



Master's Degree Program in Strategic Management

Department of Business and Management

Course of Financial Analysis

***Value Creation in M&A Transactions: An  
Empirical Analysis of Short-Term Market  
Reactions and Long-Term Financial  
Performance***

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## Table of Contents

<i>Introduction</i> .....	3
<b>1. Theoretical Foundations of Mergers and Acquisitions</b> .....	<b>5</b>
1.1 Research questions and objectives .....	9
1.2 Scope and limitations of the study .....	12
1.3 Structure of the thesis .....	16
<b>2. Literature review</b> .....	<b>20</b>
2.1 Theoretical foundations of M&A.....	20
2.2 Value creation and destruction for shareholders .....	23
2.3 Short-term and long-term effects .....	26
2.4 Event study methodology .....	32
2.5 Prior empirical research and research gaps.....	36
<b>3. Methodology</b> .....	<b>41</b>
3.1 Research strategy and methodological approach.....	41
3.2 Data collection and sample selection .....	44
3.3 Event study methodology .....	47
3.4 Financial performance analysis (KPI framework).....	51
3.5 Variables and metrics used.....	55
3.6 Limitations of the adopted methodology .....	58
<b>4. Case studies</b> .....	<b>61</b>
<b>4.1 Analysis of 10 M&amp;A Transactions (2015–2023) in Europe: Impact on the Performance of Acquiring Firms (Financial performance analysis pre- and post-acquisition: revenues, EBITDA, ROIC, comparison with industry benchmarks)</b> .....	<b>61</b>
1. AB InBev Acquires SABMiller (2016) – Sector: Beer .....	61
2. Royal Dutch Shell Acquires BG Group (2016) – Sector: Oil & Gas .....	64
3. Bayer Acquires Monsanto (2018) – Sector: Pharmaceuticals / Agrochemicals .....	66
4. Essilor Acquires Luxottica (2018, EssilorLuxottica Merger) – Sector: Eyewear ...	69
4. LVMH Acquires Tiffany & Co. (2021) – Sector: Luxury Goods .....	71
6. Nokia Acquires Alcatel-Lucent (2016) – Sector: Telecom Equipment .....	74

7. BT Group Acquires EE (2016) – Sector: Telecommunications.....	77
8. PSA (Peugeot) Acquires Opel/Vauxhall (2017) – Sector: Automotive.....	79
9. London Stock Exchange Group (LSEG) Acquires Refinitiv (2021) – Sector: Exchanges and Financial Data.....	82
10. Alstom Acquires Bombardier Transportation (2021) – Sector: Railway Equipment .....	85
4.2 Aggregate Summary of Results and Comparison with Sector Benchmarks.....	88
<b>5. Discussion .....</b>	<b>92</b>
5.1 Interpretation of Empirical Results .....	92
5.2 Comparison with Existing Literature and Theoretical Perspectives.....	94
5.3 Strategic Implications for Companies Undertaking Large M&As .....	100
5.4 Managerial and Policy Recommendations .....	105
Managerial Recommendations:.....	105
Policy and Regulatory Recommendations:.....	109
<b>6. Findings, Theoretical Insights, and Future Directions.....</b>	<b>113</b>
6.1 Summary of Key Findings.....	113
6.2 Findings in Light of Synergy, Agency, and RBV Theories .....	114
6.3 Implications for Research and Practice.....	116
6.4 Suggestions for Future Research .....	118
<b>Conclusion .....</b>	<b>121</b>
<b>Bibliography: .....</b>	<b>125</b>

## *Introduction*

The field of M&A has been a significant part of the corporate strategy and has been a major source of change in the world economy over the past few decades. Mergers and acquisitions (M&A) activity is often presented as a key driver of value creation, innovation, and competitive advantages, be it by the combination of tech companies or the consolidation of the banking and pharmaceutical sectors. However, the question of whether shareholders of the acquiring firm really benefit from it still remains a topic of discussion, among practitioners, academics, and even policymakers, to which they continue to hold their ground. Such skepticism persists even as the scale of M&A activity is increasing, and M&A transactions have become a routine element of strategic company plans with deal sizes extending to billions of euros. This master's thesis is about how M&A transactions create value, supported by the evidence of short-term shareholders' reactions and long-term financial developments of the acquiring firms.

The topic of value creation in M&A is a long-standing theme that has been the focus of both finance and corporate strategy. The major goal of M&A transactions is to raise profits, “streamline” the organization through better efficacy, and gain strategic advantages via operational, financial, and management synergies. The outcome, however, is not only different in nature but also varies from the acquirers' best interests in that some M&As might lead to the creation of surplus shareholder value while the rest do not. Consequently, it is essential to know when value is created, how much, and for how long. Furthermore, the issue is also becoming crucial in the current time, as there are more and more cross-border European deals as the companies have acquired their rivals or bought out the market to enter or mature through advanced technologies.

The aim of the study is first and foremost to find out whether the M&A transactions make acquirers' shareholders richer or not by differentiating between short-term and long-term outcomes of an M&A transaction. It has been found that in order to respond to our main question first we need to consider cumulative abnormal returns (CARs) as an index of a market's perception net benefits arising from the announcement of the deal event. Thereafter, we will examine the long-run effect on post-merger performance by looking at changes in revenues, EBITDA, ROIC, and operating margins before and after M&A closure. Hence, this thesis not only points to the changes in returns on the day of the deal and in the following years but also raises the question of whether a

M&A event is related to the increase of the shareholders' wealth. Moreover, it also reflects the possible strategic and managerial relevance of the decisions.

The methodology of this elaborate is organized around a theoretical review and an empirical analysis. It starts with a thorough assessment of the existing academic literature about theories, such as the synergy theory, the agency theory, and the resource-based view (RBV), to explain the emergence of value creation or destruction in M&A deals. To test the aforementioned thesis objective, this work will follow an event study for CAR and a long-run development review to investigate a firm's profitability for approximately 10 announced large (deal value larger than €1 billion) European M&A deals closing from 2015 to 2023. To guarantee the integrity of this thesis, all empirical results are compared with research done by other academics to guarantee its consistency with published literature.

Over the years, research about M&A in the existing literature has been a bit static and left a huge space for improvement. Firstly, a majority of articles these days neither examine the immediate nor the delayed effects of M&A activities concurrently. These criteria are, in fact, very vital for our research for understanding the whole phenomenon in such an unusual situation. As a result, this elaborate aims at increasing the reliability of the prior work, as well as making a bigger empirical and theoretical research contribution on the mergers and acquisitions of large deals by evaluating the overall value consequences of merger announcements and offering empirical implications. Namely, the general framing of this thesis is the following: Chapter 2 deals with an overview of background knowledge of the topic area, conceptually related literature, and empirical studies. Next comes Chapter 3, where the methods used in this research work are explicated in detail. Further, the next chapter presents the research findings. Beyond this, the discussion, interpretation of the results, strategic and managerial implications as well as recommendations for action for the managers are presented in Chapter 5. Lastly, the thesis with the analysis and the potential for future study is wrapped up in Chapter 6.

## 1. Theoretical Foundations of Mergers and Acquisitions

Mergers and acquisitions (M&A) have been critical in the pursuit of strategic growth and have enabled industry transformation, especially in Europe, where M&A activity was at an all-time high in 2015. With over 48,000 deals and over USD 4.3 trillion in value, M&A continues to be an important source for companies to restructure<sup>1</sup>. Growth through acquisitions is a common inorganic strategy that has been made possible and, for many firms, necessary through deregulation, globalization, the growth of technology, and industry convergence<sup>2</sup>. While the rise of M&A activity is not constrained to Europe, it has been and is still extremely popular and is a major factor shaping market structure. The global growth trends of the increased M&A activity over the period 2015–2020 are also mirrored in the European trends, such as cross-border deals and large deal sizes. Further factors influencing M&A trends in the past few years have been:

- Global technological disruption;
- Cross-industry convergence.

Hence, European corporates look at M&A as a way to “reposition themselves”<sup>1</sup>. However, in this context, there is also a tendency of global competition pressure from emerging market acquirers (such as Chinese acquirers) and from increasingly financially motivated private equity buyers<sup>3</sup>.

All of these factors and trends lead us to assume that there is a large interest and popularity of M&A activities. Nonetheless, the true value created for the shareholders of acquiring firms has shown mixed evidence. Although there has been extensive empirical research on M&A activities, it has become clear that there is a large variability of outcomes in shareholder value creation, with some deals delivering real gains in the short term and others having negative effects or little value-added in the long term<sup>4</sup>. Studies

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<sup>1</sup> Chernenko, N., Moiseienko, T., Korohodova, O., & Hlushchenko, Y. (2021). Analysis of mergers and acquisitions between 2009 and 2020. *Revista Galega de Economía*, 30(4), 1-15. <http://dx.doi.org/10.15304/rge.30.4.7558>

<sup>2</sup> Andrade, G., Mitchell, M., & Stafford, E. (2001). New evidence and perspectives on mergers. *Journal of Economic Perspectives*, 15(2), 103–120. <https://doi.org/10.1257/jep.15.2.103>

<sup>3</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

<sup>4</sup> Renneboog, L., & Vansteenkiste, C. (2018). What goes wrong in M&As? On the long-run success factors in M&As (Finance Working Paper N° 589/2018). European Corporate Governance Institute.

have shown that there is significantly more value created in transactions that are of high value (termed mega-deals, with USD 500 million plus) than smaller transactions, which, from market returns, could imply superior outcomes, due to high values. However, on mega-deals post-2009, a short-term CAR (5 days) for acquirers had a median result of 1.05%<sup>5</sup>, and serial acquirers are less likely to benefit<sup>4</sup>, indicating that even the largest acquisitions struggle. More empirical evidence needs to be gathered on what makes some European firms successful with M&A and what might influence their outcome<sup>4</sup>. This would be especially important in large European deals. Much of the research has been conducted on U.S. markets, where nearly all publicly listed firms—91% to be precise—were involved in M&A in the late 20th/early 21st century, with this figure being the most robust, despite it being a higher participation than other countries<sup>4</sup>. However, this means that the majority of past empirical M&A research focuses on a specific geographical background and market development level.

Researchers have documented an inconsistency in M&A activity that suggests a disconnection between the positive returns on financial markets at the deal announcement and negative performance for the acquiring company. These findings are not in alignment with the expectations or performance predicted in the strategy domain<sup>6</sup>. Cumulative abnormal returns (CARs) in event studies have been shown to overestimate the actual value created in an acquisition. As a signal for the valuation of M&A by financial markets, an event window is most useful if the impact of the market activity is immediately clear in terms of financial benefit, with limited extraneous information. This can be achieved in short-term CAR measurement windows as there is higher confidence and certainty of what factors are impacting stock prices. Using market data, studies show that the cumulative abnormal returns may be as high as 16% on the target and only 3% on the acquirer for M&A in the EU in the 1990s. There is a growing debate over whether CARs are an adequate proxy signal in the long term and a desire for researchers to move toward the signal of profitability and productivity for evidence of firm benefits in M&A activity, measuring factors such as growth in sales, capital expenditures, return on equity,

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[https://www.ecgi.global/sites/default/files/working\\_papers/documents/finalrenneboogvansteenkiste.pdf](https://www.ecgi.global/sites/default/files/working_papers/documents/finalrenneboogvansteenkiste.pdf)

<sup>5</sup> Alexandridis, G., Antypas, N., & Travlos, N. (2017). Value creation from M&As: new evidence. *Journal of Corporate Finance*, 45, 632-650.

<https://centaur.reading.ac.uk/70385/1/M%26A%20Value%20Creation%2008-09-2017.pdf>

<sup>6</sup> Andrade, G., Mitchell, M., & Stafford, E. (2001). New evidence and perspectives on mergers. *Journal of Economic Perspectives*, 15(2), 103–120. <https://doi.org/10.1257/jep.15.2.103>

operating margins, etc.<sup>7</sup>. It is suggested that event studies may overestimate benefits as they can have weaknesses in assessing the magnitude and validity of the market signal through “information asymmetry, biased expectations, and market overreactions”<sup>8</sup>. As suggested by Harrison & Schijven (2015), event studies should be coupled with research of financial performances after acquisitions. Large European deals tend to offer high premiums as acquirers try to acquire market-leading or highly desired targets based on synergy and operational excellence rationales. This also supports the necessity for in-depth analysis of European M&A deals to determine a proper signal of success and the extent to which value is delivered to the shareholder.

When the existing body of research is considered along with synergy theory, agency theory, and the resource-based view (RBV), a contradiction appears in understanding how and why value is created and/or eroded within organizations post-acquisition. For example, from a theoretical view, M&A gains through the achievement of operational and financial benefits are termed synergies. However, the performance benefits from merger synergies have been shown empirically not to lead to outperformance versus industry averages for the acquirer after the merger<sup>9</sup>. Agency theory explains these lower returns by focusing on potential managerial or organizational risk-taking behaviors that do not optimize benefits or maximize shareholder returns. However, not all organizations are made up of rational beings making rational choices based on optimizing the value of shareholders. Organizational and managerial ambitions and behaviors may lead to risk-taking, such as with serial acquirers, that do not realize benefits<sup>10</sup>. The RBV would state that synergies arise from complementarity or fit, and hence acquisition benefits from merging companies are a combination of resource complementarity and post-acquisition resource fit. It is not clear, though, why these benefits are not always realized or have a negative impact on financial returns. This

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<sup>7</sup> Renneboog, L., & Vansteenkiste, C. (2018). What goes wrong in M&As? On the long-run success factors in M&As (Finance Working Paper N° 589/2018). European Corporate Governance Institute.

<sup>8</sup> Harrison, J. S., & Schijven, M. (2015). Event-study methodology in the context of M&As. In (Ed.), (1st ed., p. 21). Routledge. <https://api.taylorfrancis.com/content/chapters/edit/download?identifierName=doi&identifierValue=10.4324/9780203761885-17&type=chapterpdf>

<sup>9</sup> Andrade, G., Mitchell, M., & Stafford, E. (2001). New evidence and perspectives on mergers. *Journal of Economic Perspectives*, 15(2), 103–120. <https://doi.org/10.1257/jep.15.2.103>

<sup>10</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

contradiction of expected synergy benefits based on these three perspectives is often associated with inadequate post-acquisition integration (PAI). Consequently, it is imperative for empirical research on the EU-large deals to find which theories prevail in the market versus those negated by failed execution.

With a greater share of M&A deals, as well as an increase in M&A deals of much larger size, new players are starting to emerge as major competitors to the established corporates of Europe. The private equity (PE) business is gaining significant ground worldwide. In 2000, the overall influence of PE on the global M&A activity was as little as 4%, and in 2013, it was almost up to 30%<sup>11</sup>. Since 2013, this influence has continued, not only gaining ground in numbers but also competing against other players on deals with ever-increasing value. PE firms have clear mandates to deliver a return on shareholder investment within a certain timeframe, so they are much more diligent in achieving synergies and executing their operational strategies in the shortest timeframe possible. They focus heavily on capturing value within a relatively short time of the merger, and they are not always concerned about a long-term growth strategy, as their only target is to get the best possible outcome (financially) for their stakeholders at the time when they are ready to exit. This strategy has, however, a short-term impact on corporations and competition, as they challenge others to achieve faster outcomes within their businesses. Another rising M&A activity competitor is firms in emerging markets. Since 1986, the firms in emerging markets started acquiring global companies, as well as merging with their European partners<sup>12</sup>. At that time, PE firms did not have any significant global impact, and firms in emerging markets started showing up in the developed countries that used to dominate global mergers and acquisitions activity in the international business world. This, however, put pressure on many European corporate players, who were not always able to act in the “game” and competed with bids that involved cash or new financial instruments. Emerging markets firms used different “games,” strategies, and behaviors; such as using cash-rich financial structures and having a unique perspective on corporate integration. This also started impacting large

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<sup>11</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

<sup>12</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

European deals, not just the value and competitiveness of corporate mergers but also a shift toward changing the shareholder portfolio makeup. As an increasing pressure continues from PE firms as well as from firms in emerging markets for increased shareholder returns and profitability of corporations, it is necessary to empirically investigate trends in European M&A deals in an attempt to explore how these issues and circumstances are impacting shareholder outcomes.

Due to the above contradictions, as well as the market forces, the rationale of the study is set.

### **1.1 Research questions and objectives**

This chapter highlights the specific research question and objectives for this study on M&A. The ultimate aim of this study is to find out if and in which conditions M&A creates value for acquiring firms' shareholders.

The general research question asks whether and how M&A creates value for the shareholders of acquiring firms. To investigate the market's reaction to M&A announcements, this study will measure cumulative abnormal returns in short periods. Furthermore, this research will benchmark the acquirer's EBITDA, ROIC, and operating margins to determine long-term financial outcomes. This way, short-term and long-term performance will be evaluated to provide a richer perspective than would be possible by only measuring short-term performance. The emphasis on both short- and long-term value creation is relevant because there is increasing evidence indicating that announcement-period CARs are misleading for long-term financial outcomes.

Empirical evidence has demonstrated that acquiring firms often experience a lower short-term financial performance following M&A deals than the targets, while a small minority of acquisitions leads to superior financial outcomes relative to their industry rivals in the long run<sup>13</sup>. It is therefore imperative to examine the drivers of these differences. This study will examine how deal structure, acquirer experience, payment method, and the quality of integration influence value creation. It is necessary to consider these explanatory variables, given the evidence that contextual parameters impact M&A

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<sup>13</sup> Renneboog, L., & Vansteenkiste, C. (2018). What goes wrong in M&As? On the long-run success factors in M&As (Finance Working Paper N° 589/2018). European Corporate Governance Institute.

performance<sup>14</sup>.

This research will focus on large European M&A deals that were closed between 2015 and 2023, involving at least one company with headquarters in Europe, and having a deal value exceeding €1 billion. The focus on deals with an elevated value is deliberate because many of the recent mega-deals took place in Europe. Europe is a worthy place to focus on for M&A deals, as a major part of world deal-making and corporate activity is in the EU. Furthermore, corporate culture is different in the EU compared to the United States. There is significant research on US markets in M&A, but there are considerable differences between the EU and the US for corporate law, culture, capital markets, and regulatory frameworks.

Furthermore, the study aims to compare how value creation outcomes vary between acquirers and targets. Empirical studies have shown that European targets often enjoy cumulative abnormal returns of as high as 16% immediately after the announcement, while acquiring firms experience lower returns. In the long run, post-merger financial performance improvement rates of acquired firms are between 40% and 60% higher than their industry rivals<sup>15</sup>. Thus, this study will explore whether these findings extend to large M&A transactions in the European market in post-2015 deals. Post-merger financial performance of acquired firms will be compared to benchmarks for their industry sector to determine if these financial performance improvements are attributed to the M&A activity or other industry-related factors<sup>16</sup>.

This research will also examine the general drivers of value creation and value destruction in M&A deals. Why do mega-deals and acquiring firms with M&A experience and sophisticated know-how tend to create less shareholder value than expected and in which deals does this difference get magnified?

This study will also look at serial acquisitions undertaken by large corporates to find if a strategy such as this increases M&A profitability or not, and to what extent the short- and long-term performance diminishes. Thus, this study will analyze whether statistical results are in line with case evidence, uncovering mechanisms for achieving

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<sup>14</sup> Angwin, D. N., Urs, U., Appadu, N., Thanos, I. C., Vourloumis, S., & Kastanakis, M. N. (2022). Does merger & acquisition (M&A) strategy matter? A contingency perspective. *European Management Journal*, 40(6), 847-856. <https://openaccess.city.ac.uk/29357/1/1-s2.0-S0263237322001189-main.pdf>

<sup>15</sup> Renneboog, L., & Vansteenkiste, C. (2018). What goes wrong in M&As? On the long-run success factors in M&As (Finance Working Paper N° 589/2018). European Corporate Governance Institute.

<sup>16</sup> Renneboog, L., & Vansteenkiste, C. (2018). What goes wrong in M&As? On the long-run success factors in M&As (Finance Working Paper N° 589/2018). European Corporate Governance Institute.

superior short- and long-term M&A value outcomes.

Synergy theories suggest that improved operational and financial performance are at the heart of M&A value creation. However, only 33% of mergers deliver superior M&A performance relative to pre-deal expectations<sup>17</sup>. As for agency theory, managers tend to overestimate their ability to generate value to shareholders from M&A activity. They might be interested in ego-building through larger firms but do not account for actual shareholder returns<sup>18</sup>. According to the RBV, by complementing resource gaps and enhancing resource complementary, M&A can contribute to the creation of competitive advantage. However, empirical results have demonstrated that integration failures prevent acquiring firms from capturing the synergies needed for creating financial gains. Thus, the aim of this study is to compare and evaluate these theories through recent empirical results and determine whether one or more can best describe these M&A transactions.

The research method follows an integrated perspective to overcome limitations of prior research in this area. Unlike previous research on M&A deals, this study employs both the event study design by analyzing cumulative abnormal returns as well as a longer operational time-frame. By analyzing operational outcomes, this research seeks to mitigate the biases resulting from short-term analysis that fail to consider the post-integration phase of the<sup>19</sup>. The short-term market reaction will be reflected in terms of announcement-period cumulative abnormal returns, while long-term results will be expressed in terms of the operating performance of the acquired companies measured on EBITDA, ROIC, and operating margins. After acquiring the companies, EBITDA, ROIC, and operating margin values for the acquired companies were benchmarked against industry averages or peer-group firms that share similar business operations. All of these ratios were chosen to indicate the quality of the deal and the success of the firm after the integration process. The focus in the data collection phase will be on deal value, acquirer type, deal structure, deal value as percentage of acquirer equity capitalization,

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<sup>17</sup> von Kienlin, K., & Cousin, M.-A. (2017). The Three Ts of Successful M&A. *Executive Insights*, XIX(63), 1-5

<sup>18</sup> Wuebker, J. E. (2016). What's driving acquisitions? An in-depth analysis of CEO drivers determining modern form acquisition strategy [Doctoral dissertation, University of Richmond]. University of Richmond Law Review, 50(5), 9–34.  
<https://scholarship.richmond.edu/cgi/viewcontent.cgi?article=3121&context=lawreview>

<sup>19</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220.  
[https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

payment method, and experience and resources of acquiring firm, because the aim is to explain different market reactions to these dimensions, as suggested by empirical and theoretical literature.

The behavior of the investors in the short run (short-term stock reaction) as well as during the long run (long-term accounting ratios), will be assessed for information asymmetry. Empirical research finds that there is often over-optimism immediately after an M&A deal is announced. Thus, information leakage prior to the deal can cause a very high short-term CAR, whereas most post-acquisition integration occurs long-term, and most acquirers fail to adequately account for this uncertainty and risk in the initial pricing of the transaction<sup>20</sup>.

The results of this research can therefore be used as guidelines by both researchers and managers. If certain features and deals seem to lead to a superior value creation and have statistically relevant power, the results may give practical advice for acquirers in Europe. In addition, if some strategies tend to create higher shareholder returns than others, it will also inform practitioners how to select the right deal in order to be more effective at improving shareholder value<sup>21</sup>. This might be the case with first-time acquisitions as well as with higher strategic fit strategies. However, there is evidence of acquiring firms transferring value to target firms, and policy makers should determine if any regulations are being broken. This is because many of the acquiring firms pay very high takeover premiums to target shareholders, whereas post-merger operations of the acquirer's businesses might see little benefits of the consolidation, leading to value transfers to target firm shareholders. Further empirical research should be conducted to study these questions more carefully.

## 1.2 Scope and limitations of the study

The scope of this master's thesis has been limited to the observation of European

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<sup>20</sup> Harrison, J. S., & Schijven, M. (2015). Event-study methodology in the context of M&As. In (Ed.), (1st ed., p. 21). Routledge.

<https://api.taylorfrancis.com/content/chapters/edit/download?identifierName=doi&identifierValue=10.4324/9780203761885-17&type=chapterpdf>

<sup>21</sup> von Kienlin, K., & Cousin, M.-A. (2017). The Three Ts of Successful M&A. Executive Insights, XIX(63), 1–5. [https://www.lek.com/sites/default/files/insights/pdf-attachments/1963\\_The\\_Three\\_Ts\\_of\\_Succesful\\_M\\_and\\_A\\_Karin\\_von\\_Kienlin\\_MarcAntoine\\_Cousin.pdf](https://www.lek.com/sites/default/files/insights/pdf-attachments/1963_The_Three_Ts_of_Succesful_M_and_A_Karin_von_Kienlin_MarcAntoine_Cousin.pdf)

M&A deals with a transaction value of more than €1 billion completed in the period from 2015 to 2023. In this regard, these selection criteria should ensure that the observed deals are defined as mega-deals, because they generally are claimed to be different (e.g. concerning the creation of long-term value for shareholders) in the extant literature than deals on a smaller scale. Moreover, large deals tend to perform better in terms of post-2010 CARs for both targets and acquirers due to higher expectations of investors. However, by excluding deals on a lower scale, we are also limiting ourselves to the complexity of larger transactions.

The second limitation of the research is the European scope due to differences across continents<sup>22</sup>, as follows: legal and economic integration as well as cross-border versus domestic M&As tend to vary by country. For example, Stefko et al. (2022)<sup>23</sup> show that the harmonization of EU competition policies and a stronger focus on the implementation of the concept of CSR influence transaction volume in the EU. Furthermore, the limitation in geographical scope prevents the generalization of the results, e.g., to the American or Asian markets.

Moreover, due to this limitation, we are also observing high-profile deals (those that have been covered by the media). This is because in the M&A market nowadays the trend is leaning toward large-cap M&As<sup>24 25</sup>, often including private equity firms as acquirers of public companies or as targets. This ensures a significant amount of publicly available data. The high-cap sample limits the research by overlooking the role of M&A flexibility.

The first analytical limitation of this research arises from the fact that the event-study method used in this study is based on the semi-strong-form efficiency assumption and is, as a consequence, subject to the limitations outlined in the literature. The authors

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<sup>22</sup> evoae, G. M., Dicu, R., & Mardiros, D. (2018). How do the foreign direct investments flow? The case of the cross-border M&As in the European Union. *Journal of Accounting and Management Information Systems (JAMIS)*, 17(4), 641-662. <https://doi.org/10.24818/jamis.2018.04007>

<sup>23</sup> Stefko, R., Heckova, J., Gavurova, B., Valentiny, T., Chapcakova, A., & Ratnayake Kascakova, D. (2022). An analysis of the impact of economic context of selected determinants of cross-border mergers and acquisitions in the EU. *Economic Research-Ekonomska Istraživanja*, 35(1), 6385-6402. <https://doi.org/10.1080/1331677X.2022.2048200>

<sup>24</sup> Garay, M., Reilly, A., & Winer, B. (2024). What's the deal with the M&A market? CFO Insights, 1-5. Deloitte Development LLC. <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/finance/us-xa-8570262-cfo-insights-05-16-24-final.pdf>

<sup>25</sup> Chernenko, N., Moiseienko, T., Korohodova, O., & Hlushchenko, Y. (2021). Analysis of mergers and acquisitions between 2009 and 2020. *Revista Galega de Economía*, 30(4), 1-15. <http://dx.doi.org/10.15304/rge.30.4.7558>

state that the main disadvantage of the event-study methodology is that it identifies the initial short-term reaction to information announcements but that it does not analyze value realization. Short-term overoptimism may be caused by strategic communication (disclosure) and information asymmetries between management and investors. The market may overreact to public M&A announcements, especially with regard to mega-deals due to higher expectations.

In general, the research limitations for event studies have also been discussed by Harrison and Schijven (2015). The authors say that, firstly, researchers must decide on a number of important parameters like length of the event and estimation windows, the method of calculating abnormal returns, and the proxy for market returns, all of which may generate variability in CARs. Secondly, since event studies mostly focus on public information about the deal (usually at the time of initial announcement), many researchers assume that the reaction of the stock markets directly corresponds to the economic impact of the M&A<sup>26</sup>. However, as mentioned earlier in this chapter, not all available information concerning the deals reaches the stock markets due to, for example, private information.

Finally, this research assumes that companies in a specific industry have similar returns. Therefore, the calculated CARs are average values. Furthermore, event-study analysis has the drawback that most statistical tests used to interpret CARs suffer from an inappropriate level of statistical power (because they are unable to deal with the heterogeneity that characterizes the M&A activity), resulting in the lack of the detection of significant relationships.

In addition, the long-term analysis relies on long-term financial key performance indicators (KPIs) such as EBITDA, ROIC, revenue growth, and operating margins, although there are some limitations. Firstly, M&A performance may be overshadowed or exaggerated by external events, such as macroeconomic factors or other industry events unrelated to the M&A in question. It may be unclear if these factors affect the company's M&A performance over a longer period, given that these external factors themselves may be influenced by the transaction. Secondly, for accounting performance measures, it is also problematic that companies may be hiding the real value of a deal<sup>27</sup>.

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<sup>26</sup> Harrison, J. S., & Schijven, M. (2015). Event-study methodology in the context of M&As. In (Ed.), (1st ed., p. 21). Routledge.

<sup>27</sup> Demirbaga, M., Malikova, K., Kuvandikova, A., & Manson, S. (2023). Workforce reductions and post-merger operating performance: The role of corporate governance. *Journal of Business Research*, 1-29. [https://repository.essex.ac.uk/28583/1/WR%20OP%20and%20CG%20with\\_titlepage.pdf](https://repository.essex.ac.uk/28583/1/WR%20OP%20and%20CG%20with_titlepage.pdf)

Thirdly, there are also potential limitations in terms of the data. The evidence shows that workforce redundancies, changes in management practices and corporate governance policies, and cultural collisions have a negative effect on post-acquisition performance. Demirbaga et al. (2023) indicate that the sample shows an average reduction in post-acquisition workforce (post-workforce is 4% less than the pre-merger values) and that companies' operating performance does not increase (industry-adjusted average POST\_ROS is negative with a value of -0.010). This can happen for several reasons. Companies can set unrealistically low pre-M&A targets; they may underestimate the impact of the different activities necessary for post-merger integration, or there could simply be bad luck. For instance, bad luck may mean that, after the M&A process, the company loses an important manager who had an important role. In addition to all the limitations of financial KPIs to assess post-merger performance described above, the sample also has some intrinsic shortcomings, such as companies' resistance to change, especially from former partners. This factor is not considered in the model, but it is very influential on the post-merger integration process.

One of the main limitations of this study is that it ignores the role of qualitative and organizational integration factors during post-merger integration in the post-merger performance. The Merck Serono S.A. case study, for example, emphasizes the importance of corporate culture, transformation of corporate identity, and HR practices for post-merger integration success<sup>28</sup>. Some post-merger integration challenges, such as key employee retention and cultural compatibility, remain open questions. The success of anticipated synergies is sometimes achieved and sometimes not. In the latter scenario, even when other strategic factors are beneficial, M&A fails due to soft factors that were not present. Thus, this represents one of the main limitations of this thesis due to the fact that some determinants cannot be expressed in quantitative terms, requiring a far deeper investigation.

Finally, the fact that the study has been conducted on only a limited number of European large-cap companies could have generated selection biases. This is also because this sample tends to exhibit greater availability of post-M&A data in general due to the

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<sup>28</sup> De Bernardis, L., & Giustiniano, L. (2015). Evolution of multiple organisational identities after an M & A event. A case study from Europe. *Journal of Organizational Change Management*, 28(3), 1–32. <http://dx.doi.org/10.1108/JOCM-05-2014-0096>

widespread use of due diligence as well as the higher use of integration methods<sup>29</sup>. In this respect, however, the selection of large-cap companies provides an in-depth view into a significant portion of the deal market, although this needs to be acknowledged by future researchers, as smaller cap companies may follow different trends due to lower control mechanisms or the stage of development of the market they are acting in.

To conclude, while the scope of the thesis is deliberately limited to a sample of European large-cap deals, it has been acknowledged that there are inherent limitations in the design of this research, such as the absence of the impact of softer/qualitative factors for the post-merger performance in the event-study analysis. Future researchers are recommended to consider these limitations and thus conduct more comprehensive analyses in order to measure, quantitatively and qualitatively, the post-merger impact on performance.

### **1.3 Structure of the thesis**

The structure of the master's thesis is constructed in order to follow the research question for value creation in M&A in a systematic way that includes both theoretical and empirical approaches. By organizing the work in a way that all sections tie together, it should culminate in an analysis that helps to understand which variables affect the level of shareholder value from M&A. In order to answer the research question and reach the overall objective, both a short-term event study and a long-term financial analysis are used. The justification of using both approaches is that most studies focus on either short-term or long-term gains, but fail to acknowledge both and connect the short-term market reactions with long-term performance. By integrating both methodologies, this thesis helps to bridge the gap in literature and allows for comparison between how the market assesses deal performance in the short-term and how the targets perform based on operational metrics in the long-term.

The first part of the thesis entails the literature review. In this section, the main theories that are related to M&A and also influence this paper are explained. Theories are evaluated for how appropriate they are to this specific empirical study. In general, a

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<sup>29</sup> Garay, M., Reilly, A., & Winer, B. (2024). What's the deal with the M&A market? CFO Insights, 1-5. Deloitte Development LLC. <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/finance/us-xa-8570262-cfo-insights-05-16-24-final.pdf>

critical review of popular theories regarding M&A, such as the synergy theory, agency theory, and resource-based view, is made in order to understand what the literature suggests motivates M&A deals. Regarding the synergy theory, around 33% of transactions manage to surpass pre-transaction expectations<sup>30</sup>. Regarding the agency theory, managerial self-interest becomes prominent and could influence decisions that value acquisitions over long-term company performance. Finally, for the resource-based view, the importance of finding the right target with resource complementarities and low integration costs has an enormous effect on shareholder value, as not doing so will lead to a value-destructive deal<sup>31</sup>. By analyzing the theories described above, a thorough overview of common M&A theories can be obtained in order to critically compare them to the results from the study in this paper.

The third section concerns methodology. As previously mentioned, there are two approaches: an event study methodology and a financial performance study. For the event study methodology, CARs are calculated to assess how M&A transactions affect the market. One critique of the event study methodology is that it assumes semi-strong market efficiency, which could inflate the true effect that a transaction has due to optimism from investors. Harrison and Schijven (2015) suggest that the lack of information, among other issues, can skew the results so that the analysis overestimates value creation. Consequently, to address the weaknesses of the event study methodology, this thesis incorporates a longitudinal approach analyzing accounting-based financial measures like revenue, EBITDA, ROIC, and operating margin. In the article written by Andriuskevicius and Ciegis (2017), the authors point out that few papers combine both methods to account for not only short-term events but also the long-term financial effect that transactions have. Most studies only analyze one aspect or the other. This thesis fills that gap. This combined methodology also gives the advantage of comparing pre-merger and post-merger results in order to see how the transactions perform, and that data is benchmarked against industry averages to determine how they measure up compared to the general trends of the sector.

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<sup>30</sup> von Kienlin, K., & Cousin, M.-A. (2017). The Three Ts of Successful M&A. *Executive Insights*, XIX(63), 1–5. [https://www.lek.com/sites/default/files/insights/pdf-attachments/1963\\_The\\_Three\\_Ts\\_of\\_Succesful\\_M\\_and\\_A\\_Karin\\_von\\_Kienlin\\_MarcAntoine\\_Cousin.pdf](https://www.lek.com/sites/default/files/insights/pdf-attachments/1963_The_Three_Ts_of_Succesful_M_and_A_Karin_von_Kienlin_MarcAntoine_Cousin.pdf)

<sup>31</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

The fourth section describes the sample collected. This thesis looks at around 10 deals in Europe over €1 billion that occurred in the period from 2015-2023. The threshold to consider only large transactions ensures that both high expectations and pressure to create synergies drive investor interest and deal complexity. Studies that examine transactions over this size threshold, such as those by Renneboog and Vansteenkiste (2018) and Alexandridis et al. (2017), found that they tend to have relatively higher CARs compared to transactions valued below €1 billion, supporting the premise that large transactions are associated with higher investor expectations of the synergies to be realized. Consequently, while studying large transactions provides great insight into M&A shareholder value, some limitations need to be considered because transactions under €1 billion may follow different value creation dynamics compared to larger deals, as the lack of deal complexity and high shareholder expectations can be the difference in determining post-merger financial gains. Furthermore, collecting descriptive statistics regarding this sample gives context to general trends across M&A deals in Europe. These include a recent decline in M&A deal values, the increasing trend of private equity involvement, the shift from domestic deals to more cross-border deals, and other patterns.

The fifth section presents the empirical results gathered. In order to determine what can impact shareholder value, this study looks at various short-term CAR values that measure the effect M&A deals have on stock prices, as well as the changes in financial variables, and compares the changes over time to the trends within the sample's specific sectors. Both analyses determine what factors impact shareholder value, and each one provides insights that the other may lack. The statistical significance of all events is evaluated to ensure that there is enough credibility to draw conclusions.

The sixth section deals with the interpretation of the empirical results and their relation to the literature review. All variables analyzed within the empirical results that can be interpreted to impact shareholder value are explored further, relating them to the theories in the literature review. By referencing existing knowledge in the context of the findings in this thesis, a stronger conclusion can be drawn regarding M&A shareholder value. For example, some of the research questions posed throughout this paper revolve around the difficulty in achieving synergies post-transaction. The discussion can thus be aided by the prior literature regarding how operational and financial synergies are often inflated at the time of deal announcement, or by the challenges that executives face to attain these goals after transactions close. Moreover, another question regards the importance of managerial incentives and agency-related risks. The implementation of

more than five board interlocks increases the risk of paying more for an acquisition that is not of substantial long-term benefit for investors. Thus, while Drobetz and Momtaz's (2020) article covers agency risks, specifically that an acquirer pays more than what the targets are worth, agency risk is also measured in terms of the operational goals in this thesis by comparing companies' sector trends to the sample trends. This paper assesses how frequently and to what extent the sector and sample data differ from one another and explores which sector factors could have caused the deviation of each deal.

Finally, the seventh section presents conclusions, limitations, and implications for future research. Managerial recommendations as well as policy recommendations are made. Future research avenues are identified for filling gaps and expanding on the existing literature. The combination of the two aforementioned methodologies aims to make a substantial contribution to the existing literature of M&A.

## 2. Literature review

A comprehensive overview of the theoretical principles and empirical findings surrounding merger and acquisition outcomes are provided in this section. The section will discuss the core theories regarding value creation and value destruction in a deal setting, short- and long-term effects on European deals, and finally present a review of the existing literature and the research gaps that currently exist.

### 2.1 Theoretical foundations of M&A

Synergy theory claims to be the basic rationale of value creation through M&A. The theory proposes that synergy can be achieved through cost reductions, revenue increases, and better positioning of the merged companies. Indeed, empirical studies confirm that the announcement of an M&A transaction triggers positive stock market reactions<sup>32</sup>, with some studies even documenting improvements in post-merger operating performance relative to other industry rivals. However, even if synergies are initially expected, it is questionable whether they are indeed materialized post-merger. For example, it has been found that synergies are less abundant than previously anticipated at announcement date because merger targets are often overvalued. Further, other empirical evidence reveals that a small amount of mergers achieve sustainable performance improvements exceeding those of industry rivals. From a value creation perspective, the weaknesses of synergy theory lie in its failure to acknowledge the difficulties of synergy realization. These include, for instance, overly optimistic projections, underestimated integration complexity, and external changes.

The resource-based view focuses on the acquisition of unique and complementary resources as a strategic motivation for M&A. Contrary to the basic assumptions of synergy theory, this theory implies that firm differences, rather than commonalities, are the source of increased competitive advantages. For instance, by acquiring technologies, capabilities, and market access, firms can improve their long-term competitiveness<sup>33</sup>. Empirically, there is ample evidence supporting this theoretical perspective, which points

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<sup>32</sup> Andrade, G., Mitchell, M., & Stafford, E. (2001). New evidence and perspectives on mergers. *Journal of Economic Perspectives*, 15(2), 103–120. <https://doi.org/10.1257/jep.15.2.103>

<sup>33</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

to the outperformance of deals carried out to acquire resources relative to those undertaken for sheer scale. However, the resource-based view, although valuable in explaining why acquisitions are executed, does not adequately address the effective use of acquired and complementary resources. Resource integration is vital to attaining the strategic fit identified during the pre-merger assessment, and this is where many acquisitions struggle. For instance, most M&A deals lead to post-merger performance decrements, and integration management is often pointed to as a reason for these outcomes. By focusing on what motivates an acquisition—gaining competitive resources—the resource-based view serves as a useful framework; however, it does not tell the whole story. Post-merger integration represents the cornerstone of performance improvement, and the resource-based view cannot effectively contribute to our understanding if post-merger execution lacks rigor.

While synergy theory and the resource-based view point to the economic motivations of M&A and, accordingly, offer avenues for value creation, agency theory explains the behavioral issues behind M&A deal decision-making by arguing that managers are often self-interested, thus making acquisitions that do not maximize shareholder wealth<sup>34</sup>. Indeed, abundant evidence on stock returns has uncovered that M&A activity is often damaging for acquiring shareholders and that it can stem from managerial hubris, such as personal wealth and empire-building motivations. Other empirical findings confirm the existence of negative agency effects during the takeover of non-family firms, reflected in poor market responses at announcement and long-term declining operating performance. Further, this situation can be aggravated by low board ownership. Conversely, shareholder activism and other governance mechanisms tend to restrain these agency problems. As this theoretical perspective points out, agency-related risks, together with deficient incentive alignment, are often overlooked when mergers are completed because they undermine managers' self-interests. Thus, for this research, an important question arises: how can agency problems in the M&A process be solved, preventing value erosion?

Events studies are the most often employed short-run performance technique in M&A empirical work because it is considered the least problematic. Based on the premise

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<sup>34</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

of efficient market hypothesis, stock prices are expected to quickly and correctly reflect all publicly available information on M&A transactions. It is widely used in M&A event studies because, according to the efficient market hypothesis, it enables assessment on an entire sample as if the market values companies using the same procedure and discount rate. Despite its ubiquity, event studies have significant flaws. By using a semi-strong efficiency assumption, the event study technique implicitly assumes away information asymmetry. Many M&A deals have vague announcements of future plans, leading to a great amount of speculation by investors. Studies demonstrate that many events labeled as wealth creating by inflated or deflated cumulative abnormal returns (CARs) can be explained by sentiment or speculation. Thus, despite its wide adoption, it has limited reliability as a valuation tool. Moreover, the semi-strong assumption of efficiency leads to biases. Given the amount of ambiguity surrounding European deals (e.g. legal, political, cross-border, regulatory), this bias may be quite high.

Recent trends in conceptual and empirical research on M&A theory point to a growing consideration of contextual factors (such as cross-country transactions, financial and economic environments, firm characteristics, etc.) and stakeholder-oriented aspects (such as social-ethical issues). This represents a shift in the direction of theorizing value creation through M&A by considering non-financial determinants of M&A and long-term consequences. These variables affect long-term M&A performance and value creation in ways that traditional M&A theories alone could not explain. For instance, there is empirical evidence that acquirers with strong corporate social responsibility (CSR) ratings experience superior long-term performance than low CSR rating acquirers when dealing with related M&A parties in specific geographic areas, supporting the relevance of regional factors.

To summarize, each of the aforementioned theoretical approaches makes important contributions to the literature on M&A value creation; however, they are subject to critical limitations. Therefore, a consideration of the strengths and weaknesses of these theories and their integrative application in addressing the proposed research question enhances the theoretical basis of the current study.

## 2.2 Value creation and destruction for shareholders

Value creation and destruction for shareholders during mergers and acquisitions (M&A) has been heavily studied. Research shows that targets commonly experience positive abnormal returns upon announcement of the deal. Empirical studies have shown that target companies around the world, regardless of era, tend to profit significantly more in M&A transactions than acquirers. For example, for companies located in Europe during the 1990s, the cumulative abnormal return (CAR) was approximately 16% for target companies. In the U.S. in the 2010s, CAR was about 29% for target companies<sup>35</sup><sup>3637</sup>. These values indicate an imbalance in M&A value creation, as a much higher benefit is delivered to target shareholders.

Because there is an asymmetrical impact on shareholder wealth in M&A transactions, whereby targets greatly benefit and acquirers obtain less obvious benefits, scholars began to examine the magnitude of CARs for target and acquirer shareholders. While acquirers often express anticipation for enhanced profitability due to synergies to be achieved by the deal, studies indicate that more often, shareholders are unsure about the value creation capability of the deal and show it in a negative or insignificant CAR. This raises a red flag as to whether such transactions deliver what they promise to shareholders.

Meta-analysis studies on acquirer abnormal returns show mostly negative or ambiguous values. As such, theoretical reasons have been offered by scholars to address this inconsistency<sup>38</sup>. According to agency theory, executives are motivated by personal gains rather than financial benefits to the company. Overbidding for a target and gaining popularity among shareholders is the most significant impact of agency theory on the transaction process and is associated with higher negative abnormal returns for the

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<sup>35</sup> Renneboog, L., & Vansteenkiste, C. (2018). What goes wrong in M&As? On the long-run success factors in M&As (Finance Working Paper N° 589/2018). European Corporate Governance Institute. [https://www.ecgi.global/sites/default/files/working\\_papers/documents/finalrenneboogvansteenkiste.pdf](https://www.ecgi.global/sites/default/files/working_papers/documents/finalrenneboogvansteenkiste.pdf)

<sup>36</sup> Meckl, R., & Röhrle, F. (2016). Do M&A deals create or destroy value? A meta-analysis. *European Journal of Business and Economics*, 11(2), 9-19. <https://ojs.journals.cz/index.php/EJBE/article/download/890/993>

<sup>37</sup> Alexandridis, G., Antypas, N., & Travlos, N. (2017). Value creation from M&As: new evidence. *Journal of Corporate Finance*, 45, 632-650. <https://centaur.reading.ac.uk/70385/1/M%26A%20Value%20Creation%2008-09-2017.pdf>

<sup>38</sup> Meckl, R., & Röhrle, F. (2016). Do M&A deals create or destroy value? A meta-analysis. *European Journal of Business and Economics*, 11(2), 9-19. <https://ojs.journals.cz/index.php/EJBE/article/download/890/993>

acquirer. Synergy theory on the other hand states that acquisitions lead to greater profitability, as costs are reduced, revenue increased, and the acquirer's competitiveness rises within its respective market. Because empirical studies have not been able to decisively prove this in a short-term perspective, scholars attribute the differences in shareholder benefits from M&A to announcement effect. That is to say, the synergy effects are not fully manifested upon deal closing.

While a long-term perspective may seem like a solution for synergy effects to show within the target, studies show that synergies are not always attained. Moreover, synergies are very difficult to measure and confirm as the true motivator behind transactions. However, by examining short-term abnormal returns of acquirers, there may be an ability to validate synergy theory in mega-deals in the short term<sup>39</sup>. Mega-deals (deals greater than \$500 million) tend to show higher CARs in recent years for public acquirers. Recent empirical studies on U.S. companies that have acquired another for over \$500 million show that CARs have increased significantly from a negative value of – 2.41% in the years before 2009, to an average of 1.05% after 2009. According to academics, this trend suggests that deals made by companies of a larger magnitude tend to result in larger gains in abnormal returns, which implies that they are more likely to pursue larger acquisitions. In other words, short-term gains have risen in larger acquisition events.

It is important to recognize that while short-term abnormal returns may be positive for some acquirers, in mega-deals or otherwise, they are not sustainable in the long-run after synergy effects are realized. Therefore, for many firms, CAR is only beneficial upon announcement. Also, in serial acquirers that tend to undertake a series of transactions over time, CARs diminish after the first M&A attempt, indicating that gains achieved over time by serial acquirers are not as high as expected. Literature states that fewer than 50% of global M&A transactions result in positive outcomes for the acquirer after five years<sup>40</sup>. Thus, even though there seems to be some initial value that benefits acquirers undertaking mega-deals in a short-term perspective, synergy theory cannot be conclusively proven at any moment over time.

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<sup>39</sup> Meckl, R., & Röhrle, F. (2016). Do M&A deals create or destroy value? A meta-analysis. *European Journal of Business and Economics*, 11(2), 9-19. <https://ojs.journals.cz/index.php/EJBE/article/download/890/993>

<sup>40</sup> Meckl, R., & Röhrle, F. (2016). Do M&A deals create or destroy value? A meta-analysis. *European Journal of Business and Economics*, 11(2), 9-19. <https://ojs.journals.cz/index.php/EJBE/article/download/890/993>

Negative effects occur when synergies and benefits were expected to be delivered to shareholders by a higher cash flow but ended up diminishing as operations were underperforming, or integration issues plagued companies after the deal was completed. Such negative long-term abnormal returns are attributed to an overly optimistic attitude concerning value creation synergies by the acquirer, cultural and operational complexities that hinder value attainment, and market conditions being unpredictable<sup>41</sup>. Most firms undertaking acquisitions failed to reach pre-acquisition performance levels. Reduced values in performance indicators such as return on equity (ROE) have been reported, along with losses in profitability, revenue, and EBITDA. The long-term negative trend implies that in order for acquisitions to show positive abnormal returns for the acquirer, performance must be improved through higher revenues. Literature suggests that while short-term abnormal returns benefit acquirers for a short period, in the long-run such returns are negative for acquirers. The fact that higher-valued deals tend to show a more optimistic outlook for shareholders could imply that the higher initial revenue of acquirers in such instances results in greater chances for growth as long as their revenue remains consistently increasing for longer periods post-transaction.

From the resource-based view perspective, strategy scholars claim that valuable, rare, and non-replaceable resources are essential to create competitive advantage for the organization, and acquiring these resources could be beneficial for shareholder profits. However, after examining the negative trends, studies suggest that even if companies do manage to obtain these rare and non-replaceable resources, it can be extremely difficult to integrate or manage them in a way that improves post-acquisition performance. This challenge explains the negative CAR values in the long-run and emphasizes the importance of strategy in M&A decisions<sup>42</sup>.

One of the factors of unsuccessful M&A, from the resource-based view, is organizational integration. This refers to the integration of organizational culture, human resources, and operations to enhance competitive advantage. However, many companies struggle to integrate operations and culture to sustain performance improvements following mergers or acquisitions.

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<sup>41</sup> Meckl, R., & Röhrle, F. (2016). Do M&A deals create or destroy value? A meta-analysis. *European Journal of Business and Economics*, 11(2), 9-19. <https://ojs.journals.cz/index.php/EJBE/article/download/890/993>

<sup>42</sup> Barney, J., Wright, M., & Ketchen, D. J., Jr. (2001). The resource-based view of the firm: Ten years after 1991. *Journal of Management*, 27, 625-641. <https://jaybarney.org/wp-content/uploads/2022/06/13-The-resource-based-view-of-the-firm-Ten-years-after-1991.pdf>

In addition to the type of resources acquired, deal characteristics (target characteristics and payment method) affect the success of the outcome in M&A transactions. Most research studies state that for deals to attain positive returns, it is more beneficial to acquire private targets, as such targets are subject to lower valuation standards than public targets<sup>43</sup>. Moreover, deals paid with cash lead to better long-run financial results due to the signaling effect associated with such payments, as cash payments demonstrate confidence in the long-run financial success of the acquisition.

Although the aforementioned factors play a significant role in predicting success and failures of a merger or acquisition, most research recognizes that integration is the number one factor driving M&A failure. Poor planning and integration has led to losses for not only those involved in the deal but also target and acquirer stakeholders. Most studies highlight failures that stemmed from integrating marketing activities<sup>44</sup>. While studies on marketing aspects of M&A indicated increased levels of product sales and ad spending post-acquisition, poor culture and strategy coordination led to overall financial failure of the transaction for the acquiring company<sup>45</sup>.

### 2.3 Short-term and long-term effects

The short-term market reactions to merger announcements and acquisitions, or M&A in general, can be observed by analyzing the Cumulative Abnormal Returns (CARs) of the firms involved. Most target firms display positive CARs, whereas acquiring firms tend to show smaller positive or negative ones. Empirical findings show that for European target firms in the 1990s, the announcement CARs reached 16% while for U.S. target firms in the 2010s, the announcement CARs reached up to 29%<sup>46</sup>. After 2009, the short-term average abnormal returns of acquiring firms rose only to around

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<sup>43</sup> Barney, J., Wright, M., & Ketchen, D. J., Jr. (2001). The resource-based view of the firm: Ten years after 1991. *Journal of Management*, 27, 625-641. <https://jaybarney.org/wp-content/uploads/2022/06/13-The-resource-based-view-of-the-firm-Ten-years-after-1991.pdf>

<sup>44</sup> Barney, J., Wright, M., & Ketchen, D. J., Jr. (2001). The resource-based view of the firm: Ten years after 1991. *Journal of Management*, 27, 625-641. <https://jaybarney.org/wp-content/uploads/2022/06/13-The-resource-based-view-of-the-firm-Ten-years-after-1991.pdf>

<sup>45</sup> Andrade, G., Mitchell, M., & Stafford, E. (2001). New evidence and perspectives on mergers. *Journal of Economic Perspectives*, 15(2), 103–120. <https://doi.org/10.1257/jep.15.2.103>

<sup>46</sup> Renneboog, L., & Vansteenkiste, C. (2018). What goes wrong in M&As? On the long-run success factors in M&As (Finance Working Paper N° 589/2018). European Corporate Governance Institute. [https://www.ecgi.global/sites/default/files/working\\_papers/documents/finalrenneboogvansteenkiste.pdf](https://www.ecgi.global/sites/default/files/working_papers/documents/finalrenneboogvansteenkiste.pdf)

1.05%<sup>47</sup>. This can be explained by high premiums that targets receive, a situation that encourages competition during an M&A process. While this confirms high optimism for target firms, it fails to address the overall picture regarding long-term creation of value for acquiring firms, in addition to raising doubts about the validity of utilizing short-term market reactions as a measure for the creation of value. Positive CARs can be rarely found in acquiring firms and mostly rely on other deal characteristics such as size, acquirer experience, industry and so on.

The short-term market reactions, which have been mostly attributed to anticipation in synergy-related efficiencies, are measured as CARs on a certain period of time of a merger announcement. Premiums and the expectation of long-term synergies tend to induce optimism in investors, pushing them to purchase shares around the M&A announcement date and further pushing up share prices. However, high premiums can be a dangerous risk, since the acquiring firms would need to reach these synergies after the M&A transaction has been closed, and in the event that this situation is not fulfilled, the market value will decrease. For example, when target firms report positive CARs and are later acquired, it suggests an overestimation of synergies, or value dilution for the acquiring firm. With such facts, questions need to be asked in order to understand which is the value-creation rationale in these decisions.

Recent research, done to investigate the performance of mega-deals after 2009 in Europe, reported short-term abnormal returns of European acquiring firms to be 1.05%. This improvement in abnormal returns can be considered a step forward. However, the same study shows that such results are extremely heterogeneous, dependent on factors such as deal size, acquirer industries and country involved. One example is mega-deals that are considered extremely complex and pose substantial risks for acquirers but could also generate synergies or market consolidation. When dealing with short-term market returns, and taking into consideration the high variance in each deal, it can be difficult to come to a valid conclusion of whether value is indeed being created or not. These results reinforce the idea that it is necessary to assess different factors that can significantly affect these types of market returns.

Although CARs are useful for evaluating the reactions to merger announcements, the interpretation can be somewhat problematic, as it requires relying on the assumption

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<sup>47</sup> Alexandridis, G., Antypas, N., & Travlos, N. (2017). Value creation from M&As: new evidence. *Journal of Corporate Finance*, 45, 632-650. <https://centaur.reading.ac.uk/70385/1/M%26A%20Value%20Creation%2008-09-2017.pdf>

of the efficient market hypothesis that any information regarding value creation must be immediately incorporated in a stock price and that, accordingly, post-merger stock performance cannot be improved<sup>48</sup>. It is therefore clear that CARs can only evaluate short-term and general stock market behavior. The application of the event study to M&A is based on the efficient market hypothesis; thus, the initial reaction could be biased depending on the expectations and speculations about a transaction, so if such expectations are not met, investors might quickly adjust to it in the future and correct stock price volatility. CARs, in essence, cannot assess future cash flows, efficiency and growth, all of which provide a more accurate picture of how M&As affect market valuation.

The expectation is that markets would react positively to these transactions since acquiring shareholders anticipate synergy benefits and increased competitive power. Yet, evidence shows this optimism is not a proper measurement for assessing long-term gains. Almost half of all transactions do not produce a favorable financial performance<sup>49</sup>, or in the years following the M&A transaction, returns on equity, earnings per share or operating margins of acquiring firms frequently drop below industry averages. For example, in Indonesia, after the merger there is negative long-term stock performance, in that synergies have not been properly captured<sup>50</sup>.

Moreover, when observing EBITDA, ROIC and growth rates, the literature argues that slightly more than half of acquirers improve in only one of these financial metrics after the transaction, leaving no clear positive effects for all acquirers. All these negative and uncertain outcomes are attributed to bad planning, overestimations of synergies, cultural and operational disparities and unexpected market events<sup>51</sup>. Another method to

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<sup>48</sup> Harrison, J. S., & Schijven, M. (2015). Event-study methodology in the context of M&As. In (Ed.), (1st ed., p. 21). Routledge. <https://api.taylorfrancis.com/content/chapters/edit/download?identifierName=doi&identifierValue=10.4324/9780203761885-17&type=chapterpdf>

<sup>49</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

<sup>50</sup> Tarigan, J., Evania, J., Devic, D., & Hatane, S. E. (2020). The long-term performance of post-merger and acquisition: evidence from Indonesia's stock market. *Afro-Asian J. Finance and Accounting*, Vol. X, No. Y, xxx-xxx. [https://repository.petra.ac.id/20210/1/Publikasi1\\_04025\\_8349.pdf](https://repository.petra.ac.id/20210/1/Publikasi1_04025_8349.pdf)

<sup>51</sup> Renneboog, L., & Vansteenkiste, C. (2018). What goes wrong in M&As? On the long-run success factors in M&As (Finance Working Paper N° 589/2018). European Corporate Governance Institute.

assess long-term market performance is to determine if acquiring firms will be able to outperform other companies with similar size and industry. However, empirical evidence also displays mixed results, as most researchers observed underperformance of acquirers when matched with other rivals, especially in industries that in themselves perform robustly. These findings can be translated as confirmation that many M&A strategies may not be creating value at all<sup>52</sup>.

Although market reactions in the short term are more favorable, a lot of times initial enthusiasm cannot translate into long-term superior returns in reality. When considering that about half of M&As do not generate value, this implies that many transactions do fail to provide favorable outcomes, a situation mostly linked to post-merger integration (PMI) and a lack of planning in strategic and operational procedures. Integration challenges can range from misalignments in culture and operations to unfulfilled expectations of cost savings and synergies. Most of the issues arise when there is bad management of operations, technology and organizational culture, so in general, PMI can be particularly difficult to manage as a whole due to increased complexity.

PMI and lack of planning often result in failure to integrate operational and technological aspects and integration failures can explain most of the losses experienced in the long term. Also, differences in legal and tax issues, as well as variations in market characteristics, usually affect how well an integration goes in transactions involving a significant distance between both firms. The failures regarding integration confirm that even if there is good strategic fit, it cannot guarantee that the expected benefits will take place in the long run.

According to agency theory, managers mostly decide on an M&A transaction based on their own needs and interests and not on what is beneficial for the shareholders. Evidence from Edmans et al. shows that even short-term managerial incentives are associated with lower long-term returns<sup>53</sup>. An example of a type of incentive is vesting

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[https://www.ecgi.global/sites/default/files/working\\_papers/documents/finalrenneboogvansteenkiste.pdf](https://www.ecgi.global/sites/default/files/working_papers/documents/finalrenneboogvansteenkiste.pdf)

<sup>52</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

<sup>53</sup> Edmans, A., Fang, V. W., & Huang, A. H. (2018). The long-term consequences of short-term incentives (ECGI Working Paper Series in Finance, N° 527/2017). European Corporate Governance Institute (ECGI). <https://www.ecgi.global/sites/default/files/The%20Long-Term%20Consequences%20of%20Short-Term%20Incentives-%20Paper.pdf>

equity, which in turn has been found to inflate returns around the announcement. The study explains how the value of returns around the announcement increased with vesting equity, and, after four years of the M&A transactions, lower returns were observed by one standard deviation increase in vesting equity. From a market and empirical point of view, it can be concluded that short-term returns increase with managerial overpayment and risk taking, while there may not be real or positive returns for shareholders and investors in general.

In mega-deals, CEOs and upper management are motivated by growth and expansion and tend to overestimate resources and synergies, leading to overpayment and bad management for shareholders. Managers in mega-deals are also often growth oriented, so incentive structures that reinforce proper management and control will promote more aligned behavior with that of the shareholders.

A critical role is played by good governance frameworks in which shareholders have control over management. In order to encourage them, executives should be compensated using the value created by the M&A transaction and therefore be inclined to consider the potential benefits to shareholders. These incentives can also serve as safeguards of risk taking due to a lack of proper planning for integrating operations.

The resource-based view, or RBV, describes how firms can achieve value creation through the use of certain capabilities and resources, as well as the complementarity of strategic assets that have the potential to generate superior long-term gains for all the organizations involved<sup>54</sup>. This highlights that in order to ensure a sustained increase in value, both firms must possess resource fit in terms of common strategic orientations and similar strategic assets. Although this sounds adequate, many mergers in reality also fail due to poor PMI of resources that in the process of due diligence were considered potentially useful for value creation<sup>55</sup>.

Although benefits of mergers may seem obvious or easily attained on paper, in reality the resources can fail to be properly implemented after the transaction is closed. For example, mega-deals are expected to generate greater benefits of synergy or greater

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<sup>54</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

<sup>55</sup> Alexandridis, G., Antypas, N., & Travlos, N. (2017). Value creation from M&As: new evidence. *Journal of Corporate Finance*, 45, 632–650. <https://centaur.reading.ac.uk/70385/1/M%26A%20Value%20Creation%2008-09-2017.pdf>

operational integration, and most can be explained by RBV with respect to a higher degree of resource fit. Nonetheless, poor PMI leads to failure of these M&As even if resource fit is adequate, which could explain why many firms fail to realize these benefits and why mega-deals perform on average in a negative way<sup>56</sup>. In order for the RBV benefits to take place, good PMI and a good resource fit are necessary. This shows a strategic challenge that many organizations are facing when considering a merger in order to grow and generate value.

However, the context of M&As has continuously changed since the first attempts of value creation and the impact it has had since 2000 has generated quite significant and different results. For example, the most context-sensitive type of transactions are cross-border and politically connected M&As, in which contextual factors tend to weigh heavily on the performance. Regulatory and organizational settings, and even cultural backgrounds<sup>57</sup>, vary dramatically, inducing the creation of more heterogeneous outcomes. Even with recent trends and perspectives in M&A such as private equity and serial acquirers, little is known about their value creation, making it harder to predict its outcome. For example, in private equity deals, private equity companies create and exit businesses as soon as they add some value. Also, there are concerns regarding these companies since their private status and high cash requirements result in a high-leveraged scenario. Thus, performance depends not only on operational improvement of target firms, but also on macroeconomic factors that greatly affect future performance. On the other hand, serial acquirers tend to be more sophisticated and can gain significant operational efficiencies through the integration of operations. However, as these operations become more and more similar to their acquirers, they also present similar risks. Since these organizations pursue several acquisitions sequentially, the post-acquisition integration is an ongoing and complex procedure which needs to be done well for value creation.

This overall underperformance reflects how demanding PMI is, as integration can be a crucial point for value capture, and therefore must be well designed to fully grasp

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<sup>56</sup> Alexandridis, G., Antypas, N., & Travlos, N. (2017). Value creation from M&As: new evidence. *Journal of Corporate Finance*, 45, 632-650. <https://centaur.reading.ac.uk/70385/1/M%26A%20Value%20Creation%2008-09-2017.pdf>

<sup>57</sup> Renneboog, L., & Vansteenkiste, C. (2018). What goes wrong in M&As? On the long-run success factors in M&As (Finance Working Paper N° 589/2018). European Corporate Governance Institute. [https://www.ecgi.global/sites/default/files/working\\_papers/documents/finalrenneboogvansteenkiste.pdf](https://www.ecgi.global/sites/default/files/working_papers/documents/finalrenneboogvansteenkiste.pdf)

the strategic gains.<sup>58</sup>

## 2.4 Event study methodology

The event study methodology, a quantitatively-driven tool, is recognized widely for its use in assessing short-term market reactions to announcements of mergers and acquisitions (M&A). Through the employment of abnormal returns, the effect of new information, such as M&A announcements, is isolated on stock prices. A theoretical basis is provided to event studies in the semi-strong form of the Efficient Market Hypothesis (EMH), where it is posited that stock prices are reflective rapidly and accurately of all publicly available information, which includes corporate events like M&A announcements<sup>59</sup>. Serving as the central metric in event studies, the cumulative abnormal return (CAR) measures the aggregated deviation of actual stock performance from expected market trends in a predefined event window. As an indicator, CAR showcases value creation or destruction attributable to the M&A announcement; this is disentangled from broader market effects through comparisons of market models or control firms<sup>60</sup>.

A determinant that is critical to the validity and reliability of event study findings is the precise definition and length of the event window. Typically, several days before and after the announcement are encompassed by these windows in order to capture potential market anticipation, information leakage, and adjustments post-announcement. For instance, event windows that span (-2, +2) days around the date of announcement are often employed; however, alternatives such as (-10, +10) days are also utilized to incorporate broader market responses or extended speculation periods. The choice of estimation period and event window length has seen an evolution over time as researchers adopt methods increasingly sophisticated in order to refine the accuracy of abnormal

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<sup>58</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6cceac2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6cceac2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

<sup>59</sup> Harrison, J. S., & Schijven, M. (2015). Event-study methodology in the context of M&As. In (Ed.), (1st ed., p. 21). Routledge. <https://api.taylorfrancis.com/content/chapters/edit/download?identifierName=doi&identifierValue=10.4324/9780203761885-17&type=chapterpdf>

<sup>60</sup> Wang, Q., & Ngai, E. W. T. (2020). Event study methodology in business research: A bibliometric analysis. *Industrial Management & Data Systems*, 120(10), 1863–1900. <https://doi.org/10.1108/IMDS-12-2019-0671>

return calculations. It introduces complexity that the market reactions during these windows are fully independent of other exogenous factors; as simultaneous macroeconomic shocks or industry-specific developments may influence stock movements, results may potentially be confounded.

The proliferation of event studies in business research since the early 2000s shows their value as a tool that captures immediate investor sentiment and market perception. Groundwork for contemporary methodologies were laid by foundational studies from Brown and Warner (1985) and McWilliams and Siegel (1997). Since then, these methodologies have advanced to include multivariate controls, improved benchmarks, and sector-specific adaptations. While the foundational principles of event studies have remained constant, recent innovations have addressed limitations. These include the difficulty of disentangling M&A-specific effects from broader market dynamics or information system shocks during the observation period<sup>61</sup>. The increased rigor required in modern empirical research to ensure valid interpretations of observed CARs is underscored by these advancements.

Despite their strengths, event studies face methodological challenges that are significant, particularly when the application is to the context of M&A. Information asymmetry between investors and firm managers often leads to disclosures that are incomplete or ambiguous to the public, complicating market interpretations of M&A announcements<sup>62</sup>. Reactions from the market that are exaggerated or muted may result from this asymmetry, driven more by speculation or misinterpretation than by the rational evaluation of deal fundamentals. For instance, temporary investor enthusiasm or signaling effects could be reflected by inflated CARs, instead of substantive economic gains. The extent to which event studies capture the value implications that are true in M&A is limited by such interpretive uncertainty, necessitating caution in equating short-term stock movements with long-term value creation for shareholders.

A limitation that is also key in event studies is their sensitivity to confounding factors, which may coincide with M&A announcements. Returns that are abnormal

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<sup>61</sup> Wang, Q., & Ngai, E. W. T. (2020). Event study methodology in business research: A bibliometric analysis. *Industrial Management & Data Systems*, 120(10), 1863-1900. <https://doi.org/10.1108/IMDS-12-2019-0671>

<sup>62</sup> Harrison, J. S., & Schijven, M. (2015). Event-study methodology in the context of M&As. In (Ed.), (1st ed., p. 21). Routledge. <https://api.taylorfrancis.com/content/chapters/edit/download?identifierName=doi&identifierValue=10.4324/9780203761885-17&type=chapterpdf>

exclusively to M&A activity may be obscured by events such as regulatory changes, industry news, or macroeconomic developments occurring within the same window. Concerns are raised about the robustness of the results, as traditional event studies often do not account for these simultaneous shocks. These risks are aimed to be mitigated by recent methodological advancements, such as implementing multivariate regression models and narrowing event windows. Inconsistencies in the literature and the potential for conclusions that are spurious regarding value creation are led to since these improvements are not universally adopted.

The disconnect between observed CARs and actual long-term performance further underscores the limitations of short-term event study approaches. Short-term price movements may primarily reflect signaling effects, temporary adjustments in risk perceptions, or speculative investor behavior, rather than genuine improvements in firm fundamentals, Harrison & Schijven (2015) argue. A more nuanced interpretation of event study findings is called for by this critique, which emphasizes the need to contextualize CARs within the realities that are broader strategically and operationally in M&A transactions. Through integrating complementary methodologies, such as longitudinal tracking of financial key performance indicators (KPIs), a more comprehensive assessment of value creation can be provided by researchers.

An evolving pattern has been suggested by recent empirical evidence in the short-term market perception of mega-deals, especially exceeding \$500 million in transaction value. Studies indicate acquirers in these deals have experienced CARs that are increasingly positive, averaging 1.05% in public M&A transactions since 2009, compared to historically neutral or negative returns observed in decades prior<sup>63</sup>. Improved market confidence is attributed to this upward trend, along with enhanced due diligence processes, and integration planning that is more disciplined in large-scale transactions. Furthermore, value gains that are combined for acquirers and targets in mega-deals have reached levels that are unprecedented, with gains that are synergistic frequently exceeding \$500 million, which reinforces the potential for value creation that is immediate and substantial. The asymmetry that is persistent between acquirers and targets remains evident, as shareholders of the target continue to realize gains disproportionately larger. Concerns that are ongoing about overpayment and value transfer are highlighted by this

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<sup>63</sup> Alexandridis, G., Antypas, N., & Travlos, N. (2017). Value creation from M&As: new evidence. *Journal of Corporate Finance*, 45, 632-650. <https://centaur.reading.ac.uk/70385/1/M%26A%20Value%20Creation%2008-09-2017.pdf>

dynamic, necessitating caution and strategic clarity on the acquirers' part.

Although the observed improvement in acquirer CARs is encouraging, the risks and challenges that are enduring are not negated, associated with integration post-merger. Synergies must be realized for translating market optimism in the short-term into performance financially sustained; this realization remains highly uncertain. The anticipated benefits of M&A transactions are frequently undermined by factors such as misalignment culturally, inefficiencies operationally, and unforeseen costs. Pronounced particularly are these risks in deals that are complex, including acquisitions cross-border or transactions that involve targets multi-industry<sup>64</sup>. As standalone metrics for value creation, reliance on CARs is insufficient as such, reinforcing the argument for integrating event studies with analyses financial and operational that are comprehensive.

Characteristics that are firm-specific, such as capital structure, also play a role that is critical in shaping the results of the event study. For example, banks with ratios of lower capital generally experience returns that are abnormal and negative at announcement, likely because of heightened perceptions of risk financially. Whereas non-banking firms with ratios of higher equity face similar reactions that are negative, which reflects concerns from investors about dilution or financial conservatism. Despite returns that are short-term and negative, tracking longitudinally often reveals performance that is positive in the longer term, suggesting that CARs short-term may provide a picture that is misleading or incomplete of value creation<sup>65</sup>. The importance is highlighted by this evidence of incorporating additional variables, such as leverage of the firm, context sectorial, and mechanisms of financing that are deal-specific, into models of event study in order to accurately capture the impacts differential of M&A across industries and horizons of time.

The debate methodologically surrounding event studies has fueled calls for further refinement and integration with approaches that are complementary. Beyond comparisons that are simple pre- and post-announcement, scholars advocate for expanding by

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<sup>64</sup> Harrison, J. S., & Schijven, M. (2015). Event-study methodology in the context of M&As. In (Ed.), (1st ed., p. 21). Routledge. <https://api.taylorfrancis.com/content/chapters/edit/download?identifierName=doi&identifierValue=10.4324/9780203761885-17&type=chapterpdf>

<sup>65</sup> Krishnan, C. N. V., & Yakimenko, V. (2022). Market misreaction? Leverage and mergers and acquisitions. *Journal of Risk and Financial Management*, 15(3), 144. <https://doi.org/10.3390/jrfm15030144>

incorporating metrics that capture asymmetry of information, quality of signaling, and uncertainty from investors. A perspective that is more holistic on value creation is offered by the integration additionally of financial performance tracking longitudinally, such as analyzing EBITDA, ROIC, and margins operating post-merger. A shift is illustrated by these advances toward designs of event study that are more nuanced and tailored, where factors contextual and deal-specific are systematically accounted for in order to enhance robustness empirically.

By focusing on transactions of European M&A that are large-scale, lessons methodological recent are operationalized by this study, while addressing gaps that are critical in literature existing. Insights that are actionable into the effects short-term and long-term of M&A are aimed to be provided through the adoption of techniques of event study that are refined, coupled with the inclusion systematic of benchmarks of industry and controls for asymmetry of information. Not only does this approach enrich the understanding of reactions immediate from the market, but the gap is also bridged between sentiment short-term and realization of value sustained. While the event study methodology remains a cornerstone of research on M&A, its application must be continuously refined and critically contextualized to capture the complexities of transactions corporate modern, in conclusion.

## **2.5 Prior empirical research and research gaps**

The field of M&A has predominantly relied on event studies to explain value creation in mergers and acquisitions. This means that almost 40% of all empirical M&A literature uses short-term market reactions as a measurement of value creation. As opposed to short-term reactions, long-term value creation based on accounting-based measures is tested in just 28% of all studies<sup>66</sup>. As the CARs (cumulative abnormal returns) for M&As during the acquisition period are often positive, this lack of long-term evaluation leads to the assumption that the announced synergies materialize and generate value for the acquiring company. However, the predictive capabilities of the CARs and

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<sup>66</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

their impact on long-term financial results are often weak. This suggests that initial reactions during an acquisition are determined by speculative enthusiasm or signaling rather than anticipated economic value creation<sup>67</sup>. As a result, high CARs during the announcement period can co-exist with weak EBITDA or ROIC numbers after the acquisition. A combined short-term/long-term methodology can overcome the limitations of event studies while at the same time including the reactions from the capital markets during the acquisition.

Most of the empirical research supports the notion that value creation in mergers and acquisitions benefits target firms disproportionately more than acquiring firms. European target firms recorded an average CAR of 16% for the period of the 1990s. In 2010 and beyond, the average announcement CAR of target firms was around 29% in the United States as compared to an average of only 1.05% for acquiring firms<sup>68</sup>. This asymmetry in returns to target versus acquiring firms can be traced to the fact that acquisition premiums are paid by the buyers. The competitive bids between potential acquirers ensure that the biggest part of all generated synergies is transferred from the acquiring firm to the target firm. As the target firm shareholders always benefit, the most obvious and unanswered question about M&A transactions is “When can acquiring firms achieve long-term financial returns?”. Despite improved capabilities in deal making, acquiring firms continue to perform poorly as compared to target firms. Further research is needed to assess the influence of contextual factors and deal characteristics in realizing value.

One of the most challenging aspects of M&A research is explaining why acquirers consistently fail to generate long-term financial benefits. This gap in the M&A literature is clearly observed in the inconsistent improvements in financial performance after M&A. It has been reported that no more than 50% of the time do mergers and acquisitions lead to sustained improvements in EBITDA, ROIC, or revenue growth (Marszałek et al., 2022). As an example of value creation among acquirers, only 50% of acquisitions were assessed as value creating for the automotive industry<sup>69</sup>. The post-merger EV/EBITDA

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<sup>67</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

<sup>68</sup> Alexandridis, G., Antypas, N., & Travlos, N. (2017). Value creation from M&As: new evidence. *Journal of Corporate Finance*, 45, 632-650. <https://centaur.reading.ac.uk/70385/1/M%26A%20Value%20Creation%2008-09-2017.pdf>

<sup>69</sup> Marszałek, J., Kaźmierska-Jóźwiak, B., & Niedzielska, E. (2022). The value of the acquiring company

and EV/CFO ratios for this same sample were vastly different for successful vs. underperforming acquisitions. Due to the fact that sectoral and general economic conditions may improve certain performance numbers and mask failures in value creation (i.e. post-merger operating efficiency), this research utilizes benchmarking as an essential element to assess value creation among the acquirers of large, cross-border deals. This way, improvements in ROIC are meaningful as the acquiring company consistently performs better than its peers during a specific time period.

The past few decades in the M&A field saw an increase in the number of serial acquirers. As returns decrease for the bidding firms following repeated M&As, this implies the existence of an unexamined but impactful factor of deal experience. CARs for the first bid made by acquiring firms were reported as 2.67%, while subsequent bids were statistically insignificant<sup>70</sup>. After sequential acquisitions, both operational income and operating income-to-sales were declining, implying that the acquiring companies were overextended in their ability to assimilate newly acquired resources and/or that acquisitions led to declining revenues as a result of market pressures. This is especially worrisome as serial acquisitions are not only common but increasing as part of the global M&A market. As private equity firms gain traction in the world of M&A (up to 30%), the investment horizon is shorter, with the focus on quicker value extraction.

Lastly, a combination of contextual factors has also been shown to contribute to M&A success, such as political connections, legal systems, and levels of corruption in various regions of the world<sup>71</sup>. While deal experience, private equity involvement, and regional variances have been independently studied, it remains largely unexplored how these contextual variables simultaneously impact post-merger performance, particularly for the mega-deals in the EU. This is the goal of this study.

For more than four decades, empirical M&A research has been done in the hopes

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and the success of M&A transaction in the automotive sector. *European Research Studies Journal*, XXV(4), 160-176.

<https://ersj.eu/journal/3073/download/The+Value+of+the+Acquiring+Company+and+the+Success+of+M+A+Transaction+in+the+Automotive+Sector.pdf>

<sup>70</sup> Renneboog, L., & Vansteenkiste, C. (2018). What goes wrong in M&As? On the long-run success factors in M&As (Finance Working Paper N° 589/2018). European Corporate Governance Institute. [https://www.ecgi.global/sites/default/files/working\\_papers/documents/finalrenneboogvansteenkiste.pdf](https://www.ecgi.global/sites/default/files/working_papers/documents/finalrenneboogvansteenkiste.pdf)

<sup>71</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

of identifying a common ground between multiple drivers of positive acquirer outcomes. Despite the diverse theories related to value creation, such as synergy theory, resource complementarity theory, and agency theory, scholars are far from converging to a commonly accepted set of value drivers.

Combined synergy gains from deals exceeding \$1 billion may be over \$542 million, but synergies fail as often as they succeed. For example, poor integration of the target firm into the existing businesses of the acquirer can negate all of the expected financial benefits<sup>72</sup>. No matter how much sense an M&A makes from a strategic viewpoint or the size of the synergies, performance benefits may not materialize without proper execution and adequate corporate governance. The challenge for companies is to predict when acquiring or being acquired generates value. One of the contradictions found in the literature on resource complementarity theory deals with cultural integration between two independent entities. Despite the popular view that the strategic fit of both companies is most important, as one company can complement what the other is missing, successful M&As may also rely on similar cultures between two independent entities. What all of the contradictory outcomes and inconsistent literature have in common is that one deal characteristic or individual component of the deal is not sufficient. Research that evaluates the combination of deal structuring, deal implementation (i.e. integration success), managerial incentives, and the context in which the acquisitions take place may further advance the M&A field of study. While empirical research abounds with contradictory and inconsistent value drivers, this study intends to add to the literature by analyzing post-merger performance to uncover several of the independent and contextual factors influencing successful acquisition outcomes.

Empirical research has uncovered several patterns in M&A outcomes, but further research is needed to determine if a consensus on these findings is possible. Some of these patterns are that:

1. Target company shareholders always win;
2. Performance improvements in the post-merger environment for acquirers are inconsistent;
3. Experience in M&A, private equity, and region play roles in value creation for

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<sup>72</sup> Alexandridis, G., Antypas, N., & Travlos, N. (2017). Value creation from M&As: new evidence. *Journal of Corporate Finance*, 45, 632-650. <https://centaur.reading.ac.uk/70385/1/M%26A%20Value%20Creation%2008-09-2017.pdf>

acquiring firms.

The goal of this research is to explore why this may be the case.

### **3. Methodology**

In this section, the research design and the analytical methods applied to examine value creation in large European M&A transactions will be presented. This part aims to cover the combination of the event study and financial performance analyses. The methodology utilized is critical to addressing the research questions and achieving the goals of this thesis.

#### **3.1 Research strategy and methodological approach**

The research strategy and method adopted for this master's thesis seek to fill critical gaps in current mergers and acquisitions research and analysis. Contemporary research is still limited by its focus on immediate market reactions or long-run operational outcomes. The simultaneous inclusion of event study methodology, measuring short-run shareholder value effects around the announcement, and financial performance analyses, measuring long-run accounting-based performance (ROIC, EBITDA, etc.), allows for a fuller, more conclusive account of value creation in the context of large European transactions. Specifically, prior literature concludes that 40% of M&A studies adopted methodologies focusing on short-run effects by assessing cumulative abnormal returns (CARs), whereas only 28% used accounting-based approaches assessing post-merger financial performance<sup>73</sup>. These limitations tend to prevent the measurement of differences between announcement-period sentiment and the eventual, realized results. By examining both short-run and long-run aspects of M&A transactions, this thesis aims to correct for this deficiency, as relying on CARs to predict long-run outcomes is simply a shortcut.

An event study method is the most widely used approach for measuring short-run shareholder value effects around merger announcements in finance literature. The method is based on the semi-strong form of the efficient market hypothesis, which suggests stock prices quickly incorporate all publicly available information. The study examines short-run shareholder value gains resulting from M&A announcements based on this methodology. However, this thesis criticizes the event study methodology by noting that it only serves as a starting point when assessing the shareholder gains caused by M&As. Evidence shows that these short-run abnormal returns fail to indicate true wealth creation

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<sup>73</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

due to their temporary, uncertain nature<sup>74</sup>. CARs simply signal expectations or market sentiment regarding potential outcomes based on limited available information. In contrast, Harrison and Schijven (2015) show a substantial difference between CARs at M&A announcements and future actual economic results. It is possible that investors in the target firm overestimate future cash flows for various reasons, such as ambiguous public statements or the lack of critical deal elements in the public sphere. This leaves investors to speculate on the M&A prospects rather than making rational decisions based on deal fundamentals, which is a limitation that will be discussed at later stages of the thesis. Therefore, it is important to contextualize and carefully interpret the event study findings within this framework of methodological limitations.

Furthermore, since the early 2000s, newer developments in event study methodologies have implemented multivariate statistical methods to avoid any possible distortions from macroeconomic events, sector-specific news, and other unrelated company or industry events occurring within the event window that could distort CAR measurements. For example, multiple overlapping news releases regarding a firm and/or its industry within a specific time frame may artificially inflate the cumulative abnormal return, resulting in misinterpretations. Wang and Ngai (2020) point out that these effects can be avoided by excluding firms that have experienced several overlapping events within the event window and/or by shortening the length of the event window used to assess abnormal returns. It is crucial to control for these effects in the event study methodology to ensure an unbiased analysis, and this study will also implement these recent adjustments in its approach to avoid the above-mentioned pitfalls.<sup>75</sup>

The selection of a sample consisting of approximately 10 large European M&A transactions is influenced by recent research showing that transaction size is positively related to various strategic dimensions, indicating a growing interest in these deals by both theorists and practitioners. To create a representative sample, this research will specifically focus on large-scale, European-based transactions with deal values exceeding €1 billion closed between 2015 and 2023. Current scholarly literature primarily looks at

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<sup>74</sup> Harrison, J. S., & Schijven, M. (2015). Event-study methodology in the context of M&As. In (Ed.), (1st ed., p. 21). Routledge. <https://api.taylorfrancis.com/content/chapters/edit/download?identifierName=doi&identifierValue=10.4324/9780203761885-17&type=chapterpdf>

<sup>75</sup> Wang, Q., & Ngai, E. W. T. (2020). Event study methodology in business research: A bibliometric analysis. *Industrial Management & Data Systems*, 120(10), 1863-1900. <https://doi.org/10.1108/IMDS-12-2019-0671>

smaller-scale, non-large-scale transactions to analyze various effects resulting from M&A announcements. Because there are numerous M&A activities that do not exceed the €1 billion valuation level, there is more accessibility in terms of empirical analysis in comparison to large-scale deals. The selection of this large-scale range aims to target the specific interest in this thesis. Moreover, this study will look at both domestic and cross-border M&A transactions for two reasons. Cross-border M&As have continued to increase, surpassing the prevalence of domestic transactions at the international level, as these deals are now regarded as an important aspect of global business strategy<sup>76</sup>. Therefore, the selection of these categories will address the recent growth trend in European and global business contexts.

The benchmarking of post-merger financial performance for each acquiring company is another major aspect that must be addressed. Past studies have shown that even deals that receive much press attention and praise still manage to perform below their industry peers. The selection of benchmarking allows for the elimination of these extraneous variables because this study specifically aims at assessing performance changes for a business unit against the average of its industry. If it finds that a business unit increased revenue while the industry as a whole saw decreased revenues during that same period, the results of an increase in revenue can be directly attributed to that particular transaction. Also, benchmarking against the performance of peer companies ensures the elimination of spurious results, where changes in accounting standards over time artificially inflate or deflate the measured metrics. This approach ensures that changes are measured only against an industry benchmark and are not subject to external manipulation. Therefore, by benchmarking against the industry level, any possible effects caused by cyclical factors will be removed from this study's findings.

In line with these methodological dimensions, it is important to consider M&A performance outcomes in the context of prominent M&A theories such as synergy theory, the resource-based view, and agency theory. These theories attempt to explain how effective M&A deals can result in above-average performance. According to these perspectives, improved strategic fit, increased resource utilization, enhanced capabilities, and higher operating performance should lead to performance gains and better outcomes. However, several studies indicate that acquiring firms regularly fail to achieve the

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<sup>76</sup> Ledenyov, D. O., & Ledenyov, V. O. (2014). Mergers and acquisitions transactions strategies in diffusion - type financial systems in highly volatile global capital markets with nonlinearities [Doctoral dissertation, James Cook University]. <https://arxiv.org/pdf/1502.02537>

projected synergies<sup>77</sup>. This research argues that the theories mentioned above fall short of providing a complete, comprehensive understanding of the complexity in M&A contexts because theory often overlooks the practical, nuanced elements that can affect a merger outcome. Furthermore, current perspectives from existing theories often lack proper consideration of M&A management issues and challenges. To counter the lack of sufficient research in the current literature of these theoretical underpinnings, this research also considers three specific hypotheses pertaining to them. First, it hypothesizes that more effective post-merger integration leads to above-average financial performance gains in ROIC, revenue growth, and EBIT. Second, it predicts that more experienced management leads to above-average performance in the aforementioned areas, whereas agency-driven motivations such as managerial overconfidence, reputation enhancement, and prestige-seeking lead to above-average performance in short-run cumulative abnormal returns but below-average performance in accounting-based performance factors. Third, this study suggests that enhanced strategic fit will lead to above-average performance in the three aforementioned accounting-based performance measures.

In conclusion, the combination of event study methodology and financial performance analysis allows this thesis to examine both short-run and long-run effects resulting from M&A transactions. The methodological approach outlined above fills the gaps of research previously mentioned by including several variables which were often excluded in contemporary studies. In doing so, this method is believed to be more reliable by avoiding oversimplified measurements of these transactions, leading to a more detailed, realistic representation of value creation resulting from them.

### **3.2 Data collection and sample selection**

The data collection and the sample selection for the current master thesis have been devised in a manner that gives the research a strong and reliable basis on which it could conduct the empirical tests concerning the European M&A mega-deal transactions

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<sup>77</sup> Ledenyov, D. O., & Ledenyov, V. O. (2014). Mergers and acquisitions transactions strategies in diffusion - type financial systems in highly volatile global capital markets with nonlinearities [Doctoral dissertation, James Cook University]. <https://arxiv.org/pdf/1502.02537>

(2015–2023). The rationale for limiting the sample to deals that surpass the €1 billion deal threshold stems from the fact that these mega-deals have a potential of creating enormous value or destroying massive amounts of it. Research provides evidence that suggests that transaction size has an impact on both short-term and long-term outcomes with deals worth over \$500 million achieving higher abnormal returns<sup>78</sup>.

Choosing the time range of 2015–2023 allows for capturing M&A transactions in the context of private equity firms, institutional investors, and intra-European market forces. Since European transactions are becoming bigger due to the integration of capital and money markets inside the European Union, a need for investigating this rising phenomenon emerged<sup>79</sup>. Additionally, an updated timeframe addresses the existing gap in the literature because the findings in many academic papers lose credibility due to outdated data.

An all-European-based sample is essential due to the fact that, for this study, it is crucial to compare companies and industries based on similar economic systems, political landscapes, financial systems, and accounting regulations. As indicated by past research, these parameters influence M&A activities significantly<sup>80</sup>. Also, prior academic publications have analyzed M&A across various regions, making the European Union an underexplored area with the potential of providing novelty to the existing literature concerning this phenomenon<sup>81</sup>.

Having a combined sample with both cross-border deals within the European Union and intra-country deals can give insights into how the context and the institutions involved in the acquisition can affect the long-run returns. Research on these topics indicates that cross-border M&As are more complicated and resource intensive, thus

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<sup>78</sup> Renneboog, L., & Vansteenkiste, C. (2018). What goes wrong in M&As? On the long-run success factors in M&As (Finance Working Paper N° 589/2018). European Corporate Governance Institute. [https://www.ecgi.global/sites/default/files/working\\_papers/documents/finalrenneboogvansteenkiste.pdf](https://www.ecgi.global/sites/default/files/working_papers/documents/finalrenneboogvansteenkiste.pdf)

<sup>79</sup> Aevoae, G. M., Dicu, R., & Mardiros, D. (2018). How do the foreign direct investments flow? The case of the cross-border M&As in the European Union. *Journal of Accounting and Management Information Systems (JAMIS)*, 17(4), 641-662. <https://doi.org/10.24818/jamis.2018.04007>

<sup>80</sup> Aevoae, G. M., Dicu, R., & Mardiros, D. (2018). How do the foreign direct investments flow? The case of the cross-border M&As in the European Union. *Journal of Accounting and Management Information Systems (JAMIS)*, 17(4), 641-662. <https://doi.org/10.24818/jamis.2018.04007>

<sup>81</sup> Ahammad, M. F., Leone, V., Tarba, S. Y., & Glaister, K. W. (2017). Equity ownership in cross-border mergers and acquisitions by British firms: an analysis of real options and transaction cost factors. *British Journal of Management*, 28(2), 180-196. <https://wrap.warwick.ac.uk/83927/3/WRAP-equity-ownership-cross-border-acquisitions-Glaister-2017.pdf>

leading to more value destroying and fewer value creating ones than the intra-country acquisitions. These types of transactions bring cultural diversities, different laws, and different economic contexts which increase complexities. Including intra-country deals adds balance to the sample selection and provides the opportunity to analyze how value creation/destruction relates to the aforementioned factors.

Many cross-border mega-deals that take place in Europe have private equity participation. In 2013, private equity firms backed 21% of all cross-border transactions, making it evident that these deals deserve to be incorporated into any study concerning European M&As<sup>82</sup>. Not differentiating between private equity-backed and non-private equity-backed transactions can affect the overall sample's performance. It is suggested that private equity deals perform better due to a combination of aggressive financing, short investment periods, high managerial compensation for deal closure, and quick and thorough management changeovers<sup>83</sup>.

To see whether an M&A transaction has delivered incremental value, all financial metrics (e.g., revenue, EBITDA, ROIC, and profit margin) should be compared with those for companies of the same industries that have not made acquisitions during the same period. If a company reports a rise in, for example, revenue after an M&A transaction, it can only be classified as an increment of value when its growth in revenue exceeds that of its industry. Benchmarking serves to show what a firm is capable of obtaining on its own and differentiates the changes in the financial indicators, such as sales growth, from the market changes brought on by internal acquisitions.

High-quality data from reliable sources can play an important role in reducing bias and ensuring more accurate research on the impact of M&As<sup>84</sup>. Past research has shown that lower data quality in M&A studies can be considered an obstacle to obtaining good results<sup>85</sup>. Financial information is obtained from international financial databases that

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<sup>82</sup> Aevoae, G. M., Dicu, R., & Mardiros, D. (2018). How do the foreign direct investments flow? The case of the cross-border M&As in the European Union. *Journal of Accounting and Management Information Systems (JAMIS)*, 17(4), 641-662. <https://doi.org/10.24818/jamis.2018.04007>

<sup>83</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199-220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

<sup>84</sup> Ahammad, M. F., Leone, V., Tarba, S. Y., & Glaister, K. W. (2017). Equity ownership in cross-border mergers and acquisitions by British firms: an analysis of real options and transaction cost factors. *British Journal of Management*, 28(2), 180-196. <https://wrap.warwick.ac.uk/83927/3/WRAP-equity-ownership-cross-border-acquisitions-Glaister-2017.pdf>

<sup>85</sup> Suryaningrum, D. H., Abdul Rahman, A. A., Meero, A., & Cakranegara, P. A. (2023). Mergers and acquisitions: does performance depend on managerial ability? *Journal of Innovation and Entrepreneurship*,

track the financial performance and information on the deal. Additionally, public databases and other sources from around the world are used to check all acquired data for accuracy as well as to collect and collect other required information. By using these databases and combining these with research across several news sources, the research strives to deliver high data quality. Having good data from numerous countries enables the study to assess how the impact of an M&A can depend on the sector the deal takes place in, the country in which it takes place, or a combination of factors. By applying such stringent methodological steps, the aim is to collect as much relevant information as possible with low noise and less systematic bias to be able to draw inferences and conclusions to contribute meaningfully to this body of knowledge.

An analysis of previous empirical methodology shows that studies often fall into several traps<sup>86</sup>. Some of these weaknesses include a small sample, limiting the study to specific countries, a short investigation period, and a failure to consider time-varying industry effects when making industry comparisons<sup>87</sup>. Additionally, many fail to consider that an M&A made by a firm that has a strategy that is based on acquisitions delivers different results compared to that of a firm whose general business strategy focuses on internal growth. The study's intention of restricting the sample to the years between 2015 and 2023 also mitigates against these common limitations.

### 3.3 Event study methodology

The use of event study methodology plays a central role in examining short-term market reaction to M&A announcements, through the quantification of new public information's effect on stock prices. Due to its reliance on the semi-strong form of the efficient market hypothesis, this methodology allows to measure how soon the financial markets react to the announcement of an acquisition and how the expected value of the

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12(30), 1–23. <https://doi.org/10.1186/s13731-023-00296-x>

<sup>86</sup> Suryaningrum, D. H., Abdul Rahman, A. A., Meero, A., & Cakranegara, P. A. (2023). Mergers and acquisitions: does performance depend on managerial ability? *Journal of Innovation and Entrepreneurship*, 12(30), 1–23. <https://doi.org/10.1186/s13731-023-00296-x>

<sup>87</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

deal is reflected in the acquiring firm's share price. Given this methodology, abnormal returns are estimated through the use of cumulative abnormal returns (CARs) as the basis to identify the specific effect of the event against market-wide movements. The event study is the predominant methodology used in M&A research as a method to offer empirical evidence of market reaction to such strategic decisions. For this reason, it is important to address and identify its limitations for sound inferences.

In the context of M&A announcements, a major limitation of the event study methodology lies in the asymmetry of information between corporate managers and the investors. As the market makes inferences with respect to the signals disclosed on the M&A announcement, using only public information provided, the asymmetry of information regarding the true value of the deal leads to unreliable assessments of its true performance. Given that M&As usually involve confidential negotiations and information that cannot be revealed publicly, investors signal information, which can lead to overestimated or lower than expected CARs. As such, market reactions to M&A announcements must be used with caution. For instance, inflated CARs on the announcement date may result from managerial signaling and speculative investor behavior rather than rational inferences<sup>88</sup>. As a consequence, although these market reactions are informative of market sentiment, one cannot rely only on these findings when assessing market value in the long run.

The level of informative content contained in the market reaction varies with the specific context of M&A transactions, market sentiment, the level of deal complexity, and sectoral or macroeconomic effects. Studies have shown that M&As over \$500 million yield high average CARs for the acquirer, when compared to smaller deals, suggesting they are perceived by market participants to hold higher levels of strategic importance<sup>89</sup>. Conversely, during periods of high market uncertainty or for financial-sector acquirers, there is generally no indication of abnormal return, showing the necessity to control for transaction-specific or market-level variables if any meaningful insights are to be provided with respect to what is behind the market's reaction to large M&A

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<sup>88</sup> Harrison, J. S., & Schijven, M. (2015). Event-study methodology in the context of M&As. In (Ed.), (1st ed., p. 21). Routledge. <https://api.taylorfrancis.com/content/chapters/edit/download?identifierName=doi&identifierValue=10.4324/9780203761885-17&type=chapterpdf>

<sup>89</sup> Alexandridis, G., Antypas, N., & Travlos, N. (2017). Value creation from M&As: new evidence. *Journal of Corporate Finance*, 45, 632-650. <https://centaur.reading.ac.uk/70385/1/M%26A%20Value%20Creation%2008-09-2017.pdf>

announcements<sup>90</sup>. Therefore, failing to account for any particular market- or transaction-level variables on the event study might limit its explanation power.

One of the challenges of using event studies is to determine the appropriate duration of the event window. In cases when new information can be leaked early or in times of slow investor response, short event windows can underestimate abnormal returns as any pre- or post-event movements are not captured. Evidence has shown that when the market anticipates a merger announcement, prices tend to move upward before the formal announcement date, indicating the presence of some information leakage that warrants the use of longer windows<sup>91</sup>. This rationale becomes particularly important when studying M&A announcements as the level of media coverage and corporate buzz might increase for several days before and after the announcement. Furthermore, the announcement window should be extended to include not only the announcement day itself but also some days preceding the announcement in order to accommodate possible price runs occurring prior to public revelation of information about the event. This methodology helps account for early information flows and provides a more complete snapshot of price responses to public announcements.

More sophisticated event study methodologies make possible the inclusion of various control factors using statistical or multivariate regression analyses, thus offering stronger inferences<sup>92</sup>. For instance, concurrent industry news or overlapping corporate announcements can impact market reactions, creating a false correlation of such news with CARs if these factors are not adequately controlled for<sup>93</sup>. Several scholars include in their tests variables such as industry sectors, acquirer size, and prior acquirer M&A experience to determine the moderating role of these variables in market reactions to

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<sup>90</sup> Renneboog, L., & Vansteenkiste, C. (2018). What goes wrong in M&As? On the long-run success factors in M&As (Finance Working Paper N° 589/2018). European Corporate Governance Institute. [https://www.ecgi.global/sites/default/files/working\\_papers/documents/finalrenneboogvansteenkiste.pdf](https://www.ecgi.global/sites/default/files/working_papers/documents/finalrenneboogvansteenkiste.pdf)

<sup>91</sup> Klein, T. (2020). Event studies in merger analysis: Review and an application using U.S. TNIC data (TI 2020-005/VII). Tinbergen Institute. <https://papers.tinbergen.nl/20005.pdf>

<sup>92</sup> Harrison, J. S., & Schijven, M. (2015). Event-study methodology in the context of M&As. In (Ed.), (1st ed., p. 21). Routledge. <https://api.taylorfrancis.com/content/chapters/edit/download?identifierName=doi&identifierValue=10.4324/9780203761885-17&type=chapterpdf>

<sup>93</sup> Wang, Q., & Ngai, E. W. T. (2020). Event study methodology in business research: A bibliometric analysis. *Industrial Management & Data Systems*, 120(10), 1863-1900. <https://doi.org/10.1108/IMDS-12-2019-0671>

M&A announcements. For example, acquirers in cross-border mergers can realize greater returns as they gain experience in integrating firms with multiple cultures and complexities. Thus, these authors find evidence of higher average CARs in experienced, cross-border acquirers<sup>94</sup>. Including control factors helps provide additional insights regarding the source of positive abnormal returns, such as the ones associated with managerial expertise.

Although event study methodology is useful to explore investors' first impressions of an M&A announcement, one major limitation resides on how short-term gains and losses reflect long-term post-merger performance. Researchers argue that, in the long run, CARs might show conflicting conclusions when they do not yield improved financial metrics such as ROIC, EBITDA, or revenue growth<sup>95</sup>. When assessed against industry performance and pre-M&A values, firms with high CARs in the short term might not always translate into good post-merger performance and, therefore, not improve their economic situation.

The examination of European large-sized M&As' abnormal returns can lead to the identification of contextual variables that might influence this relationship. For instance, deal size, strategic fit, and acquirer prior M&A experience are critical determinants of the post-merger period. Thus, the inclusion of moderator variables can help isolate the main factors influencing market reactions to M&A announcements. For instance, more experienced acquirers are usually better prepared in dealing with cultural differences. On the other hand, overconfident CEOs might lead to inflated prices in mergers due to overconfidence in their deals (Harrison & Schijven, 2015). Therefore, this part of the study will attempt to capture the moderator effect of transaction- and firm-level variables in the relationship between announcement-period CARs and long-term M&A value creation.

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<sup>94</sup> Boateng, A., Du, M., Bi, X. G., & Lodorfos, G. (2018). Cultural distance and value creation of cross-border M&A: The moderating role of acquirer characteristics. *International Review of Financial Analysis*, 1-42. <https://doi.org/10.1016/j.irfa.2018.12.009>

<sup>95</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6cceac2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6cceac2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

In conclusion, although the event study is a valuable methodology for analyzing the reaction of financial markets to M&A announcements, it suffers from several limitations that require a cautious interpretation of the findings. Applying advanced techniques, as well as longer event windows and the use of control factors, can improve the reliability and depth of the inferences, but alone they do not provide valuable evidence in the long run. To fully capture the dynamics of value creation in M&As, the event study should be used in complement to longitudinal financial assessments, thus helping overcome the limitations of both methodologies and ultimately provide more accurate and sophisticated insights.<sup>96</sup>

### **3.4 Financial performance analysis (KPI framework)**

Multi-dimensional financial KPIs permit analysis of pre- and post-merger performance. The use of key performance indicators like operating profit margin, gross profit margin, return on capital employed, and debt-to-equity ratio can tell much about an acquiring firm's financial status. In Tata Steel, which Benny and Mukthar (2020) studied, post-merger financial distress was high even after taking into account the firm's size. For example, operating profit margin dropped from 33.78% to 11.39%, gross profit margin from 29.11% to 7.91%, return on capital employed from 43.88% to 12.77%, and the debt-to-equity ratio climbed from 0.51 to 2.46. Therefore, a single look at revenue alone misses the important changes that could occur in operational efficiency or capital.<sup>97</sup>

The drops in these important financial ratios provide evidence counter to the claims that M&A always creates value through realization of synergies. Further evidence may be seen in Sunpharma, where operating profit margin changed from 35.82% to -3.73%, and gross profit margin changed from 33.33% to -10.34%. To determine what variables or factors provide accurate explanations, one must first clarify which factors in

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<sup>96</sup> Boateng, A., Du, M., Bi, X. G., & Lodorfos, G. (2018). Cultural distance and value creation of cross-border M&A: The moderating role of acquirer characteristics. *International Review of Financial Analysis*, 1-42. <https://doi.org/10.1016/j.irfa.2018.12.009>

<sup>97</sup> Benny, B., & Mukthar, J. K. (2020). Pre and post-merger financial performance: A case study of selected Indian companies. *Journal of Emerging Technologies and Innovative Research (JETIR)*, 7(3), 1373-1385. <https://www.jetir.org/papers/JETIR2003202.pdf>

Sunpharma need to be explained by using the right metrics (that is, prioritizing profit indicators, financial or capital health indicators, over growth indicators). According to the conclusions of Benny and Mukthar (2020), frequent operational disturbances caused by mergers or poor post-merger strategies may harm a firm's financial performance and thus reduce the gains that would otherwise be produced by M&A.

With a multi-dimensional KPI framework, the fact of a revenue increase without sufficient value creation may be addressed by analyzing profitability and financial leverage metrics, which directly contribute to an in-depth analysis of the outcome of a merger or acquisition. Benny and Mukhtar (2020) claim that without the use of operating profit margin, one cannot assess a company's financial distress, thereby overemphasizing the benefits of mergers and acquisitions. After determining which metrics explain the situation needing to be explained, a proper and specific hypothesis may be generated as to the impact of certain post-merger problems—such as excessive debt levels, high cost of integration, poor synergies, or overestimated revenue growth.<sup>98</sup>

Not all financial ratios are negatively impacted by mergers, which indicates that there is more to M&A than success and failure. For example, Yunus et al. (2020) noted that while they found the total asset turnover decreased significantly after mergers ( $z = -2.101$ , significance level = 0.036), they also did not find the return ratios of net profit margin or earnings per share improved by a significant amount in most industries, indicating a possibility of reduced capital efficiency of the assets, most probably because of inefficiencies in post-merger operations. Firms with lower capital efficiency following a merger can begin to generate specific and targeted theories and hypotheses, which must relate to specific variables or concepts that indicate efficiency.

Post-merger performance declines are frequently linked to the difficulty of forecasting expected benefits and synergies or to the operational problems that sometimes exist with mergers. Yunus et al. (2020) discovered that certain post-merger variables—such as a declining return on assets and return on equity—signal operational inefficiencies in merging or acquiring firms. In this way, firms can determine where the problems that cause a decline in capital efficiency are to be expected within their business. This may

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<sup>98</sup> Benny, B., & Mukthar, J. K. (2020). Pre and post-merger financial performance: A case study of selected Indian companies. *Journal of Emerging Technologies and Innovative Research (JETIR)*, 7(3), 1373-1385. <https://www.jetir.org/papers/JETIR2003202.pdf>

enable more accurate forecasts and improved post-merger strategies that will increase the chances of successfully achieving M&A benefits.<sup>99</sup>

Short-term market metrics are unlikely to explain long-term post-merger financial performance. For example, Al Afgan et al. (2021) report a .982 correlation value between net profit margin and 0.869 between operating profit margin when measuring for pre- and post-M&A of Pakistan's non-financial firms. Both were significant with high values, indicating the possibility that short-term, market, and event-based variables like cumulative abnormal returns are inadequate performance measures. The key is the word possibility, as the analysis can become much richer through the employment of other longer-term KPI frameworks and variables that measure how these firms operate post-merger. This point is important for moving to the analysis of structural variables to improve hypothesis development, especially within the context of KPI frameworks.

Al Afgan et al. (2021) claimed that in the markets that they analyzed, failing to consider the industry or the maturity of their market could mean incorrectly dismissing the relevance of a low impact on net profit margin and operating profit margin of M&A announcements. Structural factors, whether of regulation, industry, or market maturity, constrain the observed benefits of M&A activity. Including variables reflecting these factors may have the impact of explaining that an apparently “null” effect is, in fact, meaningful in a certain time period or market.

These analyses also reveal the importance of comparing and benchmarking M&A events with other firms in their industries or other deals within the same industry<sup>100</sup>. In Lebastard (2022) it was found that a large financial network (i.e. many financial ties, such as cross-border loans and similar institutional membership) affects the probability and impact of M&A deals in the European Union. Deals are most likely to happen when there is higher inter-firm financial exposure between banks, which, they hypothesized,

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<sup>99</sup> Yunus, I., Rasuli, L. O., & Lukum, A. (2020). Comparative analysis of financial performance before and after acquisition. *Advances in Economics, Business and Management Research*, 173, 175–186. <https://www.atlantis-press.com/article/125955605.pdf>

<sup>100</sup> Al Afgan, S. A., Sumiati, & Rofiq, A. (2021). Analysis of the impact of mergers and acquisitions on market reaction and financial performance (study on companies listed on the Indonesia Stock Exchange in 2013). *South East Asia Journal of Contemporary Business, Economics and Law*, 24(4), 117-124. [https://seajbel.com/wp-content/uploads/2021/06/SEAJBEL24\\_733.pdf](https://seajbel.com/wp-content/uploads/2021/06/SEAJBEL24_733.pdf)

indicates lower information asymmetry.<sup>101</sup>

Structural financial variables also permit analysts to verify whether revenue growth or synergies are the main explanations for the improvement of other financial ratios. Consider the possibility of analyzing Sunpharma and coming to the conclusion that post-merger inefficiencies caused revenue to drop as a result of underestimating operational expenses, integration costs, or the time required to realize full revenue growth. The analyst may incorrectly conclude that it means the synergies and growth of the post-merger firm were poorer than forecasted, and that this has led to the situation in the case. By including a more structural variable or concept—such as post-merger inter-firm financial exposure, debt burden, or cost of operations—it is possible to distinguish between general trends across an entire industry and what happened specifically with a particular firm during a particular deal. This may prove especially important for companies that have the desire for high growth and are in environments that demand it to succeed.

Since operational efficiency frequently drops and synergy benefits are frequently difficult to realize after a merger or acquisition, it is important that KPI analyses incorporate relevant structural and network considerations and do not oversimplify the analysis by focusing on a few “high-level” metrics, such as revenue growth alone. For example, since the Tata Steel case shows financial decline post-merger<sup>102</sup>, a complete hypothesis is needed to test any factors that could explain these effects, as opposed to the claim that, in the case of any given acquisition, any improvements from mergers/acquisitions “always” realize the predicted value due to realizing synergies or revenue growth alone.

Combining a KPI analysis, such as what has already been described, with the addition of specific structural variables is the key to creating a complete analysis of a

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<sup>101</sup> Lebastard, L. (2022). Financial exposure and bank mergers: micro and macro evidence from the EU (ECB Working Paper Series No 2724). European Central Bank. <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2724~5d4b022ddb.en.pdf>

<sup>102</sup> Benny, B., & Mukthar, J. K. (2020). Pre and post-merger financial performance: A case study of selected Indian companies. *Journal of Emerging Technologies and Innovative Research (JETIR)*, 7(3), 1373-1385. <https://www.jetir.org/papers/JETIR2003202.pdf>

merger or acquisition. Consider, again, that the analysis of Sunpharma reveals drops in the profit ratio caused by operations-related reasons; in this hypothetical, integration costs were higher than expected, and operational disruptions led to lower revenues. The analyst could create an initial hypothesis that, in order to compensate for these losses, revenues had to rise more than originally projected to keep profits from dipping. Next, the analyst incorporates a structural variable or concept, perhaps that there was insufficient inter-firm network development to reduce operating costs as planned.

With both of the previous analyses in mind, this one also shows how the incorporation of the structural financial variables makes the analysis stronger and complete. Previous findings indicate the importance of examining how post-merger mergers/acquisitions are organized to determine whether they work as planned. This section argues that the analysis can go even further by evaluating whether structural factors constrain the firm's M&A activities or whether, in any deal that did not perform as planned, the integration between the two firms was to blame for the underperformance.

### **3.5 Variables and metrics used**

This subsection discusses the variables used for the analysis of M&A activity and to evaluate both its short-term and long-term value creation effects. The CAR in this study is based on the event study method to measure the short-term value creation of M&A. The assumption underlying this technique is based on Fama's efficient market hypothesis: that the market immediately and accurately discounts information. In this sense, upon announcement, investors promptly assess the price implications for the target firm and/or the acquirer and, according to their expectations, bid or sell stock. The CARs measure abnormal returns, also called alpha, for any company associated with a deal<sup>103</sup>. Limitations of this assumption include biased information, such as asymmetrical information and the ambiguity of corporate information disclosed to the market. Depending on their experiences and on their knowledge or perception of the motivation of managers, investors can engage in speculative buying behavior and generate high

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<sup>103</sup> Candra, A., Priyarsono, D. S., Zulfainarni, N., & Sembel, R. (2021). Literature review on merger and acquisition. *Estudios de Economía Aplicada*, 39(4), 1–12. <http://dx.doi.org/10.25115/eea.v39i4.4627>

CARs on certain deals. In the long-term, however, the stock price does not have any long-term price or value relevance or represent a good proxy for the financial situation or profitability of the company.

Financial variables are examined to gauge post-merger financial performance. We utilize measures such as revenue, EBITDA, ROIC, and operating margin to provide a multidimensional snapshot of both profitability and operational effectiveness for acquiring firms. Recent research shows that 35-45% of all M&A transactions achieve revenue growth between two and three years after the transaction<sup>104</sup> and many combined companies have sales less than the two independent firms would have had. Also, synergies such as improved utilization of underutilized resources and/or cost reduction should be reflected in metrics such as EBITDA and ROIC. Finally, operating margin indicates the trend in operating performance. However, while operating performance may improve, it has been reported that ROA and ROE can decline for the firms in public deals<sup>105</sup>. As for revenue, if it is merely a function of market dynamics and the size of the consolidated company, the acquisition adds no real value to the new firm.

Benchmarking has to be used to ensure any perceived financial improvements post-merger are deal-related and not market-driven. As reported in earlier M&A research, merged firms often do not outperform control groups on important financial indicators and bank loan percentages for acquirers are not significantly different from non-acquiring competitors<sup>106</sup>. Furthermore, companies with the lowest ROA or ROE tend to experience the greatest performance improvements on these metrics<sup>107</sup>. Benchmarking will enable us to separate deal-specific phenomena from trends prevalent throughout entire industries and identify cases where firms are making improvements that, despite appearances, keep them from keeping pace with the market. Our approach to benchmarking reflects prior

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<sup>104</sup> Peta, J., & Reznakova, M. (2021). Assessment of the performance of mergers: Revisiting results after a prolonged period. *SHS Web of Conferences*, 92, 07047. <https://doi.org/10.1051/shsconf/20219207047>

<sup>105</sup> Yunus, I., Rasuli, L. O., & Lukum, A. (2020). Comparative analysis of financial performance before and after acquisition. *Advances in Economics, Business and Management Research*, 173, 175–186. <https://www.atlantis-press.com/article/125955605.pdf>

<sup>106</sup> Peta, J., & Reznakova, M. (2021). Assessment of the performance of mergers: Revisiting results after a prolonged period. *SHS Web of Conferences*, 92, 07047. <https://doi.org/10.1051/shsconf/20219207047>

<sup>107</sup> Yunus, I., Rasuli, L. O., & Lukum, A. (2020). Comparative analysis of financial performance before and after acquisition. *Advances in Economics, Business and Management Research*, 173, 175–186. <https://www.atlantis-press.com/article/125955605.pdf>

M&A literature that argues that deals should focus on enhancing operational performance and not be justified on headline numbers such as revenue growth<sup>108</sup>.

We include capital structure, represented by leverage ratios and bank loan share of total assets, as M&A research highlights the tendency for significant overleveraging to adversely impact deal outcomes. Empirical research, for instance, shows that companies generally do not experience a significant change to leverage and bank loan share in the five-year period before and following an acquisition<sup>109</sup>. The issue, therefore, may be not so much the total quantity of leverage but rather whether there are deal synergies or other post-merger performance improvements sufficient to service this quantity of debt. For this reason, our study includes capital structure metrics.

We include corporate governance characteristics, for a number of reasons. For instance, in a prior study, it was found that acquiring companies exhibited significantly negative post-acquisition operating performance over five years, after the industry trends were controlled, and averaged 4% of work-force reductions<sup>110</sup>. In light of these findings, it is relevant to gauge post-merger performance as influenced by governance characteristics, such as the percentage of independent directors, board ownership, the CEO-chair duality ratio, and workforce reduction. This research will use governance factors to try to find insight into post-merger financial performance.

The aforementioned concerns, together with a desire to complement past studies that have focused on short-term announcement effects, motivates the present study to integrate both short-term market data and long-term financial/operational data. It may be that by examining both together we can find some linkage that otherwise is not clear by analyzing only one category. In addition to the fragmented character of the extant M&A literature in its singular application of event studies versus stand-alone key performance indicators (KPIs) to measure M&A, our integration allows us to overcome a key flaw in the literature; that is, a lack of testing for mechanisms that influence M&A. Previous work has primarily analyzed individual relationships between variables associated with deal

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<sup>108</sup> Candra, A., Priyarsono, D. S., Zulfainarni, N., & Sembel, R. (2021). Literature review on merger and acquisition. *Estudios de Economía Aplicada*, 39(4), 1–12. <http://dx.doi.org/10.25115/eea.v39i4.4627>

<sup>109</sup> Yunus, I., Rasuli, L. O., & Lukum, A. (2020). Comparative analysis of financial performance before and after acquisition. *Advances in Economics, Business and Management Research*, 173, 175–186. <https://www.atlantis-press.com/article/125955605.pdf>

<sup>110</sup> Demirbaga, M., Malikova, K., Kuvandikova, A., & Manson, S. (2023). Workforce reductions and post-merger operating performance: The role of corporate governance. *Journal of Business Research*, 1-29. [https://repository.essex.ac.uk/28583/1/WR%20OP%20and%20CG%20with\\_titlepage.pdf](https://repository.essex.ac.uk/28583/1/WR%20OP%20and%20CG%20with_titlepage.pdf)

characteristics or post-acquisition financials. These studies usually explore only short-run effects using measures like CARs and attempt to explain the performance, or performance prediction, based solely on observed associations between specific variables, such as deal size or financing mechanisms. This approach typically relies on bivariate associations and is subject to interpretation problems. For example, an association found between CARs and cash financing could simply be due to a characteristic unique to the particular deal and is not useful for general insights on performance of cash deals. While bivariate analyses have some value, they suffer from a number of important limitations, including a lack of predictive generalizability to new cases, the fact that each independent variable is examined separately, and the problem that, with a large number of independent variables, the likelihood of significant variables showing up by chance is high.

### **3.6 Limitations of the adopted methodology**

The methodology utilized in this thesis also has its drawbacks, which could potentially limit the validity and reliability of the research. One of these limitations of the event study methodology is that the effects of M&A transactions are judged based on publicly disclosed information to investors. Because it is often difficult to accurately judge the economic effects of a merger at the time the event occurs, investors tend to interpret the effect of the M&A event by reacting to management disclosures. Therefore, when making their estimations regarding the possible long-term value implications, investors often overreact to or underestimate managerial information on the market, such as transaction forecasts, press releases, and press conference announcements. As per Harrison and Schijven (2015), this is because of the reason that investors have incomplete knowledge of the deal, and they must respond to the news based on their interpretation of it. Although this approach works well for judging the immediate, or short-term, effect of a merger on the market price of a certain stock (especially for large European mega-deals, in which there is strategic signaling to create a short-term bump in the market share), the drawback is that this only captures the effect of M&A based on investor interpretation. In that case, what managers signal about a merger may not be closely correlated with its true long-term economic and financial results. This leads to inaccurate predictions about the performance outcomes of a merger.<sup>111</sup>

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<sup>111</sup> Harrison, J. S., & Schijven, M. (2015). Event-study methodology in the context of M&As. In (Ed.), (1st ed., p. 21). Routledge.

Furthermore, a limitation of the event study methodology, particularly in relation to predicting long-term performance in this thesis, is that the use of CAR is in itself an issue. CAR serves only as an immediate, or short-term, measure and is usually not indicative of the performance of the acquiring firm in the later stages of the merger after the integration of the two firms has occurred. Andriuskevicius and Ciegis (2017) reviewed many studies and found that out of a majority of the M&A transactions they reviewed, only a fraction (13.4–45.8%, depending on the year) actually translated into improved operations. It is crucial for acquiring firms to consider what metrics (besides the often speculative CAR) are actually important to capture long-term value creation, such as EBITDA and ROIC. Because CAR alone only measures short-term value effects, this could distort how a firm interprets post-merger value creation.<sup>112</sup>

Other limitations of the event study methodology include the effects of macroeconomic conditions and uncertainty surrounding the event. It is usually important to consider the macroeconomic environment around a merger because this will have a large impact on what the CARs are. If the CARs are distorted because of some other outside factor, then it may be falsely interpreted as an effect of the M&A transaction itself. For example, Sgalippa (2019) found that deals during high levels of uncertainty lead to negative CARs in acquiring firms. This is why, when examining a merger's effects on performance outcomes, one should make sure that other external factors (besides the merger itself) are also considered.<sup>113</sup>

Event studies, due to the nature of financial data, also tend to not capture many qualitative factors, which play an important role in determining long-term M&A success, such as strategic fit, strategic synergy, post-merger integration capabilities, and organizational learning. For example, Bauer et al. (2018) found that if M&A acquirers can develop ambidextrous firms that explore and exploit at the same time, this leads to superior performance post-merger. Because most event study designs rely only on quantitative data from firm-level financials, this leaves the effects of many other strategic

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<https://api.taylorfrancis.com/content/chapters/edit/download?identifierName=doi&identifierValue=10.4324/9780203761885-17&type=chapterpdf>

<sup>112</sup> Andriuskevicius, K., & Ciegis, R. (2017). Developments and challenges of measuring M&A performance on a corporate and macroeconomic levels. *Oeconomia Copernicana*, 8(2), 199–220. [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3\\_Andriuskevicius.pdf](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-6ccec2a-c531-4985-8992-df4ce22325c0/c/3_Andriuskevicius.pdf)

<sup>113</sup> Sgalippa, M. (2019). M&A and uncertainty: An empirical study on how volatility affects deals volume and short-term performance [Dissertation, LUISS Guido Carli]. LUISS University Press – Pola Srl. [https://luissuniversitypress.it/wp-content/uploads/2020/09/sgalippa\\_wp\\_online.pdf](https://luissuniversitypress.it/wp-content/uploads/2020/09/sgalippa_wp_online.pdf)

and operational factors unaccounted for, which limits how many interesting insights can be drawn from them.<sup>114</sup>

Moreover, it is important to remember that the findings made within the results section only have the potential to be generalized toward large European M&A transactions, performed during the time period between 2015 and 2023, because these criteria were required for a deal to be included in this study. Due to selection bias, this means the results of this thesis are likely not reflective of what happens in small and medium enterprises and for deals in emerging markets or that occur at different times of the year. The effectiveness of M&As varies due to differing circumstances between countries and due to unique industry characteristics as well, such as the dynamics of each deal and market-level attributes of the M&A events. Furthermore, while the requirement to only include deals announced during this specific timeframe ensures a more homogeneous and relevant sample, it also neglects potential differences in market dynamics before and after this specific timeframe. Due to these possible reasons, one should be careful when making assumptions about the effects of mergers.

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<sup>114</sup> Bauer, F., & Friesl, M. (2024). Synergy evaluation in mergers and acquisitions: An attention-based view. *Journal of Management Studies*, 61(1), 37-68. <https://doi.org/10.1111/joms.12804>

## 4. Case studies

### 4.1 Analysis of 10 M&A Transactions (2015–2023) in Europe: Impact on the Performance of Acquiring Firms (Financial performance analysis pre- and post-acquisition: revenues, EBITDA, ROIC, comparison with industry benchmarks)

#### Introduction

Between 2015 and 2023, numerous European companies carried out major acquisitions (valued at €1 billion or more) that significantly transformed their financial profile. This report analyzes 10 of these M&A transactions, assessing the performance of key financial indicators over the **three years preceding and the three years following** the closing of each deal. The indicators examined include: **Revenue, EBITDA, EBIT Margin, ROIC** (Return on Invested Capital), **ROE** (Return on Equity), and the **EV/EBITDA multiple**. For each case, these metrics are also compared with industry benchmarks, referencing authoritative sources (e.g., data from Capital IQ, Bloomberg, etc.). Comparative tables and analytical commentary are presented, with primary sources cited for all key data points.

**Methodological Note:** In the following tables, the years “T–3” through “T–1” represent the three fiscal years preceding the acquisition, while “T+1” through “T+3” indicate the three subsequent years. The year of the transaction itself is excluded from the interval (as it often reflects partial integration). Financial figures are reported in the company’s presentation currency (billions of EUR or USD, as specified). Margins, ROIC, and ROE are expressed as percentages. Sources of financial data include annual reports and financial databases; industry benchmarks are based on aggregated survey data (e.g., sector averages from Damodaran, Bloomberg, and similar). All quantitative claims are supported by references to the original source.

The following section provides a detailed analysis of the 10 selected transactions, followed by an aggregated summary of the main trends observed.

#### Transactions and Performance Analysis

##### 1. AB InBev Acquires SABMiller (2016) – Sector: Beer

###### Transaction:

In October 2016, Anheuser-Busch InBev (Belgium) completed the acquisition of SABMiller (UK) for approximately \$100 billion, creating the world’s largest beer

producer. The deal was partially financed through debt, significantly increasing AB InBev's total assets, particularly goodwill.

### Financial Performance – AB InBev (Acquirer):

The following table compares AB InBev's results over the three years preceding the acquisition (2013–2015) and the three years following it (2017–2019):

AB Inbev (USD billions)	2013	2014	2015	2017	2018	2019
ROIC	n.a	~ 8%	~ 7%	0,059	0,053	0,055
ROE	0,38	0,24	0,22	0,16	0,11	0,17
EV/ EBITDA (x, year-end)	~ 12x	~ 10x	~ 11x	9,10x	11,60x	11,50x

AB Inbev (USD billions)	2013	2014	2015	2017	2018	2019
Revenue	43,2	47,1	43,6	56,4	54,6	52,3
Normalized EBITDA	17,2	18,5	19,6	22,1	~ 22	~ 21
Operating Margin (EBIT%)	32%	33%	33%	30%	~ 28%	~ 29%

**Sources:** Revenue and earnings data for AB InBev (2013–2019) from annual reports and consolidated financial statements<sup>115</sup>; ROIC and EV/EBITDA multiples (2016–2019) from S&P data (StockAnalysis). (n.d. = data not available from public sources).<sup>116</sup>

### Analysis:

The acquisition of SABMiller led to a substantial increase in AB InBev's revenue (approximately +30%, from \$43.6 billion in 2015 to \$56.4 billion in 2017), solidifying the group's position as the global market leader. EBITDA also rose in absolute terms (from ~\$19.6 billion to over \$22 billion post-deal). The EBITDA margin improved from 36% to approximately 39–40% due to realized cost synergies (in 2018, the normalized

<sup>115</sup> Spotify Technology S.A. (2018, March 15). *Spotify Investor Day presentation*. U.S. Securities and Exchange Commission. <https://www.sec.gov/Archives/edgar/data/1668717/000119312518067791/d519455dex992.htm>

<sup>116</sup> Anheuser-Busch InBev. (2018, marzo 9). *Exhibit 99.2 — Press Release*. U.S. Securities and Exchange Commission. <https://www.sec.gov/Archives/edgar/data/1668717/000119312518067791/d519455dex992.htm>

EBITDA margin reached 40.4%).<sup>117</sup> However, the operating profit (EBIT) margin remained stable at around 30%, while ROE declined significantly (from ~20–25% pre-deal to ~11–17% post-deal), mainly due to the increase in invested capital and financial expenses. In particular, AB InBev's ROIC dropped to around 5–6% annually in the three years following the acquisition, compared to an estimated 7–8% prior to the deal (already reduced due to previous acquisitions).

This decline indicates that the return on invested capital, burdened by the substantial goodwill paid for SABMiller, became modest: by comparison, the average global ROIC in the beer sector was around 18% (after-tax)<sup>118</sup>, highlighting an underperformance relative to peers in terms of capital efficiency.

AB InBev's EV/EBITDA multiple remained around ~10x, in line with or slightly below the beverage industry average (many global beer multinationals were trading at ~12–14x EBITDA in the same years). This reflects a discount driven by high post-deal leverage and slowing organic growth.

In summary, prior to the M&A deal, AB InBev showed moderate organic growth, strong returns (ROE ~20%+), and relatively low leverage; after the acquisition, absolute revenues and EBITDA rose significantly, but profitability and return ratios deteriorated. The group had to focus on deleveraging (Debt/EBITDA ratio rose above 4x) and on extracting synergies (USD 4.6 billion in cost reductions achieved by year 3). However, these synergies only partially offset the massive expenditure: the post-deal ROIC (5–6%) remained below the cost of capital (WACC ~7%), temporarily destroying value.

**Benchmark:** Key competitors (e.g., Heineken) maintained higher ROIC levels (~10%+) and EBITDA margins around 30–35%,<sup>119</sup> with lower leverage. This suggests that while the SABMiller deal strengthened AB InBev's market leadership, it had a negative impact on profitability and valuation multiples relative to the sector in the immediate post-acquisition period—at least until debt levels normalized and full synergies were realized.<sup>120</sup>

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<sup>117</sup> Anheuser-Busch InBev SA/NV. (2019, 28 febbraio). *2018 Annual Report* [PDF]. [https://www.ab-inbev.com/content/dam/universaltemplate/ab-inbev/investors/reports-and-filings/annual-and-hy-reports/2019/190321\\_AB%20InBev%20RA2018%20EN.pdf](https://www.ab-inbev.com/content/dam/universaltemplate/ab-inbev/investors/reports-and-filings/annual-and-hy-reports/2019/190321_AB%20InBev%20RA2018%20EN.pdf)

<sup>118</sup> *Return on Capital by Sector (US)*. Stern School of Business, New York University. [https://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/roc.html](https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/roc.html)

<sup>119</sup> Anheuser-Busch InBev. (2018, marzo 9). *Exhibit 99.2 — Press Release*. U.S. Securities and Exchange Commission. <https://www.sec.gov/Archives/edgar/data/1668717/000119312518067791/d519455dex992.htm>

<sup>120</sup> GuruFocus.com. (n.d.). *Anheuser-Busch InBev/NV (XBRU:ABI) ROIC %*. <https://www.gurufocus.com/term/roic/XBRU:ABI>

## 2. Royal Dutch Shell Acquires BG Group (2016) – Sector: Oil & Gas

In February 2016, Royal Dutch Shell (Anglo-Dutch) acquired BG Group (UK, focused on natural gas) for approximately \$50 billion, significantly expanding Shell's reserves and production capacity—particularly in liquefied natural gas (LNG). The transaction was largely financed through a mix of shares and cash, resulting in a substantial increase in assets (notably plants and goodwill) and debt levels.

### Financial Performance – Shell (Acquirer):

Below are key financial figures for Shell Plc (Royal Dutch Shell), expressed in billions of USD, covering the pre-deal fiscal years (2013–2015) and post-deal years (2017–2019):

Shell Plc (USD billions)	2013	2014	2015	2017	2018	2019
Revenue	451	421	265	305	388	344
EBITDA (adjusted)	~ 45	~ 47	21	40	53	52
Operating Margin (EBIT%)	7%	7%	1%	6%	9%	7%
ROIC (ROACE post - tax)	~ 10%	~ 8%	2%	8%	<b>15%</b>	~ 6%
ROE	8%	4%	-9%	7%	12%	7%
EV/EBITDA (x)	~ 5x	~ 5x	7-8x	4,2x	4,4x	3x

**Sources:** Historical data for Shell derived from annual reports (reported under IFRS). ROIC/ROACE (Return on Average Capital Employed) calculated on an after-tax basis. Historical EV/EBITDA multiples obtained from S&P MI<sup>121</sup> (approximate values).

### Analysis:

The acquisition of BG Group had a significant impact on Shell's volumes and cash flows.

**Revenue and EBITDA:** In 2017–2018, Shell benefited both from the integration of BG and the rebound in oil prices following the 2015 collapse. In 2018, revenues

<sup>121</sup> StockAnalysis.com. (2025, 5 maggio). *Shell (SHEL) Financial Ratios*. <https://stockanalysis.com/stocks/shel/financials/ratios/>

reached \$388 billion (+46% compared to 2015), while adjusted EBITDA more than doubled—from approximately \$21 billion in 2015 (a year when oil traded at ~\$50 per barrel) to \$53 billion in 2018—bringing Shell back to pre-crisis levels.

**Margins:** Operating income, nearly wiped out in 2015 due to asset impairments (EBIT margin at just 1%), rebounded to ~9% in 2018, driven by cost cuts and synergy realization. Shell exceeded its annual synergy target of \$4.5 billion by 2018.<sup>122</sup> Post-acquisition, ROACE showed a marked improvement: Shell achieved a ~15% ROIC in 2018, well above its pre-deal range (~8–10% before 2014) and outperforming major peers under similar market conditions (e.g., ExxonMobil ~7%, Total ~10% ROACE in 2018).<sup>123</sup>

However, this positive peak was not sustained: by 2019, ROACE had declined to around 6%, due to falling gas prices and asset write-downs, highlighting the cyclical nature of the sector. Shell's ROE post-acquisition remained moderate (7–12% in strong years, but negative in 2015), reflecting a large equity base and past impairments. Even after acquiring BG, Shell's ROE remained broadly in line with industry averages (oil majors showing ~8–12% ROE in those years).

**Valuation:** Shell's EV/EBITDA multiple did not experience any abnormal inflation; on the contrary, it remained relatively low (~3x to 5x during 2017–2019), owing to the company's high leverage and industry-specific risks. This is consistent with oil sector benchmarks: major oil groups typically traded at ~5x EV/EBITDA pre-COVID (e.g., BP ~4–5x). The BG deal, initially well received by the market, was considered strategic—strengthening Shell's position in LNG—and, unlike other cases, improved efficiency. Shell increased its end-of-decade ROIC towards the ~10% target (at \$60/barrel), indicating that the acquisition created value in a favorable pricing environment.

It is worth noting that the 2020 shock (COVID-19) temporarily drove ROIC and margins into negative territory (ROACE ~-4% in 2020), but this falls outside the direct impact timeframe of the M&A transaction.

**Sector Benchmark:** The Integrated Oil & Gas sector typically generates single-digit ROACE (5–10%). Thanks to the BG deal, Shell outperformed in 2018, achieving a

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<sup>122</sup> Reuters. (2016, 7 giugno). *Royal Dutch Shell updates BG deal synergies target to \$4.5 bln in 2018*. <https://www.reuters.com/article/markets/commodities/royal-dutch-shell-updates-bg-deal-synergies-target-to-45-bln-in-2018-idUSFWN18Y0LL/>

<sup>123</sup> StockAnalysis.com. (2025, 5 maggio). *Shell (SHEL) Financial Ratios*. <https://stockanalysis.com/stocks/shel/financials/ratios/>

15% ROACE and demonstrating better-than-expected synergies. The Debt/EBITDA ratio also improved significantly (falling to ~2x in 2018 from >3x in 2016), supported by strong cash flows.<sup>124</sup>

In summary, the BG acquisition strengthened Shell's post-merger performance in the short term: robust growth in revenue and EBITDA, recovering margins, and competitive ROIC (temporarily above peers).

### **3. Bayer Acquires Monsanto (2018) – Sector: Pharmaceuticals / Agrochemicals**

In June 2018, Bayer AG (Germany) acquired Monsanto (USA, agrochemicals) for approximately \$63 billion. The transaction—entirely financed through cash and debt—transformed Bayer into the global leader in the agrochemical industry (seeds and pesticides), but also exposed the company to substantial legal risks related to Monsanto's product *RoundUp*. As a result, Bayer's debt and goodwill rose significantly, with goodwill exceeding €30 billion.

#### **Financial Performance – Bayer (Acquirer):**

The following table presents Bayer's consolidated financial figures, comparing the pre-acquisition period (2015–2017) with the post-acquisition period (2019–2021), in billions of EUR:

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<sup>124</sup> Reuters. (2016, 7 giugno). *Royal Dutch Shell updates BG deal synergies target to \$4.5 bln in 2018*. <https://www.reuters.com/article/markets/commodities/royal-dutch-shell-updates-bg-deal-synergies-target-to-45-bln-in-2018-idUSFWN18Y0LL/>

Bayer AG (EUR billions)	2015	2016	2017	2019	2020	2021
Revenue	46,3	34,9	35	53,5	41,4	44,1
EBITDA (adjusted)	~ 11,7	~ 9,3	~ 9,3	11,5	11,2	11,2
Operating Margin (EBIT%)	11%	13%	7%	9%	-3%	11%
ROIC (post - tax)	~ 7%	6,10%	4,50%	6,10%	4,50%	3,80%
ROE	16%	12%	2%	-3%	-13%	2%
EV/EBITDA (x)	~ 12x	~ 10x	9x	6,3x	6,6x	7,3x

**Note:** In 2016, Bayer divested its MaterialScience division (now Covestro), which reduced total revenues. The 2017 figures include only a partial contribution from Monsanto (deal closed on June 7, 2018), while 2019 reflects the first full year of integration.

**Sources:** Bayer annual reports (2015–2021, IFRS); ROIC and EV/EBITDA data from S&P MI.

#### **Analysis:**

The acquisition of Monsanto radically altered Bayer’s financial profile.

**Revenue and EBITDA:** With Monsanto fully integrated in 2019, Bayer’s revenue jumped to €43.5 billion—approximately +25% compared to the 2016–2017 average.<sup>125</sup> The Crop Science segment nearly doubled, from around €10 billion to over €19 billion annually, offsetting the reduced scale of the pharmaceutical division. Adjusted group EBITDA also increased (to approximately €11.5 billion in 2019, up from ~€9 billion pre-deal), maintaining an EBITDA margin of around 26%.

**Operating Margins:** Despite the announcement of over €1.2 billion in annual synergies, Bayer’s operating profit suffered. The EBIT margin remained modest (9–11% in 2019–2021, down from >13% pre-deal), and turned negative in 2020 due to significant legal provisions—over €10 billion in extraordinary charges related to glyphosate lawsuits.

**ROIC:** Bayer’s ROIC was already declining before the transaction (from ~7% in 2015 to ~4–6% in 2016–2017) and fell further to ~3.8% by 2021. This figure is below Bayer’s cost of capital (~6–7%), indicating value destruction. The main driver was the

<sup>125</sup> StockAnalysis.com. (n.d.). *Bayer Aktiengesellschaft (ETR: BAYN) Financial Ratios and Metrics*. <https://stockanalysis.com/quote/etr/BAYN/financials/ratios/>

massive capital invested in Monsanto (goodwill and agricultural intangibles), coupled with moderate profitability: although Monsanto was profitable, heavy legal charges eroded returns. Bayer reported net losses in 2019 and 2020, reflecting impairments and settlements, with negative ROE (as low as  $-13\%$  in 2020)—an unusual outcome for a major pharma company. Even excluding non-recurring items, normalized returns remained weak.

**Benchmark Comparison:** The average ROIC in the pharmaceutical sector typically ranges between  $10\text{--}15\%$ <sup>126</sup>, while pre-deal pure-play agrochemical companies (e.g., Syngenta) reported ROICs  $>8\%$ . Post-acquisition, Bayer significantly underperformed relative to peers.

**EV/EBITDA and Market Reaction:** Bayer's EV/EBITDA multiple declined from  $\sim 10\text{--}12x$  (2015–2016) to around  $6\text{--}7x$  in the three years following the deal. This reflects a  $40\%$  drop in Bayer's share price by 2019, driven by market uncertainty surrounding the Monsanto acquisition. In other words, investors re-rated Bayer at significantly lower multiples compared to both the pharmaceutical industry average ( $\sim 10\text{--}12x$  EBITDA<sup>127</sup>) and the agrochemical sector (e.g., Corteva  $\sim 8\text{--}9x$ ). The compressed multiple signals low growth expectations and heightened perceived risk.

In summary, before the acquisition, Bayer was a diversified pharma-chemical conglomerate with decent margins and a declining but still positive ROIC. After acquiring Monsanto, the group saw significant revenue growth but suffered a steep deterioration in profitability and return metrics. The deal burdened Bayer with substantial debt and legal exposure: by the end of 2019, the Debt/EBITDA ratio stood at  $\sim 4.7x$ , later reduced through divestitures (e.g., Animal Health). Sector comparisons highlight Bayer's post-deal underperformance: while the average ROE in the pharma industry was  $\sim 10\text{--}15\%$  during 2019–2021, Bayer struggled to generate positive returns. Only in 2021 did the company show tentative signs of operational recovery (return to positive net income), but the costs of the acquisition clearly outweighed the industrial benefits over the period under review.<sup>128</sup>

<sup>126</sup> Damodaran, A. (n.d.). *Return on Capital by Sector (US)* [HTML table]. Stern School of Business, New York University. Dati aggiornati a gennaio 2025. [https://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/roc.html](https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/roc.html)

<sup>127</sup> Cogent Valuation. (2018, settembre). *Oncology Pharmaceutical 2018 Q2* [PDF]. <http://cogentvaluation.com/wp-content/uploads/2018/09/Oncology-Pharma-2Q-2018.pdf>  
<sup>128</sup> FinanceCharts.com. (n.d.). *Bayer (BAYRY) ROIC*. <https://www.financecharts.com/stocks/BAYRY/value/roic/>

#### 4. Essilor Acquires Luxottica (2018, EssilorLuxottica Merger) – Sector: Eyewear

In October 2018, the merger between Essilor (France, ophthalmic lenses) and Luxottica (Italy, frames and sunglasses) was finalized through the acquisition of Luxottica by Essilor and the creation of a new entity: EssilorLuxottica. The deal, valued at approximately €50 billion, created an integrated global leader in the eyewear industry. The transaction was primarily structured as a share exchange, with Del Vecchio (Luxottica’s founder) becoming the largest shareholder of the newly formed group.

#### Financial Performance – EssilorLuxottica:

The following analysis presents combined figures (Essilor + Luxottica) for the three years prior to the merger, and consolidated results for EssilorLuxottica in the post-merger period:

ElissorLuxottica (EUR billions)	2015	2016	2017	2019	2020	2021
Revenue	15,4	16,4	16,8	17,4	14,4	17,8
EBITDA (adjusted)	~ 3,7	~ 4	~ 4,2	3,9	2,6	4,2
Operating Margin (EBIT%)	~ 16%	~ 16%	15%	16,20%	5%	16,80%
ROIC	~ 8%	9,00%	8,00%	~ 5-6%	2,00%	~ 7%
ROE	~ 10-11%	10%	8%	4%	-1%	8%
EV/EBITDA (x)	~ 14x	~ 15x	~ 16x	~ 17x	n.m.	~ 18x

**Note:** Pro forma data reflects the combined figures of Essilor and Luxottica (as separate entities) to provide an aggregated pre-merger view. The 2019 and 2021 figures exclude extraordinary items (adjusted data).

**Sources:** EssilorLuxottica press releases, 2017 pro forma data, 2019–2021 annual

reports. Adjusted margins from 2022 reports<sup>129</sup>. EV/EBITDA estimates from equity analyst reports (EssilorLuxottica typically valued at ~15–20x EBITDA on public markets, comparable to LVMH). *n.m.* = not meaningful (2020 EV/EBITDA not meaningful due to EBITDA collapse during lockdowns).

### **Analysis:**

The Essilor–Luxottica merger aimed to generate efficiencies across the eyewear value chain.

**Revenue:** Prior to the merger, the combined revenue of both companies amounted to ~€16–17 billion annually, growing organically at a moderate pace (+4–5% CAGR, 2015–2017). In the first full year post-merger (2019), consolidated revenue stood at €17.4 billion—stable compared to 2017 pro forma—indicating continuity during integration. However, internal management conflicts in 2019 delayed synergy realization. In 2020, revenue dropped sharply (–17%) to €14.4 billion due to the COVID-19 pandemic and widespread retail store closures. Recovery in 2021 was strong (+23% to €17.8 billion, exceeding 2019 levels), driven by rebounding demand and early digital synergy effects<sup>130</sup>.

### **EBITDA & Margins:**

Pre-deal, Luxottica operated with an EBITDA margin of ~25% and Essilor ~18%; the aggregated operating margin was ~15–16%. Post-merger, despite integration costs, the adjusted operating margin remained steady—16.2% in 2019 and 16.8% in 2021 after recovery.<sup>131</sup> This suggests that expected synergies (estimated at €600 million annually by 2023) offset initial inefficiencies. In fact, by 2021, EssilorLuxottica had slightly improved operational profitability relative to the combined pre-deal baseline (16.8% vs ~15% in 2017).

### **ROIC and ROE:**

The impact on ROIC was moderate. Since the transaction was executed via a share exchange, the accounting invested capital increased (due to Luxottica’s goodwill), but no significant new debt was incurred. Pre-merger ROIC was ~8–9%; after the merger, adjusted ROIC ranged from 5–7% (dropping to 2% in 2020 due to earnings collapse, but recovering to ~7% in 2021). While these levels are below the eyewear sector’s potential

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<sup>129</sup> EssilorLuxottica S.A. (2023, 23 febbraio). *Anno record per fatturato, utile operativo e utile netto* [PDF]. <http://cogentvaluation.com/wp-content/uploads/2018/09/Oncology-Pharma-2Q-2018.pdf>

<sup>130</sup> EssilorLuxottica S.A. (2020, 6 marzo). *Forte aumento delle vendite e conferma della solidità dei margini* [PDF]. <https://www.essilorluxottica.com/it/cap/content/126022/>

<sup>131</sup> EssilorLuxottica S.A. (2023, 23 febbraio). *Anno record per fatturato, utile operativo e utile netto* [PDF]. Recuperato il 20 luglio 2025 da <https://www.essilorluxottica.com/cap/content/58222/> EssilorLuxottica

(Luxottica historically delivered ROIC >10%), they are reasonable when accounting for integration costs and the COVID shock.

ROE followed a similar pattern: ~10% pre-merger, dropping to low single digits afterward (partly due to equity dilution from the share issuance to Del Vecchio) and turning negative in 2020. By 2021, ROE had rebounded to ~8%, indicating a gradual normalization.

### **Sector Comparison:**

The luxury/eyewear sector maintained high margins between 2019–2021. Smaller players like Safilo reported significantly lower margins (~5%), while Luxottica served as the industry benchmark with EBIT margins around 16–17%. EssilorLuxottica managed to sustain these levels post-merger, reinforcing its status as the sector's profitability leader.

In terms of valuation multiples, the market continued to price EssilorLuxottica as a luxury/consumer brand player: EV/EBITDA multiples ranged between ~16–18x in recent years. This is relatively high but consistent with luxury sector benchmarks (LVMH ~15x, Hermès >20x EBITDA<sup>132</sup>). The fact that the multiple remained elevated suggests investors believed in the group's long-term growth and synergy potential.

In summary, in the short term, the Essilor–Luxottica deal did not disrupt fundamentals: revenues remained stable (excluding COVID), operating margins were preserved or slightly improved, and ROIC was diluted but still close to the group's cost of capital (~7%). The real test came during the pandemic—a major external shock—and the group proved resilient, returning to pre-merger profitability levels by 2021. Benchmarks confirm that EssilorLuxottica remained best-in-class in the sector, with profit margins nearly double those of most lens/frame producers.

Looking ahead, the company reported record sales in 2022 of €24.5 billion (+13.9% YoY) with an operating margin of 16.8%<sup>133</sup>, signaling the full realization of merger synergies.

## **4. LVMH Acquires Tiffany & Co. (2021) – Sector: Luxury Goods**

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<sup>132</sup> StockAnalysis.com. (n.d.). *LVMUY Statistics – LVMH Moët Hennessy (OTC)*  
<https://stockanalysis.com/quote/otc/LVMUY/statistics/>

<sup>133</sup> EssilorLuxottica S.A. (2023, 23 febbraio). *Anno record per fatturato, utile operativo e utile netto* [PDF].  
<https://www.essilorluxottica.com/cap/content/58222/>

In January 2021, LVMH Moët Hennessy Louis Vuitton (France), the world's leading luxury group, acquired U.S.-based jeweler Tiffany & Co. for approximately \$15.8 billion. The transaction, financed through a mix of cash and debt, added an iconic brand to LVMH's portfolio—specifically strengthening the Watches and Jewelry segment.

### Financial Performance – LVMH (Acquirer):

The pre-deal reference period includes one anomalous year (2020) due to the COVID-19 pandemic; therefore, 2018–2019 figures are used as the baseline. Financial data are reported in billions of EUR:

LVMH (EUR billions)	2018	2019	2020	2022	2023	2024
Revenue	46,8	53,7	44,7	79,2	79,7	n.d
EBITDA	15,6	17,9	13	26,5	26,9	n.d
Operating Margin (EBIT%)	21,40%	21,10%	18,60%	26,70%	25,50%	n.d
ROIC	~ 11%	~ 11%	~ 8%	~ 13%	~ 12%	n.d
ROE	17%	16,90%	11,70%	20,40%	18-19%	n.d
EV/EBITDA (x)	13x	15x	20x	~ 18x	~ 18x	n.d

**Note:** 2024 data not yet available (forecast excluded).

**Sources:** LVMH annual reports (2018–2023); ROIC and valuation multiples from Bloomberg (LVMH ROIC ~11–13% in recent years; EV/EBITDA ~15–20x).

#### Analysis:

The Tiffany acquisition was completed in early 2021, just as LVMH was emerging from the pandemic crisis.

#### Revenue Growth:

LVMH was already on a strong growth trajectory pre-COVID (with +10% organic growth in 2019). In 2021, including Tiffany from February onwards, LVMH's revenue surged to €64.2 billion (up from €44.7 billion in 2020), and reached a record €79.2 billion in 2022. Tiffany contributed around €4 billion in annual sales (approximately 5% of total

LVMH revenue), but the group's overall performance also reflected an exceptional organic rebound in luxury demand post-lockdown.

### **Margins:**

LVMH further improved its operating profitability post-acquisition: EBIT margin increased from ~21% pre-deal to over 26% in 2022, driven by record sales and the optimization of Tiffany (distribution synergies and corporate cost reductions). Tiffany was slightly less profitable than other brands like Bulgari or Cartier (with a ~17% EBIT margin), but under LVMH it benefited from brand upscaling and strong expansion in Asia.

### **ROIC and ROE:**

LVMH already delivered high returns prior to the acquisition (ROIC ~11%, ROE ~17%). Following the deal, despite the significant investment, both indicators held steady or improved slightly. The estimated ROIC for 2022 was ~13%, exceeding pre-deal levels, indicating that Tiffany's operating performance (combined with that of the group's other maisons) comfortably covered the cost of capital. LVMH's ROE exceeded 20% in 2022, demonstrating strong value creation for shareholders, supported by operational and financial leverage (moderate debt at low interest rates).

By comparison, peers such as Kering posted ROE around 25% and EBIT margins near 28%, while Hermès achieved EBIT margins of approximately 40%. LVMH remained highly competitive: in 2022, its Watches & Jewelry division (including Tiffany, Bulgari, etc.) grew sales by +18% and improved operating margin to 22%, approaching the group's top-tier levels.

### **Market Multiples:**

LVMH is among the most highly valued companies in Europe, consistently trading at premium multiples. Its EV/EBITDA multiple was ~15x in 2019, rose temporarily in 2020 due to EBITDA contraction, and settled at ~18x in 2022–2023. This aligns with luxury sector benchmarks: major luxury conglomerates typically trade at EV/EBITDA multiples of 15–20x (with Hermès often above 25x). The Tiffany deal neither inflated nor compressed LVMH's valuation multiple—markets viewed it as a strategically sound move to expand in the high-end jewelry segment.

In conclusion, the LVMH–Tiffany transaction strengthened an already positive trajectory. LVMH was growing and generating strong returns before the deal; after the acquisition, the company became larger and even more profitable. Sales increased by approximately 50% compared to 2019, EBIT margins improved by ~5 percentage points,

and both ROIC and ROE remained well above the cost of capital. Sector comparisons confirm that LVMH continues to perform at the top of the industry: slightly behind Hermès in margins and ROIC, but outperforming the average of other multi-brand luxury groups. The Tiffany integration was smooth, contributing positively to both top-line and profitability, and the market rewarded LVMH with sustained premium valuations (market capitalization exceeding €400 billion in 2023)<sup>134</sup>.

## 6. Nokia Acquires Alcatel-Lucent (2016) – Sector: Telecom Equipment

In January 2016, Nokia Oyj (Finland) acquired the Franco-American firm Alcatel-Lucent through an all-share public exchange offer, valued at approximately €15.6 billion. The strategic objective was to create a European telecom infrastructure champion capable of competing with Ericsson and Huawei.

The transaction effectively doubled Nokia's size, integrating Alcatel-Lucent's fixed, IP, and optical network businesses into its operations.

### Financial Performance – Nokia (Acquirer):

The following table presents Nokia's performance (excluding the divested mobile phone business) for the years before and after the acquisition, in billions of EUR:

Nokia Corp. (EUR billions)	2013	2014	2015	2017	2018	2019
Revenue	12,7	11,2	12,5	23,1	22,6	23,3
EBITDA (adjusted)	1,7	1,6	1,8	3	2,6	2,7
Operating Margin (EBIT%)	3,00%	10,80%	1,30%	3,80%	1,60%	8,50%
ROIC	n.d	~ 5-6%	1-2%	~ 3%	~ 2%	~ 5%
ROE	n.d	7,90%	-2,50%	-6,60%	-9,90%	1,50%
EV/EBITDA (x)	~ 7x	~ 6x	~ 7x	~ 7x	~ 6x	~ 6x

<sup>134</sup> StockAnalysis.com. (n.d.). *LVMUY Statistics* – *LVMH Moët Hennessy (OTC)*. <https://stockanalysis.com/quote/otc/LVMUY/statistics/stock>

**Note:** The 2014 EBIT margin was positively affected by one-off gains (notably the sale of Nokia Here).

**Sources:** Nokia financial statements (2013–2019, Networks segment); post-2016 data includes Alcatel-Lucent.

**Analysis:**

The acquisition of Alcatel-Lucent nearly doubled the scale of Nokia Networks, but profitability remained disappointing for several years.

**Revenue:**

In 2017, Nokia reported €23.1 billion in revenue—nearly double the ~€12 billion average in the pre-merger years<sup>135</sup>. This reflected the inclusion of Alcatel’s portfolio (fixed networks, IP routing) in addition to Nokia’s mobile infrastructure. However, organic growth was modest: demand for 4G infrastructure had stagnated, and Nokia lost market share in several regions. By 2018, revenue declined slightly to €22.6 billion, showing limited momentum.

**Margins:**

A key challenge was the complexity of integration—Nokia struggled to achieve cost reductions at the expected pace (targeted €1.2 billion in savings by 2018). Adjusted operating margin in the Networks segment remained low: ~3–4% in 2017, and fell to just 1.6% in 2018, far below the target of ~10%<sup>136</sup>. Only in 2019, thanks to 5G rollout and restructuring efforts, did the EBIT margin recover to ~8.5%, signaling a gradual improvement in competitiveness. For comparison, Ericsson posted EBIT margins of ~5–10% in those years, while Huawei’s were higher.

**EBITDA:**

Nokia’s EBITDA margin post-deal remained around 12% (EBITDA between €2.6–3 billion), reflecting the high fixed cost structure of the telecom equipment sector and overall low operating profitability.

**ROIC & ROE:**

The Alcatel-Lucent deal diluted Nokia’s ROIC. Even before the merger, Nokia Networks had a low ROIC (~1–2%) due to high R&D investment and limited

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<sup>135</sup> Nokia Corporation. (2018, novembre). *Annual Report 2016* [PDF]. [https://www.nokia.com/sites/default/files/2018-11/nokia\\_ar16\\_full\\_report\\_english\\_3.pdf](https://www.nokia.com/sites/default/files/2018-11/nokia_ar16_full_report_english_3.pdf)

<sup>136</sup> Fitch Ratings. (2015, 17 aprile). *Fitch revises Nokia’s outlook to positive; affirms at “BB”* [Comunicazione di rating]. <https://www.fitchratings.com/research/corporate-finance/fitch-revises-nokia-outlook-to-positive-affirms-at-bb-17-04-2015/>

profitability. With the addition of Alcatel's capital base—including substantial goodwill—ROIC remained below the cost of capital: estimated at ~2–3% in 2017–2018, improving toward ~5% by 2019.

Nokia's ROE also reflected its challenges: the company recorded net losses from 2016 to 2018, with ROE dropping as low as –10% in 2018, only turning slightly positive in 2019 (~1.5%). This lagged behind competitors: Ericsson posted ROE in the 5–8% range, while Cisco (in IP networking) achieved ROE around 20%. In terms of returns, Nokia underperformed peers, indicating that the integration process did not deliver expected value within the anticipated timeframe.

### **Market Valuation:**

Nokia continued to trade at modest valuation levels. Its EV/EBITDA multiple remained around 6–7x, consistent with a mature telecom equipment sector. There was no significant re-rating after the deal; in fact, Nokia's share price declined in 2018, reflecting investor skepticism about its ability to extract value from the acquisition—especially amid delays in 5G chipset development.

For comparison, Ericsson traded at ~6–8x EBITDA, while Cisco traded around ~10x. Nokia's lower relative valuation reflected weak margins and intense competitive pressure.

In summary, the Nokia–Alcatel case exemplifies how an acquisition can expand scale without immediately improving financial performance. Before the deal, Nokia was smaller but maintained decent profitability in certain divisions (e.g., ~10% EBIT in Mobile Networks in 2014)<sup>137</sup>. After the merger, consolidated margins were compressed due to the burden of Alcatel integration and market challenges, while ROIC and ROE remained unsatisfactory for several years.

Only around 2020, thanks to restructuring and the momentum of 5G deployment, did Nokia begin to show signs of improvement (operating margin >10% in 2021). Industry benchmarks highlight that Nokia lagged behind sector leader Cisco (ROIC ~15% in networking) and struggled to match even Ericsson. This case illustrates the risks of “defensive” mergers: complex integration can weigh on profitability longer than anticipated, dragging down key financial metrics in the medium term.

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<sup>137</sup> Nokia Corporation. (2016, 1 aprile). *Form 20-F: Annual and transition report of foreign private issuer for the fiscal year ended December 31, 2015* [Modulo 20-F]. U.S. Securities and Exchange Commission. <https://www.sec.gov/Archives/edgar/data/924613/000119312516526767/d18283d20f.htm>  
[sec.gov](https://www.sec.gov)+1sec.gov+1

## 7. BT Group Acquires EE (2016) – Sector: Telecommunications

In January 2016, BT Group (United Kingdom), the incumbent fixed-line telecom operator, acquired EE (Everything Everywhere), the UK’s leading mobile network provider (a joint venture between Orange and Deutsche Telekom), for £12.5 billion. The transaction—half in cash and half in shares—enabled BT to re-enter the consumer mobile segment after several years, creating an integrated fixed–mobile operator.

### Financial Performance – BT (Acquirer):

The following table presents BT’s financial data, in billions of GBP (£), before and after the acquisition:

BT Group (£ billions)	2013/14	2014/15	2015/16	2017/18	2018/19	2019/20
Revenue	18,3	17,9	19	23,7	23,4	22,8
EBITDA	6,1	6,3	6,6	7,5	7,4	7,2
Operating Margin (EBIT%)	18%	19%	15,00%	13,00%	12,00%	12,00%
ROIC (ROCE pre - tax)	~ 10%	~ 9%	~ 8%	7%	6%	5%
ROE	35%	41,00%	28,00%	33,00%	23,00%	24,00%
EV/EBITDA (x)	~ 6,5x	~ 6x	~ 5,5x	~ 6,5x	~ 6x	~ 6,3x

**Note:** BT’s fiscal year ends March 31; for example, FY 2015/16 closed in March 2016. ROCE estimates. Median EV/EBITDA from Bloomberg (European telcos ~6x).

**Sources:** BT annual reports; FY 2015/16 includes two months of EE.

### Analysis:

The acquisition of EE increased BT’s revenue by approximately 25%, bringing the group to around £24 billion in annual revenue from 2017 onward, with an additional ~30 million mobile customers.

### Revenue:

BT reversed a mild pre-acquisition decline in revenue: from £17.9 billion (FY 2014/15) to £23.7 billion in FY 2017/18. Much of the increase came from EE’s contribution (which

generated ~£6 billion in 2015). However, total revenue remained flat or slightly declined after integration (£22.8 billion in 2019/20), due to competitive and regulatory pressure in both fixed and mobile segments.

#### **EBITDA:**

The addition of EE (with EBITDA of ~£1.6 billion pre-deal) pushed BT's group EBITDA from ~£6.6 billion to ~£7.5 billion post-deal. However, the overall EBITDA margin slightly decreased (from ~37% to ~32%) as mobile services typically have lower margins than fixed-line operations.

#### **Operating Margin (EBIT):**

EBIT margin declined from ~18–19% pre-EE to ~12–13% post-acquisition, due to increased amortization and investment costs (BT also heavily invested in fiber rollout and TV sports rights). In 2018, BT recorded charges related to its Italian business (accounting scandal), which further compressed EBIT.

#### **ROIC and ROE:**

Before acquiring EE, BT achieved a stable ROCE of ~9–10%, exceeding its cost of capital (WACC ~8%). The acquisition, partially debt-financed, increased invested capital and goodwill, reducing ROIC to ~5–7% in subsequent years. BT's ROE remained high in percentage terms (20–30%) thanks to high financial leverage and non-recurring effects (e.g., a lower tax rate inflated ROE to 33% in 2017/18). However, structurally, net profitability did not improve: net income in 2019 (£2.2 billion) was similar to pre-EE levels (£2–3 billion), though spread across a reduced equity base (due to high dividends). Thus, the high ROE did not stem from strong ROIC but from leverage: net debt rose to ~£11 billion after the acquisition, pushing the debt/equity ratio above 1. Comparing BT's ROIC (~6%) to the telecom sector average (typically 5–6%), BT aligned with the industry norm, without clear capital efficiency gains from the deal.

#### **Market Multiples:**

The telecom sector is known for low valuation multiples due to limited growth. BT's EV/EBITDA multiple remained around 6x before and after the deal—consistent with the European benchmark (e.g., Vodafone at ~6–7x in those years). The market initially welcomed the transaction (BT shares rose +20% in 2016), but concerns over competition, issues with Global Services, and pension liabilities later weighed on the company's valuation.

In summary, the EE acquisition achieved its strategic goal—re-establishing BT in the mobile market and consolidating its UK leadership—but without materially

improving key financial metrics during the observed period. Revenue increased as expected (through consolidation), but margins and capital returns did not improve; in fact, EBIT margin and ROIC slightly worsened due to costs and investments. This reflects a mature, low-growth industry in which fixed–mobile convergence yielded only limited synergies.

**Benchmark:** Other integrated European telcos (e.g., Telefónica, Deutsche Telekom) posted similarly modest EBIT margins (~10–15%) and low ROIC (~5%), meaning BT post-deal fell in line with the typical sector financial profile. In other words, the EE transaction made BT larger, but not meaningfully more profitable than its peers<sup>138</sup>.

## 8. PSA (Peugeot) Acquires Opel/Vauxhall (2017) – Sector: Automotive

In August 2017, PSA Group (Peugeot S.A., France) acquired Opel/Vauxhall (Germany/UK) from General Motors for approximately €2.2 billion. The deal made PSA the second-largest car manufacturer in Europe, adding ~1 million annual vehicle sales. Under GM, Opel had been structurally loss-making; PSA aimed to restore its profitability by applying its more efficient vehicle platform.

### Financial Performance – PSA (Acquirer):

The analysis compares PSA’s financial data before the acquisition (2014–2016) and after (2018–2020).

**Note:** In 2021, PSA merged with FCA to form Stellantis, but this analysis focuses on the period up to 2020:

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<sup>138</sup> MarketScreener. (n.d.). *Bayer AG: Valuation Ratios, Analysts’ Forecasts.* <https://www.marketscreener.com/quote/stock/BAYER-AG-103271488/valuation/>

Groupe PSA (EUR billions)	2014	2015	2016	2018	2019	2020
Revenue	54,1	54,7	54	74	74,7	60,7
EBITDA (automotive)	3,8	4,1	4,2	6,8	7,5	4,8
Operating Margin (EBIT%)	2%	5%	6,10%	7,70%	<b>8,50%</b>	3,70%
ROIC (automotive)	n.d	~ 10%	~ 15%	~ 19%	~ 20%	5%
ROE	-14%	3,70%	20,30%	22,50%	18,30%	-2,40%
EV/EBITDA (x)	n.m	~ 4x	~ 3x	~ 2,5x	~ 2,8x	~ 4x

### Sources:

PSA financial statements; 2018–2019 margin and EBIT data from official press releases. In 2014, PSA was undergoing restructuring (negative ROE)<sup>139</sup>. Automotive data includes Opel from 2018 onward.

### Analysis:

The Opel acquisition is generally considered a success for PSA, having driven notable improvements in operational efficiency.

### Revenue:

PSA's revenue rose from approximately €54 billion annually (2014–2016) to €74 billion in 2018–2019, thanks to the inclusion of Opel/Vauxhall, which contributed ~€18–19 billion in annual sales. Opel was consolidated starting in August 2017, making 2018 the first full year of integration. Vehicle sales volumes at PSA increased by +38%.

### Operating Margins:

PSA had already completed a successful turnaround by 2016 (operating margin: 6.1%). With Opel integrated, margins did not suffer—on the contrary, they improved further: the group posted a 7.7% operating margin in 2018 and 8.5% in 2019, a historical record<sup>140</sup>. This indicates that PSA quickly returned Opel to profitability (Opel contributed ~€0.9 billion in operating profit in 2018, after decades of losses under GM). Integration measures (platform sharing, 3,700 job cuts, reduction of model lineup) helped reduce Opel's fixed costs by ~€1.1 billion by 2019, enabling the Opel division to reach

<sup>139</sup> Groupe PSA. (2020, 25 febbraio). *Groupe-PSA Annual Results 2019* [PDF]. <https://www.stellantis.com/content/dam/stellantis-corporate/archives/psa/regulated-information/2019/Groupe-PSA-Annual-report-2019-incl-auditors-report.pdf>

<sup>140</sup> Groupe PSA. (2020, 25 febbraio). *Groupe-PSA Annual Results 2019* [PDF]. <https://www.stellantis.com/content/dam/stellantis-corporate/archives/psa/regulated-information/2019/Groupe-PSA-Annual-report-2019-incl-auditors-report.pdf>

~6% operating margin as early as 2019<sup>141</sup>. Overall, PSA outperformed mass-market peers in profitability: for example, Renault had ~5% margin in 2019, VW brand ~4%.

### **ROIC:**

PSA's Automotive business, thanks to its strong focus on operational efficiency, generated exceptionally high ROIC levels post-acquisition. Automotive ROIC is estimated at ~19–20% in 2018–2019, a significant increase from ~10–15% in the pre-deal years. This is outstanding for the automotive sector, which typically operates with ROIC in the ~5–10% range. It indicates that the investment in Opel—acquired at an attractive price—yielded excellent returns: Opel generated substantial cash (cumulative free cash flow of ~€3.5 billion in 2018–2019), contributing to a cash surge across the PSA Group.

### **ROE:**

PSA's ROE had shown volatility in the past (negative in 2014 due to losses; above 20% in 2016 with the return to profitability). Following the Opel acquisition, ROE remained high—around 18–22% in 2018–2019—indicating strong value creation, before the COVID-19 pandemic in 2020 triggered a slight loss and negative ROE. However, isolating the pandemic's impact, PSA displayed excellent post-acquisition financial indicators.

### **Valuation Multiples:**

Despite strong results, PSA traded at very low valuation multiples, typical of the mature European automotive sector. Its EV/EBITDA was ~2.5–3x in 2018–2019—deeply discounted but in line with other European OEMs (ranging from 2x to 4x). The company's robust financial performance did not result in a valuation premium, partly due to market concerns over the automotive cycle and the upcoming merger with FCA. Still, PSA increased its dividend payouts and strengthened its net financial position: by the end of 2019, it held €7.5 billion in net cash, a factor praised by analysts.

In summary, PSA–Opel is a case where the acquisition improved most key financial indicators: strong revenue growth, operating margins up nearly 3 percentage points (PSA exceeded its >5% average margin target well ahead of schedule<sup>142</sup>), and a significant rise in ROIC and cash flow.

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<sup>141</sup> MarkLines Co., Ltd. (2017, 1 giugno). *PSA: Achieved 2021 operating margin target ahead of schedule, shifting to an aggressive stance* [News report]. [https://www.marklines.com/en/report/rep1593\\_201704](https://www.marklines.com/en/report/rep1593_201704)

<sup>142</sup> Business Wire. (2020, 25 febbraio). *Groupe PSA achieved a new profitability record in 2019* [Comunicazione stampa]. <https://www.businesswire.com/news/home/20200225006158/en/Groupe-PSA-achieved-a-new-profitability-record-in-2019/>

PSA turned Opel from a loss-making business into a profit contributor in less than 18 months, effectively leveraging industrial synergies and lowering the break-even point. Compared to industry benchmarks, PSA ranked at the top among generalist carmakers in 2019 (8.5% margin vs. ~5% average).<sup>143</sup>

This explains why PSA entered the 2021 merger with FCA (to form Stellantis) from a position of strength: the group even distributed €1.2 billion in special dividends before the deal, being one of the few OEMs with ROIC well above WACC (~8%). In conclusion, the Opel acquisition is widely cited as a positive example of value-creating M&A in the European automotive industry<sup>144</sup>.

## **9. London Stock Exchange Group (LSEG) Acquires Refinitiv (2021) – Sector: Exchanges and Financial Data**

In January 2021, London Stock Exchange Group (LSEG, UK) completed the acquisition of Refinitiv, a global financial data provider (formerly a division of Thomson Reuters and co-owned by Blackstone), for a total consideration of £27 billion. The all-share transaction transformed LSEG from a traditional exchange operator into a financial data and trading powerhouse—positioning it as a direct competitor to Bloomberg and S&P Global.

### **Financial Performance – LSEG (Acquirer):**

The following table presents key financial metrics for LSEG, reported in billions of GBP (£):

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<sup>143</sup> Helgi Library. (2020, 24 settembre). *PSA Peugeot Citroën – Profit Margins* [Grafico]. <https://www.helgilibrary.com/charts/psa-peugeot-citroen-profit-margins/>

<sup>144</sup> Gardner, G. (2019, 27 dicembre). *Potential Risks and Rewards of Groupe PSA's Merger with FCA*. Forbes. <https://www.forbes.com/sites/greggardner/2019/12/27/potential-risks-and-rewards-of-groupe-psas-merger-with-fca/>

LSEG (£ billions)	2018	2019	2020	2022	2023	2024
Total Revenue	2,14	2,31	2,44	6,83	7,43	~ 7,8
EBITDA (adjusted)	1,13	1,3	1,33	3,31	3,5	~ 3,7
Operating Margin Adjusted	44%	49%	48,00%	38,00%	39,00%	40,00%
ROIC (post - tax)	~ 10%	~ 9%	~ 8%	~ 5-6%	~ 6%	~ 6%
ROE	17,10%	16,40%	14,60%	8,30%	10-11%	~ 11%
EV/EBITDA (x)	~ 21x	~ 23x	~ 25x	~ 18x	~ 17x	n.d

**Note:**

2024 partial data (estimate).

**Sources:**

LSEG annual reports; 2023 Investor Presentation; independent analysis via Substack<sup>145</sup>.

**Analysis:**

The acquisition of Refinitiv nearly tripled the size of LSEG but also introduced integration challenges and a substantial increase in debt.

**Revenue:**

Before the deal, LSEG generated around £2.3 billion annually, primarily from trading and indices. In 2022 (the first full year including Refinitiv), revenue jumped to £6.8 billion<sup>146</sup>, reflecting the addition of ~£4.5 billion in annual sales from Refinitiv's data and trading infrastructure businesses. This shift repositioned LSEG as a data/analytics company, with approximately 70% of revenue coming from this segment.

**Margins:**

Historically, LSEG operated with exceptionally high margins (EBIT margin ~45–50%). Refinitiv had slightly lower profitability (~38% EBITDA margin). As a result, LSEG's adjusted operating margin declined to 38% in 2022 (vs. ~48% pre-deal). However, management expects synergies—£350 million in cost savings and £225 million in revenue synergies by 2025—to gradually lift margins above 40%. By 2023, the

<sup>145</sup> Marathoner. (2023, 1 giugno). *London Stock Exchange (LSEG): An in-depth analysis of LSEG/Refinitiv merger – marriage isn't easy*. Investing Marathon. <https://investmentmarathon.substack.com/p/london-stock-exchange-lseg>

<sup>146</sup> Morningstar. (2023, 3 agosto). *UPDATE: London Stock Exchange to ditch Refinitiv brand completely*. [https://www.morningstar.co.uk/uk/news/AN\\_1691057094361346600/update-london-stock-exchange-to-ditch-refinitiv-brand-completely.aspx](https://www.morningstar.co.uk/uk/news/AN_1691057094361346600/update-london-stock-exchange-to-ditch-refinitiv-brand-completely.aspx)

EBITDA margin had already rebounded to 46% (excluding one-off costs). LSEG also reported organic revenue growth of ~5–7% in the data business.

**Return on Capital:**

Post-tax ROIC is estimated to have declined to around 5–6%, compared to ~9–10% before the deal. Refinitiv was acquired at a high valuation (~14x EBITDA) and financed with substantial additional debt (approximately £10 billion). As a result, at least in the short term, the return on invested capital dropped below LSEG’s estimated cost of capital (WACC ~7–8%). Independent analysts estimate that Refinitiv’s steady-state ROIC will remain around 6%, raising questions about the deal’s ability to generate genuine value.

**ROE:**

Similarly, LSEG’s ROE declined from ~15% pre-acquisition to around 8–11% in 2022–2023. Although net income increased in absolute terms (£1.24 billion in 2022), equity also grew significantly due to new shares issued to Blackstone and Thomson Reuters.

**Leverage:**

It is worth noting that LSEG shifted from a net cash position pre-deal to a Debt/EBITDA ratio of ~3.5x in 2021. This limited financial flexibility in the short term, prompting a temporary suspension of the share buyback program.

**Market Valuation:**

Despite these financial impacts, LSEG’s stock performed well in 2021–2022. Its EV/EBITDA multiple—very high before the deal (~23–25x, typical for growth-oriented exchange groups)—normalized to ~17–18x after integration. This remains elevated compared to pure-play exchange peers (e.g., Deutsche Börse ~15x) but reasonable for a data-driven business (comparable to S&P Global at ~20x). The market appears to be pricing in LSEG’s long-term ability to extract value from Refinitiv, supported by sustained demand for financial data and analytics.

In summary, in the immediate aftermath of the acquisition, Refinitiv brought a decline in LSEG’s margins and returns (ROIC, ROE), due to the high investment and integration costs.

Before the deal, LSEG was a highly profitable but relatively modest-sized exchange operator; after the acquisition, it became a larger and more diversified global leader, albeit with lower short-term efficiency.

Compared to benchmarks, LSEG currently shows lower ROIC than other data/index peers (e.g., S&P Global with ~8% ROIC)<sup>147</sup>, but it owns strategic assets—such as the FX trading platform and Eikon terminals—that could enhance performance over time.

LSEG's management targets an EBITDA margin of ~50% by 2025 and strong cash flow generation to reduce leverage<sup>148</sup>. Whether these targets are achieved will be critical: success would bring ROIC back near the cost of capital, justifying the company's premium valuation. For now, from a strictly financial standpoint, Refinitiv represents a costly acquisition that will require several years to deliver the expected benefits.

## **10. Alstom Acquires Bombardier Transportation (2021) – Sector: Railway Equipment**

In January 2021, Alstom SA (France) completed the acquisition of Bombardier Transportation—the rail division of Canadian group Bombardier—for approximately €5.5 billion in enterprise value, revised down from an initial €7 billion. The deal positioned Alstom as the world's second-largest manufacturer of rolling stock (trains and signalling systems), behind China's CRRC. Bombardier Transportation had struggled with low profitability and project execution issues; Alstom aimed to leverage synergies in scale and backlog optimization.

### **Financial Performance – Alstom (Acquirer):**

Alstom's fiscal year ends on March 31. The following figures are presented in billions of euros (€) for pre-deal fiscal years (FY2018/19, FY2019/20) and post-deal (FY2021/22, FY2022/23):

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<sup>147</sup> Marathoner. (2023, 1 giugno). *London Stock Exchange (LSEG): An in-depth analysis of LSEG/Refinitiv merger – marriage isn't easy*. Investing Marathon.

<sup>148</sup> London Stock Exchange Group plc. (2025, 27 febbraio). *LSEG 2024 Preliminary Results RNS* [PDF]. [https://www.lseg.com/content/dam/lseg/en\\_us/documents/investor-relations/financial-results/preliminary-results/rns/lseg-2024-preliminary-results-rns-27feb2025.pdf](https://www.lseg.com/content/dam/lseg/en_us/documents/investor-relations/financial-results/preliminary-results/rns/lseg-2024-preliminary-results-rns-27feb2025.pdf)

Alstom (FY end Mar, EUR billions)	2018/19	2019/20	2021/22	2022/23
Revenue	8,1	8,2	15,5	16,5
EBITDA (adjusted)	0,63	0,65	0,767	0,852
Operating Margin (EBIT%)	7,70%	7,80%	5,00%	5,20%
ROIC (est.)	~ 8-10%	~ 9%	~ 4-5%	~ 5%
ROE	11%	13,60%	-3,50%	2,40%
EV/EBITDA (x)	~ 9%	~ 8x	~ 11x	~ 10x

### Sources:

Alstom financial statements; margins from official results announcements.<sup>149</sup> ROE for FY2021/22 was negative due to a net loss (contract impairments from Bombardier Transportation).<sup>150</sup>

### Analysis:

The integration of Bombardier Transportation (BT) proved challenging and diluted Alstom's margins in the short term.

### Revenue:

Alstom nearly doubled its revenue from ~€8.2 billion pre-deal to €15.5 billion in FY2021/22. This brought actual revenues in line with the combined order backlog (Alstom + BT had a backlog of €71 billion). However, organic growth was modest, with FY2022/23 revenue reaching €16.5 billion (+6%).

### Operating Margins:

Before the deal, Alstom was profitable (EBIT margin ~7.7%)<sup>151</sup>. Bombardier, by contrast, was significantly less profitable (EBIT margin ~2–3%). Post-acquisition,

<sup>149</sup> Alstom S.A. (2022, 11 maggio). *Annual financial report: Full year results 2021/22 – Management report and notes* [PDF].

[https://www.alstom.com/sites/alstom.com/files/2022/05/10/20220511\\_FY\\_2021\\_2022\\_full\\_year\\_results\\_Management\\_Report\\_and\\_Notes\\_EN.pdf](https://www.alstom.com/sites/alstom.com/files/2022/05/10/20220511_FY_2021_2022_full_year_results_Management_Report_and_Notes_EN.pdf)

<sup>150</sup> Golovnya, L., & Mandia, D. (2023, 10 maggio). *Train maker Alstom sees higher annual margin but delays mid-term targets*. Reuters. <https://www.reuters.com/business/train-maker-alstom-expects-higher-2023-operating-margin-2023-05-10/>

<sup>151</sup> GlobeNewswire. (2020, 12 maggio). *ALSTOM SA: Alstom 2019/20 full year results* [Comunicato stampa]. <https://www.globenewswire.com/news-release/2020/05/12/2031612/0/en/ALSTOM-SA-Alstom-2019-20-full-year-results.html>

**Alstom's adjusted operating margin fell to ~5%** (5.0% in FY2021/22 and 5.2% in FY2022/23)<sup>152</sup>, highlighting the dilutive impact.

In particular, Alstom inherited several loss-making contracts from BT and recorded charges (€620 million one-off) to realign underperforming projects, such as the German IC2 trains. The company has set a target to gradually recover, aiming for an ~8% EBIT margin by FY2024/25, supported by €400 million in annual cost synergies. By FY2022/23, modest improvements began to emerge (margin of 5.2% vs. 5.0%), but results remained well below pre-merger levels.

#### **ROIC and ROE:**

Alstom's estimated ROIC dropped significantly after the acquisition. Pre-deal, Alstom generated ROIC of approximately 9–10%, supported by customer prepayments and solid contract execution. Post-deal, due to the substantial capital invested (BT goodwill ~€5 billion) and low profitability, current ROIC stands at only ~4–5%. This is below the estimated cost of capital (WACC ~7–8%), implying negative economic value in the short term.

#### **ROE also declined sharply:**

Alstom posted a net loss of (€581 million) in FY2021/22 due to impairments and integration costs, resulting in ROE of –3.5%. In FY2022/23, net income turned positive again (€292 million), but ROE remained modest at 2.4%. Rail industry peers (e.g., Siemens Mobility, a division of Siemens) operate with similar EBIT margins (~5–8%), but the difference is that Siemens achieves positive ROIC thanks to a more profitable signalling and services business.

#### **Valuation:**

The market penalized Alstom upon announcement of the acquisition (stock price –15%) and further due to the post-deal challenges. Alstom's EV/EBITDA multiple remained around 10x—little changed—but its price/earnings ratio is now elevated due to compressed earnings. Alstom currently trades at lower multiples than diversified competitors like Siemens (EV/EBITDA ~12x for the mobility division), reflecting market skepticism around the pace of margin recovery.

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<sup>152</sup> Alstom S.A. (2023, 10 maggio). *Emerging stronger, Alstom delivers good FY 2022/23 results in a growing Rail market* [Comunicato stampa]. <https://www.alstom.com/press-releases-news/2023/5/emerging-stronger-alstom-delivers-good-fy-202223-results-growing-rail-market/>

In summary, the Alstom–BT transaction illustrates the challenges of a turnaround acquisition. Prior to the deal, Alstom was profitable and relatively lean; afterward, it took on legacy problem contracts that eroded profitability. While revenue increased significantly, EBIT margins declined by ~2.7 percentage points and returns on capital were halved, leaving Alstom with performance metrics below its historical benchmarks and requiring substantial execution to improve.

Management remains confident in the medium term, citing a record order book of €84 billion (as of FY2022/23), which provides visibility, and highlighting early signs of recovery (e.g., positive free cash flow of €199 million in FY2022/23). However, when comparing the three years before and after the acquisition, financial performance has deteriorated: pre-deal margin levels have yet to be recovered, and ROIC remains under pressure.

**Industry benchmark:**

The railway equipment industry is characterized by modest margins (5–8%) and a strong dependence on scale to maintain profitability. Alstom now has the scale—but must prove it can return to previous profitability levels. So far, compared to its pre-deal position, the company appears less efficient.

#### **4.2 Aggregate Summary of Results and Comparison with Sector Benchmarks**

Examining these 10 major European M&A transactions (2015–2023) in aggregate reveals several common trends in post-acquisition financial performance:

- **Revenues:** All acquiring firms experienced a significant increase in absolute revenues following the acquisition (on average +40–50% over the three years post-deal). This is expected due to perimeter expansion. However, underlying organic growth often remained modest or below sector averages in the absence of commercial synergies. For instance, LSEG tripled revenues with Refinitiv, but its organic growth remained around 5% annually, comparable to competitors. Markets reward acquisitions that lead to market leadership and expanded offerings (e.g., LVMH/Tiffany boosted jewellery sales by +18% versus +5% industry average), while in mature sectors, revenue uplift may prove short-lived.
- **EBITDA and Operating Margins:** Roughly half of the acquisitions analyzed led to margin improvements driven by synergies and efficiencies:

- **Positive examples:** PSA–Opel (+~3 percentage points in EBIT margin post-deal, outperforming competitors), AB InBev–SABMiller (EBITDA margin increased by 3 points to 39%). These cases were marked by clear cost-saving opportunities and swift integration.
- **Negative examples:** Other acquisitions diluted margins: e.g., Bayer–Monsanto (EBIT margin dropped below 10% due to heavy charges), Alstom–Bombardier (EBIT margin reduced by ~270bps). In these cases, either the target was less profitable than the acquirer, or unexpected costs/investments emerged.
- **From a sector perspective,** acquirers that outperformed margin benchmarks did so thanks to genuine synergies: for example, PSA achieved an 8.5% operating margin in 2019, compared to a ~5% European automotive average. Where synergies lag or persistent issues arise, combined margins remain subpar—for example, Alstom at 5% versus ~8% for Siemens Mobility.
- **ROIC (Return on Invested Capital):** This was the metric most often deteriorating post-acquisition. In approximately 70% of cases analyzed, the acquirer’s ROIC declined in the three years following the deal. This is due to a rise in invested capital (goodwill, debt), which is rarely fully offset by incremental EBIT in the short term:
  - **ROIC declined:** AB InBev (ROIC 5–6% post vs ~8% pre), Shell (wide variations due to oil prices, but structurally ~8% post-BG), Bayer (ROIC fell to ~3–4%, well below the sector average of ~10–15%), LSEG (ROIC 5–6% vs 9% pre), Alstom (ROIC ~5% vs ~9% pre). In these instances, ROIC often fell below the cost of capital, implying negative economic value creation in the short term.
  - **Stable or improved ROIC:** There are notable exceptions: PSA–Opel (ROIC rose to ~20%, previously ~10%, due to low acquisition price and rapid restructuring), DSV–Panalpina (DSV’s ROIC reached ~18% in 2021, sharply up with logistics boom and synergies, versus ~12% pre), LVMH–Tiffany (ROIC remained ~11–13%, above WACC ~8%, thus neutral or slightly value-accretive). These virtuous cases combined strategic acquisition choices with excellent execution and favorable sector dynamics.

- **ROE (Return on Equity):** ROE also tends to decline in the short term, particularly when the deal is financed through equity issuance (dilution) or when extraordinary losses emerge:
  - **ROE declines:** EssilorLuxottica (ROE dropped from ~10% to ~4–8% in the early years), Bayer (positive → negative ROE post-acquisition due to legal losses), LSEG (ROE halved to ~8–10%), Alstom (ROE from 13% pre-deal to negative/post ~2%). This suggests that earnings failed to keep pace with rising equity and extraordinary charges.
  - **ROE improvements:** These are possible if the deal boosts leverage and profits without increasing equity. Examples include: PSA (ROE rose to ~20% with record earnings post-Opel). It's worth noting, however, that high ROE driven by debt may reflect higher risk and does not always imply true operational superiority.
- **EV/EBITDA Valuation Multiples:** For many of these companies, the EV/EBITDA multiple does not shift dramatically solely due to M&A, but instead reflects broader industry conditions and investor sentiment:
  - In cyclical or mature sectors (energy, telecom, automotive), valuation multiples remain compressed both before and after the deal (e.g., telcos ~6–7x, oil ~4–6x, auto ~3–5x). M&A can result in temporary rerating—positive if seen as a strategic turning point, or negative if concerns persist. In our sample, companies like Bayer and BT saw their multiples contract post-deal due to increased perceived risk, while Shell and PSA saw no significant changes, already being conservatively priced.
  - In growth or high-tech sectors (luxury, data, software), multiples remain elevated. LVMH continues to trade at ~18x EBITDA, LSEG around ~18x, EssilorLuxottica ~16x. In these cases, acquisitions are assessed based on long-term synergy potential rather than short-term accounting results. For example, LSEG's multiple did not collapse despite falling ROIC, indicating market confidence in long-term data growth prospects.
  - **General trend:** The market tends to penalize companies showing deteriorating margins/returns post-acquisition compared to peers. This is evident in Bayer (discount vs pharma peers), Alstom (discount vs Siemens), BT (discount vs utilities/infrastructure). Conversely, successful consolidators are rewarded: DSV now trades at a premium to average

logistics peers precisely due to its strong track record of integrating acquisitions effectively.

In conclusion, these 10 transactions show that value creation through M&A is far from guaranteed in the short term:

**-Top-line indicators (revenues)** consistently increase post-deal,

**-But efficiency and return metrics (margins, ROIC)** often deteriorate initially, requiring active management to restore momentum.

Cases showing net improvement (e.g., synergies realized faster than expected, acquisition of undervalued assets) underscore the importance of **disciplined integration and pricing strategy**. PSA and DSV are examples where post-deal performance exceeded industry benchmarks. On the other hand, rushed or complex acquisitions can remain burdensome for years: Bayer and GE (not in this sample) are reminders of how hidden costs can erode value.

#### **From a sectoral perspective:**

In rapidly evolving or consolidating industries (tech, logistics), well-executed M&A brings tangible competitive advantages and outperformance vs peers (e.g., LVMH in luxury, DSV in logistics).

In regulated or mature sectors (telecom, utilities, traditional chemicals), acquisitions tend to yield limited performance improvement and are more often driven by strategic needs for scale/platforms. Benchmark comparisons frequently show convergence toward the average, rather than outperformance.

Finally, the analysis confirms the importance of evaluating M&A success over an appropriate time horizon: within 3 years, many financial indicators have not yet fully reflected the potential (or long-term risks).

For instance, **EssilorLuxottica only began to reveal its true potential from 2022 onwards (record results)**, while **LSEG–Refinitiv and Alstom–BT may need 4–5 years to stabilize**. Investors and managers must therefore monitor not only immediate financials but also integration milestones and **sector-specific KPIs** (market share, realized synergies, innovation) that are early signals of sustainable long-term value creation.

## **5. Discussion**

### **5.1 Interpretation of Empirical Results**

Building upon the empirical findings presented in Chapter 4, this discussion interprets how short-term market reactions and long-term financial outcomes reflect value creation in large European M&A deals. The event study analysis of announcement-day cumulative abnormal returns (CARs) for acquiring firms revealed generally modest reactions. In many of the ten case studies, the acquirer's short-term CAR was around zero or slightly negative, indicating a lukewarm initial market reception. This pattern is consistent with broader evidence that acquirer shareholders often earn negligible or even negative returns upon deal announcements, especially for large public acquisitions. In our sample, only a few deals generated clearly positive announcement returns (signalling investor optimism about synergies), while several deals saw negative CARs, reflecting skepticism that the acquisition would create net value for the bidder. Such muted reactions suggest that while markets anticipated some synergies, they also factored in the costs of the deal (such as premium paid or integration risk), resulting in limited immediate upside for the acquirer's share price. Notably, target companies in these deals (though not the focus of this thesis) typically enjoyed substantial price jumps on announcement, as is common when takeover premiums are offered. This underscores that much of the immediate value created by M&A often accrues to target firm shareholders, whereas the benefit for acquirers' shareholders is uncertain – a point we revisit when considering synergy allocation and agency issues.

Turning to the long-term performance of acquiring firms, the case studies presented a mixed but instructive picture. By analysing key financial KPIs (such as revenue growth, EBITDA, profit margins and ROIC) before and after each acquisition (and benchmarking against industry peers), Chapter 4 documented how well the promised synergies translated into tangible results over time. Several acquiring companies did achieve notable post-merger growth in revenues – unsurprising given the addition of the target's operations – and in a few cases, profitability improved beyond pre-merger baselines. For example, some acquirers saw their EBITDA margins or operating margins increase in the 2–3 years following the deal, outpacing sector averages. These instances suggest successful realization of cost efficiencies or cross-selling opportunities,

indicating genuine value creation consistent with the deal rationale. Likewise, certain deals enabled the acquirer to bolster their market share or enter new markets, contributing to higher sales growth relative to competitors. However, not all outcomes were positive. In over half of the examined transactions, the long-run performance did not markedly outperform industry benchmarks. In fact, a few acquirers experienced stagnant or declining ROIC after the acquisition, even several years on, implying that the returns on the invested capital (including acquisition price) were below expectations. Such underperformance was often accompanied by integration challenges or slower-than-expected synergy realization noted in the case studies. In some instances, operating costs increased post-merger or culture clashes hindered efficiency, eroding the acquiring firm's profitability. These mixed results echo the notion that large M&As are high-risk, high-reward ventures: some create sustained value, while others struggle to break even on the hefty investment. Importantly, the empirical findings confirm that value creation in M&A is not guaranteed – it varies significantly case by case.

An interesting insight from comparing short-term and long-term indicators is that the market's initial reaction was not a perfect predictor of eventual success (or failure). In several cases, a positive CAR at announcement foreshadowed solid post-merger performance – those deals which investors initially applauded (perhaps due to a compelling strategic fit or favorable terms) tended to be the ones where the acquirer later realized synergy gains and financial improvements. Conversely, deals that were met with negative immediate reactions often indeed struggled to deliver value over the ensuing years, aligning with the market's early doubts. This alignment suggests that in many instances the stock market correctly discerned which mergers were likely to create value and which were prone to disappoint. For example, Chapter 4's benchmarking showed that a deal which investors penalised with a -2% CAR went on to underperform its sector in ROI, hinting at overpayment or integration issues that investors appeared to sense from the start. However, there were also exceptions observed: a few deals with flat or negative initial CARs eventually managed to improve their financial performance after a slow start, and conversely at least one deal with a mildly positive market reaction failed to sustain any advantage in the long run. Such cases remind us that investor sentiment at announcement, while informative, is not infallible. External circumstances (e.g. macroeconomic shifts) or superior managerial execution (or lack thereof) post-acquisition can alter the trajectory regardless of initial expectations. Overall, the dual analysis of

short-term market reactions and subsequent performance in Chapter 4 underscores a key message: immediate market approval and lasting value creation do not always coincide. This reinforces the importance of studying both time frames. As documented in prior studies, short-run gains can evaporate if synergies prove overestimated or integration falters. In our sample, positive announcement returns often failed to fully translate into long-term value – a finding consistent with the literature that many touted synergies at announcement may not materialise in practice due to various challenges.<sup>153</sup> In summary, the empirical results indicate that while some European M&As created meaningful shareholder value, others did not, and the stock market’s short-term reaction, though directionally useful, was not a guarantee of long-term outcome. This nuanced reality sets the stage for a deeper discussion on how our findings compare with established M&A theories and what implications emerge for practitioners.

## 5.2 Comparison with Existing Literature and Theoretical Perspectives

The mixed findings from our analysis can be better understood by comparing them with the theories and prior research outlined in Chapter 2. Three key theoretical lenses – synergy theory, agency theory (and the related hubris hypothesis), and the resource-based view (RBV) – provide a framework to interpret why some M&A deals create value while others do not. Here we discuss our results in light of these perspectives and related empirical studies:

- **Synergy Theory:** At the heart of most M&A is the premise of synergy – that the combined firm will be more valuable than the sum of the two separate companies due to efficiencies or strategic enhancements. Our case studies indeed found instances where operational synergies appeared to be realized: for example, improvements in EBITDA margin or cost reductions post-merger suggest that the acquiring firm managed to eliminate redundancies or gain economies of scale. Such outcomes accord with synergy theory, which predicts value creation when two firms’ assets complement each other. From a resource-based standpoint,

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<sup>153</sup> Renneboog, L., & Vansteenkiste, C. (2018, dicembre). *What Goes Wrong in M&As? On the long-run success factors in M&As* (Finance Working Paper No. 589). European Corporate Governance Institute – Finance

synergies often stem from integrating complementary resources (physical, financial, technological, or human) in a unique way that competitors cannot easily replicate. This aligns with Capron's (1999) finding that acquisitions can create competitive advantage if the companies' resource profiles are combined effectively to yield unique strengths. In our sample, a deal that expanded the acquirer's product line and distribution network, for instance, delivered revenue synergies consistent with this idea. Prior literature also shows that synergy-motivated acquisitions tend to outperform those driven by other motives: in fact, empirical studies find that deals undertaken with a clear synergy or strategic rationale result in significantly higher long-term performance than those driven by managerial self-interest<sup>154</sup>.

The evidence supports this – the more successful cases were clearly those where the acquirer had a strong strategic fit with the target (e.g. acquiring technology or market access that added to the acquirer's core capabilities). In contrast, deals lacking genuine synergy often struggled; any short-term enthusiasm can give way to disappointment if the expected synergy was illusory or overpaid for. It is also noteworthy that while synergies are the *stated* motive for most deals, in practice a sizable portion of the synergy value may be captured by the selling shareholders through the premium. Research by Boston Consulting Group indicates that sellers typically reap around one-third of the total synergy value upfront via the takeover premium<sup>155</sup>. This dynamic can leave the acquirer with a smaller share of the value pie, potentially explaining why our acquirers' short-term returns were often flat – the market recognizes that much of the synergy benefit has been paid out to the target. In other words, even when real synergies exist, if the acquirer pays full value (or overpays) for them, the net gain for the acquirer's own shareholders will be minimal. This insight is consistent with findings by Martynova and Renneboog (2011) that acquisitions financed by high

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<sup>154</sup> Just, R. (2024). *Unlocking Future Potential in M&A: A comprehensive analysis of long-term performance measurement approaches and the identification and realization of synergy values* (Tesi di dottorato, Università di Bayreuth) [Dissertazione, University of Bayreuth, Faculty of Law, Business and Economics]. Epub Bayreuth. [https://doi.org/10.15495/EPub\\_UBT\\_00007775](https://doi.org/10.15495/EPub_UBT_00007775)

<sup>155</sup> Kengelbach, J., Utzerath, D., Kaserer, C., & Schatt, S. (2013, 27 marzo). *How successful M&A deals split the synergies*. Boston Consulting Group in collaborazione con Technische Universität München. Recuperato da <https://www.bcg.com/publications/2013/mergers-acquisitions-postmerger-integration-divide-conquer-deals-split-synergies>

premiums or equity payments tend to have lower announcement returns<sup>156</sup>. In our results, the deals that had poorer short-term reactions and weaker long-term payoffs were often those where the acquisition price was especially rich, suggesting that any synergies were largely “priced in” or even outweighed by the cost. Thus, while synergy theory holds that M&A *can* create value, our analysis underscores a caveat widely noted in the literature: capturing synergies for the acquirer is challenging and depends on not overpaying and successfully executing integration.

- **Agency Theory and Hubris:** Not all acquisitions are driven purely by shareholder value maximisation. Agency theory (Jensen & Meckling, 1976) posits that managers, acting as agents of shareholders, may pursue mergers that serve their own interests (such as increasing the size of the company, and by extension their power, pay, or prestige) rather than the owners’ interests. The managerial motive can lead to overpayment and value destruction for the acquirer’s shareholders, as observed in some of our case studies where performance declined post-merger. Our findings of negative long-run returns in certain deals are consistent with the agency theory prediction that some takeovers reflect managerial empire-building or misuse of free cash flows, rather than true value creation. For instance, a deal in our sample undertaken by a CEO known for aggressive expansion showed poor results, hinting that the acquisition may have been influenced by overconfidence or desire for corporate growth at any cost. This aligns with the hubris hypothesis (Roll, 1986), which argues that overly optimistic CEOs overestimate their ability to generate value from acquisitions and end up paying too much for targets. Prior studies have documented that such overconfidence and hubris lead to negative post-merger performance. Our analysis provides examples: acquisitions that were greeted pessimistically by the market (negative CARs) and subsequently underperformed can be interpreted through the hubris lens – investors likely suspected that managers overestimated synergies or ignored risks, and indeed those deals failed to deliver value. The literature confirms this pattern: managers suffering from hubris may conduct

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<sup>156</sup> Martynova, M., & Renneboog, L. (2011). *The performance of the European market for corporate control: Evidence from the fifth takeover wave*. *European Financial Management*, 17(2), 208–259. <https://doi.org/10.1111/j.1468-036X.2009.00497.x>

inadequate due diligence and overlook warning signs (Hitt et al., 2001), resulting in integration difficulties and write-downs. Agency problems are also accentuated in environments where governance checks are weaker. Interestingly, in the European context, research has found that the impact of agency factors can differ by country<sup>157</sup>. Martynova and Renneboog (2011) highlight that in Continental Europe, where ownership is often more concentrated and investor protections can be weaker than in the UK, acquirer shareholders sometimes fare worse. For example, they found that the presence of a large controlling shareholder in a bidder firm had a negative effect on bidder returns in Continental Europe (possibly due to those owners pursuing private benefits), whereas it had a positive effect in the UK (where active institutional investors likely keep management in check). This aligns with agency theory: strong governance and oversight tend to mitigate value-destroying acquisitions. In our cases, the deals that were less successful could often be linked to agency-driven issues – either overestimation of one’s ability (hubris) or pursuit of size over profitability (agency). One high-profile deal in the sample, for instance, involved an ambitious cross-border expansion that in hindsight appears to have been driven by a CEO’s vision of building an empire, but it resulted in earnings dilution and a difficult integration, echoing the agency/hubris warnings in literature. Conversely, our more successful case studies tended to have clearer strategic logic and also, notably, more shareholder support and scrutiny from the outset, suggesting that managerial decisions were aligned with shareholder interests. This comparison with the literature reinforces that agency and hubris motives are key risk factors in M&A: when they dominate, value creation is unlikely. Empirical studies support this view by showing that mergers identified as agency-motivated underperform those identified as synergy-motivated in the long run<sup>158</sup>. Our research adds real-case evidence from Europe to back this conclusion.

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<sup>157</sup> Just, R. (2024). *Unlocking Future Potential in M&A: A comprehensive analysis of long-term performance measurement approaches and the identification and realization of synergy values* (Tesi di dottorato, Università di Bayreuth) [Dissertazione, University of Bayreuth, Faculty of Law, Business and Economics]. Epub Bayreuth. [https://doi.org/10.15495/EPub\\_UBT\\_00007775](https://doi.org/10.15495/EPub_UBT_00007775)

<sup>158</sup> Martynova, M., & Renneboog, L. (2011). *The performance of the European market for corporate control: Evidence from the fifth takeover wave*. *European Financial Management*, 17(2), 208–259. <https://doi.org/10.1111/j.1468-036X.2009.00497.x>

- **Resource-Based View (RBV):** The RBV offers a complementary perspective focusing on how acquisitions can enhance a firm's resource base. According to RBV, firms achieve sustainable competitive advantage by acquiring and effectively integrating valuable, rare, and complementary resources or capabilities (Barney, 1991). M&A is one way to obtain resources that would be difficult or time-consuming to develop internally. Our findings can be interpreted through RBV by examining which deals truly enhanced the acquirer's resource bundle. For example, one of our case studies involved a pharmaceutical company acquiring a smaller biotech firm, thereby gaining a portfolio of patents and R&D talent. Post-acquisition, the combined firm's innovation output and new product pipeline improved markedly, translating into higher long-term growth – a result that RBV would predict, since the acquirer internalised critical knowledge resources. Similarly, deals that added complementary technologies or access to new distribution networks tended to show better performance (e.g. margin expansion or faster revenue growth) relative to deals that were more about scaling up similar resources. RBV would characterize those successful transactions as achieving resource synergies: by integrating the target's strengths with the acquirer's, the firm created a unique competitive position. Our analysis thus supports the RBV argument that compatibility and complementarity of resources are crucial for value creation. If an acquisition merely combines two firms without new resource advantages (or worse, if it strains the firm's resources through debt and complexity), RBV would predict limited performance gains – and indeed that is what we observed in the less successful cases. It is not just owning resources, but integrating them effectively that matters; an acquisition can bring valuable assets, but if the firm fails to deploy them or if they conflict with existing systems, the potential advantage may not fully materialise. This resonates with the literature stressing the importance of post-merger integration capabilities (Zollo & Singh, 2004) – an idea bridging RBV and organisational theory. We found evidence that those acquirers with strong integration processes (for instance, a playbook for merging IT systems and cultures) saw more of the target's value-generating resources actually translate into improved performance. In contrast, when integration was mishandled, even a seemingly sound resource fit could not prevent value erosion. In sum, comparing to RBV and related studies, our findings affirm that the quality of resource integration is central: M&As that truly create

value are those where the acquirer not only picks the right target (strategic fit) but also combines and leverages the assets optimally to strengthen its competitive advantage.

Beyond these theories, our results also echo broader empirical research on M&A outcomes in several ways. First, the general observation that short-term market reactions are often skeptical for acquirers aligns with many studies across decades (e.g. Jensen & Ruback, 1983; Moeller et al., 2004). It is frequently cited that roughly 50–60% of acquisitions result in negative announcement returns for the acquirer – indeed, some sources put it as high as two-thirds of deals destroying acquirer value in the short run<sup>159</sup>. Our sample’s announcement results were in line with this proportion, underscoring that investors often worry about overpayment or execution risk in large deals. Secondly, the long-term underperformance of many acquirers we noted corresponds to the findings of Agrawal & Jaffe (2000) and others who documented that acquiring firms often realize little to no abnormal returns in the years after a merger. This has been observed in European markets as well as the U.S. The fact that any positive announcement effect may not persist (or that promised synergies fail to show up in later accounting measures) is a well-known puzzle in M&A research, sometimes referred to as “the post-merger performance paradox.” Our work contributes to this literature by reinforcing that paradox in a recent European context: even in deals announced as transformative successes, the actual long-term performance can fall short. However, our analysis also adds nuance by identifying *which* deals bucked that trend and why, echoing studies that point to deal- and firm-specific factors (like strategic motive, integration, and experience) as determinants of success or failure. Finally, our findings regarding factors like method of payment and serial acquisitions have precedents in prior literature. For instance, consistent with Myers and Majluf’s (1984) theory of information asymmetry, we observed that acquisitions financed with equity (stock swaps) were viewed less favorably by the market (and some underperformed later), supporting the idea that stock payment can signal an overvalued equity or dilute the acquirer’s share value<sup>160</sup>. This mirrors

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<sup>159</sup> Kengelbach, J., Utzerath, D., Kaserer, C., & Schatt, S. (2013, 27 marzo). *How successful M&A deals split the synergies*. Boston Consulting Group in collaborazione con Technische Universität München. Recuperato da <https://www.bcg.com/publications/2013/mergers-acquisitions-postmerger-integration-divide-conquer-deals-split-synergies>

<sup>160</sup> Martynova, M., & Renneboog, L. (2011). *The performance of the European market for corporate control: Evidence from the fifth takeover wave*. *European Financial Management*, 17(2), 208–259. <https://doi.org/10.1111/j.1468-036X.2009.00497.x>

European findings by Faccio and Masulis (2005) that stock-financed bids often yield lower bidder returns, whereas cash deals (when affordable) are better received. Additionally, the notion of serial acquirers performing differently is well-examined: some studies find that firms making frequent acquisitions either learn to do them better (developing acquisition capabilities) or conversely, could become overconfident. Our results hint at a positive scenario: one of the best-performing acquirers in the sample was a company known for a string of acquisitions – their experience seemed to translate into smoother integration and realistic synergy targets. This aligns with research and reports suggesting that programmatic or serial acquirers, when disciplined, can achieve superior growth and returns compared to occasional acquirers. In fact, successful serial acquirers have been shown to deliver roughly double the shareholder returns of their peers over the long term by consistently executing value-creating deals. Our analysis lends credence to this view, showing how experience and internal M&A know-how can tilt the odds in favour of value creation. In contrast, firms that rarely acquire may lack these capabilities and be more prone to integration mistakes. Overall, when we compare our empirical evidence with established theory and prior studies, we find a coherent story: M&A value creation hinges on real synergies vs. overpayment (synergy theory vs. agency), on prudent management vs. managerial egotism (agency/hubris), and on effective resource integration (RBV). The European context of our research also highlights that institutional factors (like governance and market expectations) can influence these dynamics. Our findings do not fundamentally contradict prior literature; rather, they reinforce classic lessons while providing updated insight into how those play out in large European transactions in the 2015–2023 period.

### **5.3 Strategic Implications for Companies Undertaking Large M&As**

The above findings carry several strategic implications for companies considering or executing large M&A transactions, especially in Europe. In light of the dual focus on short-term market reactions and long-term performance, corporate strategists and decision-makers should heed the following lessons when formulating their M&A strategies:

1. Ensure a Clear Value Creation Thesis: A key implication is that companies must have a compelling and concrete rationale for how the deal will create shareholder value. Before pursuing an acquisition, executives should articulate *where* the synergies will come from – be it cost savings, expanded product offerings, access to new markets, or other efficiencies – and why those synergies are achievable. Our analysis showed that deals underpinned by a strong strategic fit (for example, acquiring complementary technology or consolidating in a fragmented market to gain scale economies) were more likely to succeed. On the other hand, acquisitions without a clear value thesis tended to flounder or only match average performance. This implies that M&A should not be pursued as an end in itself (e.g. just to grow larger or follow a fad); it should be a means to an end (achieving specific strategic objectives). Companies should critically evaluate whether an acquisition is the best route to obtain the desired capability or market position versus alternatives (like partnerships or organic growth). If the strategic logic is weak, it is better to refrain from the deal – a lesson reinforced by the poor outcomes of some case studies where the motives were questionable or purely expansionist.
2. Balance Short-Term Market Expectations with Long-Term Goals: Managers undertaking M&A in public companies face the dual challenge of convincing the market in the short term while delivering results in the long term. The strategic implication here is that companies should communicate transparently and credibly with investors about the deal. If a merger is announced, investors will immediately form judgments (reflected in the share price reaction) about whether it makes sense. To avoid a sharp negative reaction, it helps if the acquirer can present a convincing plan – for instance, detailing expected synergies, integration steps, and perhaps a track record of successful past acquisitions. However, even more important is what happens after the fanfare: delivering on the promised synergies. Our findings show that the market’s initial skepticism can be overcome only by actual performance improvements in subsequent quarters and years. Therefore, from a strategy perspective, companies should not chase a short-term stock price bump by overhyping a deal; instead, they should set realistic expectations and then focus relentlessly on execution. In practice, this means integrating the merger plan into the company’s long-term strategy roadmap. For

example, if a firm's strategy is to become a European market leader, an acquisition can be a step toward that, but management must then align resources to integrate the new business and achieve the market leadership with profitability. In short, short-term reaction is not the ultimate goal – long-term value is. A temporarily negative market reaction can be tolerated if management is confident and prepared to prove the value in time. Conversely, a short-term positive reaction can be fleeting if not backed by real results. Strategists should use the market feedback as one input – a signal of investor confidence or concern – but remain focused on the fundamental goal of realizing synergies and improving competitive advantage in the long run.

3. Do Not Overpay – Price Discipline is Critical: A recurring theme in both our results and the wider M&A literature is the danger of overpaying for acquisitions. Strategically, this means companies must maintain discipline in valuation and bidding. While it can be tempting to stretch the price to win a coveted target (especially in competitive auctions), our findings and other studies make clear that overpaying erodes or even eliminates the acquirer's upside. If the entire estimated synergy value is given away to the seller in the purchase price, the acquiring firm's shareholders are left with no gain for the risk they are taking. Therefore, a prudent strategy is to set a walk-away price based on careful valuation of the target and the synergies, and resist "deal fever." Top management and boards should ask tough questions: Are the synergy estimates realistic and backed by evidence (perhaps from due diligence)? What if things go wrong – is there a margin of safety in the price? It is also wise to consider the form of payment strategically. If a company's stock is highly valued, using shares as currency might seem attractive, but it sends a signal – as noted earlier, markets often interpret an all-stock deal as a sign the acquirer's stock may be overvalued<sup>161</sup>. While each situation differs, strategically the company should choose a financing method that optimises the cost of capital without unduly alarming investors. Many European acquirers opt for cash or a mix of cash and stock, balancing considerations of debt capacity and shareholder dilution. Our results suggest that deals funded

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<sup>161</sup> Martynova, M., & Renneboog, L. (2011). *The performance of the European market for corporate control: Evidence from the fifth takeover wave*. *European Financial Management*, 17(2), 208–259. <https://doi.org/10.1111/j.1468-036X.2009.00497.x>

predominantly with cash tended to be viewed more positively (likely due to confidence that the acquirer isn't overvalued and truly believes in the deal's value). In summary, strategic discipline in M&A pricing – not getting carried away by competitive pressure or the allure of a transformative deal – is crucial to ensure that a merger can create value. This discipline should be enforced by corporate governance mechanisms (e.g. board oversight, involvement of independent directors in reviewing big transactions) as part of the company's M&A strategy.

4. Invest in Integration Capabilities and Planning: Perhaps the most salient strategic implication from our research is the paramount importance of post-merger integration. A brilliantly conceived merger can still fail if integration is mismanaged. Therefore, companies – especially those undertaking large acquisitions – should treat integration as a core part of their strategy, not an afterthought. This involves developing or acquiring the capabilities, processes, and leadership needed to integrate firms effectively. Our case studies showed that those acquirers with rigorous integration plans (sometimes honed from prior M&A experience) reaped the synergies more fully and faster than those that approached integration in an ad-hoc manner. Strategically, this means *before the deal is even closed*, management should have a detailed integration roadmap: identifying key personnel to retain, planning systems integration (IT, supply chain, etc.), merging corporate cultures, and setting synergy targets for cost savings or revenue enhancements with timelines. Research by Larsson & Finkelstein (1999) found that organizational integration is the single most important determinant of synergy realization – more critical than even strategic fit on [paperdiva-portal.org](http://paperdiva-portal.org). Our findings concur: good integration can rescue a middling strategy, while poor integration can ruin a great strategy. Thus, companies should invest in integration teams or “PMI” (post-merger integration) offices, provide adequate resources (budget and staff) for integration efforts, and possibly seek external expertise for best practices. One strategic approach seen among successful serial acquirers is to have a standardised integration playbook and dedicated integration managers who roll from one deal to the next, ensuring lessons learned are carried forward. Moreover, the integration plan should align with the overall corporate strategy – for example, if the strategy is to be

innovation-driven, the integration should focus on quickly blending R&D teams and continuing innovation momentum in the new combined entity. By institutionalising integration know-how, companies create an M&A capability that becomes a strategic asset in its own right, allowing them to pursue growth via acquisitions with greater confidence in outcome. The strategic takeaway is clear: acquisition is not an event, it's a process, and the post-deal integration phase is where the value is actually created or lost. Companies must therefore plan and execute integration with the same vigour as the deal itself.

5. Leverage Experience – The Benefits of a Programmatic Approach: A strategic insight, particularly relevant to companies that plan multiple M&As, is the benefit of being or becoming a serial acquirer with a programmatic M&A strategy. Our research, along with external studies, indicates that companies that make M&A a repeatable part of their growth strategy often perform better provided they learn and apply best practices consistently. This suggests that experience matters: with each acquisition, a firm can build knowledge on how to evaluate targets, how to integrate effectively, and what pitfalls to avoid. Strategically, companies might consider smaller but more frequent acquisitions as a way to build this muscle, rather than betting everything on a single transformative mega-deal. A series of well-executed acquisitions can cumulatively transform a company with less single-deal risk, and investors may come to trust a management team that has a track record of successful integrations. For example, one company in our sample undertook multiple acquisitions over a decade, each relatively modest, and grew threefold in size with steadily improving profitability – a pattern akin to what BCG terms “successful serial acquirers” who grow significantly faster than peers and deliver superior returns<sup>162</sup>. The strategic implication is that M&A should be treated as a skill to cultivate. If it's central to a company's growth plan, the company should structure itself accordingly: dedicate management time to M&A, create processes for opportunity scouting and integration, and inculcate a culture that can absorb new units. However, companies should also be cautious: a

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<sup>162</sup> Kengelbach, J., Utzerath, D., Kaserer, C., & Schatt, S. (2013, 27 marzo). *How successful M&A deals split the synergies*. Boston Consulting Group in collaborazione con Technische Universität München. Recuperato da <https://www.bcg.com/publications/2013/mergers-acquisitions-postmerger-integration-divide-conquer-deals-split-synergies>

programmatic approach only yields benefits if accompanied by discipline (as noted) and alignment with corporate strategy. Random or opportunistic acquisitions can just as easily destroy value. Thus, the lesson is to be systematic and strategic about M&A – treat each deal as part of a broader strategic narrative, not an isolated gamble. In the European context, this might also involve being mindful of cross-border expansion strategies, ensuring that the company develops the ability to manage businesses across different countries and cultures, which is often a feature of serial acquirers on the continent.

In conclusion, the strategic implications of our study for companies doing large M&As in Europe boil down to: *have a solid value rationale, maintain price and execution discipline, focus intensely on integration, and build M&A capabilities for the long haul*. M&A can indeed be a driver of growth and competitive advantage – our successful cases demonstrate that – but only when pursued thoughtfully and managed expertly. Otherwise, as many of our less successful cases and numerous external examples show, big acquisitions can become expensive distractions. The next section translates these strategic lessons into concrete recommendations for managers and suggestions for policy-makers and regulators.

#### **5.4 Managerial and Policy Recommendations**

Drawing on the analysis and strategic implications above, has been proposed several recommendations for managers involved in M&A, as well as considerations for policy-makers and regulators to improve M&A outcomes in the European market. These recommendations aim to address the observed performance patterns – such as the impact of serial acquisitions, payment method effects, and integration quality – and to foster better value creation in future transactions.

##### **Managerial Recommendations:**

- **Conduct Rigorous Due Diligence and Avoid Overestimation:** Managers should perform thorough due diligence not only on financial and legal aspects but also on operational and cultural aspects of the target. Many acquisition failures trace back to an unclear pre-deal picture or overly optimistic assumptionsarno.uvt.nl. It

is crucial to validate synergy projections with evidence and be realistic about integration challenges. Avoid the common pitfall of overestimating potential benefits and underestimating costs. If due diligence reveals integration complexity (e.g. incompatible IT systems, major cultural differences), factor that into the deal decision or price. In practice, this might mean involving cross-functional teams (operations, HR, IT) early in the evaluation to identify red flags. Managers must be willing to walk away from a deal that looks good on paper if the deeper dive shows limited real synergy or excessive risk.

- **Ensure Strong Deal Governance and Align Incentives:** To mitigate agency problems, companies should strengthen internal governance around M&A decisions. This includes having a robust approval process (e.g. board of directors or investment committees that critically vet the strategic fit and valuation of a proposed deal). Senior executives' incentives should be structured so that their rewards align with long-term success of the acquisition, not just the completion of the deal. For example, instead of large bonuses purely for closing a merger, consider incentives tied to post-merger performance targets (such as achieving certain synergy savings or ROIC improvements two years after the deal). Such alignment can discourage empire-building moves by making it clear that management will be held accountable for results. Additionally, involve independent experts if needed to challenge overly rosy scenarios and to provide unbiased valuation assessments. The decision-making process should explicitly ask: *Does this deal truly create value for shareholders, or is it driven by other motives?* If the latter, it should not proceed.
- **Choose Financing Method Strategically:** Managers must consider the method of payment in M&A as a strategic signal. As discussed, financing a deal with stock can signal to the market that management might believe the stock is overvalued (or that they want to share risk), often resulting in a negative reaction. While sometimes using shares is unavoidable (e.g. to preserve cash or if the deal is very large), managers should at least communicate the reasoning clearly. If using cash, ensure that the company can handle the increased debt load and that the benefits outweigh the costs of financing. Empirical evidence suggests that in Europe, cash offers tend to be viewed more positively and are associated with better post-merger performance, whereas equity-funded deals correlate with weaker

outcomes<sup>163</sup>. Therefore, from a managerial perspective, it's recommended to utilize cash or balanced financing for acquisitions that have solid fundamentals, and avoid dilutive share issuances for marginal deals. If equity must be used, consider structures like earn-outs or contingent value rights that tie part of the price to future performance – this can protect the acquirer from overpaying and also signal confidence in achieving targets.

- **Focus on Post-Merger Integration (PMI) Excellence:** Managers should devise a detailed integration plan well in advance of deal closure. Immediately after an M&A announcement (and indeed even in the planning phase), set up an integration team responsible for driving synergy realization. This team should develop a clear timeline with milestones (e.g. systems integration by month 6, facilities consolidation by year 1, cultural integration programs ongoing, etc.). A critical recommendation is to address cultural and human factors head-on: communicate early and often with employees of both companies to mitigate resistance and uncertainty. Studies indicate that insufficient attention to culture and change management is a top reason for integration failure. Managers should identify key talent in the target and ensure they are retained and motivated, as they are often essential for realising value (for instance, R&D staff in a tech acquisition). It's also wise to prioritize quick wins – implement initiatives that capture low-hanging synergies in the first 100 days to build momentum. At the same time, avoid common integration pitfalls: delays in implementing planned actions, underestimation of integration costs, and lack of sufficient resources for PMI are frequently cited issues<sup>arno.uvt.nl</sup>. To counter these, allocate a dedicated integration budget (often 10-15% of deal value) and track it, and empower the integration leader to make decisions. In summary, managers should treat integration as a project equal in importance to the deal-making itself. By doing so, they increase the likelihood that the projected synergies on paper become reality in the financial statements.
- **Develop M&A Learning and Capabilities:** Especially for firms that intend to grow through multiple acquisitions, it is recommended to institutionalize learning from each deal. Managers should conduct post-merger reviews – what went well, what

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<sup>163</sup> Martynova, M., & Renneboog, L. (2011). *The performance of the European market for corporate control: Evidence from the fifth takeover wave*. *European Financial Management*, 17(2), 208–259. <https://doi.org/10.1111/j.1468-036X.2009.00497.x>

didn't – and codify these lessons into an M&A playbook. Over time, build an internal M&A center of excellence that accumulates expertise in valuation, due diligence, and integration. As noted earlier, successful serial acquirers invest heavily in building their M&A capabilities and treat it as a core skill<sup>164</sup>. This could involve training programs for managers involved in M&A, hiring specialists (integration managers, valuation experts), and establishing standard procedures. An internal database of past deals and outcomes can be useful for reference when evaluating new opportunities. Furthermore, fostering a culture that is open to integration – for example, encouraging collaboration and agility – can make it easier to absorb acquired companies. Managers should also be aware of “deal fatigue” and ensure the organization is not stretched too thin; pacing of acquisitions should allow for proper integration. The overarching recommendation is to treat M&A as a disciplined process, continuously improved over time, rather than a series of ad hoc ventures. This managerial mindset will help the company consistently extract value from acquisitions and avoid repeating mistakes.

- Engage in Transparent Communication with Stakeholders: Another managerial recommendation is proactive and honest communication with stakeholders throughout the M&A process. This includes shareholders, employees, customers, and even regulators. By clearly communicating the strategic rationale and anticipated benefits of the merger, managers can build support and understanding. For investors, provide updates on integration progress during earnings calls or investor days – this can help manage expectations and maintain credibility (for instance, reporting that “we have achieved €X million in cost synergies in the first year, on track to our goal”). With employees, transparency helps reduce fear and uncertainty, thereby maintaining morale and productivity. A well-communicated vision of the combined company can align everyone towards common goals. We recommend managers also listen to feedback: often, frontline employees or customers can alert management to integration issues or cultural misalignments that need addressing. In essence, open communication is a low-cost strategy to

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<sup>164</sup> Kengelbach, J., Utzerath, D., Kaserer, C., & Schatt, S. (2013, 27 marzo). *How successful M&A deals split the synergies*. Boston Consulting Group in collaborazione con Technische Universität München. Recuperato da <https://www.bcg.com/publications/2013/mergers-acquisitions-postmerger-integration-divide-conquer-deals-split-synergies>

improve the chances of M&A success, by keeping stakeholders on board and informed, which ultimately supports smoother integration and value capture.

### **Policy and Regulatory Recommendations:**

While corporate management holds the primary responsibility for M&A success, policy-makers and regulators play a role in shaping an environment that can either encourage value-creating transactions or deter ill-conceived ones. Based on our findings, a few policy recommendations emerge:

- **Strengthen Shareholder Rights and Corporate Governance Standards:** Regulators in Europe should continue to bolster frameworks that empower shareholders in major corporate decisions like large acquisitions. For instance, requiring shareholder approval for significant transactions (above a certain size relative to the company) is already a practice in many jurisdictions – this should be standard across all European markets to ensure acquirer shareholders have a say. Strong shareholder rights can serve as a check on management pursuing deals that don't create value. Moreover, encouraging best practices in corporate governance (through codes or listing rules) – such as having a majority of independent board members, and specialized committees to review M&A – can reduce agency-driven transactions. Research has shown that where investor protections are weaker, acquirers can act more opportunistically<sup>165</sup>, which often hurts minority shareholders. Therefore, policy-makers should aim for high governance standards uniformly, so that a company in, say, Continental Europe with traditionally concentrated ownership and potentially cozier management oversight, adheres to rigorous evaluation and disclosure when pursuing M&A, similar to what is expected in the UK and other markets with strong governance traditions.
- **Mandate Enhanced Disclosure of M&A Justification and Integration Plans:** Regulatory bodies (like securities regulators) could require that companies provide more detailed disclosures when announcing large acquisitions. Currently, acquirers typically release an announcement and perhaps an investor presentation.

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<sup>165</sup> Martynova, M., & Renneboog, L. (2011). *The performance of the European market for corporate control: Evidence from the fifth takeover wave*. *European Financial Management*, 17(2), 208–259. <https://doi.org/10.1111/j.1468-036X.2009.00497.x>

To improve transparency, regulators might require a statement of expected synergies and a basic plan for achieving them as part of the announcement or prospectus (in case of share issuance). This would force acquirers to think through the value creation plan and also allow investors to make more informed judgments. While forward-looking statements are tricky, even qualitative disclosure of integration approach, cultural considerations, and synergy areas would be beneficial. Such disclosure could be reviewed by regulators for completeness. Additionally, requiring follow-up reporting (for example, one year after deal completion, a public report on the status of integration and whether initial targets are being met) could increase accountability. This kind of policy might deter management from making grand claims at announcement that they cannot meet, thereby aligning public communications with realistic outcomes.

- **Promote a Market for Corporate Control that Rewards Long-Term Value:** European regulators should be cautious about interventions that might distort the M&A market, but they can take steps to ensure the market for corporate control functions efficiently. This includes antitrust/competition policy that, while rightly focused on preventing anti-competitive mergers, should also recognize when mergers can bring efficiency and shareholder value. Streamlining regulatory approval processes for cross-border European deals (perhaps through better coordination among EU member states' authorities) could facilitate value-creating combinations without undue delay. On the other hand, regulators might keep a closer watch on industries or situations where serial acquisitions lead to concentration that harms consumer or shareholder interests. Another consideration is tax policy: ensuring that tax laws do not inadvertently encourage value-destroying mergers (for example, mergers done mainly for tax avoidance rather than business synergy) is important. Policymakers could also support initiatives for disseminating best practices – for instance, sponsoring research or conferences on post-merger integration success, which can help spread knowledge to companies (especially mid-sized firms) on how to do M&A right. In sum, a regulatory environment that is transparent, fair, and supportive of well-considered M&A, while frowning upon or exposing poorly planned deals, will contribute to overall better outcomes.
- **Monitoring and Mitigating Systemic Risks of M&A Waves:** At a macro policy level, authorities (such as central banks or financial stability boards) might

monitor credit conditions and corporate debt loads associated with large M&As. Many big acquisitions are debt-financed; if multiple large deals occur in a boom with easy credit, there is a risk of a subsequent bust (as seen in past M&A waves). While it's beyond the scope of our thesis to delve deeply into macroprudential policy, one recommendation is that regulators ensure banks and acquirers conduct proper stress tests on debt taken for acquisitions. Perhaps regulators could issue guidelines for boards to consider solvency and stress scenarios when approving highly leveraged takeovers. This would be a policy measure to prevent scenarios where over-leveraged acquisitions later result in financial distress, layoffs, or require state intervention. Although this strays into broader economic policy, it aligns with ensuring that M&A activity contributes to sustainable growth and value creation rather than speculative excess.

- **Encourage Cross-Border M&A Integration Support:** Given our focus on European transactions, one interesting policy angle is the role of cross-border deals in EU market integration. The EU and national governments could facilitate cross-border mergers (which often are crucial for creating pan-European champions) by providing integration support or at least not hindering integration. Differences in legal systems, labour laws, and cultural norms can be significant barriers. Policymakers can work on harmonizing certain regulations or providing forums for companies to share experiences on managing cross-cultural integrations. Additionally, labour regulations that allow reasonable flexibility during integration (while protecting workers' rights) can help – for example, frameworks for consulting with employees on restructurings in a constructive manner. Such policy measures ensure that value-creating mergers are not abandoned due to avoidable regulatory or bureaucratic friction.

In conclusion, these managerial and policy recommendations aim to address the root causes of success or failure in M&A as evidenced by our study. Managers are advised to be disciplined, strategic, and integration-focused in their M&A approach, learning from both successes and failures. Meanwhile, policy-makers should strive to create an environment of transparency, accountability, and robust governance that naturally discourages value-destroying deals and facilitates genuinely synergistic combinations. If implemented, these recommendations could improve the probability that large M&A transactions in Europe achieve their intended value creation for shareholders and contribute positively to the economy, rather than falling into the well-documented pattern

of underperformance. The insights and lessons distilled here not only wrap up our analysis of value creation in M&A, but also provide practical guidance for future endeavours in the corporate world.

## 6. Findings, Theoretical Insights, and Future Directions

### 6.1 Summary of Key Findings

This thesis set out to examine whether large European M&A transactions from 2015 to 2023 created value in the short run (via market reactions) and the long run (via financial performance). In the short term, the event study analysis revealed that acquiring firms' cumulative abnormal returns (CARs) around the announcement were modest on average. This result is consistent with prior evidence that acquirers often see only minor positive or even no abnormal stock gains at announcement. By contrast, target shareholders tend to realize significant positive returns due to acquisition premiums, highlighting that immediate value accrues largely to the sell-side in M&A deals. Overall, the short-term market reaction in our sample suggests that investors were cautious: while some deals were greeted with optimism (implying expected synergies), others were met with skepticism, reflecting concerns over potential overpayment or integration challenges. In the long term, the financial performance analysis provided a more nuanced picture of post-merger outcomes. We tracked key performance indicators (KPIs) – including revenue growth, EBITDA, profit margins, and return on invested capital (ROIC) – for acquiring firms in the years following their €1bn+ acquisitions. Our findings indicate that value creation in the long run has been elusive for many acquirers. On average, combined revenues of the merged firms did increase (as expected from adding the target's operations), but improvements in profitability and efficiency were not consistently realized. In many cases, EBITDA margins and ROIC of acquirers showed no significant uptick relative to premerger baselines; indeed, some acquirers experienced a post-merger decline in operating profit margins. This deterioration in return on sales (ROS) or margins suggests that achieving cost synergies and efficiency gains is challenging and often offset by integration costs or other factors. Moreover, our analysis did not find strong evidence that M&A led to superior performance compared to non-acquiring peer firms over the same period. In sum, the short-term market reaction was at best cautiously optimistic, and the long-term financial results were mixed, with only a subset of deals delivering sustained performance improvements. This outcome underscores the central theme of this research: while M&A transactions have the potential to create value, realizing that value is far from guaranteed and depends on the effective materialization of synergies over time.

## 6.2 Findings in Light of Synergy, Agency, and RBV Theories

The empirical results can be contextualized through the three main theoretical lenses outlined in this study: Synergy Theory, Agency Theory, and the Resource-Based View (RBV). Each provides a framework for interpreting why some M&As succeed in creating value while others do not, and our findings offer evidence supporting elements of all three perspectives:

- **Synergy Theory:** The synergy motive posits that the combined entity will be more valuable than the sum of the separate firms, due to efficiencies or competitive advantages gained by joining forces. In the short run, our evidence of modest positive announcement returns for some acquirers is in line with synergy theory – investors initially price in expected value gains when a merger is perceived to create operational or market synergies. For example, deals touted to achieve economies of scale, cost savings, or revenue enhancements through cross-selling showed higher immediate CARs, reflecting market anticipation of such synergistic benefits. However, the inconclusive long-term performance we observed tempers the pure synergy narrative. While a few acquisitions did translate into improved margins or ROIC over multiple years (signaling realized synergies), many did not. This gap between promise and performance echoes prior findings that synergies are often harder to achieve than initially projected. Indeed, some studies report little to no evidence that mergers systematically create net positive value for the acquirer in the long run. Our results thus partially support synergy theory – synergies are the key to value creation in M&A, but capturing them fully is uncertain. Synergy theory holds true only under the right execution conditions: when projected synergies (whether operational improvements or market power gains) are actually realized and exceed the typically large acquisition premiums paid.
- **Agency Theory:** In contrast to the value-creating rationale of synergy, agency theory (and related hubris arguments) offers a value-decreasing perspective on M&A. Agency theory suggests that managers (the “agents”) may pursue acquisitions to advance their own interests – such as increasing the size of the company they control, diversifying the firm for personal risk reduction, or simply due to overconfidence – even when those mergers do not maximize shareholder

value. Our findings provide evidence consistent with this theory in several respects. First, the presence of several deals in our sample with negative announcement-period CARs indicates that investors sometimes believed an acquisition was motivated by managerial empire-building or hubris rather than true synergy, leading to an immediate stock price drop. Second, the overall lackluster improvement in long-term profitability for many acquirers is aligned with the agency theory prediction that some mergers fail to create value because they were not undertaken for value-maximizing reasons. Notably, we found that acquisitions classified as “synergy-motivated” outperformed those likely driven by agency motives in the long run, corroborating prior research. This dichotomy – where only the genuinely synergy-driven deals lead to superior post-merger performance – reinforces the notion that some acquisitions are influenced by managerial hubris or misaligned incentives. In such cases, the acquiring firm’s shareholders ultimately bear the cost of overpayment or poor integration, validating the agency theory warning that M&As can destroy value when driven by self-interested managers rather than shareholder value logic.

- **Resource-Based View (RBV):** The RBV provides a complementary strategic lens by focusing on the importance of resources and capabilities. According to RBV, a firm achieves sustainable competitive advantage by owning or acquiring valuable, rare, inimitable, and non-substitutable (VRIN) resources . Applied to M&A, the RBV implies that an acquisition will create long-term value only if the target brings unique resources or strategic assets that the acquirer lacks and cannot easily develop internally. Our empirical evidence supports the relevance of the RBV in explaining which mergers succeed. We observed that the few deals which did yield marked long-term performance gains were those where the acquirer-target combination exhibited strong complementarity – for instance, a merger that enabled the acquiring firm to obtain a patented technology, talent pool, brand portfolio, or access to a new market that fit well with its core business. These outcomes resonate with the idea that resource fit drives postmerger value creation. Recent studies likewise identify acquirer–target relatedness and complementary resource profiles as key drivers of long-run M&A success . In contrast, deals lacking such strategic fit showed mediocre results, suggesting that simply growing in size (without enhancing the resource base or capabilities) does not guarantee improved performance. Thus, our findings align with RBV theory: M&As can

create enduring value when they serve as a vehicle to deploy and combine strategic resources that yield competitive advantage, whereas mergers that do not enhance the firm's resource endowment tend to underperform.

In summary, no single theory fully explains the patterns observed – instead, they collectively offer insight. Synergy theory is validated to the extent that realized synergies are the primary source of any observed value gains. Agency (and hubris) theories explain why some mergers fail to create value, highlighting the pitfalls of managerial motives and biases. The RBV underscores that the nature of the resources combined through M&A critically determines whether synergies can be attained and sustained. The interplay of these perspectives suggests that successful M&A value creation requires both the right strategic rationale (true synergies grounded in resource complementarities) and prudent execution free from agency conflicts.

### 6.3 Implications for Research and Practice

Beyond enriching the empirical understanding of M&A outcomes, this study's findings carry several implications for theorists, business decision-makers, and policy makers:

- **Implications for academic research:** For scholars, our results reinforce the importance of integrating multiple theoretical lenses to analyze M&A performance. The mixed outcomes observed imply that traditional finance paradigms (which often assume rational value-maximizing behavior and synergy realization) should be complemented by behavioral and strategic management theories. By comparing synergy vs. agency-driven deals, we provide empirical support to the idea that deal motive matters for long-run success. This contributes to the literature by affirming that models of M&A should control for deal motivation and governance context, not just deal size or industry. Additionally, our use of both event study (short-term market reaction) and accounting-based analysis (long-term operating performance) demonstrates a methodological approach that bridges finance and strategic management research. Future academic work can build on this by similarly combining market and accounting outcomes to gain a holistic view of M&A value creation. Finally, the findings encourage researchers to delve deeper into the conditions under which synergies

translate into measurable performance gains – for example, by studying the post-merger integration processes, cultural fit, and resource redeployment in successful vs. unsuccessful deals – thereby extending the resource-based and organizational behavior perspectives in M&A research.

- **Implications for corporate decision-makers:** For executives and boards of companies considering acquisitions, this study underscores a cautious message: M&A is not a guaranteed value creator, and careful planning and governance are critical to success. Firstly, managers should only pursue deals where a compelling synergy logic is present and supported by detailed analysis. Our findings show that when mergers were undertaken without clear value-creating rationale, the acquirer’s performance tended to stagnate or decline, consistent with the view that “empire building” deals destroy shareholder value. Thus, corporate leaders must resist the allure of growth for growth’s sake and avoid overpaying for targets based on over-optimistic projections. Secondly, even when synergies are identified, realizing them requires rigorous execution. Companies should invest in thorough post-merger integration planning – aligning organizational structures, systems, and cultures – to capture cost savings and revenue enhancements in practice, which many firms in our sample struggled to do. Thirdly, our research highlights the role of corporate governance in M&A outcomes. Acquiring firms with strong governance and oversight are more likely to achieve the promised gains, whereas weak governance can enable managerial overreach. Boards of directors and shareholder representatives should therefore scrutinize major acquisition proposals, demand evidence of strategic fit (e.g. resource complementarity), and hold management accountable for post-merger results. In fact, empirical surveys find that shareholder activism or intervention (e.g. insisting on better terms or abandoning bad deals) is associated with improved long-run merger success . In practice, this means corporate decision-makers must foster a culture of discipline around M&A – with clear strategic objectives, realistic synergy targets, and incentive structures (such as tying executive bonuses to post-acquisition performance over several years) that align managerial actions with shareholder value creation.
- **Implications for policy makers and regulators:** The mixed outcomes of large M&A deals observed in this study also inform those shaping policy and regulation in capital markets. From a regulatory standpoint, our findings suggest that

authorities (such as competition regulators and securities 4 3 3 regulators) should approach mega-mergers with balanced scrutiny. On one hand, mergers driven by genuine synergies (for example, to combine innovative capabilities or improve efficiency) can enhance economic value and even consumer welfare, which policy makers may want to facilitate. On the other hand, if many large acquisitions fail to deliver promised efficiencies, the claimed benefits of mergers should be critically evaluated during approval processes. Anti-trust regulators, for instance, might demand more concrete, data-backed plans for synergy realization (such as cost reductions or innovation boosts) before approving deals that could lessen competition. This ensures that the public costs of reduced competition are not justified by synergies that never actually materialize. Furthermore, the prevalence of agency-driven motives in some deals highlights the importance of corporate governance reforms from a policy perspective. Policy makers could consider frameworks that strengthen shareholder rights in merger decisions – for example, requiring a robust majority of disinterested shareholder approval for very large acquisitions – to counteract potential managerial biases. They might also promote greater transparency in M&A transactions, such as mandating disclosure of post-merger integration plans and periodic reporting on the progress of synergy realization. Such measures would hold companies accountable and enable investors (and regulators) to track whether promised value creation is being achieved. In summary, policies that align managerial incentives with long-term performance (through governance codes or even tax incentives for long-term holding post-M&A) and that ensure honest communication of merger benefits would help mitigate the risk of value-destroying acquisitions, thereby contributing to more efficient capital allocation in the economy.

#### **6.4 Suggestions for Future Research**

While this thesis has shed light on value creation in recent European M&As, it also opens several avenues for further investigation. Future research could extend and deepen the insights as follows:

- **Broaden the sample and scope:** Subsequent studies could examine M&A transactions across different size segments or geographies to see if our findings generalize. For instance, analyzing mid-sized deals or including North American and Asian M&As post-2023 would reveal whether the short-term and long-term patterns observed are consistent universally or vary with market context.
- **Long-term value measurement:** Further research may incorporate alternative measures of long-run value creation, such as buy-and-hold abnormal stock returns over multi-year periods or economic value added (EVA) analyses. Comparing accounting-based performance with long-run stock market performance could provide a more comprehensive picture of whether investors eventually recognize (or punish) the outcomes of a merger.
- **Deal characteristics and success factors:** The results invite more granular analysis of what differentiates successful from unsuccessful acquisitions. Future studies could employ regression or case-study methods to assess the impact of specific factors – for example, the role of industry relatedness, cultural compatibility in cross-border deals, method of payment (cash vs. stock), or the level of integration speed – on post-merger performance. Identifying which deal attributes robustly contribute to synergy realization would refine both theory and practice.
- **Post-merger integration and organizational dynamics:** Given the importance of execution, qualitative and mixed-method research would be valuable to explore how integration processes affect outcomes. In-depth case studies or interviews with managers involved in large M&As could uncover best practices in managing integration, overcoming cultural clashes, and retaining key talent. Such insights would complement quantitative findings by explaining why some firms ••• 3 • 4 achieve synergies where others stumble, thereby bridging a gap in the literature on the process of value creation.
- **Governance and behavioral aspects:** Lastly, future research should continue to probe the influence of corporate governance and CEO characteristics on M&A success. For example, studies could examine a larger sample of deals to statistically test the impact of CEO overconfidence or prior acquisition experience on long-term performance (extending the evidence of the detrimental effect of overconfident serial acquirers ). Likewise, cross-country comparisons of how

different governance regimes or shareholder protection laws affect postmerger outcomes would inform both theory (agency vs. governance explanations) and policy.

By pursuing these directions, scholars can build on the foundations laid by this thesis and further elucidate the complex puzzle of M&A value creation. Ultimately, such research will contribute to more effective merger strategies and oversight, helping to ensure that mergers and acquisitions realize their potential to create, rather than destroy, economic value.

In conclusion, this empirical analysis of large European M&As reveals that value creation is a nuanced, challenging endeavor. Short-term market reactions capture investors' immediate expectations, which can be optimistic for synergy-rich deals or pessimistic under agency concerns, but they do not guarantee long-term success. Long-term financial performance outcomes show that true value materializes only when mergers are executed under the right conditions – with genuine synergies, strategic resource fit, and strong managerial discipline. By comparing these outcomes with Synergy Theory, Agency Theory, and the Resource-Based View, the study confirms that realizing merger value requires a convergence of favorable factors. For academics, practitioners, and regulators alike, the overarching lesson is clear: mergers can create value, but not without carefully aligning motives, resources, and execution with the ultimate goal of improved long-term performance. The findings and insights from this thesis thus contribute to a more realistic understanding of M&A as a strategic tool – one that holds great promise, yet demands rigor and prudence to fulfill that promise.

## *Conclusion*

This study has examined the effects of Mergers and Acquisitions on the value created for acquiring-firm shareholders, not only in the immediate aftermath of the announcement but also in the years following the transaction. To do so, it employed an integrated research design that combined a short-term event study—measuring cumulative abnormal returns (CARs) around deal announcements—with a long-term financial performance analysis based on revenues, EBITDA, operating margins, and return on invested capital (ROIC), systematically benchmarked against industry peers. The sample consisted of ten large European transactions completed between 2015 and 2023, each with a deal value above €1 billion, selected for their economic significance and data availability. This dual approach allowed the study to bridge two complementary perspectives and to highlight that short-term market signals and long-term accounting outcomes often tell very different stories.

The findings indicate that the effects of M&A are far from predetermined. In the short term, the market reaction to M&A announcements largely reflected investor expectations of potential synergies or concerns over risks. A few transactions were initially greeted with enthusiasm, but most generated only modest or even negative abnormal returns for the acquirer’s shares. These outcomes suggest that while short-term CARs capture sentiment, they are not reliable indicators of the value that may ultimately be realized. Over the long run, the financial performance of acquiring firms in the sample showed significant variation. Revenues almost universally increased, as expected from the enlarged scope of operations, yet profitability and capital returns were far more volatile. Real and sustainable value creation emerged only in specific cases, where a clear strategic fit was present, where integration was carefully planned and executed, and where managers avoided overpaying or succumbing to hubris. In contrast, when the motives behind transactions were questionable—driven by empire-building or “growth at any cost”—and when integration was poorly handled, the expected advantages failed to materialize. These cases underline that while M&A can be an engine of growth, it can equally become a source of value destruction if not managed with rigor.

The results also hold significant theoretical implications. They contribute to classical perspectives on M&A by providing nuanced evidence. Synergy theory is confirmed in situations where promised economies of scale and cross-selling

opportunities were not only envisioned but also effectively implemented, leading to measurable improvements in margins and returns. The resource-based view is reflected in those acquisitions that addressed resource gaps and provided access to complementary capabilities, demonstrating that a stable competitive advantage can result when target resources genuinely complement those of the acquirer. Meanwhile, the agency theory explains why certain deals underperformed: managerial self-interest, excessive optimism, and overpayment translated into shareholder losses, particularly over the long term. Importantly, the evidence suggests that no single framework can fully account for M&A outcomes. Instead, success or failure emerges from the interaction of strategic intent, resource complementarities, execution discipline, and governance mechanisms, thereby supporting an integrated theoretical perspective.

Moreover, the analysis presents implications that are especially relevant for practitioners. For corporate managers and boards, the message is clear: the M&A process requires rigor, discipline, and humility. Before the transaction, the acquirer must establish a genuine value-creation rationale and avoid overpaying for targets by tempering enthusiasm with careful appraisal of synergies and risks. During and after the deal, integration becomes the decisive stage: firms that invested in dedicated integration teams, learned from prior experience, and aligned incentives with long-term performance demonstrated superior outcomes. Conversely, rushed transactions lacking structured post-merger plans generally underperformed. For investors, the findings highlight the need to look beyond immediate market reactions and to closely monitor post-merger indicators—returns on capital, operating margins, and even qualitative signals such as cultural alignment or employee retention. For policymakers, the mixed results of large-scale M&A underline that such deals are not inherently beneficial; greater transparency in disclosing deal rationales and integration strategies, combined with stronger governance safeguards, could help mitigate the risks of value-destroying acquisitions.

Beyond empirical insights, this research also makes a methodological contribution. By combining event-study evidence with industry-adjusted financial metrics, it provides a more complete assessment of M&A performance than studies that rely exclusively on one or the other approach. Nevertheless, several limitations remain. The analysis was constrained by the relatively small sample size and the focus on large European deals, which limits generalizability. Moreover, the study primarily relied on quantitative indicators and thus only partially captured “soft” factors—such as leadership style, organizational culture, and change management—that are often decisive in

integration success but difficult to measure. These limitations open avenues for further research. Future studies could expand the sample size and geographical coverage, integrate qualitative approaches such as interviews and case studies, and explore the role of external forces, including economic cycles, regulatory frameworks, and societal expectations related to sustainability. Private equity-backed acquisitions also merit closer scrutiny, as differences in investment horizons and incentive structures may shape distinct patterns of value creation.

Taken together, the findings of this study demonstrate that M&A can be a source of substantial shareholder value, but success is highly contingent. Positive sentiment in the short term is of little consequence if not followed by strong leadership, disciplined integration, and the tangible realization of synergies. Under conditions of sound governance and strategic alignment, M&A offers firms opportunities for growth and competitive advantage that surpass what they might achieve organically. Yet the high incidence of underperformance in the sample serves as a cautionary reminder: value creation through M&A is a complex and uncertain endeavor, requiring foresight, managerial prudence, and robust integration capabilities. This dual nature positions M&A as a true double-edged sword—rich in potential for creating shareholder wealth, but equally prone to destroy it if motives, pricing, and execution are misaligned. By reconciling short- and long-term perspectives, this study contributes to both academic understanding and managerial practice, offering insights into how M&A can be approached more effectively as a strategic tool for long-term value creation.



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