LUISS

Master's Degree in Finance

Course of Advanced Corporate Finance

M&A in the Banking Industry: Analyzing the Rationales and the Effects of M&A with a Focus on UniCredit – Banco BPM.

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Academic Year 2024/2025

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Abstract

The attempted merger between UniCredit and Banco BPM has been one of the most widely debated topics in recent months, not only due to the strategic importance of both institutions within the Italian financial landscape, but also because of the sensitivity of the banking context, where even minor changes can lead to significant economic consequences. On this basis, the primary objective of the thesis is to analyze the deal from two complementary perspectives. First, an event study methodology is applied, examining different time windows to assess the stock market reaction of both banks around the announcement date. Second, a valuation analysis is conducted using the Dividend Discount Models (DDM) and market multiples, both on a standalone and combined basis, in order to estimate the intrinsic value of the transaction and quantify potential synergies. This dual approach offers a more comprehensive evaluation of the deal's financial rationale and the way it was perceived by the market. However, the analysis demonstrates that the deal was largely favorable only to the bidder, with limited benefits for the target company.

The previous analysis is further contextualized within the broader M&A framework, exploring the strategic motivations, risks, and key value drivers that typically support corporate combinations.

However, the thesis concludes that in the world of mergers and acquisitions, value creation is not only a matter of numbers. Rather, it depends on the alignment of stakeholder interests and institutional conditions, especially in highly regulated and politically sensitive sectors such as the banking one.

1. Mergers and Acquisitions: An Overview

There is a general agreement among corporate finance theorists and practitioners that the overarching objective of every firm must be the maximization of its value. This goal is fundamental to ensure the company's long-term survival and continuity, further than to deliver adequate returns to its shareholders. In this sense, value creation is not only a measure of short-run financial performances, but also a reflection of sustainable strategic management over time.

However, in nowadays' competitive and dynamic environment, it is no longer enough to simply generate a reasonable amount of profits, but it is essential to take attention on both qualitative and dimensional growth objectives. Specifically, the multiple methods by which a company may grow can be classified under two main categories: organic and inorganic growth strategies.

Organic growth refers to the most traditional approach of expansion, achieved by increasing sales and improving operational efficiency. Companies pursuing organic strategies rely on their internal development as the mean to reach their growth (Baines et al, 1999). This type of growth is often slower, but it can be more controllable and sustainable over time.

On the other hand, the inorganic growth is achieved through external means, typically by engaging in mergers and acquisitions (M&A) transactions, and it allows firms to reach their strategic goals much more rapidly (Potito, 2016).

1.1. Extraordinary Financial Transactions

Among the different strategies companies can employ to achieve rapid and substantial growth, mergers and acquisitions stand out as one of the most influential and widely used. Through M&A transactions, firms may pursue strategic goals that would otherwise be difficult or slow to reach, such as entering in new geographic markets, acquiring complementary capabilities, strengthening technological expertise, or consolidating industry positions to realize economies of scale. Acquiring another firm is clearly the most immediate and direct way to increase a company's size and market influence. History offers numerous examples of such strategic moves, among which the case of Standard Oil Company stands out: in the late 1800s, Standard Oil achieved an extraordinary 90% share of the U.S. petroleum market by purchasing up to more than 120 competitors.

However, identifying the term "M&A" exclusively with merger and acquisition transactions appears overly restrictive, as these represent only the two main activities within a wider set. Broadly speaking, M&A encompasses other inorganic growth strategies that fall within the scope of extraordinary finance, e.g. transactions characterized by their uniqueness and exceptional nature, which permanently alter a company's corporate and operational structure (Dallocchio et al., 2021). They are unique in that each transaction is non-replicable (meaning that each one differs from others), and exceptional, since they generally occur infrequently for each individual company, as it takes at least approximately six months to close a deal.

Specifically, M&A transactions include:

- Mergers and acquisitions, that will be the central focus of this work.
- Joint ventures, which occurs when two or more companies combine a portion of their resources within a new, shared legal entity (Kogut, 1988).
- Leveraged Buy-Out (LBO), that refers to the acquisition of a company, assets, division, or business, where the majority of the purchase price is financed through debt, while the remaining is funded by an equity investment from a financial sponsor (Rosenbaum & Pearl, 2022).
- Spin offs, where a new firm is created by transferring assets from an existing one (Dallocchio et al., 2021).
- Split offs, that is the allocation of an existing company's assets into two or more newly established firms (Dallocchio et al., 2021).
- Equity carve-outs, which is a form of spin-off consisting of creating a new entity and subsequentially listing it on public markets.
- Restructuring or turnarounds, which consists of restoring a company facing financial distress to a position of balance.

Nonetheless, for the purpose of this thesis, from now on, the term "M&A" will be used in its narrower sense, referring exclusively to merger and acquisition transactions. In this context, the company seeking to merge with or acquire another firm is called "bidder" or "acquirer" (but also "acquiror"); on the other hand, the company subject to the M&A attempt is referred to as the "target". Finally, to denote a change in the control or ownership structure of an organization, the terms "takeover" or "buyout" are typically used.

1.2. Mergers and Acquisitions

Mergers and acquisitions can be analyzed from both a legal and an economic perspective (DePamphilis, 2011).

From a legal point of view, a merger involves the combination of two or more business entities, where all but one cease to exist legally, and the new combined organization continues operations under the surviving firm's name. Specifically, when the acquiror transfers the assets and the liabilities of the target firm, the merger is said "statutory". Statutory mergers are the most common type of mergers.
Furthermore, the target firm's shareholders that favorable vote for the transaction, exchange their shares of the old entity for those of the survivor one. Minority shareholders, the ones who dissent, are nonetheless required to accept the merger, and to proceed with the share exchange.

Another common form of merger is the "subsidiary merger". In this structure, the bidder uses one of its subsidiaries to merge with the target company. To complete the transaction, the acquiror may either create a new subsidiary or utilize an existing one. So, unlike statutory mergers, where the target is directly combined into the parent firm, in the subsidiary merger the target is absorbed with the subsidiary instead.
When the acquiror and the target are comparable in terms of size, market capitalization, market position and profitability, the transaction is referred to as a "merger of equal". In such cases, it could be difficult to determine which party is losing control and which party is contributing the greatest share of synergies.

The term "merger" is often replaced by "consolidation", but the two concepts are slightly different. A consolidation occurs when two or more companies unite to form a completely new legal entity, the "newco". So, unlike in a merger, all the original firms are dissolved, and the new created company typically starts to operate under a new name.

On the other hand, from a technical standpoint, an "acquisition" refers to the process by which a company obtains a controlling equity stake in another firm, or one of its legal subsidiaries, or in a selected proportion of assets. The transaction may be structured as either a purchase of equity or assets. In an acquisition, the target company remains legally distinct and operates as an owned subsidiary of the acquiring firm.

The attempt to gain the ownership of another company is referred to the generic term "takeover". A "friendly takeover" occurs when the management and the board of directors of the target firm approve the transaction. In such a scenario, both companies cooperate to ensure a smooth transition. The process is typically carried out through negotiations, with terms designed to benefit the two parties.

On the other hand, a "hostile takeover" occurs when the management or the board of the target resists the transaction. In this case, the bidder company makes a public offer directly to the target company's shareholders, bypassing the board of directors and management.

1.3. Key Players in the M&A process

M&A transactions have a significant impact on the operations of the companies involved. The valuations performed in such circumstances are particularly complex and require the establishment of dedicated teams to support the management throughout the various phases of a deal. Specifically, the main activities include:

- The due diligence, i.e., the analysis of the target's value and conditions.
- Negotiation, meaning the process of defining the agreements underlying the transaction.
- The legal management, aimed at converting the agreements into formal acts.
- The deal design, which refers to the identification of the best solutions to successfully complete the transaction.
- The post-merger integration, to fully leverage the newly acquired resources.

To successfully complete the lengthy transaction process, several actors come into play.

1.3.1. The Financial Advisor

The financial advisor plays a central role in the entire merger and acquisition process. Depending on the size of the companies involved, and consequently the value of the deal, the financial advisors can be large investment banks or smaller specialized boutique that support small and medium-sized firms in extraordinary finance operations.
Regardless of the entity performing this role, some key skills are necessary:
Strong negotiation ability, in order to best protect the clients' interests.
The knowledge of business valuation techniques and a deep understanding of the industry in which the companies involved operate, to properly assess the firms and the deal's value and to identify the most appropriate technical solutions to successfully close the transaction.

1.3.2. The Legal Advisor

Just like the financial advisors, the legal advisors are essential for the success of an M&A transaction. Throughout the entire process, a lot of important legal documents are signed. The most important ones include:

- Non-Disclosure Agreement (NDA), which formalizes the confidentiality obligations of the parties involved about the transaction's information.
- Approach letters, used to initiate contact with the counterparty.
- Letter of Intent (LOI), representing the acquiror's first formal proposal after a preliminary negotiation phase.
- Sale and Purchase Agreement (SPA), that formalizes the final terms agreed upon by the parties.

However, it is important to highlight that the legal advisor is involved whenever a formal communication with the counterparty is required.
Lastly, it assists the client during the so-called "legal due diligence", which consists of analyzing the target firm's obligations towards third parties. These assessments are also crucial during the negotiation phase for the price determination.

1.3.3. The Tax Advisor

The tax advisor is responsible for assessing the fiscal impact of the transaction. The evaluations conducted by the tax advisor may be crucial for the strategic decisions, as well as for the successful closure of the deal. In fact, it is not unfrequently for negotiations to be interrupted due the excessive tax costs associated with the transaction.
Furthermore, the tax advisor conducts the so-called "tax due diligence", which involves analyzing the target company's tax obligations.

1.3.4. The Role of Auditors

Audit companies are also involved in the M&A process, particularly for the analysis of the target's financial statements and accounting documents.
In larger transactions, the professionals appointed are typically from the so-called "Big Four", the leading global audit companies.

1.3.5. The Strategic Advisor

The strategic advisor supports the client in evaluating the impact of different investment decisions. His role is particularly crucial at the beginning of the transaction, when it is necessary to assess costs and benefits of different strategic alternatives, and at the closing phase, in order to support the post-merger integration process and maximize the resulting synergies.
The strategic advisor also conducts a business due diligence, analyzing the target company's industry dynamics, competitors, and the potential need for add-ons (i.e., additional mergers or acquisitions to enhance the value of the investment).
The role may be performed by strategic consulting firms or by industry experts, such as freelance former managers.

1.4. Valuation Methods in M&A

A fundamental component of any M&A transaction is represented by the valuation process. The value attributed to the target company should be as accurate and realistic as possible in order to determine an appropriate offer price (Aydin, 2017).
Accordingly to Dallocchio et al. (2021) there are several valuation methods that differ in terms of their approach ("intrinsic" or "comparative"), their applicability (depending on the context), and their perspective ("asset side" and "equity side").
However, the distinction between intrinsic and comparative approaches is the most useful in practice. Therefore, the following overview of valuation methods will be structured according to this distinction.

Generally speaking, the intrinsic valuation approaches are distinguished by their focus on the ability of a company (or an individual asset) to generate cash flows for their investors. The main intrinsic methods include:

- The Discounted Cash Flow (DCF).
- The Adjusted Present Value (APV).
- The Venture Capital method.

The Discounted Cash Flow is probably the most important and widely used valuation method. Given its key role in both academic literature and professional practice, it deserves a dedicated focus. The underlying idea is to determine the firm's value by computing the present value of the cash flows generated over the whole company's life (Schill et al., 2008).

Generally, two types of cash flows are considered: the Free Cash Flow from Operations (FCFO, or Unlevered Cash Flow) and the Free Cash Flow to Equity (FCFE, or Levered Free Cash Flow). The FCFO represents the cash flows available for both equity and debt investors, and it is linked to the "asset side" perspective. On the other hand, the FCFE represents the cash flows available only for equity investors, and it is linked to the "equity side" perspective.
To compute the present value, the Free Cash Flow from Operations is discounted by using the so-called WACC, i.e., the Weighted Average Cost of Capital. It is the weighted average of cost of debt and equity, where the weights are represented by the debt and equity's proportion in the firm's capital structure. Specifically, the formula is:

$$WACC = k_d \times (1 - t_c) \times \frac{D}{D + E} + k_e \times \frac{E}{D + E}$$

where:

- k_d is the cost of debt.
- t_c is the marginal tax rate.
- k_e is the cost of equity.
- D is the debt value.
- E is the equity value.

The Free Cash Flow to Equity, instead, is discounted only using the cost of equity, k_e, that may be estimated with the Capital Asset Pricing Model (CAPM):

$$k_e = r_f + \beta \times (r_m - r_f)$$

where:

- r_f is the risk-free rate.
- β represents the company's sensitivity with respect to the market movements.
- $r_m - r_f$ is the market risk premium, that is, the spread between the market return and the risk-free rate.

However, since it is not feasible to estimate cash flows indefinitely, they are computed only for the first 3-10 years. Then, a Terminal Value, calculated by using a perpetual growth model, is added to the previous calculation.
An important version of the DCF model is the Discount Dividend Model (DDM). Instead of the free cash flow, this approach uses the expected dividends and discounts them at the cost of equity. It is appropriate for companies characterized by stable and predictable dividend policy, where dividends are a good proxy for the value created for shareholders.

The Adjusted Present Value is a less commonly used alternative of the Discounted Cash Flow model, addressing the limitation of a constant capital structure (that is a fundamental assumption of the DCF). Specifically, it considers the firm's value as the sum of two components: the discounted value of the company (assuming no debt) and the net present value of the financing side effects. These effects include not only the tax shield from interest payments, but also other financing-related elements such as the direct and indirect

costs of financial distress, including bankruptcy and agency costs associated with leverage.

The Venture Capital method is adopted by venture capital funds to estimate the value of early-stage companies, such as startups. This type of firms is characterized by high uncertainty regarding the success of their business model, and the limited capacity to generate cash flows in the short term. Given these constraints, the Venture Capital method focuses primarily on the company's potential exit value, and on an appropriate discount factor to apply to the previous value.

The second important category is represented by comparative approaches. They are relative approaches based on the principle that the firm's value does not depend only on its financial fundamentals, but also on the perception and judgement expressed by the market and investors (Dallocchio et al., 2021).
Comparative methods offer two main advantages in the M&A context: first, they provide a simple and intuitive approach to determine a company's value, which enables comparison across companies of different size; second, on a transactional perspective, they capture the investor "appetite" for a specific company or industry at a certain point in time, reflecting market sentiment.
Comparative methods rely on the use of multiples, which are typically classified into "market multiples" and "transaction multiples" (also known as "precedent transaction multiples").
Regarding the market multiples method, the first step is to identify a set of comparable firms with respect to the target company. Then, the relevant market multiples are calculated based on these peers and applied to the corresponding metrics of the target firm. The most used market multiples include:

- The P/E ratio (Price-to-Earnings).
- EV/EBITDA (that is, Enterprise Value to EBITDA).
- EV/EBIT (i.e., Enterprise Value to EBIT).
- EV/Revenues (that is, Enterprise Value to Revenues).

Once the multiples are computed, the next stage is to estimate the average, or the median, that is then applied to the target company's respective metric in order to derive an estimate of the firm's value.

On the other hand, the transaction multiples approach relies on the identification of past M&A transactions involving firms that are similar to the target company in terms of size, industry, geography, or business model. The idea is to observe how much acquirers have paid for comparable companies in real happened transactions and to use those valuations as benchmarks.
With respect to market multiples, this method allows to include in the valuation the control premium that the potential acquiror is willing to pay.

Finally, it is important to highlight that, beyond the actual target's valuation, the final offer price will also depend on several key factors like potential synergies, the strategic premium, and the already mentioned the control premium.

1.5. Regulatory Framework

In the context of mergers and acquisitions, the regulatory framework plays a fundamental role in shaping the feasibility, structure, and outcome of transactions.
Key regulatory regimes include those of the United States, the European Union, and China, which have established agencies and protocols for monitoring and approving M&A activity. Furthermore, in addition to competitive laws, many countries also impose foreign investment regulations that require prior approval for acquisitions involving cross-border transactions.
While M&A activities are subject to regulatory approaches that significantly vary across countries, this section will focus on the Italian legal framework.

The most important topics within the regulatory environment are probably two: antitrust and competition law, and national security implications.
Antitrust and competition regulations are central to ensuring that mergers and acquisition transactions do not lead to excessive market concentration or suppress fair competition. The objective is to protect consumer welfare and preserve public interest by fostering open and fair competition among firms. Specifically, a firm is considered to hold a "dominant position" or act as a "monopolist" when it can independently dictate market terms, leading to above-normal profits, often at expense of consumer choice and innovation (Khan, R. & Khan, M., 2024).
However, enforcement standards and legal definitions of competition can differ widely, influenced by each country's economic structure and legal traditions.
With respect to the Italian regulatory system, it is primarily governed by Law No. 287/1990, which lays down the rules for protecting competition and preventing market dominance. Despite its relatively recent adoption compared to other major jurisdictions, the Italian framework is well-aligned with the EU law and provides a coherent system for assessing and, when necessary, restricting M&A transactions that may negatively affect competitive conditions. Specifically, the aim of the law is to avoid the constitution of the so-called "concentration". Under the Italian law, a concentration may take the form of a merger, acquisition of control (direct or indirect), or the creation of a joint venture with sufficient autonomy. Such operations must be notified ex-ante to the Italian Competition

Authority (the AGCM, i.e., Autorità Garante della Concorrenza e del Mercato) when some thresholds are met:

- Aggregate domestic revenues exceeding €472 million.
- Target company turnover above €47 million.

The AGCM evaluates notified transactions using the SIEC test (Substantial Impediment of Effective Competition), considering factors such as market shares, barriers to entry, buyer power, and efficiency gains. Remedies may be structural or behavioral and are imposed only if the deal is found to threaten competitive market conditions. Prohibitions are rare and are typically reserved for extreme cases.
The AGCM plays a preventive supervisory role, assessing whether a proposed concentration might reinforce a dominant position or limit market access for other competitors. Although the Authority operates independently, its assessments must be consistent with broader EU principles, especially when cross-borders effects are involved. However, it is important to highlight that if a transaction qualifies as having a "Community dimension", the jurisdiction shifts to the European Commission.

The other key topic within the regulatory landscape of mergers and acquisitions, as previously mentioned, is represented by the transaction's national security implications. In recent years, this aspect has gained growing importance, with governments adopting a more assertive role in overseeing transactions that could pose potential risks to national interests. Specifically, authorities have the power not only to block transactions in advance when they involve sensitive or strategic industries, but also to conduct retrospective reviews and force companies to sell off specific assets or suspend certain operations if it seems necessary to safeguard national security (Khan, R. & Khan, M., 2024). Sectors such as defense, telecommunications, aviation, and energy infrastructure are particularly subject to these restrictions.
The issue of national security is also highly relevant within the Italian regulatory framework. Specifically, the Legislative Decree No. 21 of March 15, 2012, governs the Italian government's use of the so-called "golden power". This legal mechanism grants the government the authority to impose suspensive conditions on mergers and acquisitions, as well as on other extraordinary corporate transactions.
The sectors in which the Italian government can intervene include:

- Defense and national security.
- Electronic communication services based on 5G technology.
- Energy, transport, and communications.
- Other critical infrastructures, such as water supply, healthcare, and
- financial institutions.
- Critical technologies, including artificial intelligence, robotics, cybersecurity and semiconductors.

It is important to note that, in order to allow the government to exercise these special powers, the acquiring firm is required to submit a formal notification to the government within 10 days from the approval of the transaction. Once the notification has been received, the government generally has 45 days to assess whether the transaction poses a potential threat to national interests.

At this point, it is possible to state that the transactions which were once evaluated only on the basis of competition law or market efficiency are now subject to broader geopolitical and security assessments. In particular, this evolution shows an important growing topic, that is the tension between economic liberalism and the protection of national sovereignty.

1.6. Rationales

There are different reasons why M&A transactions take place. Clearly, understand these underlying rationales is essential to assessing the factors that lead to their success or failure (Seth et al., 2002).

It is widely accepted that the primary motivation behind M&As lies in the creation of synergies. Campbell and Goold (1998) stated that the term synergy originates from the Greek word synergos, meaning "working together". Specifically, synergies arise when the combine value of two companies is greater than the sum of their individual values (Jensen and Ruback, 1983).
Damodaran (2005) categorizes synergies into two main types: "operational", and "financial", each contributing to the additional value generated through the merger or acquisition. Operating synergies refer to the efficiency gains that enable firms to increase the operating income form their existing assets and achieve higher growth. This type of synergies can be classified into three main categories:

- Increasing pricing power, resulting from an increase in market share and reduction in competitive pressures.
- Economies of scale, which arise when the combined entity becomes more cost-efficient due to the consolidation of operations, improving the profitability.
- Complementarity of functional strengths, where the two firms bring together different but complementary capabilities (for instance, a company with strong marketing expertise acquiring a firm with innovative products). These cross-functional integrations may generate value across various industries, even in absence of business similarity.

On the other hand, through financial synergies, the combined company can yield benefits in terms of increased cash flows, a reduced cost of capital, or a combination of both. The main sources of financial synergies include:

- Enhanced debt capacity, since the integration of two firms may result in more stable and predictable cash flows and earnings. This increased stability allows the company to take on more debt than the two firms could have individually, generating a tax shield and reducing the WACC.
- Tax benefits, which can emerge in different forms. For instance, the acquiring firm might write up the assets of the target to take advantage of depreciation – related to tax shields. Furthermore, if the target has a net operating losses, the bidder can utilize those losses to offset its own taxable income, reducing the overall tax burden.
- Diversification, driven by the expansion of the bidder's portfolio. The advantages of the diversification are higher when the target operates in a different industry or geographic area than the acquirer company.

Alternatively, Carpenter and Sanders (2007), following a similar line, identify five sources of synergies: mitigating threats, enhancing market power, achieving cost savings, strengthening financial position, and leveraging capabilities.

M&A transactions are frequently associated with a broader competitive or business strategies, such as entering new product or market segments or redefining the basis of competitions. The strategic motivations behind these transactions include:

- Developing new niches, expanding product lines, or complementing the bidder's existing offerings (Levison, 1970).
- Increasing market power (Gopinath, 2003).

Moreover, M&A is often framed within a corporate strategic context, serving as part of a pattern of relationships among business units under a common corporate structure (Calipha et al., 2010). In this framework, the overall strategy may follow a path of diversification (branching into different industries) or concentration (focusing on similar or related industries).

Following Wheelen and Hunger's perspective (2005), diversification strategies can be categorized into two types: "concentric" and "conglomerate" diversification. Concentric diversification involves entering related industries to generate operational synergies, whereas conglomerate diversification refers to expansion into unrelated markets, with financial returns being the main objective. Specifically, when the two firms operate in a very different industries, the transaction is called "conglomerate M&A".

Specifically, this previous categorization relates to the difference between "horizontal" and "vertical" M&A transactions. The horizontal transactions involve the integration of firms operating within the same industry (Tremblay, V. and Tremblay, C.H., 2012), and typically consist of expanding along the same stage of the value chain (Calipha et al., 2010). Numerous studies provide evidence that horizontal M&As can increase market

power and improve efficiency (Kim and Sigal, 1993; Prager and Hannan, 1998; Gugler and Siebert, 2007), leading to lower output prices.
On the other hand, vertical M&As refers to integration between two companies operating in different industries but characterized by a "buyer-seller relationship". In other terms, the two firms are involved in different stages of the value chain (DePamphilis, 2011). If the acquiror purchases one of its suppliers, then the transaction is known as "upstream" (or "backward") vertical M&A. When the target is a company that buys the bidder's products, the transaction is called a "downstream" (or "forward") vertical M&A. In other terms, a vertical M&A is realized when the firms involved offer complementary services or products.

According to Irwin et al. (2025), another important area is represented by technology-based motives. Companies frequently pursue acquisitions to gain access to advanced technologies (Lee & Lieberman, 2010). In industry characterized by high levels of technological dynamism, firms may turn to acquisitions to secure emerging technologies that ensure long-term competitiveness (Irwin et al., 2022). The acquisition of new technology can serve as a strategic tool for fostering innovation (Prabhu et al., 2005), supporting both the exploitation, through internal R&D development, and exploration (Stettner & Lavie, 2014).
A commonly observed motive involves strengthening a firm's R&D capabilities by acquiring companies holding valuable patents (Belderbos, 2001; Schweizer, 2005). Indeed, intellectual properties are a critical source of competitive advantage (Grant, 1996).
Alternatively, the rationale behind some acquisition may be defensive rather than integrative: instead of using the technology, firms may acquire it to remove a competitive product or innovation from the market.

The acquisition of human capital, the so-called "acqui-hiring", has emerged as another prominent strategic rationale in M&A transactions (Irwin et al., 2025). It involves the intentional acquisition of both executives and skilled employees. Depending on the strategic objective, such talent acquisitions may contribute to revenue generation, cost optimization, or long-term innovation, but may not yield immediate financial outcomes.
However, this strategy is not without risks: the departure of targeted individuals, particularly when they represent the core value of the acquisition, can threat the entire deal. In such a case, if the talent acquisition was the primary goal, the transaction would be considered a failure.
It is important to highlight that high specialized human capital facilitates access to market, enabling firms to expand product lines or penetrate new geographic markets (Carayannopoulos & Auster, 2010).

Finally, an interesting perspective is the one proposed by Bower (2001). He illustrates five rationales behind M&A transactions:

- “The overcapacity M&As”: they take place in mature and capital-intensive markets characterized by excess production capacity (such as the automotive sector). The acquirer seeks to integrate a competitor to gain market share and improve operational efficiency.
- “The geographic roll-up M&As”: they occur when a company wants to operate in geographic areas where it currently has no presence. These transactions typically involve a large firm acquiring a smaller, local company.
- “The product or market extension M&As”: they are characterized by the fact that the two companies offer similar services or products. The objective is to broaden the range of offerings and reach new markets or customer segments.
- “The M&A as R&D”: it refers to transactions where mergers and acquisitions serve as an alternative to in-house research and development, aiming to shorten the time needed to implement new products or technologies.
- “The industry convergence M&As”: in this case, the objective is to “merge” different sectors to create a new business.

1.7. The Risks associated to M&A Transactions

The analysis of risks in M&A transactions must begin with a proper understanding of the various phases that characterize the entire process. Specifically, according to DePamphilis (2018), one can identify ten key stages:

- Development of a Business Plan.
- Formulation of an Acquisition Plan, supporting the Business Plan.
- “Search” phase, involving the identification of potential acquisition candidates.
- Screening of candidates, to assess the suitability of the potential target.
- “First Contact”, that is the initial approach to the target company.
- Negotiation, aimed at structuring the terms of the deal.
- Closing of the transaction.
- Integration of the target firm into the acquiring one.
- Evaluation, referring to the post-closing assessment of the transaction success.

It is possible to classify these ten stages into three main phases: planning and targeting, deal structuring and closing, and the post-merger step (Garcìa-Nieto et al., 2024).
The planning and targeting stage encompass the preliminary activities essential for starting the transactions, which are the formulation of the business plan and the acquisition plan, but also the definition of the financial strategy aimed at preserving the acquirer’s financial health.
During this phase, three major risks can be considered (DePamphilis, 2018):

- Financial risks, which arise from the challenge of financing the transaction without compromising financial ratios.
- Operating risks, related to the bidder's ability to successfully manage the target firm, even when it operates outside the bidder's core business.
- Overpayment risk, arising from the consequences of paying a price that exceeds the target's intrinsic value.

The magnitude of these risks is influenced by two key factors: informational asymmetry and contextual conditions (Welch et al., 2020).
First of all, the information asymmetry affects both the target selection process and the valuation: companies with limited information transparency are more likely to be overvalued compared to those with better access to information (Li, 2020).
At the same time, contextual factors, such as the bidder's industry or the cultural environment, play a critical role in the target selection. As noted by Pan et al. (2020), "uncertainty-averse" managers (influenced by their cultural background) are significantly less inclined to pursue M&A deals, or they are more likely to favor targets operating in familiar industry, characterized by lower integration risks.
Companies can bear these risks by using different methods. They might adopt legal safeguards to protect investors, such as clauses that guarantee specific aspects of the target's conditions, including the reliability of its financial statements (Even-Tov et al., 2022).
Firms can also prioritize targets which share features with previous deals or belong to the same industry (Welch et al., 2020).
Finally, another common measure consists of expanding the analyst coverage on potential targets to improve the precision of initial valuations.

Then, with respect to the deal structuring, it is a pivotal phase in the M&A process, focused on negotiating and formalizing the terms of the transaction to ensure strategic alignment between the parties involved. During this stage, firms establish their initial positions, evaluate associated risks, and address potential conflicts (related, for example, to legal frameworks or the financial structure of the deal). Some fundamental elements are the determination of payment mechanisms, contractual provisions, and tax-related implications (DePamphilis, 2018).
The most important risks involved in this phase are related to the overvaluation of the target (due, for example, to information asymmetry, as previously mentioned) and the misidentification of post-merger risks (Welch et al., 2020). To properly assess them, acquiring companies undertake a due diligence process, aimed at examining all the target firm's information. As described by Wangerin (2019), the due diligence consists of three stages:

- Preliminary due diligence, based on publicly available data.
- Detailed due diligence, involving an in-depth review of financial, operational and legal documents.

- Final due diligence, which aims to validate findings prior to finalizing the deal.

Since the previous risks are influenced by the quantity and quality of available information and the transaction value, the due diligence, on the hand, tends to last longer as the deal size increases, and, on the other hand, it shortens when information is more readily accessible (Delay et al., 2024).
Furthermore, recent studies highlight that one of the most effective tools for reducing valuation errors is the development and integration of technological innovations through the whole due diligence process (Florackis et al., 2022; Gu et al., 2022). In fact, digital instruments can increase the accuracy and transparency of financial assessments and compliance controls. However, it is important to remember that the integration of the technology introduces new cybersecurity risks, such as the threat of data breaches. Therefore, there are also essential adequate cybersecurity protocols to safeguard the integrity of the transaction process (Florackis et al., 2022).

Finally, the third stage of the M&A process, i.e., the post-merger step, involves the target's integration and the subsequent performance evaluation. At this stage, the realization of synergies is crucial for the success of the transaction. Accordingly to Feldman & Hernandez (2022), these synergies are reflected in revenue growth, cost reductions, and greater operational efficiency. In addition, the presence of abnormal positive stock returns can be seen as confirmation that the integration is yielding the expected benefits.
The risks involved in this final phase are generally related to the litigation and the market perception. Specifically, litigation risk is often linked to the performance benchmarks established during deal negotiations. However, the subjective nature characterizing these indicators can lead to disagreements (Huang et al., 2023).
The market perception risk, instead, refers to the possibility that investors may misunderstand the synergy potential or inaccurately evaluate the new combined company, influencing the overall success of the transaction (Song et al., 2021).
In order to bear these risks, firms can adopt more rigorous performance monitoring measures and try to reduce information asymmetry (Dahlen et al., 2024).

Another important source of risk is represented by the geopolitical environment.
Specifically, geopolitical risks are related to the threats and uncertainties stemming from political instability and international tensions, which can significantly affect global financial and economic systems (Garcìa-Nieto et al., 2024). In recent years, such risks have become increasingly prominent, driven by critical elections and diverging policies that amplify concerns over the future economic conditions (Choi et al., 2022). These dynamics influence regulatory frameworks, investor sentiment, and corporate strategic decisions (Ott, 2020).
One of the key consequences of political risk is its effect of firm valuation. High uncertainty may reduce a country's market appeal and increase information asymmetry, discouraging business activities like investments and merger or acquisitions (Jeon et al.,

2022). Moreover, political instability influences several M&A dimensions, including the deal structure, transaction costs, and competitive dynamics. High level of political risk often leads to increased equity financial costs, because investors require higher returns to compensate for greater volatility, embedding a "geopolitical risk premium" into deal valuations (Paudyal et al., 2021).
To address these challenges, companies adopt various strategies. One useful approach is the geographic diversification through cross-border acquisitions, which allows firms to reduce their dependence on politically unstable domestic environment (Ahsan et al., 2024). Companies can use the cross-border M&A as a hedge against domestic political risks. (Paudyal et al., 2021).
Furthermore, several studies highlight the growing relevance of ESG practices as a tool for bear political (but also reputational) risks. For example, during periods of political uncertainty, banks often enhance their ESG performance to strengthen stakeholder trust and improve public perception (Alam et al., 2024). In addition, political donations or CSR initiatives can also be seen as a protection to reduce the exposure to adverse regulatory (or reputational) consequences.

Finally, as previous mentioned, another significant risk is the reputational one. The reputational risk refers to the potential adverse outcomes that a company may face due to the damage to its corporate image. A strong reputation can provide firms with a significant competitive hedge, enhancing their credibility among stakeholders.
The implementation of ESG principles has become essential in leading companies toward long-term higher sustainability and financial performances (Garcìa-Nieto et al., 2024). By embracing ESG criteria, firms not only anticipate regulatory developments and mitigate risks, but also communicate their ethical and sustainable vision. A key resource is the credibility, that reflects the company's ability to inspire consumer confidence in the reliability and quality of its offerings. It is built through consistently meeting expectations, maintaining high transparency, ensuring customer support (Tampakoudis & Anagnostopoulou, 2020).
In the M&A environment, reputational risk has a significant impact on strategic decisions. Firms with a history of ESG controversies are less likely to engage in mergers and acquisitions transactions, either as acquirers or targets (Boone et al., 2021). It is also important to consider the potential negative market reaction resulting from the acquisition of a target with a poor reputation.
To address these challenges, companies can exploit proactive strategies to safeguard their reputation. Increasing the financial and non-financial disclosure's transparency and embedding ESG values into the organization are key tools. Also selecting M&A partners with a similar reputational profile is useful to reduce risks (Boone et al., 2021).

2. Market Trends

Mergers and acquisition's activity has historically followed cyclical patterns, often referred to as "merger waves".
Generally, the academic literature highlights the existence of seven waves: five major merger waves occurred during the 20th century, followed by two additional waves that have taken place in the 21st century so far. Not surprisingly, the early takeover waves were centered in the United States, reflecting the country's advanced economic and financial development. Then, over time, this phenomenon gradually expanded, evolving into a broader, more global context.

2.1. First Wave: Horizontal Mergers

The first wave started at the end of the 19th century and is commonly referred to as the "Great Merger Wave". It was largely driven by a combination of economic expansion, structural transformation in the manufacturing sector, evolving corporate governance, and the significant development of capital markets, particularly the New York Stock Exchange (Cho & Chung, 2022).

This wave was characterized by a high volume of horizontal mergers, involving firms operating within the same industry. These dynamics often led to the creation of monopolies, with Standard Oil as a notable example. According to Stigler (1950), the limited enforcement of the regulations, such as the so-called Sherman Antitrust Act of 1890s, allowed such monopolistic structures to prosper, especially in sectors like mining, steel, and oil.
Another contributing factor was the legal and financial context of the time: the absence of protections for entrepreneurs and the improved access to capital through the NYSE encouraged more risk-averse business owners to sell their firms, and risk-seeking entrepreneurs to acquire them and consolidate their control.
In these transactions the use of cash was the primary mean of payment (Stigler, 1950).

Given the prevailing conditions in the U.S. economy between the 1880s and early 1900s, the first takeover wave lasted for roughly a decade. According to Cho and Chung (2022), its conclusion was due to a stricter application of antitrust laws, the introduction of financial regulations aimed at safeguarding entrepreneurs, and the beginning of World War I, which shifted economic priorities. Specifically, De Pamphilis (2011) identifies

fraudulent financing practices and the stock market crash of 1904 as the main causes of the wave's end.
However, during this period, several historic corporations were founded, such as U.S. Steel, the first U.S. company valued at over one billion dollars (formed by 785 different firms), along with Standard Oil, General Electric, American Tobacco, and Eastman Kodak.

2.2. The Second Wave: Vertical Mergers

The second merger wave began after the First World War, during a period of economic recovery, between the 1910s and 1920s. Unlike the first wave, characterized by big companies acquiring small firms, this new phase involved many transactions among smaller companies that had not participated in the earlier consolidation trend. Furthermore, this merger activity during this period took place under increased regulatory scrutiny, particularly with respect to antitrust enforcement targeting monopolistic consolidations. According to Stigler (1950), the second wave represented a shift toward an oligopolistic market structure.

The prevailing rationale behind mergers and acquisitions in this period was the pursuit of economies of scale, often achieved through vertical integrations, in order to enhance the competitiveness (Cho & Chung, 2022). Another important change concerned the mean of payment: while the previous wave was predominantly financed with cash, this period saw a growing use of equity-based transactions (Martynova & Renneboog, 2008).

Finally, the stock market crash of 1929, followed by the beginning of the Great Depression, led to an economic slowdown and, clearly, and a decline in M&A activity, until the definitive stop due to the World War II.

2.3. The Third Wave: Conglomerate Mergers

The third takeover wave took place during the 1950s. In these years, given the strong regulatory pressure and the enforcement of antitrust regulation, the nature of M&A activity was characterized by a significant transformation. In contrast to the horizontal and vertical mergers that had defined the previous waves, this phase was marked by

diversification-driven transactions, where companies bought firms operating in unrelated industries. The strategic shift aimed to reduce firms' exposure to sector-specific risks by creating large, multi-industry conglomerates.
According to Garfinkel and Hankins (2011), companies with high cash flow volatility were more inclined to pursue such diversification strategies to mitigate firm-specific risks. Furthermore, firms characterized by high price-to-earnings (P/E) ratios often acquired companies with lower P/E ratios, in order to rise the earnings per share (EPS), and therefore the stock price, of the new combined company.
Finally, as in the second wave, equity was the predominant form of payment in these transactions.

The third merger wave persisted for nearly two decades and came to an end in the early 1970s, largely because of the global economic recession triggered by the oil crisis of 1973.

2.4. The Fourth Wave: Hostile Takeovers

The fourth wave occurred within the 1980s and introduced significant departures from the patterns observed in previous phases, because of factors like the loosening of state-level anti-takeover regulations, the growing use of debt financing, and the rapid expansion of the electronic and high-tech sectors (Jarrell et al., 1988).

Unlike earlier periods, where mergers were primarily friendly and cooperative, this wave was dominated by hostile takeovers, and corporate raiders, as noted by Cho and Chung (2022). Specifically, according to Martynova and Renneboog (2008), the volume of such aggressive transactions, together with the leveraged buyout as the main acquisition strategy (De Pamphilis, 2011), reached very high levels.

The main driver behind that trend is identified by Shleifer and Vishny (1991), who argue that many of the conglomerates created during the third wave had become organizationally inefficient by the 1980s. As a result, these firms started to restructure by divesting non-core subsidiaries. Furthermore, Morck et al. (1990) find that acquisitions involving companies from the same industry were positively correlated with shareholder returns, while acquisitions of firms operating in different sectors tended to reduce shareholder value. This indicates an important shift in the investor sentiment, with a growing skepticism toward diversification-based mergers.

The fourth merger wave ended after the 1989 stock market crash.

It is important to remember that, for the first time, in this phase, the number of acquisitions of U.S. firms by foreign companies was higher (in terms of dollar) than the number of takeovers of foreign firms by U.S. companies. The drivers behind this phenomenon were represented by the limited restrictions on takeover in the Unites States, their better technology, and the weakness of the dollar with respect to several major foreign currencies (De Pamphilis, 2011).
The most important cross-border deal was the acquisition of SmithKline Beckman Corporation (a pharmaceutical company) by the Beecham Group PLC (a British pharmaceutical corporation) for $16.1 billion in 1989. In the meanwhile, in 1988, Kohlberg, Kravis & Roberts (KKR) acquired through a LBO the RJR Nabisco (an American large conglomerate selling tobacco and packaged foods), paying $24.5 billion, a record price for the time. Specifically, the story of the RJR Nabisco LBO became widely known, also thanks to the famous book "Barbarians at the Gate" and the TV show based on it.

2.5. The Fifth Wave: Megadeals

The fifth merger wave emerged during the economic boom of the 1990s. This period was characterized by rapid economic expansion and increasing globalization, which fundamentally reshaped corporate strategies. Within this context, M&A became an increasingly attractive growth strategy, particularly for large corporations. The main trend of the fifth wave was represented by cross-border transactions, often involving large multinational firms in so-called "megadeals", i.e., large-scale mergers between global corporations.
Notable examples include the merger between Vodafone (the famous British multinational telecommunications company) and Mannesmann (a German industrial conglomerate), valued at $202 billion, and Vodafone and AirTouch (which was an American telecommunications company), for $60 billion.

The fifth merger ended following the dot-com bubble and the beginning of a global economic slowdown.

2.6. The Sixth Wave: Return of Leverage

The sixth merger wave took place approximately between 2005 and 2007, during a period in which financial markets were characterized by an increase in leveraged buyouts and in private equity activity (De Pamphilis, 2011). Furthermore, the M&A transactions were often supported by complex debt instruments, taking the form of "syndicated debt". The syndicate debt is a debt bought by underwriters with the intention of reselling them to the broader investing public. This syndication process helped distribute credit exposure across many investors, allowing debt issuers to transfer a large portion of the associated risks to others (De Pamphilis, 2011).
However, as the ownership of these instruments became more opaque, it became difficult to identify the ultimate holders of the debt. So, when home prices start to fall and several important defaults occurred in 2007, investor confidence in the true market value of many financial assets began to decrease, due to concerns that the actual value of those assets was significantly below what was recorded on corporate balance sheets.
All these tensions culminated in the so-called worldwide Great Recession, which, clearly, causes the end of the sixth takeover wave.

2.7. The Seventh Wave: Sector Innovation

The seventh and most recent wave emerged during the period 2016 – 2019. This phase is distinguished by a high level of corporate liquidity, further than cross-border and horizontal deals. However, the main characteristic was the focus on innovative industries, such as the technology and healthcare sectors.

Wave	Period	Characteristics
First Wave	1897 - 1904	High volume of horizontal mergers leading to the creation of large corporation.
Second Wave	1916 - 1929	Wave characterized by vertical acquisitions, in order to reach economies of scale.
Third Wave	1965 - 1969	Diversification-driven transactions to reduce companies'exposure to industry-specific risks.
Fourth Wave	1981 - 1989	Phase dominated by hostile takeovers. There is also an extensive use of leverage, leading to significant LBO transactions.
Fifth Wave	1992 - 2000	Wave characterized by several megadeals, in a global context.
Sixth Wave	2005 - 2007	There is an increase in LBOs and private equity activity.
Seventh Wave	2016 - 2019	High volume of cross-border and horizontal deals, within innovative industries like healthcare and technological sectors.

Source: Author's elaboration from Dallocchio et al. 2022

2.8. Determinants of M&A Waves

Once described the cyclical pattern characterizing the M&A activity, now it could be interesting to analyzes the waves' determinants. Specifically, there are two main theoretical frameworks, the "Neoclassical Framework" and the "Behavioral Framework".

2.8.1. The Neoclassical Framework

The neoclassical approach is based on two fundamental assumptions: the managers maximize the shareholder wealth, and the capital markets are efficient. According to this theory, M&A activity represents an efficient response to reorganization opportunities that arise from economic, regulatory, or technological shocks (Mariana, 2012).

Economic shocks come from factors such as overcapacity, technological innovation, regulation and deregulation, or improved access to capital markets. For instance, an economic expansion may drive M&A as firms seek to scale rapidly in response to rising aggregate demand, an objective often more easily achieved through mergers and acquisitions than organic growth. Regulatory shocks may also play a role by removing

constraints to consolidation, while technological changes can either reshape existing industries or give rise to entirely new sectors, conducting firms to merge (Coase, 1937). Furthermore, according to Jovanovic and Rousseau (2001) the technological innovation was a key driver behind several historical merger waves, particularly those in the 1900s, 1920s, 1980s, and 1990s.

Another contribution to the neoclassical view comes from Manne (1965), who describes mergers as a mechanism for reallocating resources to more efficient managers. Under this view, underperforming companies, whose stock prices reflect poor management, become attractive targets for firms with stronger managerial capabilities. Specifically, Jovanovic and Rousseau (2001) extend this idea, arguing that M&A represents an alternative method for reallocating assets in response to technological shifts.
However, Harford (2005) challenges the idea that shocks alone are not sufficient to trigger merger waves. He argues that these shocks must be accompanied by sufficient market liquidity to translate into actual transactions. In other words, without readily available capital, even the presence of favorable shocks may not lead to a M&A wave. Conversely, high liquidity can drive M&A activity even in the absence of clear economic or sector-specific shocks.

Within the neoclassical framework, another approach to explaining merger activity is the Q theory of mergers, which is linked to the Tobin's Q theory of investment. Originally introduced by Tobin (1969), the Q ratio is defined as the market value of a firm's tangible assets relative to their replacement cost. This ratio is an indicator of whether a firm is over- or undervalued: a Q ratio below 1 implies the undervaluation, while a value above 1 suggests overvaluation.
Tobin's Q is widely used in corporate finance literature as a proxy for a firm's investment potential. Companies with high Q values are typically seen as well-managed and capable of generating superior returns on assets. As a result, these firms are more likely to pursue investment strategies which enhance shareholder value.
In the context of mergers and acquisitions, the Q theory suggests that firms with higher Q ratios are incentivized to buy the assets of lower-Q firms. This dynamic is based on the idea that high-Q bidders can use their capital more efficiently and potentially unlock value from undervalued or underperforming target firms.

Finally, waves may also be "endogenously reinforced". In other words, one firm's decision to engage in M&A may push competitors to do the same in response to strategic pressures (Persons & Warther, 1997).

2.8.2. The Behavioral Framework

The second approach is represented by the behavioral perspective, which departs from the traditional neoclassical view by rejecting its two core assumptions: that markets are efficient and that managers act to maximize shareholders' value. Instead, the behavioral model incorporates psychological factors and cognitive biases that influence capital market participants. It explains why merger waves often coincide with periods of capital market euphoria, during which asset valuations are inflated (Gugler et al., 2005; Gugler et al., 2008).

Rhodes-Kropf and Viswanathan (2004) model a scenario in which managers behave rationally under uncertainty about true firm value. In bullish markets, takeover bids paid with overvalued stock are more likely to be accepted because market optimism makes it harder to assess whether the premium reflects synergies or simply inflated valuations. When managers mistake high share prices for real synergies, they are more inclined to accept acquisition offers, even when the deal might destroy value.
Their model predicts that firms are more likely to engage in M&A during market booms, when valuation uncertainty is high, leading to the wave phenomenon.

Another possible explanation concerns managerial discretion and personal incentives. According to Mueller (1969), managers may pursue M&A activity not only to increase firm size and, consequently, their compensation, but also to achieve a form of psychological satisfaction tied to running a larger organization. In this sense, growth-oriented rationales, rather than pure efficiency considerations, may play a central role in driving M&A activity during certain periods.

2.9. Recent Trends

From a long-term perspective, M&A activity has exhibited a significant upward trend. For instance, in 1985, there were approximately 5,000 transactions, a number that soared to over 40,000 by the year 2000. A similar pattern can be observed in terms of deal value: from approximately $500 billion in 1985, the total transaction value rose to nearly $4.5 trillion by 1999.
The global peak in terms of deal value was reached in 2007, just before the onset of the global financial crisis, with total transactions amounting to an impressive $4.9 trillion. After a temporary slowdown, another peak occurred in 2015, although it remained slightly below the 2007 level. Notably, the record set in 2007 has never been surpassed in terms of deal value, despite a higher number of transactions in subsequent years, such as

in 2017, when roughly 55,000 deals were recorded, yet the total value remained considerably lower, at around $4 trillion.

The peaks reached in 2007 and 2017 were both surpassed in 2021, which marked a record-breaking year for the global M&A market. Specifically, 2021 saw a 31% increase in the number of transactions and a 47% rise in total deal value compared to 2020, setting new all-time highs with 48,948 deals valued at $4.418 trillion.
Despite the uncertainties associated to the Covid-19 pandemic, a recovery was already underway in 2020, driven by renewed investor confidence, low interest rates, and abundant capital reserves.
Additionally, the role of private equity and venture capital funds significantly contributed to the revival of M&A activity, culminating in the sharp rebound of 2021. This outstanding performance was fueled by both domestic transactions, which grew by 36% in value and 27% in volume, and cross-border deals, which experienced an 80% increase in value and a 45% rise in volume. As a result, cross-border acquisitions accounted for approximately 50% of total deal value in 2021, compared to 35% in 2020.
Specifically, the most significant deal in terms of transaction value was the acquisition of Alexion Pharmaceuticals Inc., a biotech company, by AstraZeneca Plc. However, the leading sector in terms of deal volume was the retail and consumer market, which accounted for 33% of total transactions, with a combined value of $1.126 trillion. On the other hand, the top-performing sector in terms of total deal value was Telecommunications, Media & Technology (TMT), which recorded an aggregate value of $1.307 trillion.

After a year of outstanding performance, a downturn in the M&A market was almost inevitable, and indeed materialized in 2022. Compared to 2021, the number of transactions declined by 12%, while total deal value dropped by 20%. The year was characterized by a general economic slowdown, rising inflation, and increasing interest rates. This surge in volatility and uncertainty translated into a significant reduction in M&A activity. Notably, the decline began in the second half of the year, coinciding with the start of monetary tightening by central banks. The Federal Reserve led the way, raising interest rates by 75 basis points on June 16.
The contraction in M&A was particularly evident in domestic transactions, which fell by 15% in volume and 23% in value compared to the previous year. The decline in cross-border activity was more moderate, with a 10% decrease in value and only a 4% drop in the number of deals. Overall, the slowdown in global M&A was primarily driven by reduced activity in the United States, still the market leader, and in the Asia-Pacific region. In contrast, the European market remained relatively stable, despite the ongoing conflict between Russia and Ukraine.

Even in 2022, the leading sectors in M&A activity remained Telecommunications and the Retail & Consumer Markets. Specifically, the media industry saw the creation of Warner

Bros. Discovery Inc., resulting from the merger between Discovery Inc. and Warner Media LLC, which formed a new giant in the cinema and streaming landscape. Another high-profile deal was the acquisition of Twitter Inc. by X Holdings I Inc., the investment vehicle controlled by Elon Musk.

The year 2023 was marked by a further slowdown in M&A activity, driven by persistent macroeconomic uncertainty and escalating geopolitical tensions, such as the relations between the United States and China, as well as the outbreak of conflict in the Middle East. Nevertheless, the year followed a two-speed dynamic: on one hand, total global deal value amounted to $3 trillion, representing a 26% decline compared to 2022; on the other hand, deal volume reached the second-highest level ever recorded (after 2021), with 46,179 transactions completed.
The continued rise in interest rates and heightened geopolitical risks particularly affected large-scale transactions, leading to a sharp reduction in megadeals. Conversely, middle-market deals remained resilient, as they are generally easier to execute even in complex macroeconomic environments.
Despite the overall slowdown, the United States continued to dominate as the leading M&A market. Particularly, the Asia-Pacific region surpassed Europe in terms of deal value, registering $653 billion compared to the $489 billion recorded in the European market.
As in previous years, the Retail & Consumer Markets and Telecommunications sectors remained the primary drivers of M&A activity.

Global M&A activity experienced a strong rebound in 2024, driven by more favorable macroeconomic conditions and a normalization of company valuations. In North America, total deal value exceeded $2 trillion across 17,509 transactions, representing a year-over-year increase of 16.4% in value and 9.8% in volume. While capital flows toward Europe increased moderately, many U.S. investors redirected their focus to domestic opportunities. Nonetheless, the combination of a strong U.S. dollar and comparatively lower European valuations supported a steady stream of cross-border deals into the region.
In Europe, M&A activity fully recovered from the rate-hike-driven downturn of 2022, with a 29.2% annual increase in deal value and a 17.5% rise in transaction count. Valuations in both North America and Europe stabilized at mid-cycle levels, signaling that the market correction initiated in 2022 had largely subsided.
From a sectoral perspective, Information Technology led the market with $740.7 billion in total deal value across 7,455 transactions globally. Software companies remained particularly attractive targets, thanks to their high profit margins and defensible competitive positions. However, activity slowed in the fourth quarter, partly due to heightened uncertainty ahead of the U.S. elections. Both B2B and B2C segments showed strong annual performance, though they too experienced a mild deceleration toward year-end.

The energy sector saw a decline after several years of expansion, although deals in the so-called “cleantech” continued to draw significant interest from buyers aiming to leverage the ongoing energy transition. Financial services also regained momentum, with deal value increasing by 43% year-over-year. This growth was primarily driven by billion-dollar acquisitions in the insurance sector and ongoing consolidation among asset managers.

Cross-border deal activity in 2024 slightly favored Europe over North America. Transactions involving European targets and North American acquirers reached $44.1 billion for the year, an increase compared to 2023, but still well below the 2022 peak of $169.3 billion, when non-European buyers accounted for 34.2% of total European deal value. For the eighth consecutive year, capital inflows from North America into Europe outpaced the reverse trend, largely supported by the continued strength of the U.S. dollar against the euro and the pound. Lower valuation multiples in Europe compared to rising U.S. levels further enhanced its attractiveness to American investors. However, as macroeconomic conditions in the United States started to improve, North American investors focused more on domestic opportunities, contributing to a decrease in outbound M&A flows.

At the beginning of 2025, the M&A landscape appeared cautiously optimistic, with expectations of a gradual recovery throughout the year. However, several unexpected developments quickly reshaped this outlook. Financial markets showed heightened volatility, reacting sharply to political uncertainty in the United States, where discussions around trade tariffs intensified while progress on deregulation slowed considerably. Simultaneously, regional geopolitical tensions escalated, and long-term interest rates in both the U.S. and Europe diverged from earlier forecasts.

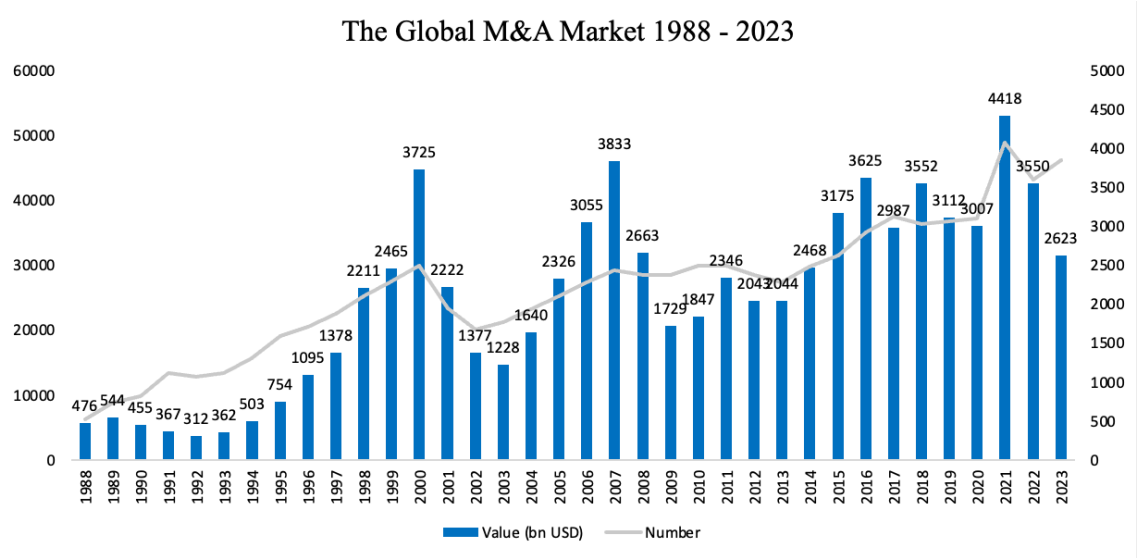
Despite these challenges, M&A activity has persisted, with dealmakers actively seeking strategies to navigate the uncertainty. On a global scale, M&A volumes declined by 9% in the first half of 2025 compared to the same period in 2024. Interestingly, deal values increased by 15%, indicating that while fewer transactions occurred, they involved larger or more strategic targets.

The market continued to favor transactions involving companies with a strong domestic footprint, particularly those in sectors less exposed to tariff risks, such as services, but also companies with robust cash flows and solid long-term prospects.

In the United States, the impact of policy uncertainty was especially evident. According to the PwC Pulse Survey conducted in May 2025, approximately 30% of companies reported having paused or reviewed ongoing deals in response to tariff-related concerns. The effects of this cautious approach are expected to persist, influencing deal activity in the months ahead. However, in the Americas, deal volumes declined by 12%, yet total deal value increased by 26%. This growth was largely driven by a higher number of transactions exceeding $1 billion in value, over half of which were concentrated in the United States.

In the Asia-Pacific region, deal values rose by 14%, while volumes decreased by 8%. India stood out with an 18% increase in transaction count; however, the market remained focused on mid-sized and private deals, resulting in a decline in overall deal value despite the increased activity. In contrast, Japan experienced a 13% drop in volume but saw a substantial 175% surge in deal value, driven by two significant megadeals concluded in the first half of the year.

In Europe, the Middle East, and Africa (EMEA), both deal volumes and values fell by 6% and 7% respectively. This decline in value was primarily attributed to a reduction in the number of megadeals in the United Kingdom compared to the previous year.



Source: Author's Elaboration from KPMG, Rapporto Mergers&Acquisitions 2023

Top 10 Global M&A Transactions from 01/01/2000 to 01/07/2025

Year	Acquiror	Target	Deal Value (bn USD)
30/06/2000	VODAFONE AIRTOUCH PLC	MANNESMANN AG	195.64
11/01/2001	AMERICA ONLINE INC.	TIME WARNER INC.	181.95
21/02/2014	VERIZON COMMUNICATIONS INC.	CELLCO PARTNERSHIP INC.	130.00
04/10/2016	NEWBELCO SA/NV	SABMILLER PLC	129.36
28/03/2008	ALTRIA GROUP INC.	PHILIP MORRIS INTERNATIONAL INC.	113.00
25/04/2008	RFS HOLDINGS BV	ABN AMRO HOLDING NV	112.23
13/06/2018	AT&T INC.	TIME WARNER INC.	108.70
19/06/2000	PFIZER INC.	WARNER-LAMBERT COMPANY	90.00
20/07/2005	KONINKLIJKE NEDERLANDSCHE PETROLEUM MAATSCHAPPIJ NV	SHELL TRANSPORT & TRADING CO PLC, THE	87.04
15/03/2019	TWDC HOLDCO 613 CORPORATION	TWENTY-FIRST CENTURY FOX INC.	85.10

Source: Author's Elaboration from Orbis

2.9.1. The Italian Market

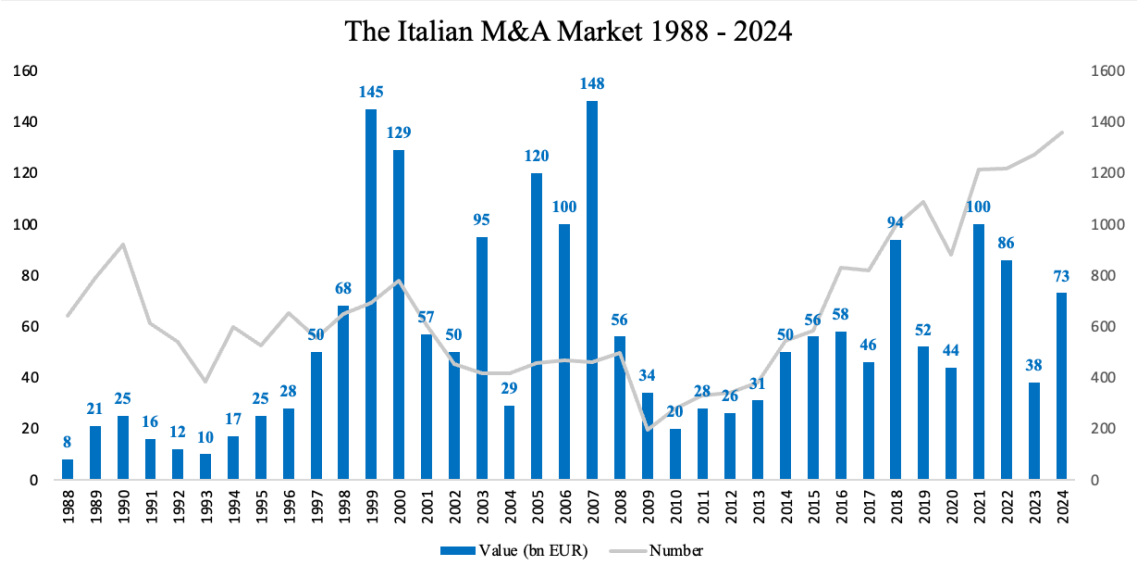
The Italian M&A market deserves a dedicated analysis. According to Dallocchio et al. (2022), the trend in M&A transactions is influenced by a set of specific variables, including the structure and characteristics of Italy's key industrial sectors, the level of integration between the domestic and international economies, and, consequently, the country's exposure to the global economic cycle.

A study by KPMG identifies two major phases that have shaped the evolution of M&A activity in Italy. The first phase, lasting until 1998, was marked by large-scale privatizations and the emergence of the first private equity funds. The second phase, extending up to 2010, coincided with the adoption of the euro and the opening of the market to cross-border transactions.

Following the historical peak in 2007, when total M&A transactions in Italy reached €148 billion, the market experienced a sharp decline starting in 2008, primarily because of the global financial crisis. In 2008, the total deal value dropped to €56 billion, representing a 62% decrease compared to the previous year.
Deal values remained relatively low throughout the years marked by the sovereign debt crisis and did not show signs of significant recovery until 2018, when the market finally registered a substantial increase, reaching a total deal value of €94 billion.
Following the temporary halt caused by the Covid-19 pandemic, M&A activity rebounded in 2021, with 1,214 transactions completed for an aggregate value of approximately €100 billion. However, in 2023, renewed macroeconomic uncertainty led to another significant slowdown, bringing the total deal value down to just €38 billion.
Despite this sharp decline in value, 2023 set a historical record in terms of deal volume, with a total of 1,272 transactions completed.

In 2024, while the total deal value amounted to €73 billion, still below historical peaks, it represented a significant 91% increase compared to the previous year. On the other hand, deal volume reached a new record, with 1,369 transactions completed, marking an 8% rise over 2023. Notably, 15 deals exceeded the €1 billion threshold.
The largest transaction of the year was the acquisition of NetCo, the fixed-line infrastructure of TIM, by Optics BidCo, a company controlled by KKR. Another noteworthy aspect of the year was the prominence of cross-border M&A, which accounted for 86% of total deal value, equivalent to approximately €63 billion.
In terms of sectoral contribution, the most influential industries by deal value were Technology, Media & Telecommunications, Energy & Utilities, and Financial Services, which together represented 65% of the total transaction value.

In the first half of 2025, the Italian M&A market recorded 660 completed transactions in the first half of the year, with a total deal value of approximately €30 billion, in line with the results observed in the previous year.
Particular attention should be given to the financial sector, which has shown strong dynamism since the end of 2024. UniCredit finalized the acquisitions of Aion Bank in Belgium and Vodeno in Poland, as well as UniCredit Allianz Vita S.p.A. Banco BPM completed its acquisition of Anima Holding, while Banca Ifis acquired Illimity Bank. In the insurance segment, AXA S.A. acquired the Italian firm Nobis Compagnia di Assicurazione S.p.A.
Several major deals remain pending, including Monte dei Paschi di Siena's public exchange offer (OPS) for Mediobanca, BPER Banca's offer for Banca Popolare di Sondrio, Banca CF+'s OPAS for Banca Sistema, and Mediobanca's attempted acquisition of Banca Generali.



Source: Author's elaboration from KPMG, Rapporto Mergers&Acquisitions 2023, and Mercato M&A in Italia nel 2024

Top 10 Italian M&A Transactions from 01/01/2003 to 01/07/2025

Date	Acquiror	Target	Deal Value (bn EUR)
09/12/2022	SCHEMA ALFA SPA	ATLANTIA SPA	32.77
05/10/2007	ACCIONA SA ENEL ENERGY EUROPE SRL	ENDESA SA	32.16
29/12/2006	BANCA INTESA SPA	SANPAOLO IMI SPA	29.61
01/07/2024	OPTICS BIDCO SPA	TELECOM ITALIA SPA'S NETCO	22
01/10/2007	UNICREDITO ITALIANO SPA	CAPITALIA SPA	21.84
07/11/2016	HUTCHINSON 3G ITALY INVESTMENT SARL	WIND TELECOMUNICAZIONI SPA 3 ITALIA SPA	21.8
01/10/2018	ESSILOR INTERNATIONAL SA	LUXOTTICA GROUP SPA	17.83
21/01/2005	TELECOM ITALIA SPA	TELECOM ITALIA MOBILE SPA	14.5
04/08/2003	UNICREDITO ITALIANO SPA	BAYERISCHE HYPO-UND VEREINSBANK AG	14.25
10/01/2007	UNICREDITO ITALIANO SPA	BANK AUSTRIA CREDITANSTALT AG	12.5

Source: Author's elaboration from Orbis

3. Value Creation

There is a broad consensus among corporate finance theorists and practitioners that the primary objective of any firm is to maximize its firm value. This, in turn, supports the business growth and ensures appropriate returns for shareholders.
So, in the M&A context, a fundamental question arises: do mergers and acquisitions create value? The question is a controversial issue with no clear answer (Capron and Pistre, 2002; Alexandridis et al., 2017; Li et al., 2020).

Clearly, in order to evaluate a merger or acquisition, it is essential to determine whether the transaction has actually created value for the investors involved in the companies participating in the deal. In particular, following Dallocchio et al. (2022), three possible scenarios can be identified: "value creation", when the return on the investment exceeds the target return required by investors; "value preservation", when the return on the investment matches the required target; and "value destruction", when the return on the investment falls below the expected target. Moreover, it is important to consider the interests of all stakeholders involved in the M&A process, particularly the shareholders of both the acquiring and the target firms.

Regarding the shareholders of the bidding firm, the value they derive from the acquisition is closely linked to the growth prospects of the target, or more generally to its expected profitability, and to the extent to which these prospects can enhance the bidder's own performance. Based on this premise, the importance of proper disclosure by the management regarding the rationale of the transaction and its potential value becomes evident. However, setting aside financial considerations for a moment, from a strategic perspective, an M&A transaction can be considered a failure when the acquired stake is divested within two years from the purchase (Dallocchio et al., 2022).

Regarding the shareholders of the target company, the value they are able to derive from the transaction depends on the price paid by the acquirer for the purchase of their shares, compared with the returns they would have obtained from future dividends had the company continued to operate independently.
Here as well, the role of management is crucial. In particular, managers of a target company are often concerned about a potential merger or acquisition, as such transactions frequently lead to the termination of their positions following the replacement of shareholders. From the bidder's perspective, in fact, the potential value generated by the transaction can often be increased by changing the management of the acquired company. As a result, it is common for the target's management to have a vested interest in convincing their shareholders that the acquisition is not a reasonable strategic move, and that the company's intrinsic value is higher than the price offered for their shares.

Specifically, the management of the target may attempt to obstruct the M&A deal in several ways: by reducing the perceived value of the target, thereby making it less attractive to the bidder, or by increasing the transaction costs, ultimately making the acquisition excessively expensive for the acquirer.
According to Dallocchio et al. (2022), target management can adopt three main defense strategies. The strategies aimed at reducing the value of the target company prior to the acquisition are commonly referred to as "poison pills". Within this category, several tactics can be identified:

- Issuance of new shares: by increasing the number of outstanding shares, the bidder must negotiate with a larger pool of shareholders to gain control of the same percentage of equity;
- Share buybacks: the available cash is used to repurchase the company's own shares, thereby reducing the cash reserves and, consequently, the overall value of the firm from the acquirer's perspective;
- Extraordinary dividend distributions: by paying out significant dividends before the acquisition, the company reduces its available cash, ultimately lowering its perceived value.

A second group of defense strategies aims to hinder the completion of the transaction or strengthen the conditions required for a change of control. These are commonly referred to as shark repellents and include measures such as reinforcing the powers of the board of directors or limiting the rights of shareholders in approving the deal.
Finally, there are the so-called golden parachutes, which are designed to increase the cost of replacing the target's management. These typically involve the introduction of highly substantial compensation packages or bonuses awarded to executives in the event of early termination following the acquisition.

Understanding the potential sources of value creation or destruction, as well as the interests of different stakeholders and the defensive strategies adopted by target firms, provides a comprehensive framework for interpreting M&A dynamics. However, while these qualitative aspects are crucial, it is equally important to adopt appropriate analytical tools to evaluate the actual impact of a transaction on shareholder value. In this context, different methods can be applied to assess the performance of M&A transactions.

3.1. Accounting Studies

According to Laabs (2009), accounting studies represent one of the most widely used methodologies for analyzing the impact of mergers and acquisitions. This approach

evaluates the success of a transaction from an accounting perspective, relying on financial statement data to examine changes in profitability, efficiency, leverage, and overall performance before and after the deal. Researchers compare key financial indicators of the merged entity with those of potential competitors and relevant industry benchmarks (Caselli et al., 2021). In doing so, accounting studies aim to determine whether an M&A transaction has effectively enhanced operational efficiency, strengthened profitability, or improved the capital structure of the involved firms (Bruner, 2002).
A comprehensive review by Borodin et al. (2021) highlights that accounting studies can be divided into two main streams:

- Short-term analyses, which focus on the immediate post-merger performance, typically within one to three years after the transaction;
- Long-term analyses, which assess the persistence of performance effects over extended periods, often five to ten years after completion.

This distinction is critical, as many studies show that short-term improvements may not always translate into sustainable long-term value creation.

As already said, accounting studies mainly rely on financial ratios derived from balance sheets, income statements, and cash flow statements. The most common indicators include profitability measures such as:

- Return on Equity (ROE), which evaluates the profitability relative to shareholders' equity;
- Return on Assets (ROA), that indicates how effectively total assets are used to generate profits.
- Net Profit Margin, which measures the percentage of net income over total revenues;
- EBITDA growth or EBIT growth, proxies of operational performance that are independent of financing structure.

Another common measures are those related to the efficiency, like:

- Cost-to-Income Ratio, that evaluates how efficiently a firm is operating by comparing its operating expenses to its operating income;
- Asset Utilization Ratios, which measures how effectively the merged entity uses its assets to generate revenues.

Moreover, it is also important to consider some leverage and capital structure indicators, such as the Debt-to-Equity Ratio, that is used to measure whether the transaction led to an increase in financial risk, and cash flow metrics.

However, according to Borodin et al. (2021), the choice of these measures depends on the industry under analysis and the strategic rationales behind the transaction.

The evidence provided by this approach are highly heterogeneous, reflecting differences in time horizon, industry, and geographical context.
Some studies show positive effects, reporting significant improvements in profitability, efficiency, and cash flows after M&A transactions, especially when cost synergies are achieved or when mergers occur in highly competitive markets. For example, according to Healy et al. (1997), operating performances improve substantially when managers successfully exploit cost synergies.
Other studies report neutral outcomes, showing no statistically significant effects on company value, suggesting that, on average, M&A transactions neither create nor destroy value (Mueller, 1985; Herman et al., 1988).
Finally, some researches find negative results, in terms of post-merger underperformance, particularly in deals driven by managerial overconfidence or excessive diversification. Dickerson et al. (1996), for example, report that UK firms involved in M&A underperform their peers on several profitability metrics.
However, according to Borodin et al. (2021) this inconsistency arises from methodological choices (e.g., measurement windows, control samples) and deal characteristics (e.g., domestic vs. cross-border, horizontal vs. vertical).

3.2. Executive Surveys

According to Bruner (2002), executive surveys are standardized questionnaires administered to a selected sample of managers. For example, Ingham, Kran, and Lovestam (1992) conducted a survey among CEOs of 146 large firms in the United Kingdom, finding, after a M&A transaction, that 77% of respondents believed profitability improved in the short run, while 68% believed the positive effects persisted also in the long term.

However, surveys provide results that may differ from large-sample empirical studies, raising questions about their reliability. To explore this issue, Bruner (2004) conducted an online survey involving 50 managers. Although the sample was not designed to be representative and potential biases were not controlled, the findings still offer useful insights into managerial views on M&A profitability. Regarding the results, when considering all mergers and acquisitions in general, the executives estimated that, on average, only 37% of transactions created value for buyers, and just 21% successfully achieved their strategic objectives.
Interestingly, when focusing on the subset of respondents who had personally participated in one or more M&A transactions, the perceptions changed significantly. Within this group, 58% felt their own deals had created value, and 51% believed their strategic goals

had been met. Instead, only 23% stated that their deals failed to generate value, and 31% reported that their strategic objectives had not been achieved. The remaining respondents either lacked sufficient information or reported mixed results.
Bruner highlights an important evidence emerging from these findings: there is a strong negative correlation between how executives view their own deals and how they see M&A in general. In other terms, executives tend to evaluate their own experiences more positively than they do the broader M&A market. There are two possible explanations: first, when managers assess deals in which they were directly involved, they rely on firsthand knowledge and, therefore, they are clearly better informed. Another reason could be represented by psychological biases, such as ego protection, that may lead managers to present their own decisions in a more favorable light compared to the others' ones.

However, this approach shows that managers' personal views strongly influence survey results and highlights that their perspective alone may not be fully reliable when assessing M&A performance.

3.3. Clinical Studies

Clinical studies represent another methodology to conduct M&A analysis, focusing on an examination of a single transaction or a small set of deals (Bruner, 2004). The objective is to assess the drivers that lead to the closing of the deal and to evaluate the outcomes for the shareholders of the companies involved (Caselli et al., 2021).
Unlike accounting studies, this approach is inductive: by analyzing the detailed background of individual cases, researchers want to find new patterns and explanatory factors. However, the limited number of observations makes it difficult to generalize findings or test hypotheses on a broader scale.

Several notable clinical studies have investigated the origins of value creation or destruction in M&A transactions, but these drivers are difficult to identify.
Specifically, regarding value creation, Kaplan (1989), analyzing the deal between Campeau Corporation and Federated Department Stores, does not clearly identify the specific sources of value, but associates it with cost reductions, tax benefits, and the divestiture of underutilized assets.
Ruback (1982), on the other hand, analyzes the net value creation for both bidder and target shareholders, with respect to the deal between DuPont and Conoco, finding a positive net outcome for the transaction. However, the precise sources of value generation

remain difficult to identify, highlighting the complexity of attributing performance outcomes in M&A.
In contrast, other studies focus on the drivers of value destruction. An example is represented by the deal between AT&T and NCR, analyzed by Lys and Vincent (1995). Specifically, they find a significant decline in AT&T's shareholder wealth and attribute the result to three main factors: managerial objectives misaligned with shareholder value maximization, excessive managerial overconfidence (hubris), and an "escalation of commitment", where decision-makers persisted despite adverse evidence.

Overall, clinical studies offer a unique perspective on M&A performances by seeking to uncover the strategic, financial, and organizational drivers that influence success or failure in individual deals. While their findings cannot always be generalized, they provide valuable insights into managerial behaviors, integration challenges, and the role of market perceptions in shaping deal outcomes.

3.4. Event Studies

Among the several approaches used to assess the performance of a M&A transaction, the event study methodology is probably the most important one. It was formally introduced in the field of finance by Fama, Fisher, Jensen, and Roll (1969), who conducted an event study to measure the effects of some events on stock prices.
Specifically, this methodology examines how the market evaluates the potential effects produced by a given event at the time it is announced, by comparing stock prices a few days or weeks before and after the announcement (Fama et al., 1969; MacKinlay, 1997; Kothari, 2001).

Event studies applied to M&A transactions can be used as a direct measure of the value created for investors, and involve the analysis of the market prices of the acquirer's, target's, and combined entity's shares before, during, and after the announcement date of the transaction (Caselli et al., 2021).
The event study methodology is considered the most relevant approach among the various available methods, as stock prices are viewed as a direct measure of shareholder value. Moreover, prices are readily available for listed companies and provide a clear indication of the impact of managerial decisions (Gimede, 2020).
Specifically, to determine whether an M&A transaction creates or destroys shareholder value, the so-called Cumulative Abnormal Returns (CARs) are used. They are the sum of abnormal returns over the "event window", that is the time period during which the event

of interest takes place: if CARs are positive, the transaction creates value for shareholders; if CARs are negative, the transaction destroys value (Andrade et al., 2001).
The results obtained through this methodology are generally heterogeneous: target companies tend to generate positive returns whereas the acquiring firms' shareholders typically experience either negative returns or break-even outcomes.

3.4.1. Efficient Market Hypothesis

Given the relevance of the event study methodology, it is useful to outline its theoretical foundations. The approach is closely connected to the famous Efficient Market Hypothesis (EMH). According to Fama (1991), market efficiency refers to the ability of stock prices to fully reflect the available information. The same author identifies three subcategories to classify different types of information:
Weak-form efficiency: prices fully and instantly reflect all past information, making it impossible to achieve above-average market returns through technical analysis.
Semi-strong form efficiency: stock prices adjust to all publicly available information.
Strong-form efficiency: prices fully and instantly reflect all information, both public and private.

Specifically, the event study approach is connected to the concept of semi-strong market efficiency: when new information becomes publicly available, in this case the announcement of an M&A transaction, shareholders' expectations adjust accordingly, and this updated information should be immediately reflected in stock prices, causing them to move.

3.4.2. Abnormal Returns Estimation

After establishing the theoretical foundations, it become essential to understand how to build the model in order to effectively conduct this type of analysis.

First of all, according to Armitage (1995), there are different techniques to estimate abnormal returns.

The simplest model is probably the so-called "index model", where the abnormal return of a stock i, over any period t, is equal to the difference between its actual return and the market return. Formally:

$$AR_{it} = R_{it} - R_{mt}.$$

where AR_{it} is the abnormal return, R_{it} the actual return, and R_{mt} the market return.

An alternative is the "average return model", where the term R_{mt} is substituted by $\overline{R_i}$, that is the average return of the stock during the so-called "estimation period", that is a given time interval before the event of interest. In other terms:

$$AR_{it} = R_{it} - \overline{R_i}.$$

However, the most common method is the "market model", that is made by two stages. The first step is represented by the estimation of the relationship between the stock return and the market return, that is found by using the Ordinary Least Squares (OLS) regression. Specifically:

$$E[R_{it}] = \alpha_i + \beta_i R_{mt} + e_{it},$$

where α_i and β_i are the coefficients of the regression and e_{it} represents the error term. It is important to highlight that the coefficients are estimated by using data from the estimation period. Then, it is possible to compute the abnormal returns by putting the estimated α_i and β_i in the following equation:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}).$$

In other terms, the abnormal returns are represented by the difference between the actual returns and the expected ones.
This model was used by Fama et al. (1969) in order to conduct the analysis of the abnormal returns around stock split announcements. That was also the earliest and the most influential event study.

It is important to highlight that the abnormal returns are computed within the event window. Finally, by summing them, it is possible to get the Cumulative Abnormal Returns, which measure the overall value effect of the M&A transaction.

3.4.3. Event Studies' Results

During years, numerous event studies have been conducted to analyze the impact of M&A transactions, with different results.

Jensen and Ruback (1983) argue that, based on empirical evidence, shareholders of target companies earn substantial profits, whereas the returns for shareholders of bidder firms are close to zero. However, the evidence concerning acquirer shareholders is less

consistent and appears to depend on the length of the event window: the abnormal returns observed for acquiring shareholders tends to increase when the event window is extended.

Lambert et al. (1989) report that acquisitions which increase overall stock returns are in the majority. However, Bild et al. (2002) point out that the stock market's reaction at the time of the announcement may not accurately reflect the merger or acquisition's impact on the company's fundamental value. This is because the M&A announcements typically give a lot of information and signal to investors that are not easy to interpret.

The announcement contains various pieces of information, such as the identity of the acquiring company, the payment method, and details of the deal itself. Several studies suggest that cash-financed acquisitions tend to generate higher positive abnormal returns than stock-financed offers, partly due to the capital gains tax exemption (Huang & Walking, 1987).
Furthermore, studies comparing overnight and daytime announcements show that overnight announcements involving cash transactions are associated with significantly positive abnormal returns, an effect not observed for daytime announcements (Chen et al., 2011). Similarly, Wansley, Lane, & Yang (1983) find that cash transactions result in higher returns for target shareholders compared to stock-based transactions.
The market's reaction on the announcement day also varies depending on whether the merger is horizontal, vertical, or conglomerate (Papadatos, 2011).

Even other empirical works consistently show that, around the announcement period, shareholders of target firms earn significant positive abnormal returns, while shareholders of bidder firms experience small and statistically insignificant negative returns (Campa & Hernando, 2004). However, these returns are influenced by various factors, including the already-cited method of payment (cash, stock, or a combination) and type of merger (horizontal, vertical, or conglomerate), the bidder's asset base, and whether the deal is domestic or cross-border.

The measured impact of an announcement can also differ substantially depending on the event window used to calculate abnormal returns (Andrade et al., 2001; Aintablian & Roberts, 2005; Swaminathan et al., 2008). Even the choice of indices for analysis can affect the results (Scholtens & Wit, 2004).

Another important topic is represented by serial M&As. Most research on mergers and acquisitions treats them as singular corporate events. However, instead of making acquisitions only occasionally, many acquirers carry out a series of interconnected M&A transactions to achieve their strategic objectives of enhancing value or performance. Examples include Cisco, General Electric, Google, and Facebook (Ang et al., 2018; Laamanen and Keil, 2008).

Schipper and Thompson (1983) highlight the repetitive nature of acquisitions and report that a series of M&A announcements can create value.
Other studies, instead, find that the CARs decline during serial M&As. This suggests that market reactions to subsequent deal announcements may not fully reflect value creation, but rather serve as revisions to earlier investor expectations (Fuller et al., 2002; Conn et al., 2005).
Several studies show that subsequent mergers and acquisitions reduce, specifically, the bidders' CARs (Fuller et al., 2002; Conn et al., 2005; Croci and Petmezas, 2009). One explanation is managerial hubris, where overconfident managers overvalue the target relative to market assessments and thus pay an excessive premium (Moeller et al., 2004; Malmendier and Tate, 2008; Amor and Kooli, 2016). Declining values in serial M&A also align with other explanations, including corporate governance concerns (Aktas et al., 2016).

Regarding the factors that drive the success of M&A transactions, Hazelkorn et al. (2004) conducted a study on U.S. companies that identifies a set of transaction-related elements influencing acquisition outcomes.
The first factor is the financing structure. The choice of how a transaction is financed has a strong impact on investors' reactions at the time of the announcement. Specifically, as already said, the market's reaction is better for cash-financed acquisitions than for stock-financed ones. One possible explanation is that cash payments send a signal of confidence regarding the acquirer's financial strength and its ability to generate future liquidity. In addition, debt financing connected to cash deals often creates incentives for disciplined post-merger integration. Conversely, stock-financed acquisitions can be interpreted as a sign that managers consider their equity overvalued, while the issuance of new shares tends to exert downward pressure on the price.
Another relevant driver is represented by the company status, whether private or public. When the target was a private company, the abnormal returns for the acquiror are higher, compared to transactions targeting publicly traded firms. This may be due to the fact that public acquisitions usually require paying a premium over an already-established market price and often involve larger, more complex integration processes.
Market reactions also depend on the expected growth profile of the target. Interestingly, acquisitions of firms with lower forecasted earnings growth tend to generate higher returns for acquirers. An explanation is that mature, slow-growing companies offer greater opportunities for value creation through operational synergies, while high-growth firms are often acquired at expensive valuations, increasing the risk of overpayment.
Finally, foreign acquisitions are often associated with more favorable outcomes than domestic deals. Despite the greater complexity associated with cultural and integration issues, cross-border acquisitions allow firms to expand into new markets, gain access to local expertise, and sometimes benefit from lower production costs.
Instead, some variables that are often emphasized in practice appear to be less relevant for explaining value creation. For example, the impact of EPS or the size of the transaction

does not systematically influence acquirer returns, contrary to common managerial beliefs.

In conclusion, the comparison of different analytical approaches produces a fragmented picture. However, a common finding emerges: M&A transactions tend to benefit the target company and the combined entity, while the shareholders of the acquiring firm generally break even (Jensen et al., 1983; Bruner, 2002; Caselli et al., 2021).

3.5. Factors influencing the value

3.5.1. Valuing Synergies

As discussed in the previous chapters, the main rationale behind mergers and acquisitions often lies in the potential synergies that can result from these transactions. Specifically, synergies represent a key factor that significantly influences the overall value of an M&A deal. Consequently, the price that the bidder is willing to pay for the target company should incorporate not only the standalone value of the target, but also the expected value of the potential synergies arising from the integration.

Following Damodaran (2005), the value of synergies is equal to the difference between the value of the combined entity and the simple sum of the standalone values of the firms.

$$Value\ of\ Synergies = Value\ of\ the\ combined\ entity - Sum\ of\ the\ companies$$

A simple example can better illustrate this concept.
Suppose there are two companies, Alpha (the acquirer) and Beta (the target). To estimate synergies, the first step is to value the two companies as standalone firms, by using the following data, starting with the bidder:

- Alpha has an EBIT of €11,000 million and revenues of €55,000 million, with a tax rate equal to 35%.
- The total capital invested is €40,000 million, generating a pre-tax return on capital equal to 27.5% (11,000 / 40,000 = 0.27.5)
- The Debt to Capital ratio is 10%, the beta is equal to 0.8 and the pre-tax cost of debt is 5%. Assuming a risk-free rate of 4.25% and a risk premium of 4%, the cost of equity is 7.45%, while the WACC (Weighted Average Cost of Capital) is equal to 7.03%.

- Assuming for simplicity a Reinvestment Rate of 40% for the next five years, the Expected Growth Rate is 7.28% (28% * (1 – 35%) * 40%).
- After five years, revenues and operating income are expected to grow 4.25% a year forever. The after-tax return on the capital invested will be equal to the WACC of 7.03%. The Reinvestment Rate after year 5 will be 60.46% (4.25% / 7.03%).

Based on these assumptions, the Free Cash Flows to the Firm (FCFF) can be computed as follows:

Year	EBIT (1-t)	Reinvestment Rate	Reinvestment	FCFF
1	€7,670	40%	€3,068	€4,602
2	€8,229	40%	€3,292	€4,937
3	€8,828	40%	€3,531	€5,297
4	€9,471	40%	€3,788	€5,682
5	€10,160	40%	€4,064	€6,096
Terminal Year	€10,592	60.5%	€6,404	€4,188

The Terminal Value is estimated by using the cash flow for the terminal year, the WACC in perpetuity of 7.03% and the Expected Growth Rate of 4.25%. Specifically:

$$Terminal\ Value = \frac{FCFF_{n+1}}{(Cost\ of\ Capital - Expected\ Growth\ Rate)} = \frac{€4{,}188}{(0.0703 - 0.05)} = €150{,}650$$

So, the Terminal Value is equal to €150,650 million.
Finally, the overall value of Alpha is equal to the sum of the discounted FCFFs (including the discounted Terminal Value). The result is a present value of €121,816 million.

The next step is to evaluate the target company, Beta. It is necessary to use the following information:

- Beta has an EBIT of €2,500 million and revenues of €10,000 million, with a tax rate equal to 35%.
- The total capital invested is €30,000 million, generating a pre-tax return on capital equal to 25% (2,500 / 10,000 = 0.25)
- The Debt to Capital ratio is 10%, the beta is equal to 0.9 and the pre-tax cost of debt is 5%. Assuming a risk-free rate of 4.25% and a risk premium of 4%, the cost of equity is 7.85%, while the WACC is equal to 7.39%.
- Assuming for simplicity a Reinvestment Rate of 50% for the next five years, the Expected Growth Rate is 8.13% (25% * (1 – 35%) * 50%).
- After five years, revenues and operating income are expected to grow 4.25% a year forever. The after-tax return on the capital invested will be equal to the

WACC of 7.39%. The Reinvestment Rate after year 5 will be 57.51% (4.25% / 7.39%).

According to these assumptions, it is possible to estimate the Beta's cash flows as follows:

Year	EBIT (1-t)	Reinvestment Rate	Reinvestment	FCFF
1	€2,031	50%	€1,016	€1,016
2	€2,539	50%	€1,270	€1,270
3	€3,174	50%	€1,587	€1,587
4	€3,967	50%	€1,984	€1,984
5	€4,959	50%	€2,480	€2,480
Terminal Year	€5,207	58%	€2,995	€2,212

The Terminal Value is estimated by using the cash flow for the terminal year, the WACC in perpetuity of 7.39% and the Expected Growth Rate of 4.25%. Specifically:

$$Terminal\ Value = \frac{FCFF_{n+1}}{(Cost\ of\ Capital - Expected\ Growth\ Rate)} = \frac{€2{,}212}{(0.0739 - 0.425)} = €70{,}461$$

So, the Terminal Value is equal to €70,461 million.
Finally, the present value of Beta, summing the discounted FCFFs and the discounted Terminal Value, is €52,493 million.

The total value of the two companies, without synergies, is equal to their sum. In other terms:

$$Value\ of\ Alpha + Value\ of\ Beta = €174{,}309$$

To estimate the value of the combined entity including synergies, it is necessary to incorporate the benefits expected from the M&A transactions. In this simplified example, there are annual cost savings of €200 million due to economies of scale. These synergies are assumed to directly increase the operating profitability of the new entity, by increasing its EBIT. Therefore, the EBIT of the combined firm is calculated as the sum of the EBIT of Alpha and Beta, plus €200 million.
The Return on Capital of the combined entity can be computed by dividing the sum of the two firms' EBIT (also considering the tax effect) by the total capital of the companies: (11,000 + 2,500) * (1 – 0.35) / (40,000 + 30,000) = 0.125 = 12.5%. Then, assuming that the Reinvestment Rate is equal to 45% (the average between the Reinvestment Rate of the two firms), the Expected Growth Rate for the next five years is 6% (12.5% * 45%).
Finally, the cost of capital for the combined firm is assumed to be 7.21% (the average between the betas of the two companies), while the Reinvestment Rate after the fifth year is equal to 59% (4.25% / 7.21%).
The following table summarizes the projected cash flows:

Year	EBIT (1-t)	Reinvestment Rate	Reinvestment	FCFF
1	€14,002	45%	€6,301	€7,701
2	€14,831	45%	€6,674	€8,157
3	€15,709	45%	€7,069	€8,640
4	€16,640	45%	€7,488	€9,152
5	€17,627	45%	€7,932	€9,695
Terminal Year	€18,368	59%	€10,837	€7,531

The Terminal Value is estimated by using the cash flow for the terminal year, the WACC in perpetuity of 7.21% and the Expected Growth Rate of 4.25%. Specifically:

$$Terminal\ Value = \frac{FCFF_{n+1}}{(Cost\ of\ Capital - Expected\ Growth\ Rate)}$$
$$= \frac{€7{,}531}{(0.0721 - 0.0425)} = €254{,}417$$

By summing the discounted cash flows and Terminal Value, it is possible to find the value of the combined entity, that is equal to €202,609 million.

Finally, the value of the combined firm can be compared with the value of the sum of the two companies without synergies. Their difference represents the estimation of the value of the synergies in the M&A transaction. Specifically, in this simple example, the amount of synergies is equal to €28,300 million.

It is important to note that the value of synergies is sometimes publicly disclosed, while in other cases it remains undisclosed. Nevertheless, it is often possible to estimate an approximate expected value. Investors, in fact, may compute the implicit synergies embedded in the transaction price and assess whether they appear excessive, therefore suggesting that the price is too high, or, on the other hand, reasonable. This kind of analysis is commonly referred to as “dilution analysis” and it is aimed at estimating the impact of the transaction on the Earnings per Share (EPS) of the acquiring company's shareholders. If the EPS value decreases as a result of the M&A transaction, the deal is considered dilutive, meaning that it reduces the Earnings per Share for the acquirer's shareholders. Investors are willing to accept this dilution only if they believe that, in the medium to long-term, the merger will lead to a level of increased profitability sufficient to compensate for the initial decline in EPS. In other words, if the transaction causes a drop in EPS, the value of this reduction can be seen as the minimum value of the synergies implicitly priced into the deal.

Specifically, the investors can see whether the transaction is dilutive (or, otherwise, accretive), by doing this simple computation:

$$Bidder\ Accretion \setminus Dilution = \frac{EPS\ of\ the\ Combined\ Entity}{Bidder\ EPS} - 1$$

If the result is positive, the transaction is accretive; if it is negative, the transaction is dilutive. Clearly, in the first case, it is not possible to find the potential synergies. Instead, if the transaction is dilutive, the investors might ask to themselves whether it is worth accepting a reduction in their EPS to complete the deal. The answer depends on the value that they can reach from the investment, or, in other terms, on the expected synergies. So, the second question is: what is the minimum amount of synergies required to neutralize the dilution? Or, in other words, which are the amount of synergies that equals the company's EPS before and after the transaction? One can answer to this question as follows:

$$\begin{aligned} Implicit\ Synergies \\ &= Bidder\ Post\ Transaction\ EPS \\ &\times\ Number\ of\ Shares\ of\ the\ Combined\ Entity \\ &- Net\ Profit\ of\ the\ Combined\ Entity \end{aligned}$$

However, the evaluation of synergies goes beyond numerical estimates: it reflects a broader judgment about the strategic fit, integration feasibility, and long-term value creation with respect to the combined entity. Financial models can provide a framework for estimating these effects, but the real success of a transaction depends on the effective realization of these expected benefits, a result that is far from guaranteed.

3.5.2. Valuing the Control Premium

In addition to synergies, another important factor influencing the value of a M&A transaction is represented by the control premium, that is the value that investors are willing to pay in order to manage the target company they want to acquire. Therefore, the maximum price that the bidder can offer to buy the target company depends not only on the value of the firm "standalone" (which represents the minimum price a bidder can offer) and the value derived from the potential synergies, but also on the value derived from the possibility of controlling the target. In other terms:

$$Max\ Price = Min\ Price + Value\ of\ Synergies + Control\ Premium$$

However, it is crucial to distinguish between the synergy premium and the premium paid for the control. The former reflects the possibility to get, generally, operational improvements, such as increased revenues or enhanced margins, due to the combination of the two independent firms. The control premium, on the other hand, refers to the possibility to obtain the rights to make strategic and managerial decisions that influence the firm's activity, such as approving the financial statements, influencing capital allocation decisions, appointing managers and so on.

A widely cited study by Barclay and Holderness (1989) provides a famous methodology for estimating the value of control. Their approach is based on the analysis of private transactions of large blocks of shares in U.S. companies, where the buyer acquires a controlling stake. Crucially, these block trades do not involve full acquisitions or integrations, meaning that no operational synergies are expected from the deal. As a result, the price premium paid for these control blocks can be attributed entirely to the value of control, avoiding the effect of synergies. This choice allows the authors to isolate the control premium more effectively than would be possible in the context of public M&A transactions, where distinguishing between control-related and synergy-related value is very complex.
However, according to Barclay and Holderness, the control premium is equal to the difference between the price paid for the control block and the market share price on the day prior the announcement. In other terms:

$$Control\ Premium = Price\ Paid\ for\ Control\ Block - Market\ Share\ Price$$

In their sample, the authors find that buyers of controlling blocks pay, on average, a 20% premium.

Another famous approach is the one proposed by Zingales (1995), the so called "voting premium method". It focuses on firms that issue multiple classes of shares with different voting rights. The idea is to analyze the market prices of voting versus non-voting shares to estimate the value that investors assign to the right to vote and influence corporate decisions. Since these shares are typically traded between minority shareholders, who do not have direct access to benefits of control, the price difference between voting and non-voting shares reflects the expected value of gaining control in the event of a takeover.
The author finds that in most countries the control premia range between 10% and 20% over the current share price, but there is a great heterogeneity: for example, in Italy the average premium is 82%.

However, as already said, in the context of M&A transactions involving full acquisitions, the observed premium typically reflects both synergy and control components. Therefore, unless specific information is disclosed by the acquirer, it is often difficult to isolate the

two elements. This is the reason why practitioners often analyze the historical premia with respect to comparable transactions.

4. Mergers and Acquisitions in the Banking Industry

In today's competitive business environment, characterized by financial expansion, technological innovation, structural changes in the financial system, and evolving demand for financial products, all financial institutions are confronted with significant challenges and must adapt their business strategies accordingly (Ayagre, Aboagye, Sarpong-Kumankoma, & Asuming, 2024). To cope with these dynamics, institutions are required to adopt strategies that ensure their survival in an increasingly competitive market. As highlighted in several studies, mergers and acquisitions represent one of the most widely recognized strategies to respond to these changing conditions.

In this context, Italy offers a particularly interesting case study. Over the past three decades, the Italian banking system has undergone profound consolidation, shaped by both market dynamics and regulatory interventions. Starting from the privatizations of the 1990s, through the introduction of the euro and the global financial crisis, and up to more recent years characterized by digital transformation and stricter European regulation, M&A has played a central role in redefining the structure and competitiveness of the sector.

The following sections will first review the main evidence from the literature on banking M&A, then analyze the Italian market with a particular focus on recent transactions, and finally concentrate on the attempted merger between UniCredit and Banco BPM. This case will be examined through both an event study and a valuation analysis.

4.1. Literature Review

4.1.1. Impact of M&A towards Banking Performance

The literature shows that M&A can influence banking performance in both positive and negative ways. Several studies emphasize the beneficial effects of such transactions. For example, Abbas et al. (2014), analyzing the U.S. banking sector, find that M&A deals have a direct positive impact on productivity, profitability, and shareholder value. Similarly, Okpanachi (2011) and Daniya et al. (2016) highlight how mergers and acquisitions in the Nigerian banking industry enhance financial performance and improve

overall efficiency. Specifically, Okpanachi (2011) points out that banks tend to achieve greater financial efficiency in the post-merger period compared to the pre-merger stage.

On the other hand, several studies suggest that M&A transactions have a limited or even negative effect on the performance of banks. For instance, Ismail et al. (2011), Kandil et al. (2014), and Gattoufi et al. (2014) conclude that M&A activity does not lead to significant improvements in the operational performance of the institutions involved. Along similar lines, Goyal and Joshi (2011) note that acquisitions can negatively influence employee behavior, generating counterproductive practices such as absenteeism, reduced morale, and job dissatisfaction. The literature further highlights that one critical factor for a successful outcome is the ability of top management to secure employees' trust (Amihud et al., 2002). Moreover, some studies emphasize that M&A may generate abnormal returns in the short term, but in the longer run it can negatively affect profitability, efficiency, liquidity, leverage, firm size, and workforce dynamics in the banking sector (Banal-Estanol & Ottaviani, 2006, 2007).

Several studies report mixed results regarding the impact of M&A on banking performance. For example, Rao-Nicholson et al. (2016), analyzing publicly listed companies in ASEAN countries, find that M&A deals often have a negative effect on banks' performance. However, in the case of domestic consolidation, the authors argue that friendly transactions can facilitate smoother integration, enabling managers to proactively pursue synergies. At the same time, integrating institutions with significant differences in terms of loans, earnings, costs, deposits, and size can be particularly costly. With respect to cross-border mergers, Altunbaş and Marqués (2008) and Antoniadis et al. (2014) suggest that heterogeneity in loan and credit risk strategies between merging banks can support better performance, while differences in capital structure and cost base tend to negatively affect outcomes.

Analyzing the announcement period, Cybo-Ottone and Murgia (2000) highlight that the size-adjusted combined performance of both bidder and target plays a key role in M&A deals and is economically significant. Their findings suggest that only domestic transactions generate shareholder value, whereas cross-border operations fail to meet positive market expectations.
In the same vein, Antoniadis et al. (2014), reviewing M&A activity in the European banking sector, observe that target banks generally experience positive abnormal returns, driven by investors' expectations of a more efficient use of their assets. Conversely, acquiring banks often face small losses, reflected in negative abnormal returns, as investors remain skeptical about the rationale and the likelihood of success of such deals.

These findings show that assessing the performance of financial firms is complex and requires different measurement methods (Martin et al., 2018).

4.1.2. Rationales of M&A in the Banking Industry

Mergers and acquisitions in the banking industry represent a particularly relevant and complex field of study within corporate finance. Unlike industrial sectors, where M&A activity is often driven by the pursuit of operational synergies or diversification, in the banking sector transactions are strongly influenced by regulatory requirements, macroeconomic conditions, and the stability of the financial system. Consolidation processes among banks have historically been justified by the need to achieve economies of scale, reduce costs, increase efficiency, and strengthen competitive positioning in increasingly integrated and globalized financial markets.

According to Focarelli et al. (2002), mergers and acquisitions within the banking industry are influenced by several strategic drivers. Mergers are generally pursued to enhance revenue generation by expanding the customer base and cross-selling financial services, whereas acquisitions are often aimed at improving the quality of the assets of the bidder institutions. In addition to these core motives, other contributing factors include the ambition of CEOs to consolidate power, the exploitation of growth opportunities, and the improvement of operational efficiency, frequently through economies of scale (Sufian, 2011).
Sufian (2011) highlights that for larger banks, the primary advantage of M&A transactions is represented more by economies of scope than by economies of scale. Furthermore, larger financial institutions often buy smaller and less efficient banks characterizing by diversified income streams (Altunbas & Ibanez, 2004), thereby enabling the acquiring company to broaden its offerings and customer segments. On the other hand, economies of scale tend to be prevalent in mergers involving small to medium-sized banks.

Numerous studies have explored mergers and acquisitions in the banking industry across various countries.
Shanmugam (2003) examined M&A transactions within the Malaysian banking system, identifying improved efficiency and competitiveness as main motivations.
Similarly, Pasiouras and Zopoundis (2008) analyzed mergers and acquisitions in the Greek banking sector, noting that financial institutions engaging in M&A consolidate their market presence and gain easier access to international capital markets.
In Italy, Focarelli et al. (2002) found that the main objectives of bank mergers included boosting the non-interest income, expanding service delivery, and enhancing capital utilization. Acquisitions, in contrast, were more frequently driven by the need to upgrade the quality of the loan portfolios.
However, the principal goal is to reach a higher profitability.

Erel et al. (2017) argue that M&A represents a rational response to structural changes such as new regulations, shifts in cost structures, technological innovation, global

economic dynamics, and financial shocks. Similarly, Humphrey et al. (2006) find that industry consolidation has been primarily driven by financial, managerial, and technological innovations, which have reshaped the optimal production functions of financial firms. Moreover, pursuing M&A is often less costly than building the required production capabilities and capacities internally.

Technology-based financial services have fundamentally transformed the banking industry, with banks now relying heavily on digital solutions to enhance efficiency. Fintech companies, which leverage technology to deliver financial services, have emerged as direct competitors to traditional banks. According to Chakraborty & Das (2024), to address this competitive pressure and integrate technological innovation, many banks have turned to acquiring fintech firms. Evidence shows that in such M&A transactions, acquiring banks often achieve better performance, with improvements in liquidity and in return on assets, thanks to the competitive advantages derived from access to advanced technological products (Akhtar & Nosheen, 2022). However, when fintech companies are fully acquired, stock market reactions tend to be negative, reflecting concerns over the challenges of integrating different business models, which may offset the expected benefits. By contrast, partial acquisitions are generally viewed more positively by the market, as they signal a gradual and more credible commitment to adopting new technology-driven services and business models (Cappa et al., 2022).

M&A transactions are often pursued with the objective of expanding and accessing new markets, with geographical diversification representing a key driver for improving the efficiency of merged banks (Herwadkar et al., 2022). Brodmann et al. (2022) distinguish three types of geographic strategies in M&A: in-market, partial-overlap, and market-expansion. Their analysis suggests that, in the short-term, banks tend to prefer market expansion strategies, while in the long-term they are more likely to favor in-market acquisitions, where the geographic scope of the acquirer and target largely coincides. Greater geographic overlap between merging banks increases the probability of deals being completed, as it can generate efficiencies by reducing employment levels, salary costs, and the number of branches, thereby enhancing returns for acquirer, target, and combined entities (Levine et al., 2020). Conversely, Hassan and Giouvris (2020) find that mergers aimed at market penetration (i.e., increasing market share by leveraging existing products in existing markets) may reduce the acquirer's share value. Nevertheless, local bank-to-bank mergers tend to improve liquidity and short-term shareholder value, while cross-border bank mergers can generate long-term benefits for acquirers, even with higher costs and risks.

According to Chakraborty & Das (2024), one of the main drivers behind bank mergers is the ambition to achieve a size considered "too big to fail." A substantial body of literature connects bank size with M&A performances. According to Al-Khasawneh (2013), value-maximizing mergers typically involve large banks, as they hold greater potential to

enhance efficiency rankings over time. At the same time, mergers among smaller banks often generate stronger cost savings, given the more manageable size of the institutions involved. Nevertheless, profitability gains are generally greater when large banks are the targets, making size a significant predictor of long-term post-merger performance (Al-Sharkas, 2021).
However, Higgins (2013) points out that acquirers with stronger banking relationships tend to suffer greater wealth losses than those with weaker ties. Similarly, Okoye et al. (2020) report a negative relationship between bank size and performance, observing that smaller banks make more efficient use of capital compared to larger institutions. By contrast, large banks achieve higher profitability when customer deposits grow. Finally, Leledakis and Pyrgiotakis (2022) find that mergers among small banks tend to increase shareholder value, with long-term benefits arising from greater profitability and reduced labor costs per employee, ultimately leading to higher abnormal returns.

Another driver is the compliance with regulatory requirements (McBeath & Bacha, 2001), which refers to the capacity of financial institutions to operate in accordance with the legal and regulatory frameworks established by governmental and supervisory authorities, such as central banks, securities commissions, and other relevant agencies. This includes compliance with rules on anti–money laundering, data protection, financial reporting, capital adequacy, and other financial and operational standards. Adhering to such requirements is essential to preserve the stability of the financial system and to safeguard the interests of customers, shareholders, and other stakeholders. Regulatory bodies closely monitor banks' compliance, and any violation may result in severe fines, penalties, and reputational damage.

4.1.3. Challenges of M&A in the Banking Industry

According to Sudarsanam (2011), M&A transactions in the banking sector are accompanied by a series of challenges that, if not properly managed, can compromise the expected benefits of the operation. These obstacles are particularly relevant given the complexity of the banking business, the regulatory environment, and the central role of banks in the stability of the financial system. For this reason, a careful evaluation of these issues and their proactive management is essential to ensure a smooth and successful integration.
A first challenge concerns the integration of systems and processes. Bringing together two banks does not simply mean merging financial statements, but also aligning technological platforms, operational processes, and risk management systems. This phase is often time-consuming, resource-intensive, and requires significant investments. Without a clear plan that assigns responsibilities, sets timelines, and establishes

monitoring mechanisms, integration risks being delayed, generating unexpected costs, and ultimately reducing efficiency and profitability.

Another critical aspect involves cultural differences (Carretta et al., 2008). Each financial institution develops its own organizational culture, which reflects not only business practices but also shared values, communication styles, and employee behavior. When two institutions merge, these differences may generate tensions and misunderstandings. If not identified and addressed early, cultural clashes can lead to employee disengagement, higher turnover, reduced productivity, and lower morale. Promoting an inclusive corporate culture and actively managing the integration of people is therefore a decisive factor for the success of the transaction.

The banking sector is also one of the most heavily regulated industries, and regulatory compliance represents a structural challenge in any M&A process (Gardella et al., 2020). Operations must be approved by several authorities and comply with complex rules related to anti-money laundering, data protection, capital adequacy, and financial stability. This makes the process more expensive and time-consuming, while also exposing banks to the risk of regulatory scrutiny and sanctions. Failure to comply can result not only in fines and penalties but also cause serious reputational damage that affects long-term profitability. Close collaboration with regulators and a detailed understanding of compliance requirements are therefore indispensable conditions for the success of the operation.

According to Team (2022), equally crucial is the due diligence process, which allows the acquiring bank to thoroughly assess the financial, operational, and legal situation of the target institution. This phase is intended to identify risks, liabilities, and potential hidden problems that may impact the success of the merger. However, due diligence in banking is particularly complex due to the enormous amount of data involved, the opacity of certain credit exposures, and the need for highly specialized expertise. An incomplete or poorly executed due diligence process can lead to incorrect assessments of the target's value and the underestimation of risks, resulting in poor decision-making and possible financial losses after the merger.

Another delicate issue concerns customer and employee retention (Baniya & Adhikari 2017). M&A operations often generate uncertainty among both employees and clients of the involved institutions. Staff may fear layoffs, relocations, or changes in career prospects, while customers may worry about potential declines in service quality or product changes. If these concerns are not adequately managed through transparent communication and concrete measures to retain loyalty, the risk is a decline in satisfaction, increased churn, and ultimately, a loss of profitability and brand value.

Finally, another main driver of M&A in banking is the prospect of cost savings (Kenton, 2022), achieved through the consolidation of overlapping structures, the elimination of redundancies, and the optimization of resources. However, transforming these theoretical synergies into concrete results is far from automatic. Without accurate planning and constant monitoring of progress, the expected cost efficiencies may fail to materialize, undermining the strategic rationale of the transaction and eroding shareholder confidence.

In conclusion, the challenges associated with banking M&A highlight the need for an integration process that is not only well-planned but also inclusive of all stakeholders: management, employees, customers, and regulators. Only through a holistic and carefully managed approach can the transaction generate the expected value and contribute positively to the stability and efficiency of the financial system.

4.2. The Italian Banking Industry

From this point onward, the analysis will focus specifically on the Italian context, examining, first of all, the historical development of its banking industry. The Italian banking sector has undergone a profound transformation over the last two centuries, reflecting the broader economic, political and institutional developments that have shaped the country. From its fragmented origins in the 19th century to the waves of expansion in the post-war period and the subsequent consolidation following the 2008 financial crisis, the evolution of Italy's banking landscape offers valuable insights into the challenges and adaptations faced by financial institutions over time. Understanding this historical trajectory is essential to understand the context in which modern banking transactions, including mergers and acquisitions, have taken place.

The development of the Italian banking system can be divided into three main phases:

- the early years, from the 19th century to the mid-20th century;
- the post-war expansion and modernization;
- the phase of crisis and consolidation starting in the late 1990s and accelerating after the 2008 global financial crisis.

4.2.1. Early Development

The origins of the modern Italian banking sector date back to the unification of Italy, during which the country inherited a fragmented financial landscape. Numerous small

and regional credit institutions coexisted, often organized as cooperative or mutual banks. These banks played a fundamental role in financing local economies, particularly SMEs and households.
At this stage, the sector lagged behind the more advanced financial systems of northern Europe, with limited access to capital, scarce technological innovation, and rudimentary financial products. Political instability, including the rise of fascism and the disruptions caused by the two World Wars, further hindered the sector's development.

It was during this time that some important Italian banks were founded. For example, Banca Commerciale Italiana (Comit) was established in 1894 and quickly became one of the most important credit institutions in the country, supporting industrial development in northern Italy. Similarly, Credito Italiano, founded in 1870, grew into a major player and would later merge to form UniCredit.

Despite these early institutional milestones, the sector remained heavily regulated and structurally fragmented, which limited its potential for innovation and growth.

4.2.2. Expansion and Growth

Following the end of World War II, the Italian economy entered a phase of robust industrialization and modernization, known as the "Italian economic miracle." This period brought about profound transformations in the banking sector, which expanded in size, reach, and complexity.
Banks multiplied their branches, introduced new services, and benefited from increased demand for credit. The state played a strong role through public banks and development institutions (e.g., Mediobanca, founded in 1946), which provided long-term financing to support industrial policy.
Technological advancements, such as the introduction of computers in banking operations, combined with economic growth and demographic changes to foster the modernization of the industry.

During these decades, major banking groups emerged and solidified their positions. Banca Nazionale del Lavoro (BNL), for example, became one of the pillars of public banking. Meanwhile, Intesa and Sanpaolo, today part of the same bank, were active mainly in northern Italy, and gradually expanded their operations.

However, despite the expansion, the Italian system continued to be characterized by regionalism and operational rigidity. The M&A activity was still limited, with most institutions growing organically. The first significant liberalization measures arrived only in the late 1980s and early 1990s, when the sector underwent a wave of deregulation and

privatization (e.g., the Amato Law of 1990), paving the way for deeper integration with European markets.

4.2.3. Crisis and Consolidation

The late 1990s marked the beginning of a new era, characterized by increased competition, regulatory reforms, and the progressive integration of Italian banks into the European and global financial markets. This process accelerated with Italy's entry into the Economic and Monetary Union and the adoption of the euro.

However, the global financial crisis of 2008 exposed significant weaknesses in the Italian banking system. Many banks suffered from low profitability, inefficiencies, and large portfolios of non-performing loans (NPLs), particularly due to the prolonged stagnation of the Italian economy. The crisis highlighted the fragility of several institutions and triggered a phase of intense consolidation.

Some important cases emerged during this period. Monte dei Paschi di Siena (MPS), the oldest surviving bank in the world (founded in 1472), faced severe losses due to risky investments and accounting scandals, requiring repeated state interventions starting from 2009.
Banca Popolare di Vicenza and Veneto Banca collapsed under the weight of mismanagement and capital shortfalls, leading to their rescue and absorption by Intesa Sanpaolo in 2017, with public guarantees.
UniCredit and Intesa Sanpaolo, through various acquisitions, emerged as Italy’s two dominant banking groups. UniCredit absorbed several regional banks and former public institutions, while Intesa integrated Banca Commerciale Italiana, Sanpaolo IMI, and later UBI Banca in 2020.
Regulatory pressure from the European Central Bank (ECB) and the European Banking Authority (EBA) forced banks to clean up their balance sheets and increase their capital buffers. As a result, many weaker banks were absorbed by stronger ones, leading to a marked reduction in the number of independent institutions.

The sector also faced structural challenges: persistent low interest rates, growing competition from fintech, and the need for digital transformation required banks to streamline operations, close branches, and reduce headcount.
Despite these difficulties, the consolidation process strengthened the resilience of the banking sector. Today, the Italian banking landscape is more concentrated, with fewer but larger and better-capitalized institutions that are better equipped to face the challenges of the international financial environment.

4.2.4. Recent Market Trends

Between 2022 and 2024, the Italian banking sector entered a phase of exceptional profitability, supported by a sharp shift in the monetary policy of the European Central Bank (ECB), which reversed years of ultra-low interest rates. As interest rates rose, Italian banks experienced a significant expansion in their net interest margins, driving both revenues and profitability to historic highs. In 2024 alone, Italian banks recorded a net profit of €46.5 billion, up €5.7 billion (+14%) from 2023. This brought cumulative net earnings for the 2022–2024 period to over €112 billion, marking an unprecedented three-year stretch for the sector.
This turning point came after a more muted phase between 2018 and 2021, when annual profits averaged between €15 and €16 billion. The effects of the COVID-19 pandemic were particularly severe in 2020, when net profits plummeted to just €2 billion. In 2021, profits began to recover (€16.4 billion), but it was not until 2022, with the ECB's rate hikes, that a structural break occurred. Net income jumped to €25.5 billion in 2022, followed by €40.7 billion in 2023 and the record €46.5 billion in 2024. This represents a more than threefold increase over four years, reflecting the renewed centrality of traditional banking activities, especially lending.

Revenues followed a similar trend. In 2024, Italian banks posted total revenues of €110.1 billion, an increase of 7.2% compared to 2023 and 33.8% compared to 2018. Over the 2022–2024 period, revenues exceeded €301 billion. The primary growth engine was the net interest margin, which reached €64.4 billion in 2024, up from €62.1 billion in 2023 and just €38.4 billion in 2021.

Despite the dominance of interest income, fee and commission revenues also rebounded in 2024 after two years of decline, reaching €45.7 billion (+12.4% YoY). This recovery was fueled by a resurgence in commercial activities such as financial advisory, asset management, and insurance distribution, which had previously been dampened by monetary tightening.

Credit quality remained solid throughout the period. In 2024, the net NPL ratio stood at 1.5%, only slightly above the 1.4% recorded in 2023. The gross NPL ratio was 2.8%, while the coverage ratio remained high at 52.5%, well above the Eurozone average of 41.4%. Loans classified as "Stage 2" (i.e., performing but at elevated risk) decreased from 12% in 2023 to 9.9% in 2024. Among significant institutions, the ratio dropped from 12.6% to 10.3%, positioning Italy below the European average of 11.7%. Over the two-

year period, Italian banks disposed of more than €17 billion in NPLs, further improving the stability of their balance sheets.

Efficiency and profitability indicators also showed remarkable progress. The cost/income ratio fell from 63.1% in 2022 to 53.2% in 2024, a reduction of nearly 10 percentage points, and more than 18 points lower than the 71.2% recorded during the pandemic in 2020. This improvement reflects both rising revenues and careful cost management, including voluntary staff turnover and digital transformation.
Return on equity (ROE) rose to 13.3% in 2024, up from 9.0% in 2022 and 0.9% in 2020. This performance places Italian banks among the most profitable in Europe. Compared to the pre-pandemic period, when ROE hovered around 5-6%, this represents a substantial improvement. The widening spread between lending rates and funding costs significantly boosted net interest income, while cost discipline amplified the impact on profitability.

Structurally, the Italian banking sector continued to consolidate. From 2018 to 2024, the number of banks declined from 505 to 420 (a reduction of 17%). This trend affected all segments of the system, particularly cooperative and mutual banks. Cooperative banks fell from 268 to 218, while mutual banks decreased from 22 to 16, largely due to the reform initiated in 2016 that led to the creation of centralized banking groups. During the same period, the number of bank branches dropped from 25,409 to 19,655 (−22.6%), especially in rural and less densely populated areas.

In summary, in recent years, the Italian banking sector experienced a historically strong performance across all key dimensions: net profit, revenues, credit quality, cost efficiency, and capital profitability. These results were largely enabled by a favorable monetary environment, which, however, may begin to shift. As the ECB gradually normalizes rates, banks will likely need to rebalance their business models by placing greater emphasis on fee-based services and digital innovation, while maintaining rigorous credit and cost discipline.

4.2.5. Recent Transactions

In addition to the broader structural trends shaping the Italian banking sector, the period between mid-2024 and mid-2025 has witnessed an intense wave of consolidation activity, often referred to in the media as a “banking risiko.” This strategic realignment involves several of the country’s most prominent banking institutions and has generated a series of interconnected M&A scenarios with significant implications for the national financial system.

The first major move came with UniCredit's acquisition of a significant stake (just under the 30% threshold) in the German bank Commerzbank. Soon after, in November 2024, UniCredit launched a public exchange offer (OPS) for the acquisition of Banco BPM. However, the deal has faced considerable regulatory and political resistance: initially suspended by Consob, it was subsequently blocked by the Italian government through the exercise of its "golden power."
Simultaneously, other Italian banks have initiated strategic counter-moves. Monte dei Paschi di Siena (MPS) launched a public exchange offer to acquire Mediobanca, a transaction regarded as hostile by the target's board. Despite this, the operation received formal approval from both the European Central Bank and the Italian Antitrust Authority. The acceptance period for Mediobanca's shareholders opened on July 14 and will continue until the end of August. The offer sets a minimum acceptance threshold of 35% of Mediobanca's share capital.
In a direct response to the unsolicited bid by MPS, Mediobanca announced its intention to launch a counter-offer to acquire Banca Generali. However, this initiative is currently on hold and will remain so until at least September 25, when Mediobanca's board is expected to make a final decision regarding the transaction.
Meanwhile, BPER Banca is pursuing its own acquisition strategy through a public exchange offer aimed at securing a controlling interest in Banca Popolare di Sondrio.
Another significant transaction was the public exchange offer launched by Banca Ifis for Illimity Bank. The first phase of the operation concluded successfully on June 27, resulting in the acquisition of over 80% of Illimity's share capital.

Together, these developments signal a profound reconfiguration of the Italian banking landscape. The convergence of multiple, high-profile takeover attempts in a short period highlights not only the strategic ambitions of Italy's largest banks but also the rising importance of size, scale, and geographic diversification in an increasingly competitive and regulated financial environment. Regulatory oversight, political intervention, and shareholder alignment will continue to play pivotal roles in determining the outcome of this consolidation wave.

4.3. Case Study: The UniCredit - Banco BPM Attempted Merger

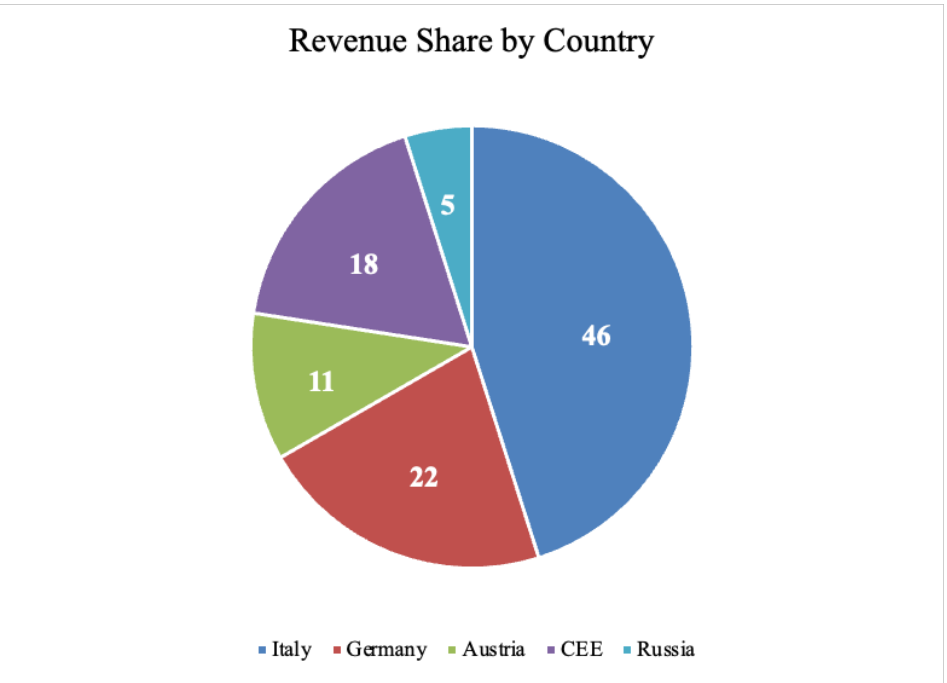
4.3.1. Context and Rationales

As already said, on 25 November 2024, UniCredit, Italy's second-largest banking group by total assets, made headlines by launching a public exchange offer (OPS) aimed at acquiring Banco BPM, the country's third-largest commercial bank.

UniCredit has a long-standing history of expansion through mergers and acquisitions, which has played a central role in shaping its identity as one of Europe's leading banking groups. The current structure of the group is the result of a progressive consolidation process that began in the late 1990s and accelerated through both domestic and international deals.
The group was formally established in 1998 under the name Unicredito Italiano, following the merger of Credito Italiano, formed by Credito Italiano and Rolo Banca 1473, and Unicredito, a consortium comprising Cariverona, Cassa di Risparmio di Torino, Cassa di Risparmio di Trento e Rovereto, Cassa di Risparmio di Trieste, and Cassamarca. UniCredit has been listed on the Milan Stock Exchange since its inception and maintains its legal headquarters in Rome, with operational and administrative offices in Milan.
In 2002, the seven founding banks were merged into a single entity, and the group's operations were reorganized around customer segmentation. Three distinct banks were created: UniCredit Banca, serving retail clients and small businesses; UniCredit Private Banking, focused on high-net-worth individuals; and UniCredit Banca d'Impresa, dedicated to corporate clients.
The rebranding to "UniCredit" took place on January 1, 2003, coinciding with the integration of Banca dell'Umbria and Cassa di Risparmio di Carpi. In the following years, UniCredit undertook a significant wave of cross-border expansion. Between 2003 and 2005, it acquired the German bank HypoVereinsbank AG (HVB Group), which in turn brought under its control Bank Austria Creditanstalt and the Polish bank BPH. These transactions established UniCredit as one of the first truly pan-European banking groups.
A landmark domestic operation occurred in 2007, when UniCredit merged with Capitalia S.p.A., at the time Italy's third-largest banking group. The merger was approved by the respective boards on May 20 and became effective on October 1, 2007.

As reported in the UniCredit Group Profile (UniCredit Company Profile - Chi siamo, cosa facciamo, Aprile 2025), on 31 December 2024, UniCredit stands as one of the most prominent banking groups in Europe, serving approximately 15 million clients worldwide, including 14 million retail customers and 1 million corporate clients. The group operates in 13 countries, with a strong presence across both Western and Central-Eastern Europe. Its geographic footprint includes: Italy, Germany, Austria, the Czech

Republic, Slovakia, Hungary, Slovenia, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Serbia, and, until recent developments, Russia.
Despite its international diversification, Italy remains the backbone of UniCredit's operations, accounting for approximately 46% of the group's total revenues. This dominant domestic contribution highlights the centrality of the Italian market within the group's strategic and financial framework and explains UniCredit's continued interest in consolidating its leadership position in the national banking landscape.

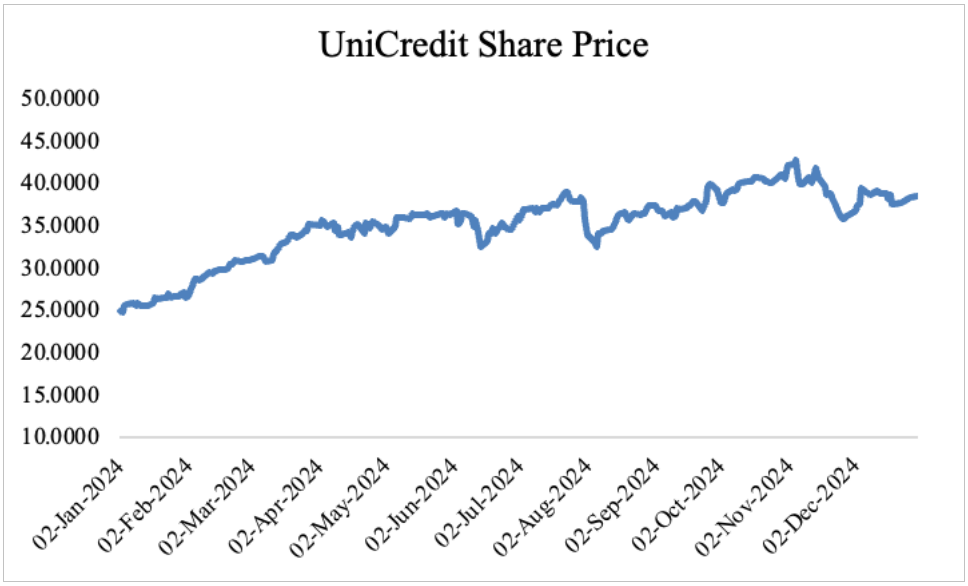


Source: Author's elaboration from UniCredit, UniCredit Company Profile - Chi siamo, cosa facciamo, Aprile 2025

As reported in financial statements (UniCredit: Bilanci e Relazioni, 2024), on 31 December 2024, UniCredit had total revenues of €24.8 billion, of which €11 billion were generated in Italy. Specifically, in terms of revenue composition, 60% of the group's income derives from SMEs, retail, and affluent clients. The net operating income reached €15 billion, of which €6.94 billion originated from Italy. The pre-tax profit stood at €12.86 billion (with €6.17 billion from Italy), while net income totaled €9.7 billion, supported by a strong operating and capital efficiency. Indeed, the cost/income ratio stood at a best-in-class 37.9%, while the net revenue to risk-weighted assets (RWA) ratio was 8.7%. The return on tangible equity (RoTE) reached 17.7%, underscoring UniCredit's strong profitability and effective capital allocation strategy.
The net interest income amounted to €14.36 billion, while fees and commissions totaled approximately €8.14 billion, slightly more than half the interest margin. Furthermore, the interest margin ratio (net interest income / total revenues * 100) is 57.9%, while the fees

margin ratio (fees and commissions / total revenues * 100) is approximately 32.8%, highlighting that UniCredit, as most Italian banks, is a credit-based intermediary.
From a balance sheet perspective, total assets reached €784 billion, while risk-weighted assets (RWA) stood at approximately €277 billion. The group maintained a robust CET1 ratio of 15.9% (higher than the average 14.7%), reflecting a solid capital position well above regulatory minimums. Regarding credit quality, non-performing loans (NPLs) represented just 1.44%, lower than the average of 2.3% (KPMG: Bilanci dei gruppi bancari italiani: trend e prospettive, Esercizio 2024) of the total loan portfolio, indicating a low risk profile and high asset quality.
As for lending and funding, total loans issued exceeded €400 billion, with €144 billion, or roughly one quarter, originating in Italy, down from €155 billion in 2023. Similarly, of the €475 billion in total customer deposits, €184 billion were held by Italian clients. Therefore, considering traditional banking activities, UniCredit holds a market share of 8.98% in customer lending, with €144 billion in loans granted out of a total of €1,603 billion across the Italian banking system (KPMG). As for deposits, the group commands a 12.09% market share, with €184 billion in customer funding compared to a system-wide total of €1,521.3 billion.

Over the course of 2024, UniCredit's stock traded at an average price of €35.17, with a low of €24.85 and a high of €42.84, with a volatility of 11.6%, while the group's Earnings per Share (EPS) reached €5.84, continuing a decade-long trend of consistent growth. Finally, the average market capitalization in 2024, calculated as the product of the average number of outstanding shares (1.63 billion) and the average share price, amounted to approximately €57.362 billion, reflecting UniCredit's strong equity valuation during the year.



Source: Author's Elaboration from LSEG

Finally, with 2,256 branches out of 19,655 nationwide, UniCredit accounts for approximately 11.5% of the total banking branches in Italy, confirming its wide territorial coverage. While this figure does not directly reflect market share in financial terms, it provides a useful proxy for the group's physical footprint and commercial reach across the country. The branch network is well-distributed across the national territory, with the highest concentration in Emilia-Romagna (300 branches), followed by Veneto (278) and Lombardy (269).

Branch Network

Region	Number	%
Abruzzo	24	1.10%
Basilicata	7	0.30%
Campania	115	5.10%
Calabria	19	0.80%
Emilia-Romagna	300	13.30%
Friuli-Venezia Giulia	71	3.10%
Lazio	281	12.50%
Liguria	45	2.00%
Lombardia	269	11.90%
Marche	44	2.00%
Molise	15	0.70%
Piemonte	233	10.30%
Puglia	89	3.90%
Sardegna	35	1.60%
Sicilia	229	10.20%
Toscana	99	4.40%
Trentino-Alto Adige	36	1.60%
Umbria	55	2.40%
Valle d'Aosta	12	0.50%
Veneto	278	12.30%
TOT	2,256	100.00%

Regarding Banco BPM, its origins can be traced back to March 23, 2016, when Banco Popolare, the largest cooperative banking group in Italy at the time, signed a memorandum of understanding with Banca Popolare di Milano, then the eighth-largest Italian bank by market capitalization. The agreement outlined the intention to proceed with a merger, giving birth to a new institution: Banco BPM S.p.A.

On May 24, the boards of directors of both banks ratified the protocol, and on October 15, their respective shareholders approved the transaction, which became effective on January 1, 2017. The agreed share exchange terms stipulated that Banco Popolare shareholders would receive one Banco BPM share for each share held, while Banca Popolare di Milano shareholders would receive one Banco BPM share for every 6.386 shares.

The merger deed was officially signed on December 13, with the new entity's capital owned 54.6% by Banco Popolare shareholders and 45.4% by Banca Popolare di Milano shareholders. This operation marked the creation of Italy's third-largest banking group, following Intesa Sanpaolo and UniCredit. Although Banco BPM operates abroad through a limited number of branches and subsidiaries, it remains a predominantly domestic bank, with a strong territorial concentration in Northern Italy, particularly in Lombardy, which represents the group's historical and operational core. Specifically, the group operates a total of 1,434 branches, with more than half located in Northern Italy, distributed as follows:

Branch Network

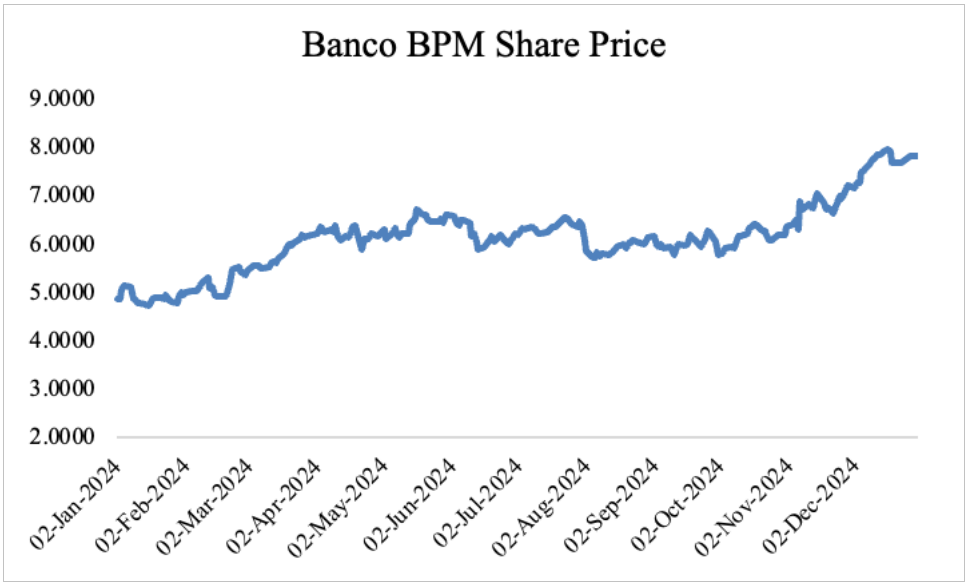
Region	Number	%
Abruzzo	1	0.08%
Basilicata	2	0.16%
Campania	34	2.66%
Calabria	1	0.08%
Emilia-Romagna	155	12.15%
Friuli-Venezia Giulia	7	0.55%
Lazio	70	5.49%
Liguria	75	5.88%
Lombardia	522	40.91%
Marche	1	0.08%
Molise	5	0.39%
Piemonte	159	12.46%
Puglia	32	2.51%
Sardegna	1	0.08%
Sicilia	55	4.31%
Toscana	132	10.34%
Trentino-Alto Adige	7	0.55%
Umbria	5	0.39%
Valle d'Aosta	5	0.39%
Veneto	7	0.55%
TOT	1,276	100.00%

As reported in Banco BPM's reports (Banco BPM: Relazioni e bilanci, Esercizio 2024), from a financial and operational standpoint, the bank confirms its position as a leading domestic institution within the Italian banking system. As of 2024, the total assets amounted to €178.2 billion. The bank reported a loan portfolio of approximately €99.7 billion, corresponding to 6.2% of all loans issued by the national banking system. On the funding side, direct deposits totaled €102.7 billion, accounting for roughly 6.7% of the industry's total.
Like UniCredit and many other Italian banks, Banco BPM maintains a credit-based intermediation model, with a net interest income of €3.4 billion, significantly exceeding net fees and commissions, which amounted to approximately €2 billion. In terms of revenue composition, the interest margin ratio (net interest income / total revenues) stood at 30.6%, while the fee margin ratio was 18.02%, underscoring the bank's structural reliance on lending activities.

Total operating income reached €11.1 billion, while the operating profit (net operating income) amounted to nearly €3 billion, reflecting solid cost discipline and balance sheet management. Banco BPM also recorded a net profit of €1.9 billion, supported by consistent capital efficiency. The Return on Tangible Equity (RoTE) reached 18.23%, and the Earnings Per Share (EPS) was €1.273, both of which represent the bank's best performances since its establishment.

On the capital side, Banco BPM achieved a CET1 ratio of 15%, marking its highest level since inception, and well above regulatory requirements. The quality of the loan book also remained sound, with non-performing loans (NPLs) accounting for just 1.6% of total gross loans.

Banco BPM's stock traded at an average price of €6.11 during 2024, with a low of €4.73 and a high of €7.96, reflecting investor confidence in the group's performance. Based on the average number of shares outstanding (1.515 billion), the average market capitalization for the year was approximately €9.26 billion.



Source: Author's Elaboration from LSEG

When comparing UniCredit and Banco BPM, several differences emerge in terms of scale, geographic reach, and performance metrics.

UniCredit stands out for its pan-European presence, diversified business model, and international revenue streams, while Banco BPM remains a domestic-focused bank, with a highly concentrated branch network in Northern Italy, particularly in Lombardy, which alone accounts for over 40% of its physical footprint.

From a dimensional standpoint, UniCredit's total assets reached €784 billion in 2024, more than four times those of Banco BPM (€178.2 billion). Similarly, UniCredit granted over €400 billion in customer loans versus €99.7 billion for Banco BPM. In terms of market share, UniCredit holds approximately 8.98% of total loans and 12.09% of total deposits in Italy, while Banco BPM controls 6.2% and 6.7%, respectively.

In terms of profitability, both banks achieved strong results in 2024. UniCredit reported a net income of €9.7 billion, while Banco BPM reached €1.9 billion. Despite their different sizes, both institutions posted impressive Return on Tangible Equity figures: 17.7% for UniCredit and 18.23% for Banco BPM. However, when adjusting for total assets, UniCredit's Return on Assets (ROA) was approximately 1.24% (9.7 / 784) compared with Banco BPM's ROA of 1.07% (1.9 / 178.2).

This suggests that, although Banco BPM achieved a slightly higher RoTE, UniCredit delivered stronger profitability relative to its overall balance sheet size.

On the revenue side, UniCredit generated €24.8 billion, with an interest margin of €14.36 billion and fees of €8.14 billion, while Banco BPM posted €11.1 billion in revenues, with an interest margin of €3.4 billion and fees of €2 billion. Both banks reflect a credit-based intermediation model, with a higher reliance on net interest income than commissions. In percentage terms, UniCredit's interest margin accounted for 57.9% of total revenues,

compared to 30.6% for Banco BPM, while the fee margin represented 32.8% for UniCredit and 18.02% for Banco BPM.
Finally, both banks reported solid capital positions, with CET1 ratios of 15.9% for UniCredit and 15.0% for Banco BPM, both comfortably above regulatory minimums. Credit quality also remained sound, with NPL ratios of 1.44% and 1.6%, respectively.

In summary, UniCredit offers greater scale, geographic diversification, and stronger operational leverage, while Banco BPM demonstrates high efficiency and profitability within a purely domestic context. The complementarity between the two institutions is particularly evident when comparing their geographic footprints, business models, and client bases. While UniCredit boasts a broad European presence, Banco BPM's dense regional network could offer valuable access to high-margin local markets and strengthen UniCredit's dominance in Italy. Moreover, Banco BPM's large retail and SME customer base aligns well with UniCredit's strategic focus on these segments, which already account for 60% of the group's revenues.

4.3.2. The OPS

On 25 November 2024, UniCredit's Board of Directors approved the launch of a voluntary public exchange offer (OPS) for 100% of Banco BPM's ordinary shares, marking a pivotal step in the group's strategy to consolidate its position in the Italian market. The offer, entirely in newly issued UniCredit shares, had a total implied value of approximately €10.1 billion and was structured to create long-term value for the stakeholders of both institutions.
The exchange ratio was set at 0.175 UniCredit shares for each Banco BPM share, implying an offer price of €6.657 per BPM share. According to UniCredit, this represented a premium of only 0.5% over the official market price as of 22 November 2024, but a 15% premium over the undisturbed share price of 6 November 2024. UniCredit used an earlier benchmark to calculate what it considered the true premium: the undisturbed share price of Banco BPM on 6 November 2024. This date was selected because it precedes the announcement of Banco BPM's voluntary tender offer on Anima Holding, which was made public on 8 November 2024. From that moment onward, Banco BPM's stock began to reflect speculative expectations of corporate activity. In M&A transactions, it is standard practice to use a share price that is free from market distortions caused by rumors or related announcements.

From a strategic perspective, the offer aimed to significantly strengthen UniCredit's competitive position in Italy, which remains the group's core market and represents roughly 50% of the combined entity's net profit. The two banks' complementary geographic footprints and customer segments (UniCredit's pan-Italian and international

coverage alongside Banco BPM's strong presence in Northern Italy) created a compelling industrial rationale.

UniCredit estimated cost synergies of approximately €900 million per year (before tax), to be achieved mainly through streamlining operations, staff rationalization, and IT integration. In addition, revenue synergies were forecast at around €300 million annually, stemming from cross-selling opportunities, the integration of Banco BPM's product platforms, and strengthened technological capabilities.
The integration plan also accounted for €2.0 billion in integration costs (pre-tax) to be incurred in the first year, as well as €0.8 billion in additional credit provisions, aimed at improving the coverage of Banco BPM's impaired and performing exposures. Post-transaction, the group's CET1 ratio was expected to remain above 15%, while maintaining a net NPL ratio of 1.5%, in line with pre-merger levels.

For Banco BPM shareholders, the offer presented access to a larger, more diversified, and better-capitalized pan-European bank, with enhanced growth prospects and stronger governance frameworks. From a financial perspective, UniCredit anticipated a high single-digit EPS accretion within two years of completing the transaction and projected a risk-adjusted return on investment exceeding 15%, well above its own hurdle rates and alternative capital deployment options such as share buybacks.
For clients, the merger promised access to a broader suite of customized services supported by a more robust technological and capital base, while employees would benefit from a larger European platform offering career growth opportunities, increased organizational resilience, and enhanced long-term job security.

At the macro level, the deal was framed as a catalyst for the consolidation of the Italian banking sector, strengthening its capacity to support the real economy and compete in the European arena.
The merger would aim to create a banking giant with a combined market capitalization of approximately €66.62 billion and total assets of €962.2 billion, supported by a deeply rooted national presence. The new entity would operate 3,532 branches across all Italian regions, significantly enhancing its footprint in Northern Italy, where UniCredit's presence would grow by approximately 88%.

Furthermore, the deal would strengthen UniCredit's market share in its core business areas. In terms of lending, the group's market share would increase by 6.2 percentage points, reaching approximately 15.2% of total customer loans. As for direct deposits, the group would grow by 6.75 percentage points, expanding its share from 12.09% to 18.84%.

Although the offer was blocked due to regulatory and political intervention, the industrial logic underpinning the deal remains relevant. The proposed merger highlighted the

strategic imperatives and synergistic potential of banking consolidation in Italy and more broadly across the European Union. For this reason, it may be particularly interesting to study the transaction in greater depth.

4.3.3. Market Reaction

The announcement of the public exchange offer on 25 November 2024 triggered immediate movements in the stock prices of both UniCredit and Banco BPM, offering key insights into how the financial markets perceived the transaction. In particular, the price dynamics in the days surrounding the announcement reveal how investors evaluated the strategic fit, financial structure, and execution risks of the proposed merger.

From the day before the announcement, Banco BPM's share price rose by approximately 5.47%, from €6.44 to €7.00.
Conversely, UniCredit's share price declined by 4.76%, from €38.09 to €36.27, as markets reacted to the dilution effect of the share-based offer, the expected integration costs (€2 billion), and potential execution risks. While this negative reaction is consistent with market behavior in many M&A deals, where acquirers often experience short-term declines, it also reflected concerns about regulatory hurdles and political interference, especially given the golden power mechanism later invoked by the Italian government.
Notably, trading volumes also spiked sharply on the day of the announcement: Banco BPM's stock registered a volume of over 60 million shares, significantly above the daily average. The same was true for UniCredit, with a volume of approximately 25 million. This surge indicates heightened investor interest and market attention, consistent with typical patterns observed during major corporate events such as M&A announcements.

To better assess the impact of the announcement on the stock performance of the two banks involved, it is possible to conduct an event study. As discussed in Chapter 3, the purpose of an event study is to evaluate the effect of a specific corporate event on the returns of one or more securities, by estimating the presence and magnitude of any abnormal returns within a time window that includes the date of the event, commonly referred to as the "event period".
In this case, clearly, the event under investigation is the public exchange offer (OPS) announced by UniCredit on November 25, 2024. To estimate the abnormal returns, the market model is used. Specifically, as already said in Chapter 3, to implement the Market Model, it is necessary to follow two steps. The first step consists of estimating the relationship between the stock return and the market return through Ordinary Least Squares regression (OLS) to estimate the expected returns over a given time period, the "estimation period":

$$E[R_{it}] = \alpha_i + \beta_i R_{mt} + e_{it},$$

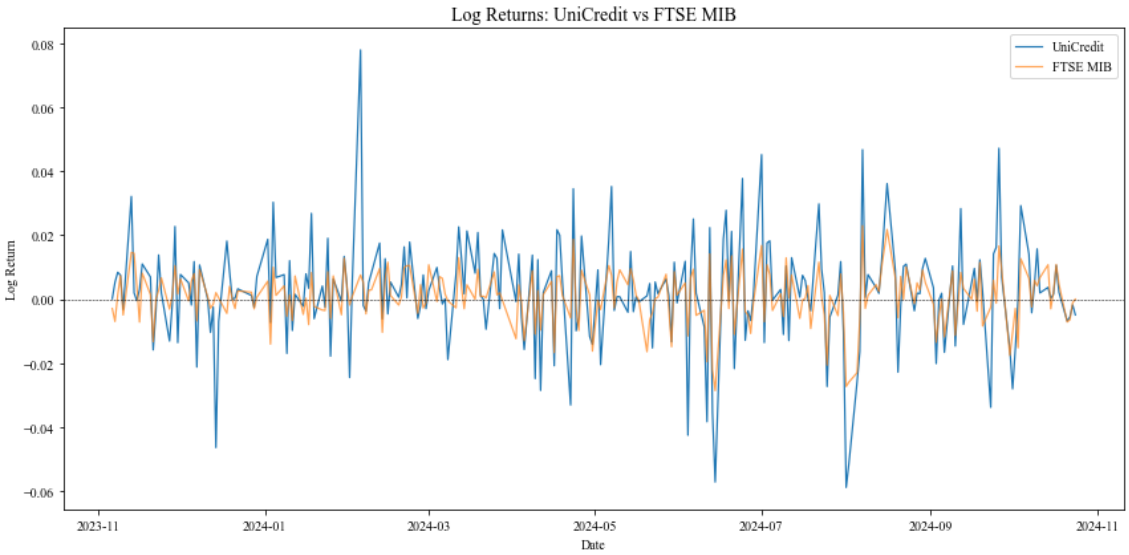
where $E[R_{it}]$ is the expected return at time t of the i-th stock, α_i and β_i are the coefficients of the regression, R_{mt} is the actual market return at time t and e_{it} is the error term. Then, the abnormal return of the i-th stock at time t, AR_{it}, is:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}),$$

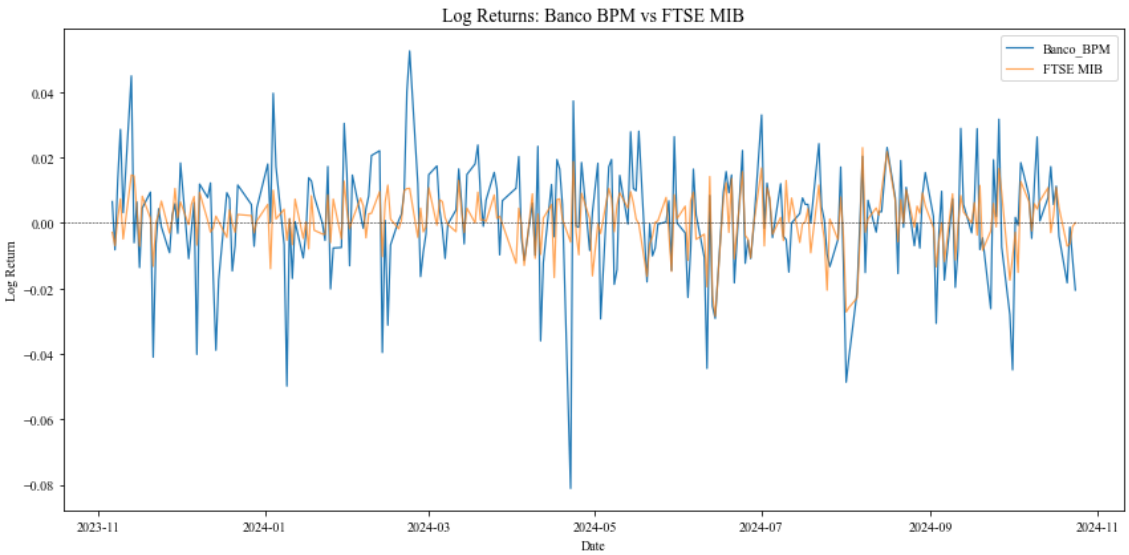
where $R\ it$ is the actual return at time t of the i-th stock and the term in brackets represents a sort of "normal" return, that is, the return earned by the stock without any fluctuations caused by the M&A announcement. After the estimation of abnormal returns, we can compute CARs by summing abnormal returns over the event period:
$CAR_{it} = \sum_{t=1}^{N} AR_{it}$.
A relevant issue related to the estimation of ARs and CARs refers to the choice of the estimation length and the event period, as well as the type of returns, as they depend on the type of the event study (Sorescu et al., 2007). Specifically, since M&A announcements are short-term event studies, daily returns are commonly employed (Haleblian and Finkelstein, 1999); Alexandridis et al., 2017; Hazelkorn, 2004; Li et al., 2021). Furthermore, this research starts from the assumption that the market is efficient, and it quickly adjusts to new, available information. Therefore, the time horizon this study considers for the computation of CARs (the event period) must be short. If no information leaks out before the actual announcement day, abnormal returns may be calculated starting from the date the deal becomes publicly available (the announcement date). However, research findings show that information on acquisitions does occasionally leak out to some market participants earlier than others.
Furthermore, according to Cybo-Ottone and Murgia (2000), an estimation period of 249 days is used (-270 days before the announcement date to -21 days before the announcement date). For the computation of ARs and CARs, daily stock returns of bidder and target, including the respective market returns, are calculated, starting from the prices taken from the LSEG database. Specifically, logarithmic returns are used, while the FTSE MIB index is used as a proxy for the market return.
Finally, the analysis employs multiple event windows to assess the true impact of the announcement over different time horizons (Cybo-Ottone & Murgia, 2000). This approach allows for a comprehensive understanding of both the immediate and the more extended effects of the M&A announcement on stock prices. Specifically, the study considers symmetric event windows, which include the same number of trading days before and after the event date (day 0). This structure helps isolate the market's reaction by balancing potential pre-event speculation with post-event adjustments. The event periods adopted are: [-20, +20], [-10, +10], [-5, +5], [-2, +2], and [-1, +1].

An initial descriptive analysis of the log returns reveals key differences in volatility and average performance across the three series. Over the estimation period, UniCredit shows a mean daily return of 0.217%, with a standard deviation of 1.67% and a maximum daily

gain of 7.79%, confirming relatively higher price swings compared to the market. Banco BPM, the target, exhibits even greater volatility, with a standard deviation of 1.75% and a wider range between the minimum (-8.11%) and maximum (+5.26%) daily returns, though its average return is lower (0.0898%). The FTSE MIB shows much lower volatility (0.85% standard deviation) and a modest mean return of 0.077%, reflecting its more diversified and stable composition.



Source: Author's Elaboration from LSEG



Source: Author's Elaboration from LSEG

The regression analysis conducted for UniCredit, using the market model with the FTSE MIB index as the benchmark, yielded an R-squared of 0.591. This implies that approximately 59% of the variation in UniCredit's daily stock returns during the estimation window is explained by overall market movements. Compared to Banco BPM, this result suggests a stronger alignment between UniCredit's returns and those of the broader market, likely due to its larger scale, diversified geographic exposure, and systemic relevance within the European banking sector.
The beta coefficient is estimated at 1.5208, indicating that UniCredit's stock exhibits a pronounced sensitivity to market fluctuations. A 1% change in the FTSE MIB index is associated with an expected 1.52% change in UniCredit's return in the same direction. This confirms that the stock behaves with amplified volatility, potentially reflecting its exposure to macroeconomic conditions across multiple European countries and investor sentiment tied to broader financial stability.
The alpha is equal to 0.0010, but it is not statistically significant (p-value = 0.147). This suggests that UniCredit did not systematically generate abnormal returns independent of market performance during the estimation period. In contrast, the beta is highly significant ($p < 0.001$), with a t-statistic of 18.813, confirming the robustness of the relationship between the bank's returns and market dynamics.
Overall, the regression supports the validity of using the market model for estimating expected returns in the event study. The strength of the beta reinforces the idea that UniCredit's stock performance is closely tied to investor perceptions of systemic and macroeconomic trends, a key consideration when assessing market reactions to major strategic announcements such as a takeover attempt.

Regarding the result of the event study, there is a generally positive but modest market reaction to the announced takeover of Banco BPM. The cumulative abnormal returns (CARs) reach their highest value in the short-term window [-5, +5], with a gain of +4.37%, followed by a +2.32% CAR in the immediate [-1, +1] window. These figures suggest a favorable reaction by investors around the announcement, reflecting optimism regarding the strategic rationale and potential synergies of the transaction.
However, in broader windows such as [-10, +10] and [-20, +20], the CARs drop to +0.67% and +0.81% respectively. This progressive decrease points to a cooling of initial enthusiasm, possibly due to emerging regulatory and political uncertainties, or concerns about execution risks and integration complexity. Nonetheless, the cumulative reaction remains clearly positive across all windows considered, confirming that the market perceived the operation as strategically sound and potentially value-enhancing, at least in its early stages.

Time	CAR
[-20, +20]	0.81%
[-10, +10]	0.67%
[-5, +5]	4.37%
[-2, +2]	1.25%
[-1, +1]	2.32%

The market model regression applied to Banco BPM produced an R-squared of 0.399, indicating that approximately 40% of the variability in Banco BPM's daily returns can be explained by movements in the FTSE MIB index. This value, while lower than UniCredit's (59%), still reflects a moderate degree of correlation between Banco BPM's stock and the broader Italian equity market, which is typical for a domestically focused bank.

The estimated beta coefficient is 1.3050, meaning that Banco BPM's stock exhibits a higher sensitivity to market movements: for every 1% change in the FTSE MIB, Banco BPM's return is expected to change by approximately 1.31% in the same direction. This confirms that Banco BPM behaves as a high-beta stock, more volatile than the overall market, potentially due to its more concentrated domestic exposure, its smaller capitalization, and investor perceptions of higher relative risk.

The alpha, or intercept, is estimated at –0.0001, a value very close to zero and not statistically significant ($p = 0.900$). This suggests that, on average, Banco BPM does not generate abnormal returns independent of market movements. The beta coefficient, on the other hand, is highly significant ($p < 0.001$), with a t-statistic of 12.745, indicating that market returns are a strong predictor of the bank's stock performance during the estimation window.

Overall, the regression confirms the suitability of the market model for estimating expected returns in the event study. The results are consistent with Banco BPM's profile as a domestically oriented institution with a relatively high market sensitivity, and they provide a robust basis for calculating abnormal returns around the announcement of UniCredit's takeover offer.

Regarding the result of the event study, in contrast to UniCredit's moderate but positive market reaction, Banco BPM exhibited a markedly different trajectory, with strong positive abnormal returns emerging prior to the official announcement and a subsequent negative adjustment in the immediate aftermath. The cumulative abnormal returns (CARs) confirm a significant degree of anticipatory trading and suggest that investors may have partially incorporated expectations of the deal before its formal communication.

In particular, the [-20, +20] window shows a CAR of +24.54%, indicating a substantial pre-announcement rally. Such a strong upward movement over a relatively long window could be interpreted as a sign of information leakage, market rumors, or speculative positioning anticipating a corporate event. Similarly, the CAR over [-10, +10] remains elevated at +6.95%, confirming the presence of sustained abnormal performance leading up to and immediately following the announcement.

However, a different picture emerges when looking at shorter windows. In the [-5, +5] interval, the CAR turns slightly negative (–0.17%), and the effect becomes more pronounced in the narrower [-2, +2] and [-1, +1] windows, where CARs reach –0.64% and –1.94%, respectively. This suggests that, although the market had initially priced in the possibility of an acquisition, the actual terms of UniCredit's offer, particularly the minimal control premium, may have led to disappointment among investors once the details became public.

These results reveal a clear asymmetry in the market's reaction: anticipation was met with enthusiasm, while confirmation triggered skepticism. This dynamic is consistent with scenarios where the offer is perceived as unsolicited or hostile, or where the valuation terms are not compelling enough for target shareholders. Despite the short-term correction, the overall positive CARs in longer windows suggests that the market still valued Banco BPM more highly in the context of potential consolidation.

Time	CAR
[-20, +20]	24.54%
[-10, +10]	6.95%
[-5, +5]	-0.17%
[-2, +2]	-0.64%
[-1, +1]	-1.94%

These contrasting dynamics underscore the typical asymmetry in M&A transactions, where bidders often see muted or slightly positive reactions, while targets may experience volatility depending on deal expectations and final terms. In this case, UniCredit's stock benefited modestly from the announcement, suggesting a well-received strategic move, whereas Banco BPM's stock initially surged but then declined, likely due to perceived undervaluation or resistance to the offer.

Overall, the evidence supports the view that the market viewed the merger as more favorable for UniCredit in strategic terms, but less attractive from the perspective of Banco BPM shareholders, at least under the proposed exchange terms.

4.3.4. Offer Premium Analysis

A key element in assessing the attractiveness and fairness of UniCredit's proposal to acquire Banco BPM is the analysis of the offered premium, i.e., the difference between the implied offer price and the pre-announcement market value of the target. This metric reflects the bidder's willingness to compensate shareholders for relinquishing control, and is often interpreted as a proxy for the expected value of synergies, control benefits, or strategic fit.

In this case, UniCredit offered 0.175 of its own shares for each Banco BPM share, resulting in an implied offer price of €6.657 per BPM share. However, when benchmarked against the closing price of Banco BPM on 6 November 2024 (the reference date explicitly considered "undisturbed" by UniCredit), the implied premium amounts to only +5.50%, not the +15% communicated by the bidder ([(6.657 / 6.31) – 1]). Furthermore, when compared to the average closing price of Banco BPM over the six months prior to the announcement (€6.2226), the premium rises modestly to +6.98%, which remains well below typical control premiums observed in comparable transactions. This constitutes a relatively low premium, especially when compared to the average offered premiums in full takeover bids across Europe, which typically range between 25% and 30%, according to Il Sole 24 Ore ("Premi in borsa, dividendi e sinergie: così Intesa punta al sì dei soci di Ubi", 20 February 2020).
Specifically, UniCredit's offer appears significantly less generous when compared to a recent and structurally similar transaction, the takeover of UBI Banca by Intesa Sanpaolo, in which the implied premium amounted to 27.6% (Il Sole 24 Ore, Premi in borsa, dividendi e sinergie: così Intesa punta al sì dei soci di Ubi, 20 February 2020). Such a discrepancy may have undermined the perceived fairness and attractiveness of UniCredit's proposal, contributing to its warm reception by the market and the opposition from Banco BPM's stakeholders.

However, it may be interesting to analyze the potential synergies based on the two banks' fair stock prices. Specifically, Damodaran (2009) observes that, according to some analysts, traditional cash flow valuation methods may be unsuitable when applied to banks. Instead, they argue that dividends represent the only clear and reliable cash flows that can be used for valuation purposes. This perspective implicitly relies on the assumption that the dividend policy adopted by banks is both prudent and sustainable over time. In this case, for both UniCredit and Banco BPM, it is a reasonable assumption. Therefore, it is possible to proceed with the Discounted Dividend Model (DDM). Specifically, the two-stage DDM is implemented. In the initial phase, a specific growth rate is assumed to reflect short- to medium-term expectations. In the second phase, a

constant growth rate is applied, representing the bank's performance in perpetuity, in order to compute the Terminal Value.
In other terms:

$$Value = \sum_{t=1}^{n} \frac{D_t}{(1+k_e)^t} + \frac{V_n}{(1+k_e)^n},$$

where:

$$V_n = \frac{D_{n+1}}{(k_e - g_n)}.$$

The dividend per share for 2024 was €0.96. Given the remarkable earnings performance of UniCredit in recent years, with a four-year average net income growth rate of over 50%, a 50% annual growth assumption over the next three years is adopted for the first stage of the model. This rate reflects an expectation of dividend expansion, supported by the bank's strong profitability, capital adequacy, and management's commitment to increasing shareholder remuneration.
So, the dividends per share are the following:

Year	2024	2025	2026	2027
Dividend	0.96	1.2	1.5	1.88

Instead, the Terminal Value is equal to €23.92. Specifically:

- the growth rate for the Terminal Value is assumed to be equal to 2.5% (that is generally considered as the economy growth rate;
- the Unicredit's beta is equal to 1.62 (as reported by LSEG database);
- the risk-free rate is 3.5% (10-years BTP yield);
- the ERP is 4.5% (as reported by Damodaran in his website - https://pages.stern.nyu.edu/~adamodar/).

Finally, the fair value of the share price is equal to €37.44, broadly in line with the levels recorded at the end of 2024.

Regarding Banco BPM, the dividend per share for 2024 was €1.0. Furthermore, in this case as well, it is possible to assume a growth rate of 25% for the next three years, in line with respect to the net income growth rate of the last four years. The dividends per share are the following:

Year	2024	2025	2026	2027
Dividend	1	1.25	1.56	1.95

The Terminal Value is equal to €39.3. Even in this case the growth rate for the Terminal Value is assumed to be 2.5%, while the risk-free rate and the ERP are respectively equal to 3.5% and 4.5%. The difference is in the beta: the Banco BPM's beta is equal to 0.96. Finally, the fair value of the share price is equal to €33.9, very much higher than the prices of the last month of 2024.

However, it is possible to compare this valuation with the valuation obtained by using the market multiples. Specifically, in the banking industry two multiples are often used: the P/E ratio and the Price-to-Book Value ratio.
The average P/E and the Price-to-Book Value ratio of the Italian banking industry (computed among a set of peers, by using the LSEG database) are respectively equal to 7.06 and 1.104. So, with respect to UniCredit, whose EPS is 5.93, the share price is equal to €41.85. Instead, if we consider the Price-to-Book Value ratio, the price is €40.89.
On the other hand, with respect to Banco BPM, its EPS is 1.28, with a resulting valuation of €9.033. Instead, considering the Price-to-Book Value, it is equal to 8.66, with a valuation of €9.56.

Therefore, by doing the average of the different prices computed, UniCredit has a fair value of €40.06. On the other hand, Banco BPM has a fair value of €17.49. These estimates stand in stark contrast to the implied offer price of €6.657 per Banco BPM share, based on the proposed exchange ratio of 0.175 UniCredit shares for each BPM share.
This means that, under the exchange terms, Banco BPM shareholders would receive securities worth less than 40% of the intrinsic value estimated in this study. Even when compared to Banco BPM's actual trading price prior to the announcement, €6.31 on November 6, 2024, the premium embedded in UniCredit's offer amounts to just 5.5%, and 6.98% when using the six-month average share price. Both are well below market standards: historically, European full acquisition offers tend to involve premiums between 25% and 30%, as documented in empirical studies and exemplified by the 2020 Intesa Sanpaolo–Ubi Banca transaction, which offered a 27.6% premium.

A fundamental advantage for UniCredit would have been the acquisition of Banco BPM at a price significantly below its estimated intrinsic value. Based on the valuation models applied in this thesis, including the Dividend Discount Model and market multiples, Banco BPM's fair value is estimated at approximately €17.49 per share. However, the implied price of the offer, based on the exchange ratio of 0.175 UniCredit shares per BPM share, corresponds to only €6.657.
This implies that UniCredit would have acquired Banco BPM at a 62% discount to its fundamental value. Such a deep undervaluation presents a unique opportunity for value creation. By paying €6.657 per share for an asset worth €17.49, UniCredit would effectively capture the difference as immediate upside, benefiting from the built-in margin of safety. In other words, UniCredit would acquire assets, customers, and revenue streams of much higher economic worth than the cost paid in shares.

4.3.5. The Hypothetic Merger

One can ask what would happen in the case of a real merger between UniCredit and Banco BPM. The valuation of the combined UniCredit–Banco BPM entity is performed using the two-stage Dividend Discount Model (DDM), in line with the methodology already applied to the standalone valuations of both banks in previous sections.

The valuation assumes:

- a first stage of accelerated dividend growth over three years (2025–2027), consistent with the recent performance of both banks and the historical dividend growth rates;
- a second stage of constant, perpetual growth from 2028 onward, set at 2.5%, in line with nominal GDP growth estimates and used as a conservative long-term growth proxy.
- a cost of equity of 10.2%, based on the weighted average of the betas and risk profiles of the two institutions.

In line with the strategic rationale of the proposed transaction, the model incorporates the impact of expected synergies, as reported in UniCredit's offer:

- €900 million in annual cost savings, primarily from operational streamlining and IT integration.
- €300 million in revenue enhancements, driven by cross-selling and platform integration.

These €1.2 billion of expected annual synergies are assumed to be fully realized within one year and sustained over time. Consistent with the literature (Damodaran, 2005), and with standard practice in M&A valuation, these benefits are incorporated into the cash flows available to equity holders, in this case, modeled as additional dividend distributions.
Based on an estimated 1.89 billion shares (the offer entailed an exchange ratio of 0.175 UniCredit shares for each BPM share, resulting in a total of 1,631,000,000 + 0.175* 1,515,182,126) in the post-merger entity, this implies an incremental dividend of approximately €0.64 per share (1.82 billion / 1.89 billion shares). This value is added to the base dividend projections used in the standalone DDM valuations.

To project the base dividends of the combined UniCredit–Banco BPM entity prior to the inclusion of synergies, this study adopts a weighted average approach based on the standalone dividend forecasts of the two institutions. Specifically, dividends are estimated for the years 2025 to 2027 using a two-stage growth model already applied to each bank separately.
To compute the base dividend of the combined entity, a weighted average is calculated, using the number of shares of each institution in the post-merger share structure. Based

on the exchange ratio of 0.175 UniCredit shares for each Banco BPM share, and using an estimated total of 1.89 billion shares outstanding after the transaction, the relative weights are:

- UniCredit: 1.63 billion shares, therefore 86.2%
- Banco BPM: 0.265 billion shares (newly issued), therefore 13.8%

The new dividends are the following:

Year	2024	2025	2026	2027
Dividend	0.97	1.41	2.72	3.70

Adding the synergies:

Year	2024	2025	2026	2027
Dividend	0.97	2.05	2.72	3.06

The cost of equity used in the valuation of the combined UniCredit–Banco BPM entity is estimated using the Capital Asset Pricing Model (CAPM). A weighted average beta of 1.528 is calculated, based on the post-merger capital distribution (86.2% UniCredit and 13.8% Banco BPM). Therefore, the cost of capital is 10.4%.
So, the Terminal Value is €39.7 and the price per share is equal to €35.14. The overall value of the new entity is €91.993 billion.
It is possible to compare this value with respect to the sum of the two banks standalone, that is:

- UniCredit: €40.06 * 1.63 billion = €65.2 billion;
- Banco BPM: €17.49 * 1.515 billion = €26.497 billion.

The sum is €91.697 billion.
Therefore, the potential value of synergies is equal to €0.296 billion.

Although the merger between UniCredit and Banco BPM was expected to generate substantial annual synergies (estimated at €1.2 billion per year), only €296 million of this value is effectively capitalized in the valuation of the combined entity. This discrepancy may appear surprising at first, but it is consistent with the financial structure of the offer and the nature of the transaction.
First, discounted cash flow models, such as the Dividend Discount Model (DDM) used in this analysis, do not fully reflect nominal synergies. Only the net present value of those

benefits, after discounting for risk and time, is incorporated into the share price. The fact that synergies materialize gradually and are subject to execution risk, integration complexity, and regulatory uncertainty reduces the extent to which they are valued today. Second, and more importantly, the structure of UniCredit's offer plays a key role in explaining why such substantial synergies are not fully reflected in the post-merger valuation. By proposing a share exchange ratio of 0.175 UniCredit shares for each Banco BPM share, UniCredit effectively offered only €6.657 per share, against a fundamental value of €17.49 estimated in this thesis. This implies that Banco BPM was valued at just 38% of its intrinsic worth, allowing UniCredit to capture a disproportionately large portion of the potential value created by the merger.
In this context, the modest increase in the combined valuation (just €296 million) does not reflect the true scale of potential synergies, but rather the asymmetry in value distribution between acquirer and target. While the deal appears nearly neutral in terms of overall market value, it would have delivered significant upside to UniCredit at the direct expense of Banco BPM shareholders, who were offered a premium of only 5.5% over the undisturbed price (a level well below industry standards).
Therefore, the low capitalized synergy value is not an indication that the merger lacked industrial or strategic logic. On the contrary, the transaction had strong fundamentals. However, the value transfer embedded in the offer structure favored the acquirer so heavily that the overall valuation gain was absorbed primarily by UniCredit. This reinforces the conclusion that, although the deal had the potential to create significant value, it was highly unbalanced and ultimately unfavorable for Banco BPM's shareholders.

However, the transaction was ultimately suspended on 22 July 2025 following the intervention of the Italian government, which exercised its Golden Power on 18 April. This special regulatory tool, introduced in 2012, allows the state to block or condition M&A operations involving companies operating in sectors deemed strategic, such as the banking industry, when national interests or financial stability are at risk.
In the case of UniCredit and Banco BPM, the government justified its action by expressing concerns over excessive market concentration, potential loss of decision-making autonomy in key regions, and the strategic relevance of Banco BPM as a domestic institution. The creation of a single entity with dominant market shares in lending and deposits, especially in Northern Italy, raised fears of reduced competition and increased systemic importance, prompting political and regulatory caution.
This episode clearly highlights how political oversight can override financial logic, even in market-driven deals with strong industrial rationale. It underscores the growing relevance of sovereignty concerns and regulatory risk in shaping the outcome of large banking transactions in Europe, especially in cases where the balance of power between bidder and target is perceived as asymmetrical or unfavorable to national interests.

5. Conclusions

This thesis has explored the multifaceted world of mergers and acquisitions (M&A), combining theoretical insights, historical trends, empirical evidence, and a detailed case study in the banking industry. The research aimed to understand the conditions under which M&A transactions can generate value, and the strategic and financial factors that influence deal outcomes.

In Chapter 1, the study introduced the conceptual foundations of M&A, outlining the differences between mergers and acquisitions, the key actors involved, and the primary motives behind such operations, ranging from synergy realization and market expansion to managerial ambitions and regulatory arbitrage. It also examined the main valuation techniques, including discounted cash flow models and market multiples, and highlighted the various risks that can undermine deal success, such as overvaluation, integration failure, and political intervention.

Chapter 2 placed M&A activity within a historical and macroeconomic context. By tracing the seven major merger waves from the late 19th century to the present, the analysis showed that M&A activity follows cyclical patterns influenced by technological innovation, capital market conditions, regulatory changes, and investor sentiment. Recent global and Italian M&A trends were then reviewed, showing a post-pandemic resurgence in deal volume, followed by a slowdown due to inflationary pressures, geopolitical tensions, and rising interest rates.

Chapter 3 examined the question of value creation in M&A. Drawing from academic literature, it categorized deal outcomes into value creation, preservation, or destruction, and reviewed four empirical methodologies used to assess M&A performance: accounting studies, event studies, clinical studies, and executive surveys. The chapter also presented a numerical example of synergy valuation and control premium estimation, following the methodology proposed by Damodaran (for synergies) and the empirical findings from Barclay & Holderness (1989) and Zingales (1995) about the premium paid for control.

Chapter 4 applied these concepts to the Italian banking sector, with a particular focus on the attempted merger between UniCredit and Banco BPM. The chapter first analyzed the evolution of the Italian banking system, characterized by fragmentation, consolidation, and regulatory transformation, and documented the recent surge in profitability and credit quality during the 2022–2024 period.
The attempted transaction was then examined through financial statements, strategic rationale, an event study methodology, and a multi-method valuation approach (including DDM and market multiples). Results showed that while the industrial logic of the merger was strong, the offer made by UniCredit undervalued Banco BPM significantly. The event

study confirmed that investors reacted favorably to the announcement for UniCredit but showed disappointment in the case of Banco BPM.
Crucially, the transaction was ultimately suspended due to political intervention, with the Italian government invoking its Golden Power to block the deal. This episode underscores how M&A outcomes, particularly in strategic sectors like banking, are not determined only by financial metrics or market forces: political acceptability, systemic risk, and national interest considerations play a central role in shaping the M&A landscape.

This thesis demonstrates that M&A is not a purely quantitative or technical exercise. It is a strategic decision embedded in a broader context of economic cycles, market dynamics, institutional regulation, and geopolitical risk. While valuation models and synergy estimates provide useful tools to assess potential value, they must be interpreted alongside governance structures, stakeholder incentives, and political frameworks.
The case of UniCredit and Banco BPM illustrates a fundamental lesson: even when a deal makes strategic and financial sense, it may still fail if it lacks legitimacy, balance, or political support. For future transactions, particularly in the European banking industry, dealmakers must look beyond spreadsheets and models. They must build credible narratives, ensure equitable value distribution, and anticipate regulatory and sovereign reactions.
Specifically, Martin Lipton once said: “The success of a merger lies not just in the numbers, but in the alignment of interests, visions, and trust.”

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