external advisors, can offer guidance to keep the focus on value creation.

A fistful of questions

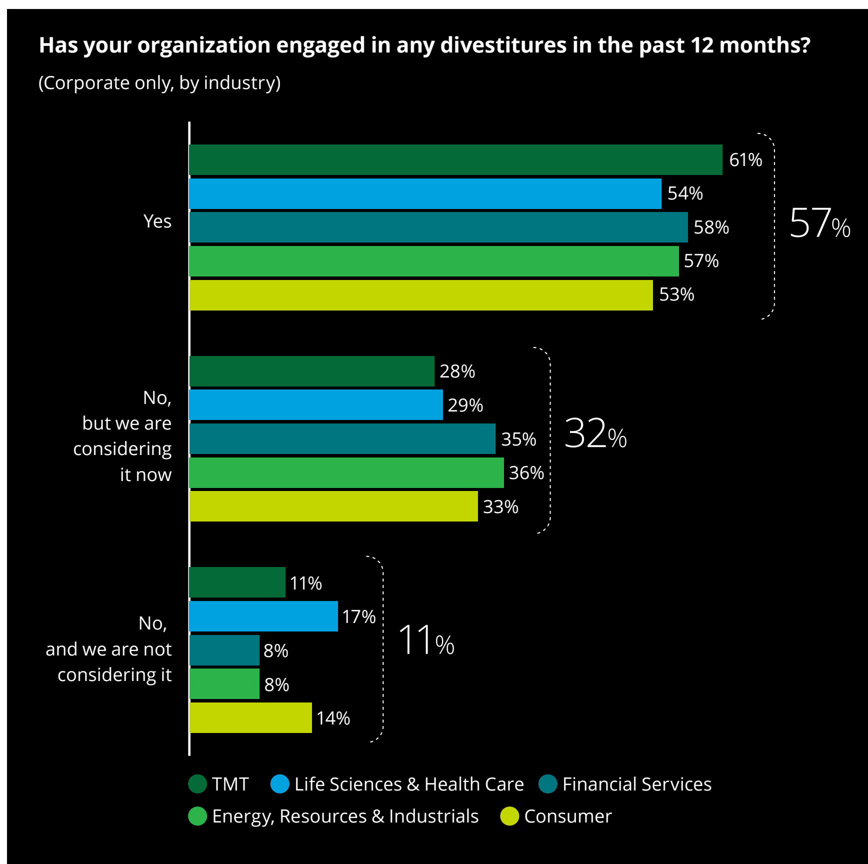
With the COVID-19 pandemic having entered a new phase,[9] some CFOs and boards have turned their attention to capital allocation (see "Capital allocation: Is it time for a refresh?" *CFO Insights*, October 2021). The goal: to position their companies as long-term winners.

Companies reviewing their portfolios are part of a crowded marketplace. For some, that means shedding noncore assets to generate capital for more fitting acquisitions. In the 2022 M&A Trends Survey,[10] more than half of responding executives (57%) said they had engaged in a divestiture in the past 12 months. Another third or so (32%) were considering one. Only 11% hadn't, and didn't, plan to join in (see Figure 2).

Heightened dealmaking activity can put a premium, so to speak, on speed. But no matter the pace, the kinds of questions that CFOs may want to make sure they make time to ask—both of themselves and of others—include the following:

1. **Why is now the time to do this?** Maybe it would have cost 20% less six months ago, but there's competitive pressure to do a deal ASAP. Instead of being forced into a reactive mode, it may be worth exercising the required discipline to create a deal-flow structure.
2. **Can we assemble a credible plan prior to any announcement?** Once the deal becomes public, any embedded assumptions turn into promises. Are there one-time costs that need to be factored in? How should cost-reduction initiatives be prioritized? If ERP systems will be consolidated, how long will that take?
3. **Can we give investors a reason to buy shares?** More than any road show, investor presentation, or conference call, an official announcement about a deal can roil a company's share price. It's critical to be able to explain, for example, why your company was willing to pay more than other potential acquirers.

Figure 2. Acquiring an urge to divest



Source: *The future of M&A: 2022 M&A Trends Survey, Deloitte Development LLC*, January 2022

4. **Can we foresee the necessary post-close transitions?** Once the deal closes, the integration management office should be dissolved, with the workstreams under it rejoining the business. The acquirer's efforts then turn to choosing leaders deeper in the organization who fit the new organizational design and new roles, as well as overseeing change-management and workforce transition issues.
5. **Have we retained any lingering delusions of synergy?** As magical as it can sound, synergy may be driven by upwards of a dozen major initiatives, broken down into projects and milestones.

The value of synergistic thinking

M&A strategy benefits by being approached meticulously—and holistically. In *The Synergy Solution*, we suggest that rather than accepting the received wisdom that most acquisitions are doomed, deal-makers reexamine their processes.

Each subprocess needs to be viewed as part of a greater whole. If due diligence isn't conducted properly, companies may overpay. Such miscalculations may also feed into unrealistic synergy targets, leading to missed milestones for investors and analysts to seize on. Those pressures make the job of building a new organization—while stabilizing the existing business—that much tougher.

Other external factors may come into play, as well. Rising inflation and global turmoil may slow the pace and volume of M&A transactions this year. But developing and maintaining a rigorous process for successfully making deals will surely assist in creating value over the long term.

What really matters in boosting shareholder returns from M&A

More findings from our study of more than 1,200 acquisitions in a 24-year period:

- **Initial market reactions count.** How much? To find out, we divided the transactions into those deals that were met with a positive reaction (508), and those that felt the sting of a negative reaction (759). A year later, those that had faced a negative reaction of, on average, 7.8% had earned an even stronger negative return of about 9.1%. The portfolio of deals that began with a positive return of 7.7% had risen to 8.4%. A closer look reveals that 65% of the initially negative deals were still negative a year later, while 57% of those with positive reactions stayed positive. Conclusion: while a positive start is no guarantee of future success, especially if companies do not subsequently deliver on their promises, a negative start is tough to overcome.
- **Acquisition premiums matter.** The average premium paid for targets across the entire sample was 30.1%, with an average premium of 32.2% paid by the initially negative portfolio and 26.9% paid by the initially positive portfolio. For companies that were persistently viewed negatively throughout the year, the average premium was 33.8%, compared to only 26.6% for their positive counterparts. The difference in premiums is even more pronounced for all-cash and all-stock deals for the persistently negative versus the persistently positive portfolios: 33.6% vs. 27.6% for all-cash deals and 32.8% vs. 22.5% for all-stock deals.
- **Cash deals outperform stock deals by a lot.** All-cash deals represented 20% of the transactions we analyzed, while all-stock deals comprised 36% of our sample. At announcement, the returns for all-cash deals beat all-stock deals by 4.7%. Moreover, 57% of cash deals receive positive market reactions as compared to only 35% of stock deals. The performance gap widened to 9.5% over the course of the year, as cash deals beat their peers by 3.8% while stock deals lagged their peers by 5.7%. Overall, 46% of stock deals received both initial and persistent negative returns versus 27% of cash deals. Among transactions combining a mix of cash and stock, only 36% received a positive market reaction.
- **Sellers are the biggest beneficiaries of M&A deals.** Shareholders of target companies earn an average 20% peer-adjusted return from the week before the deal announcement to the week after. Buyers, on average, lose 1.6%.
- **M&A transactions create value at the macroeconomic level.** Mergers create value for the economy. We calculated a measure for both buyers and sellers based on the 11-day peer-adjusted dollar return around deal announcement. The average total shareholder value added (TSVA) is the sum of those dollar returns for buyers and sellers. While buyers lost an average of $285 million, sellers gained an average of $469 million. That works out to a TSVA of $184 million for all deals.

End notes

1. "Global M&A volumes hit record high in 2021, breach $5 trillion for first time," *Reuters*, December 31, 2021.
2. "The CFO Agenda," CFO Program, Deloitte LLP.
3. The study also focused on deals in which both the acquirer and target were publicly traded in the U.S., were at least $100 million in size, and involved a target that was at least 25% of its acquirer's size.
4. "Don't Make This Common M&A Mistake," *Harvard Business Review*, March 2020.
5. "Opportunities for private equity post-COVID-19," *Deloitte Insights*, Deloitte Development LLC, May 2020.
6. CFO Signals™: 3Q 2021, CFO Program, Deloitte LLP.
7. Mark L. Sirower, Jeffery Weirens, *The Synergy Solution: How Companies Win the Mergers & Acquisitions Game*, Harvard Business Review Press, February 2022.
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