Mergers & Acquisitions

Accounting & Finance

Why firms buy each other, and why most deals disappoint.

Motives and pitfalls.

Motives

- Cost synergy from removing duplication
- Revenue synergy from cross-selling
- Acquiring capability faster than building
- Market power and consolidation
- Tax and financial restructuring

Why deals fail

- Synergies overestimated at the outset
- Premium paid exceeds the synergy value
- Cultural integration underestimated
- Key staff leave after the deal
- Management attention diverted for years

> Studies consistently find acquirer shareholders gain little on average.
> The target's shareholders capture most of the value.