators characterised by industrial excellence in diverse segments of the construction and infrastructure market.

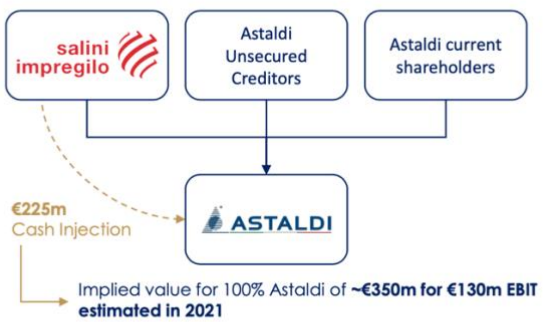


Figure 50*: Astaldi acquisition transaction structure (Source: corporate presentation)*

With a €225 million capital increase, Salini acquired a 65% stake in Astaldi, with another 28.5% dedicated to current creditors who converted portion of their exposure into equity and the remaining 6.5% reserved for current Astaldi shareholders (figure 50).

The rationale of the transaction was linked to the necessity to build a platform with scale, efficiency, capital, and flexibility to compete in a global market, also benefitting from a strong institutional support. The rescue of Astaldi, at that moment in an arrangement with creditors, allowed the Group to add size, capabilities and involved a clear opportunity for value creation, since a €225 million investment was expected to generate €130 million in EBIT by 2021, contributing €2.1 billion in shareholders equity and €660 million in net cash.

- **Lane acquisition (2015).**

Figure 51*: Lane Industries acquisition overview (Source: corporate presentation)*

The €375.3 million acquisition of Lane originated from the necessity to diversify geographically and, in particular, to gain market share in the US, a favourable market for infrastructure constructions characterized by stability, high profitability and great fragmentation. Moreover, the US market was concentrated in few main States, and Lane was active in almost all of them, while Salini Impregilo had no or limited presence.

After the acquisition, the Group implemented a radical restructuring plan that brought a new business model, based on larger projects, and led to the sale of Lane’s non-core divisions. Basically, Salini gave Lane the capabilities to manage more complex projects and re-focused it on the core business, while benefitting from a new gateway to the prominent US market.

3.4.5 Performance

The last ten years Webuild's performance was characterized by a cyclical trend throughout the period, as shown in figure 52. While the period 2011-2016 registered a revenue CAGR of more than 26%, the subsequent period, until 2020, showed a decaying trend with a negative CAGR of -7.3%. EBITDA showed an even higher volatility in the period, with the last five years characterized by a CAGR of -22.7%. Free cash flow was mostly negative in the period, with a peak in 2013 of - €455 million, related to the merger.

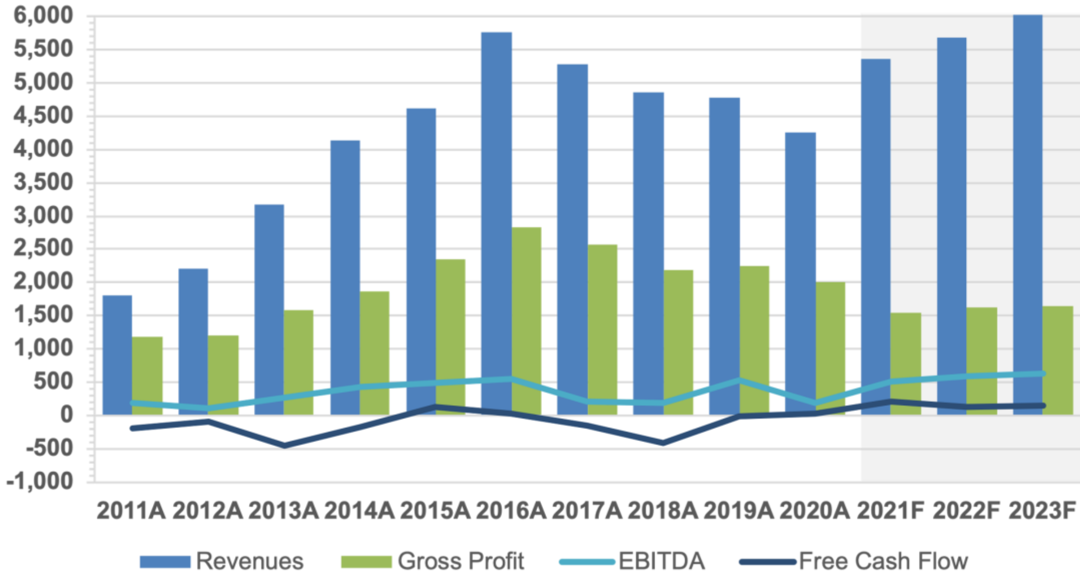


***Figure 52**: Webuild historical and forecasted key performance indicators, € million, 2011-2023 (Source: Refinitiv)*

For the next three years, the analysts' forecast is predicting a strong acceleration[47], also thanks to the integration of Astaldi. In 2021, revenues are expected to resume their previous trend, with a 26% jump year-on-year. Similarly, EBITDA is forecasted to experience a robust rebound, with a +162%, going back to €500 million.

In the 2021-2023 period, the expected revenue CAGR is around 6%, while EBITDA CAGR is forecasted to stabilise at 10%. Free cash flow is predicted to remain positive in the future, averaging €160 million per year.

[47] As of 10/09/2021

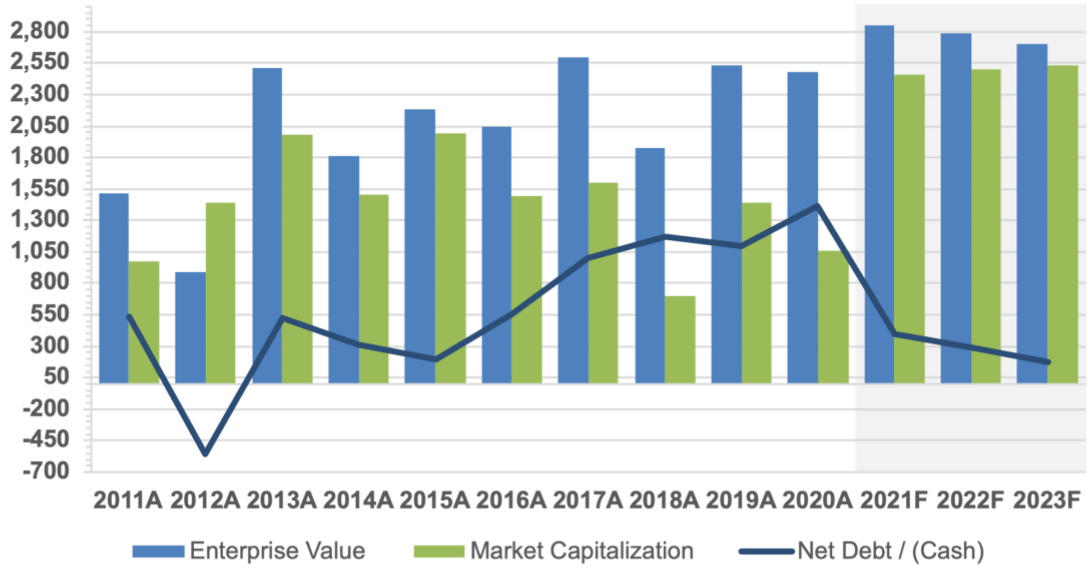


Figure 53*: Webuild historical and forecasted net financial position and market value, € million, 2011-2023 (Source: Refinitiv)*

Webuild market capitalization (figure 53) averaged between €1.3 and €1.5 billion in the last years with occasional peaks generated by new acquisitions and falls pushed by negative economic performance. On the other hand, the important extraordinary transactions executed in the period inevitably led to an increase in net indebtedness, which in 2012 was even negative. Thus, net debt reached €1,418.9 million in 2020. However, the next three years are expected to show a strong reduction in debt.

Focusing on the stock performance, figure 54 shows the total shareholder return (TSR) of the last ten years for Webuild and its competitors[48]. Considering September 2011 as the starting point, Webuild's stock (Ticker: WBD.MI) has generated a +149.8% gain in the share price. The result is slightly above Bouygues (+145.2%), for an overall third place, behind Eiffage (+459.5%) and Vinci (+300.7%). The tail is represented by Actividades de Construccion y Servicios (ACS), which returned a +84.3% and Fomento de Construcciones y Contratas (FCC) gaining a return of +36.7%. The worst performance was represented by Sacyr: the Spanish multinational produced a negative ten-year performance with a -17.4%.

[48] The data on total shareholder return was extracted from Refinitiv as of 08/09/2021

Figure 54*: Webuild and peers total shareholder return, last ten years, rebased at 0 (Source: Refinitiv)*

Webuild is competing in an industry where consolidation and scale matters. This is why the competition with giants like Vinci is not an easy task. Notwithstanding this, the Group showed a consistent ability to execute large value adding deals. The ten years stock performance highlight how, after the 2013 Impregilo merger, the market expectation were not really satisfied. Nonetheless, Webuild showed the ability to successfully integrate targets and execute swift restructuring plan, as in the case of Lane Industries.

The recent Astaldi deal has a convincing rationale, and the transactions presents very favourable economic terms. For the third time in less than 10 years, the company is combining with a target with revenue in excess of €1 billion. It is a challenging task, reflecting the continued necessity of the Group to increase its critical mass in order to win more contracts and create cost synergies. However, the overall effects of Progetto Italia will result in a large capital infusion that will substantially reduce the net indebtedness, as it is already reflected in the results of the first half of 2021[49]. This will certainly help Webuild to pursue its strategic objectives with a more solid financial structure.

[49] Source: Webuild H1 2021 result presentation.

Conclusions

This work addressed the strategic decisions for corporate growth with a bottom-up approach. First, it defined why growth, intended as the increase in the overall value and dimension, is the ultimate objective for a healthy and profitable business. Second, it provided a decisional framework useful to understand which mechanism is the most suitable for a company to generate growth given a specific industry, and internal and external conditions. Third, assuming M&A as the ideal choice for a particular company, this work analysed the drivers through which value creation is effective and also for those that only function as a marketing story. The last theoretical element was represented by the concept of synergy, an essential element of every merger strategy, without which, according to most literature, a deal would look flawed in the eyes of investors.

The theoretical part paved the way for the case study, which saw as main characters two of Italy's "Campioni Nazionali", national champions that, through internal development and external consolidation, were able to gain global competitiveness and appeal. However, Campari and Webuild did so in substantially different ways: the first, by a continued flow of small strategic deals, which were aimed at differentiating, in terms of segment and/or geography, the brand portfolio of the Group; the latter, instead, was able to become competitive at a global level by pushing for national and international consolidation, seen as the key element to sustain the pressure of an industry, that of infrastructure constructions, that is extremely capital-intensive and presents considerable operating risks.

The case studies presented in this work clearly showed how the role of M&A in these two industries is substantially different.
In the spirits sector brand equity is fundamental but difficult and lengthy to build. Hence, developing a new brand internally is risky and would take too much time and resources. Instead, M&A is the ideal mechanism to execute a portfolio extension in a fast and relatively less risky way. As such, M&A in this industry usually involve small considerations, compared to the dimension of the bidder, and it is far more frequent than in other segments.

Conversely, in the infrastructure constructions sector player can grow organically only up to a certain point. This because there are only so many infrastructures to be made in a particular region, after which one has to expand abroad. Nowadays, only global corporations can compete in this market: becoming one only by internal development is an almost impossible task and involves considerable risks. Moreover, even at a local level, scale matters since infrastructure projects are often very complex both from an execution and from a regulatory point of view. Here is why large M&A deals are characteristic of this sector and are often concerned with the geographical complementarity of the deal participants.

Notwithstanding their differences, Campari and Webuild has also some common aspects. The most important one is the shared willingness to dispose of non-strategic assets in order to re-focus on their core business. In the case of Campari, this happened with the complete divestiture of Lemonsoda and other non-alcoholic beverage brands. As for Webuild, there has been a progressive distancing from the concessions business and in general, from what was related to roads and motorways, taking as an example the sale of Lane's asphalt plants and paving business. In general terms, re-focus on the core business has been one of the most important M&A trends of the last decade, as it is seen as a way to execute a de-risking strategy that can eventually enhance the value of the company.

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Thesis Summary

Introduction

The aim of this work is to investigate whether industry is a determinant of the scope and the frequency of mergers and acquisitions (M&A) activity. In other words, the objective is to understand if there is a specific M&A strategy that proves particularly successful only, or predominantly, in a specific industry or set of industries. To do this, the work hereby presented considers the case of two Italian companies, operating in different sectors: *Campari Group*, a major player in the global alcoholic beverages industry and *Webuild S.p.A.*, the leading Italian infrastructure constructions player. In the last decade, both these companies have executed a number of M&A transactions, which are the subject of this analysis.
In order to pave the way for the case discussion, the first chapter analyses in depth the strategic decision of corporations related to growth and the most suitable mechanism to accomplish such strategies. Then, the second chapter investigate why, eventually, M&A ends up being the choice of many corporations and how it can create value.

Chapter 1 – Corporate growth strategies

Growth can be realized in many ways. When it is generated without relying on external partners, practitioners generally speak of internal development and define that growth as organic. This strategy is still believed to be the most common and often predominant. Combining a strong R&D department with adequate budget and quality human capital is believed to be a key for growing organically. This development is often the less risky and may help building a durable competitive advantage with respect to competitors. However, companies do not rely exclusively on it because, especially with R&D, returns are uncertain and require long time horizons. Therefore, in certain circumstances buying the innovation has a lower risk and provides growth at a faster pace.

The mechanism of a contractual relationship (CR) is perhaps the simplest of all inorganic expansions. It involves an agreement between two parties with regard to a variety of business matters like distribution, operations, and R&D. It is a form of cooperation between organizations with limited exposure in terms of contractual obligations.

On the other hand, a strategic alliance (SA) is more complex and constitute a more serious, long-term commitment between the parties (Bruner & Perella, 2004). SA have three important characteristics: (1) the firms involved remain independent after the alliance; (2) there is constant mutual interdependence, therefore one party is vulnerable to the other: this, unlike CR, generates a condition of shared control and management, thus creating overhead administrative costs; (3) since the partners remain independent, there is uncertainty as to what one party expects the other to do (Inkpen, 2008). A SA can take various forms, but what differentiate it from a simple CR is the sharing of human capital, assets, knowledge and even equity stakes.

Differently from contractual relationships and strategic alliances, in case of a M&A the target company loses its economic and decisional autonomy when a controlling majority is sold (Hoffmann & Schaper-Rinkel, 2001). This characteristic imply that M&A reduces the reversibility of a determined corporate strategy and with that, its flexibility (Mennillo et al., 2012).

Academically, a *merger* is defined as the combination between two previously distinct firms into a new legal entity while an *acquisition* takes place when one company acquire a controlling stake in another firm, whether a business or part of its assets (Mariani, 2017). Regardless of the legal structure of the deal, M&A is the key mechanism of what is referred to as the "market for corporate control" (Berk & DeMarzo, 2020).

While the field of M&A is mostly focused on corporate expansion, sometimes companies have to contract and downsize their business (Gaughan, 2017). In these situations, practitioners speak of corporate restructuring, a general term for transactions that alter the original structure of a firm, including M&A itself. However, they refer to restructuring mechanisms when these operations involve the divestiture, partial or complete, of a poorly performing business or simply one not in line with the firm's strategic objectives. What are the motives of corporate restructuring? Clearly, not all the acquisitions are a success and for every buyer involved in a M&A process, there is always a counterparty that sells, aiming to create value in doing so. In fact, the motives for exit mirror those for entering (Bruner & Perella, 2004) and are: poor strategic fit, reverse synergies, poor performance, cash flow needs and capital market factors.

The first element to consider in the framework for selecting the right mechanism to generate growth is the environment in which the company resides in, intended as the regulatory and institutional ecosystem but also the industry or sector of interest.
From a regulatory point of view, firms' decisions concerning growth or restructuring mechanisms have to comply with the legal environment's prescriptions (Mennillo et al., 2012). For example, in certain countries there are limitations regarding foreign acquisitions and a joint venture with a local partner might be required to establish a business in those countries.
On the other hand, the features of the industry are an important determinant of the firm's growth decision. First of all the pace of sector, mainly in terms of technology, can dictate the direction of the growth strategy. In an uncertain and fast-growing segment, a strategic alliance would be the most viable, since internal development would take too long and M&A would be too risky, given a condition of rapid technological advancement. Conversely, an acquisition may be a good choice when the technology is not so volatile, but the execution speed is key in order to be the first mover.

Following the evaluation of the environment, after which the decision is to pursue an external growth strategy, the framework moves to the assessment of the possible targets. The first theme is clearly whether or not there are potential partners in the specific industry and country, with the required level of capabilities. If that is not the case, one should move back to the organic growth decision.
Also, the level of competition plays a crucial role in the feasibility of certain strategies. For example, when the targeted firm is the same as the competitors, the only viable mechanism might be M&A, since is the fastest and most secure way to secure the relationship with the potential partner.
Furthermore, the evaluation of the target includes the analysis of its assets: clearly, when there is the presence of undesired assets, the buyer should favour a strategic alliance or a joint venture. Moreover, even if there aren't undesired assets, in case of target that is difficult to value, M&A should be avoided, at least initially.
Finally, the last consideration on target-related criteria concerns the possibility of opportunistic behaviours. Hoffmann and Schaper-Rinkel (2001) sustain that the greater

is the perceived fear that the partner’s behaviour will be opportunistic, the stronger the need for control. Clearly, control is greater in an acquisition rather than in an alliance.

After the assessment of environmental and target-related aspects, decision-makers should evaluate the proposed mechanism against their growth strategy. Mennillo et al. (2012) propose three features of this strategy to be examined: (1) distance to the core, (2) cultural and geographical distance and (3) the potential for synergies.

The *distance to the core* is a measure for where the company intends to develop in the future. If the growth strategy is based on the existing competencies and expertise, the firm is better off exploiting them organically. However, if the internal know-how is not sufficient, the company should decide for an external means of development. Specifically, the greater the relationship with the core business, the greater the need for control, i.e., the need for M&A.

Cultural and geographical distance expresses the differences between two potential partners, especially in case of a cross-border transaction. An Italian company entering the Indian market with an acquisition, for example, would find the integration process extremely complex. This is why, whenever the cultural and geographical distance is high, a strategic alliance or a joint venture are preferred, given the lower management costs involved.

When choosing a growth strategy, the firm should also assess its *synergy potential*. In other words, strategies that would require close cooperation and knowledge sharing with partners are said to have potential for synergies. If this is the case, M&A is the best mechanism to implement since it allows for early-stage synergy realization potential.

In addition, the nature of the target’s assets should be examined: Dyer, Kale et al. (2004) suggest that when there is prevalence of hard assets (e.g., machineries), acquisitions work better. On the other hand, when soft assets (e.g., know-how and human capital) have more importance, integration should be avoided, since key employees may react badly to the entry of the new control.

The last set of criteria to consider is related to the firm itself and involves a self-assessment of its own resources, like assets, knowledge, and human capital.

First of all, management should establish if there are sufficient resources to pursue a determined strategy. Clearly, for M&A to be feasible, there must be sufficient financial resources to support the transaction. This is true for organic growth as well, since internal

competencies and resources to finance R&D are an important key to success.
Secondly, the firm's track record in executing a particular strategy in the past assume a significant relevance. For example, if a firm used M&A effectively in the past, it will be more likely to opt for it in the next growth initiative (Ernst & Halevy, 2000).
Lastly, it is important to define the concepts of *absorptive capacity* and *appropriability regime*. When a firm is able to learn and adapt swiftly from partners, it is said to have absorptive capacity. Normally, the higher this ability, the lower the necessity to control a partner and hence, the more advantages can be extracted from a strategic alliance (Hoffmann and Schaper-Rinkel, 2001).

Chapter 2 – M&A: trends, motives, and value creation

In academic literature, it is common knowledge that M&A activity tends to be cyclic, through waves, and that acquisitions reveal a positive correlation between values and the country's stock index (Mariani, 2017).
Merger waves are basically time periods where there is an elevated M&A activity in many industries and where this peak is followed by a rapid drop. A common characteristic of all the merger waves is that they typically occur when markets are performing well (i.e., when they are said to be "bull") and decline when the markets go to their weak stage ("bear"). The waves phenomenon started to be noted in the USA market, also given its efficiency, but has now moved to a global scale. Starting from 1897, practitioners have identified between six and seven merger waves.

Acknowledging the existence of merger waves is essential as they are an important historical concept useful to understand the trends and motives affecting M&A.
Growth is an important motive of M&A. Chapter 1 thoroughly described the selection process of growth mechanism and in what cases M&A could result as the final decision. As a reminder, given its speed of execution, an acquisition is preferred when, for example, there is a limited window of opportunity to gain a competitive advantage: if the company decides to pursue this objective internally, the competitors might have a quicker response or the opportunity itself might fade away. Another instance involves mature companies. These firms often find themselves in a difficult spot, unable to let their existing businesses

generate growth organically. In this case, they might literally decide to "*buy the growth*", i.e., purchasing a fast-growing business and adding it to the brand portfolio, or entering a faster-growing segment of the market, to boost the overall growth. The rationale here is that when a faster-growing unit is consolidated, the weighted average growth rate of the group should rise (Gaughan, 2013).

When faced with an industry that is evolving very rapidly, as in the case of tech-related sectors, companies may struggle to keep up with the pace of innovation. Also, in industries involved with consumer products, the adoption of noncore capabilities, like delivery service, e-commerce, or e-marketing tools, may be difficult or non-efficient to execute in-house. This is especially true in case of large, bureaucratic organizations where innovation is slow and can be easily outdone by more agile competitors.
In the case of biotech and pharmaceuticals corporations, R&D is slow and extremely expensive and there is no guarantee that it will eventually lead to a marketable product. When it eventually does, the producer has to charge a high price to the final customer in order to recover the investment.
The above problem, in some cases, has led biotech and pharmaceuticals to abandon research & development to implement a strategy called *acquisition & development* (A&D).

M&A can effectively be used to expand into another region or state. It could be the case of a regional producer that wants to gain market share at a national level or a local player that wish to initiate a process of internationalisation. Clearly, this is a strategy that can be accomplished also by organic means, i.e., establishing an organizational structure or simply a distribution network inside the desired geography. However, internal development is riskier and more time-consuming than an acquisition, especially when the expansion is international. In fact, on his own, the company would have to know how to untangle itself in the new market. It would also need to hire new local workforces and deal with language and cultural differences (Gaughan, 2013).

While the apparent motive of an announced transaction may be classifiable into one of the previously cited ones, the real motive may be less apparent and rather controversial. This happens when management takes advantage of his position to pursue opportunistic and personal objectives at the expense of shareholders, a problem that is often linked to the definition of *agency costs*. Questionable motives can either have a financial nature, can be motivated only by the intention of management, or can be linked to the fear of loss of market share.

Synergy is perhaps the main triggering motive of any M&A activity. Conversely, many deals and strategic investments are justified with the argument that they will create synergies (Gaughan, 2013). Since they generally refer to the value generated by the combination of two entities, synergies are used as the main rationale for the payment of huge acquisition premiums. A synergistic deal is one where the sum of A and B, both valued at 2, does not return 4, but 5 or more.

Operating synergies are those affecting the characteristic activity of the merged entity and can take the form of economies of scale, both revenue-enhancing and cost-reducing, increased pricing power and higher growth potential. On the other hand, financial synergies impact on the firm's cash flows or cost of capital and usually include tax benefits, co-insurance effects, a higher debt capacity and uses for excess cash.

According to Bruner (2004), synergies assessment and valuation should be the centrepiece of every M&A analysis.

First of all, because value creation for shareholders is the ultimate objective of each transaction and synergy is the most effective and efficient vehicle to deliver it.

Secondly, assessing the value of the synergies can give an important insight of the market reaction at the announcement. The buyer is in fact concerned with the investor's response to the deal: if the general belief is that the acquirer has overpaid for the target, the buyer's share price will fall at the announcement of the deal. Conversely, the market would react positively, and the share price might appreciate: this heavily depends on the existence and credibility of synergies and their relationship with the intrinsic value of the target and the effective price paid.

To provide a well-round perspective on M&A, it may be also useful to explore empirical evidence on its success. Measuring the value created by M&A activity is often an inexact science, as much of the value is difficult to intercept on a large-scale basis. Also, a deal is typically evaluated using short-term parameters, which is inefficient as one of the foundations of M&A is that the real worth develops over the longer term.

Among the many studies, Rau & Vermaelen (1998) developed an innovative contrast between *glamour firms* (companies with low book-to-market ratio) and *value firms* (with high book-to-market ratio). Through the analysis of a sample of 3.169 mergers and 348 tender offers between 1980 and 1991, they showed how glamour firms underperformed value companies. The authors attributed this underperformance to the overconfidence generated by past profitability that characterise management, investors, and public perception of glamour firms.

With a more general approach, the research review of Bruner (2004) concluded that M&A does pay, in the sense that it returns at least the opportunity cost of capital. However, in general, returns for the seller are more positive than that of the bidder.

In more recent times, a McKinsey research (2012) on M&A value creation deemed useful to distinguish between four types of M&A strategies: *programmatic, selective, tactical,* and *large deals*. The survey found out that long-term returns of firms characterized by M&A activity vary significantly by deal pattern and by industry. According to the authors: *"across most industries, companies with the right capabilities can succeed with a pattern of smaller deals, but in large deals industry structure plays as much of a role in success as the capabilities of a company and its leadership"*. Looking at the long-term excess return of the different strategies, programmatic approach seems to be the one yielding the best results, better than organic growth. On the other hand, large deal strategies had a consistently negative excess total return. Moreover organic approach, despite showing a majority of positive returns, resulted as the most volatile one. Therefore it seems that a tactic of small deals M&A activity may generate a higher return than no M&A activity at all. When industry specification is added to the analysis, it is possible to highlight a clear pattern, described as follows. Large deals: in this category are included the deals that represents, by value, more than 30% of the buyer's market cap. This type of strategy is most effective in mature industries characterized by decaying growth. In fact, given these conditions, it makes sense to consolidate the industry by reducing excess capacity. Conversely, when the sector is growing fast, as high-tech, embarking in a large deal would require an expensive focus on integration, inevitably disregarding the advancements in the industry. Programmatic deals: this was a successful strategy in many sectors. Moreover, McKinsey found that the greater number of transactions a company did, the higher the probability it would gain excess TSR. However, to be effective, the firm should be provided with an M&A division inside the organization. Tactical deals: with this approach, the number of executed deals remains pretty high, but the average value is limited. It is a strategy that works best for tech firms, where buying access to innovation and capabilities is important. Selective deals: this type of M&A activity is

characteristic of organizations with a yearly acquisition spending of less than 2 percent of the market cap. Therefore the excess TSR may be partly driven by organic growth.
In conclusion, successful deal making depends largely on the deal structure. In the case of large deals, the success is largely dependent on the industry where it takes place. On the other hand, smaller, frequent deal making success depends on the internal capabilities of the buyer.

Chapter 3 – Case study

Since the success of a deal appears to be closely related to the M&A approach adopted and the respective industry, this chapter presents two different cases of Italian multinational corporations which have recently engaged in transactional activity. In particular, the companies selected operate in industries with diverse characteristics and growth rates, and have a different approach to M&A.
The rationale behind this comparison is that these firms were able to create value for shareholders through a different acquisition strategy, which was industry specific. Therefore, the case will look at the activity of these companies and will provide a critical view on it, also with regard to the effects on the economic and financial performance of the two.
The two subjects of the case are Davide Campari Milano NV, simply known as Campari Group and Webuild S.p.A..
Campari is a major player in the global alcoholic beverages industry, with a portfolio of over 50 premium and super premium brands, spreading across Global, Regional and Local priorities. Its portfolio includes Campari, Aperol, SKYY Vodka, Grand Marnier, and Wild Turkey.
On the other hand, Webuild, the leading Italian infrastructure constructions player, is the result of the consolidation wave that characterized the infrastructure industry in the last decade. Starting in 2013, with the merger of Salini Costruttori and Impregilo, giving birth to Salini Impregilo Group, the company completed its last deal in 2021 with the acquisition of Astaldi, the second Italian player by revenue, that preceded the recent name change to Webuild.

Founded in 1860 in Milan thanks to Gaspare Campari, the homonymous Group is a major player in the global spirits industry, with a portfolio of over 50 premium and super premium brands. It distributes its products in 190 countries, with manufacturing plants established in 22 of them, and employs more than 4,000 people. With €1,772 million in revenue in 2020, Campari detains leading positions in both the American and the European market. According to an Impact research (2019), the Group is the sixth-largest player worldwide in the premium spirits industry.

Spirits represent a segment of the global alcoholic beverages industry. In 2020, this sector generated a total of around $1,514 billion, down from 2019 by -7.6%. With an expected CAGR for the next five years standing at 5%, the alcoholic drinks market is commonly seen to be characterized by saturated volume sales. Conversely, the industry tries to tackle this with increased M&A activity as well as with premiumization strategies.

From a competitive point of view, Campari Group is among the global top ten spirits producers and distributors. The leading player of the segment are Diageo, Pernod Ricard, and Bacardi, respectively. Two different sets of peers can be identified. First, Large Caps, composed by Diageo, Pernod Ricard, and Constellation Brands, have 40 or more billion US dollars in market cap, an average Debt/Value ratio of 15%, more than 5 billion dollars in revenue and an EBITDA margin higher than 30%. These three companies are valued, on average, with an Enterprise Value on EBITDA multiple of around 17.6x. The other group is defined as Small Caps and is composed by Brown-Forman, Campari itself and Rémy Cointreau. The main characteristic of this set of companies are the following: market cap is generally below 40 billion US Dollars, Debt/Value ratio is around 5%, Revenue are lower than 5 billion US Dollars and the average EBITDA margin is below the 30% level. Given the set of features that distinguishes this group of peers, their valuation stands, on average, at an Enterprise Value on EBITDA multiple of around 26.7x. Essentially, Campari's peers are all differentiated multinationals with a wide portfolio of alcoholic beverage brands ranging from beers and wines to spirits. In fact, having an extensive portfolio is key in the spirits industry since this allows for more contractual power and cross-selling with distributors. Moreover, another important feature of these companies is the varied geographical distribution of the owned brands, a crucial element for diversification in a very concentrated industry.

Starting from 1995, Campari executed a long series of M&A related to the beverage industry. In particular, the Group completed 38 acquisitions, of which 29 are cross-border, for an overall consideration of more than €3.2 billion. On the other hand, starting from 2013, it also finalised 13 disposals for a total value of around €500 million. Clearly, this is what allowed Campari to earn the unofficial nickname of "serial acquirer". Its M&A approach is built on the overall corporate growth strategy whose aim, according to the most recent corporate presentations, is to combine organic growth through strong brand building with shareholder value enhancing acquisitions. The management clearly states that spirits are the company's core business and where it focuses its acquisition efforts. Also, the Group's strategic thinking is driven by the desire to reach or enhance critical mass in key geographic markets. More in detail, the last years have shown the company's clear intention to maintain a 50/50 balance between organic and external growth.

In the last ten years Campari showed a positive growth trend throughout the almost entire period with a revenue CAGR of 4.72% until 2019. Then, in 2020, the pandemic-induced contraction led to a -3.83% fall in sales that translated into a drop in EBITDA by -19.4%. The loss was even more amplified in terms of free cash flow, as 2020 showed a -34.3% reduction. Focusing on Campari's financial structure, market cap has shown a steady growth in the last decade, reaching €10 billion in 2020 after a climb resulting in a 15.5% CAGR. On the other hand the Group managed to keep the net indebtedness constant, notwithstanding the net expenditure related to M&A of more than €1 billion. For what concerns the stock performance of the last five years, Campari's stock has generated a +145.8% gain for its investors. This is far more than its competitors: Diageo, the sector leader, only returned a +87.1%, close to the +89.4% of Pernod Ricard. Only Constellation Brands did worse, with a +36.9%. The second and third place were conquered by Rémy Cointreau and Brown-Forman, with +126.8% and +110.1%, respectively.

Webuild S.p.A. (previously globally known as Salini Impregilo) is a heavy construction contractor, leading global player in the construction of large, complex projects for sustainable mobility, clean hydro energy, clean water, green buildings, and the tunnelling sectors. Born in 1906, the group is the result of a continuous consolidation process that involved the major Italian players in the construction industry. Today, Webuild is present in almost every continent, counting more than 50 countries, operating with 60 offices around the world and with an average of 70,000 direct and indirect employees. In 2020, the company generated sales for €4,247.2 million. Around 28% of these are generated in North America, Webuild's biggest market. Europe as a whole accounts for 36% of turnover, with Italy representing the company's most important European market (22%).

According to McKinsey (2020), the construction industry, which includes real estate, infrastructure, and industrial structures, is the largest industry in the global economy, accounting for 13% of the world's GDP. The sector is expected to reach $15.7 billion in global spending by 2027, with an implied CAGR of +3.9%.

The construction market is characterized by a strong yet cyclical demand that usually requires a tailored approach to customers. Moreover, the nature of the sector itself includes complicated logistics, high share of manual work on site, and low barriers to entry. However, local laws and regulations are complex and extensive, and, in the end, this led to the prevalence of the lowest cost contractor.

The competitive landscape around Webuild, particularly the European one, is composed by six other players, ranging from 5 to 60 billion US dollars in revenues. These companies come from France, Spain and Germany and are regional and global leaders of the industry. Generally, they are diversified in many fields of constructions and concessions, like energy, highways, airports, and tunnelling. The front-running position is taken by Vinci, a French concessions and construction company with more than $60 billion in revenues, followed by another French conglomerate Bouygues with $45 billion, the Spanish leader ACS, with $35 billion and Eiffage, a France-based player with $22 billion. Then, there is a smaller group of peers, more similar to Webuild in terms of turnover, consisting in FCC and Sacyr, both from Spain.

There is no clear pattern in terms of profitability. The median EBITDA margin is 14.7%, but there are important outliers like ACS and Webuild itself. For what concerns financial structure, the median Debt / Value ratio is around 30% but again, there are some clear differences. However, there seems to be a positive relationship between EBITDA margin and D/V ratio: clearly a higher marginality lead to the ability to sustain a greater leverage. From a valuation point of view, the average Enterprise Value / EBITDA multiple is 7.09x.

Webuild S.p.A. is the result of a continued flow of consolidations in the Italian construction market. The first merger is dated back to 1960 and involved the aggregation of three businesses: Impresit, Girola and Lodigiani. The combination gave birth to

Impregilo SpA. On the other side, Salini Costruttori, founded in Rome in 1936, did not register any M&A activity until, in 2011, it begun to target Impregilo itself, with the aim to create a national champion in the global infrastructure sector. Salini did so by starting to purchase Impregilo's stocks in the market until, in June 2021, it reached 29,9% of the total shareholdings. After one of the most notable proxy battles in Europe, Salini finally launched a takeover offer, ended successfully in April 2013. The merger between the two, effective as of January 2014, led to the creation of a €4 billion sales global player under the new name Salini Impregilo Group. In 2015, the company announced the acquisition of Lane Industries Inc., a leading US-based construction company, for a total consideration of €375.3 million, taking control of a company with revenues in excess of €1 billion. This transaction allowed the Group to reach €6 billion in consolidated sales and to establish a strong presence in the growing US Market with a share of 21% of total revenues. The latest transaction of Salini Impregilo was executed in 2020, with the acquisition of Astaldi, the second largest player of the industry in Italy. The Group acquired 65% of the target by means of a capital increase of Astaldi equal to €225 million in cash and reserved for Salini Impregilo.

Webuild overall M&A strategy, according to company presentations and press releases, is predominantly based on the concept of scale. In fact, this driver allows the Group to achieve three main targets. Risk diversification: as each single project embarked by the company becomes relatively smaller in the context of an increased backlog. Cost synergies: in particular, related to procurement costs, head office general costs and savings thanks to greater efficiency in the usage of machinery and equipment. Access-ability and capability: this is a particular feature of the construction industry. In fact, achieving a greater dimension through M&A can help obtaining access to and capabilities to execute larger projects, which generally have a higher profitability. The second driver that guides Webuild into M&A activity is competitiveness. Indeed, aggregation can help building a wider offer for customers, given the increased technical and managerial expertise. Moreover, according to the Group, M&A allows them to enhance their geographical coverage to select projects with best risk/reward ratios. Another driver is represented by complexity management. Previously, in analysing the construction industry, it was determined that it is a complex sector, from project management point of view but also in regulatory terms. This is why executing a consolidating deal can help to manage more efficiently complex projects such as those with difficult supply chains.

Along these drivers, Webuild also follows more general M&A objectives linked to the overall corporate strategy, such as re-focusing, usually through the disposal of non-core activities, to concentrate uniquely on the construction business and diversification, both of field of operations and geographies.

The last ten years Webuild's performance was characterized by a cyclical trend throughout the period. While the period 2011-2016 registered a revenue CAGR of more than 26%, the subsequent period, until 2020, showed a decaying trend with a negative CAGR of -7.3%. EBITDA showed an even higher volatility in the period, with the last five years characterized by a CAGR of -22.7%. Free cash flow was mostly negative in the period, with a peak in 2013 of - €455 million, related to the merger.
Webuild market capitalization averaged between €1.3 and €1.5 billion in the last years with occasional peaks generated by new acquisitions and falls pushed by negative economic performance. On the other hand, the important extraordinary transactions executed in the period inevitably led to an increase in net indebtedness, which in 2012 was even negative. Thus, net debt reached €1.418,9 million in 2020. However, the next three years are expected to show a strong reduction in debt.
Focusing on the stock performance, in the last ten years Webuild's stock has generated a +149,8% gain in the share price. The result is slightly above Bouygues (+145.2%), for an overall third place, behind Eiffage (+459.5%) and Vinci (+300.7%). The tail is represented by Actividades de Construccion y Servicios (ACS), which returned a +84.3% and Fomento de Construcciones y Contratas (FCC) gaining a return of +36.7%. The worst performance was represented by Sacyr: the Spanish multinational produced a negative ten-year performance with a -17.4%.

Conclusions

This work addressed the strategic decisions for corporate growth with a bottom-up approach. First, it defined why growth, intended as the increase in the overall value and dimension, is the ultimate objective for a healthy and profitable business. Second, it provided a decisional framework useful to understand which mechanism is the most suitable for a company to generate growth given a specific industry, and internal and external conditions. Third, assuming M&A as the ideal choice for a particular company, this work analysed the drivers through which value creation is effective and also for those that only function as a marketing story. The last theoretical element was represented by the concept of synergy, an essential element of every merger strategy, without which, according to most literature, a deal would look flawed in the eyes of investors.

The theoretical part paved the way for the case study, which saw as main characters two of Italy's "Campioni Nazionali", national champions that, through internal development and external consolidation, were able to gain global competitiveness and appeal. However, Campari and Webuild did so in substantially different ways: the first, by a continued flow of small strategic deals, which were aimed at differentiating, in terms of segment and/or geography, the brand portfolio of the Group; the latter, instead, was able to become competitive at a global level by pushing for national and international consolidation, seen as the key element to sustain the pressure of an industry, that of infrastructure constructions, that is extremely capital-intensive and presents considerable operating risks.

The case studies presented in this work clearly showed how the role of M&A in these two industries is substantially different.
In the spirits sector brand equity is fundamental but difficult and lengthy to build. Hence, developing a new brand internally is risky and would take too much time and resources. Instead, M&A is the ideal mechanism to execute a portfolio extension in a fast and relatively less risky way. As such, M&A in this industry usually involve small considerations, compared to the dimension of the bidder, and it is far more frequent than in other segments.
Conversely, in the infrastructure constructions sector player can grow organically only up to a certain point. This because there are only so many infrastructures to be made in a particular region, after which one has to expand abroad. Nowadays, only global corporations can compete in this market: becoming one only by internal development is an almost impossible task and involves considerable risks. Moreover, even at a local level, scale matters since infrastructure projects are often very complex both from an execution and from a regulatory point of view. Here is why large M&A deals are characteristic of this sector and are often concerned with the geographical complementarity of the deal participants.

Notwithstanding their differences, Campari and Webuild has also some common aspects. The most important one is the shared willingness to dispose of non-strategic assets in order to re-focus on their core business. In the case of Campari, this happened with the complete divestiture of Lemonsoda and other non-alcoholic beverage brands. As for Webuild, there has been a progressive distancing from the concessions business and in general, from what was related to roads and motorways, taking as an example the sale of Lane's asphalt plants and paving business. In general terms, re-focus on the core business has been one of the most important M&A trends of the last decade, as it is seen as a way to execute a de-risking strategy that can eventually enhance the value of the company.