Study Plan

Chapter 17

Learning Objectives

After studying this chapter you should be able to:

- Describe the most important forms of corporate control transactions and distinguish between transactions that integrate two businesses and those that split up an existing single business;
- Discuss the differences between horizontal, vertical, and conglomerate mergers;
- Explain the different methods of payment acquirers use to execute mergers and acquisitions, and discuss how returns to target and bidder firm shareholders differ between cash and stock mergers;
- Contrast the motivations of managers who implement value-maximizing mergers and acquisitions to those who execute non-value-maximizing combinations; and
- Describe the most important laws and regulations that govern corporate control activities , and the increasing internationalization of these

Summary and Conclusions

- Mergers and acquisitions are major corporate finance events that, when executed efficiently and with the proper motives, can help managers realize their ultimate goal of maximizing shareholder wealth. Merging firms may be integrated in a number of ways, and the circumstances surrounding the merger determine the means of integration. Transactions may be hostile or friendly; may be financed by cash, stock, debt, or some combination of the three; and may increase, preserve, or decrease the acquirer's level of business concentration.
- Research on corporate control is bountiful. Major empirical findings include the following: target shareholders almost always win but acquirers' returns are mixed. The combined value of merging firms also increases, especially in nonconglomerate combinations. The highest announcement-period returns are found in mergers between well-managed acquirers and poorly managed targets. Long-term performance is highest for focus-increasing deals financed with cash and lowest for diversifying mergers financed with stock.
- Managers have either value-maximizing or non-value-maximizing motives for pursuing mergers. Value-maximizing motives include expansion into new markets, capturing size economies and other synergies, establishing market power, or generating free cash flow to make better investments. Agency problems result in such non-value-maximizing motives as empire building, entrenchment, hubris, and diversification.
- Merger activity occurs in waves spurred by industry-wide events such as deregulation. Historically, we have witnessed five major merger waves: a turn-of-the-twentieth-century wave of horizontal mergers, a 1920s wave of vertical mergers, the 1960s wave of conglomerate mergers, the 1980s wave that deconstructed many of the 1960s conglomerates, and a recent wave of deregulation-based mergers and

consolidations made in preparation for an increasingly global economy. Antitrust enforcement at the time affects activity in each of these waves.

- Corporate control activities are regulated by layers of different authorities. Increasingly the European Commission plays a significant role.