The MYTH of deal failure

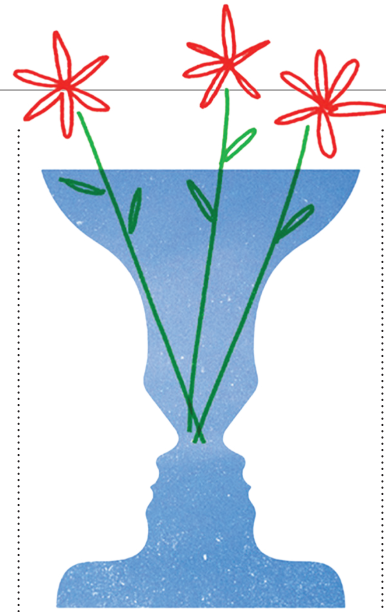
Simon Mackenzie Smith, chairman of UK and Ireland Corporate Investment Banking, talks with Brunswick's Simon Sporborg and Rosheeka Field

As chairman of UK and Ireland Corporate and Investment Banking at Bank of America Merrill Lynch, Simon Mackenzie Smith is well aware of research suggesting that a high percentage of deals destroy value for acquiring companies.

Yet Mackenzie Smith believes that deals remain a smart way for companies either to boost their share of existing markets or diversify into new ones. As a banker who has advised on and financed deals dating back three decades, he has seen firsthand the benefits that can accrue. His own experience has convinced him that success often takes time, and must be measured over the full lifecycle of a deal – right up to and beyond integration of the target company, a process that can take from 18 months to three years.

That underscores a limitation of research on deals. Invariably, it is short-term, because the long-term effect is muddied by a range of factors potentially including other deals, economic swings and management turmoil. Unlike medical trials, which control for so-called confounding factors, acquisition research often fails to account for other, often-unforeseen influences. “Life often turns out differently,” says Mackenzie Smith.

Concern about showing short-term success can be counterproductive, Mackenzie Smith argues. Often, the premium paid for an acquisition can look value-destructive for the acquirer and great for



target shareholders, at least in the short term. And to counter that perception, acquirers can make the mistake of engaging in unsustainable cost-cutting or ineffective integration – moves that can thwart the long-term benefits of a deal.

Mackenzie Smith also notes that research into the success of M&A lumps all mergers and acquisitions together. The purchase of a mid-sized competitor in an existing market is altogether different from a hostile takeover that crosses multiple borders and diversifies the acquirer into new territories.

Mackenzie Smith says that boards and advisers are well aware of the uncertainties surrounding deals, and in many cases have raised the bar for deal metrics. Whereas it once was sufficient for a company to deliver earnings per share improvement to justify a deal's success, this is no longer enough – particularly in today's low-interest environment, says Mackenzie Smith. He says boards and advisers increasingly demand clear strategic rationale, seek relatively quick financial returns or new expertise (especially technological expertise), and focus on cost-cutting, managed integration and retention of key personnel.

Perhaps that helps explain recent research from the City, University of London's Cass Business School M&A Research Centre, along with Willis Towers Watson. This research indicates that the short-term success rate of M&A deals for acquiring companies may be improving. Data going back to 2008 show that for deals over $100 million, acquiring companies outperformed the market by 3.5 percentage points during the quarter a deal was completed. Looking only at the last three years, that improvement over the market increases to 4.8 percentage points.

Concludes Mackenzie Smith: “In my experience, those companies that tended to make the best successes of acquisitions were those that looked to re-energize the acquired business rather than simply consolidate it, and where a large acquisition or merger is used to reshape the business model of the acquirer.”

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Not a bad DAY

When the markets closed in the US on October 26th, 2017, Jeff Bezos's net worth was $82.8 billion. A day later, on the back of Amazon's strong earnings results, it was $93.1 billion, making him the richest person in the world.

Over a span of 24 HOURS, Jeff Bezos's net worth had increased by

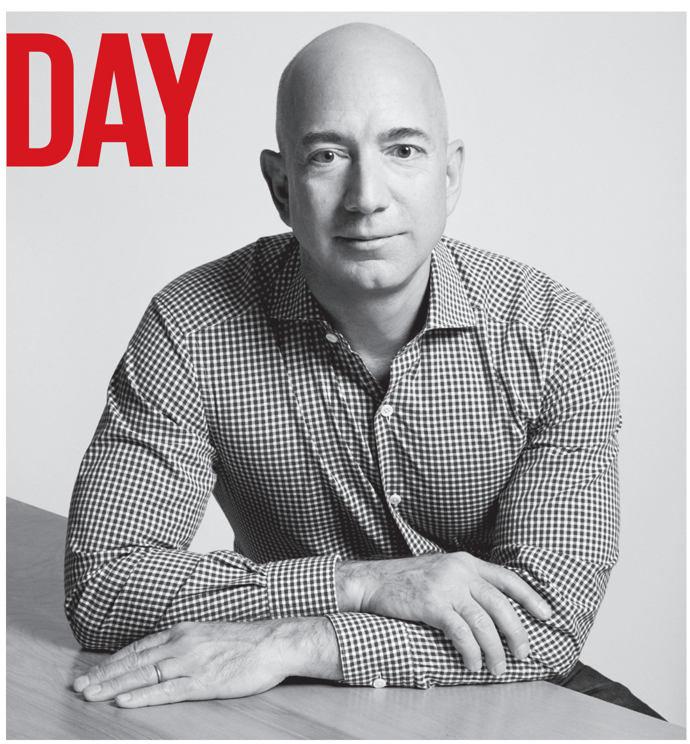
10.3

BILLION. To put that in perspective, that's roughly:

$429 million per hour

$7.1 million per minute

$119,212 per second



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Bezos earned more in a day than he previously had in a decade. Following Amazon's IPO in 1998, Bezos had a listed net worth of $1.6 billion. In 2007, he was at $4.4 billion, an increase of $2.8 billion – a big jump, but roughly equal to only seven hours of October 27. And the good times keep rolling. By the end of the year, Bezos's net worth topped $100 billion.