

## **An overview of cross-border mergers and acquisitions for five countries**

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### **1 Introduction**

Cross border mergers and acquisitions (M&As) are the main force behind the surge in foreign direct investment. Yet despite its obvious quantitative importance, the reasons for cross border M&As are not well-understood. Two basic motives stand out: an efficiency motive and a strategic motive. Efficiency gains arise because takeovers increase synergy between firms that increase economies of scale or scope. Strategic gains arise if M&As change the market structure, and thus competition and profits. Together with Steven Brakman (University of Groningen) and Harry Garretsen (Utrecht School of Economics) I am currently involved in research on the size and structure of cross-border M&As, particularly their relationship with revealed comparative advantage for five countries (Australia, France, the Netherlands, the United Kingdom, and the United States). In this paper I restrict myself to providing an overview of cross-border M&As.

### **2 Cross Border Mergers and Acquisitions: Some Facts**

Table 1 shows that cross-border M&As constitute a main vehicle for FDI, especially for FDI flows to developed countries. Also, if one looks at cross-border M&As as a share of total M&A activity, it is clear that cross-border M&As are quite important. During, for instance, the period 1987-1999, which captures most of the so-called 4<sup>th</sup> and 5<sup>th</sup> merger wave (see below), in terms of both the value and the number of the transactions, cross-border M&As, on average, made up for about 25-30% of total M&A activity (Schenk, 2002). As Table 1 suggests, cross-border M&As are particularly relevant within the group of developed countries. OECD data show that, measured as a share of their national GDP, the UK and the Netherlands, followed by Germany and France, are the leading countries in cross-border M&As. Firms from these countries are the most active in acquiring (stakes in) firms in other countries. At the peak of the 5<sup>th</sup> merger wave in the late 1990s, for instance, cross-border M&As (as a percentage of GDP) were 16.3 in the UK and 13.7 in the Netherlands.

*Table 1 Cross-border M&A investments (percent of FDI inflows to the host countries)*

	1987-91	1992-94	1995-97	1998-2001
World	66.29	44.75	60.18	76.23
Developed countries	77.49	64.93	85.39	88.96
Developing and transition economies	21.94	15.49	25.79	35.74

Source: Barba-Navaretti and Venables (2004, p.10).

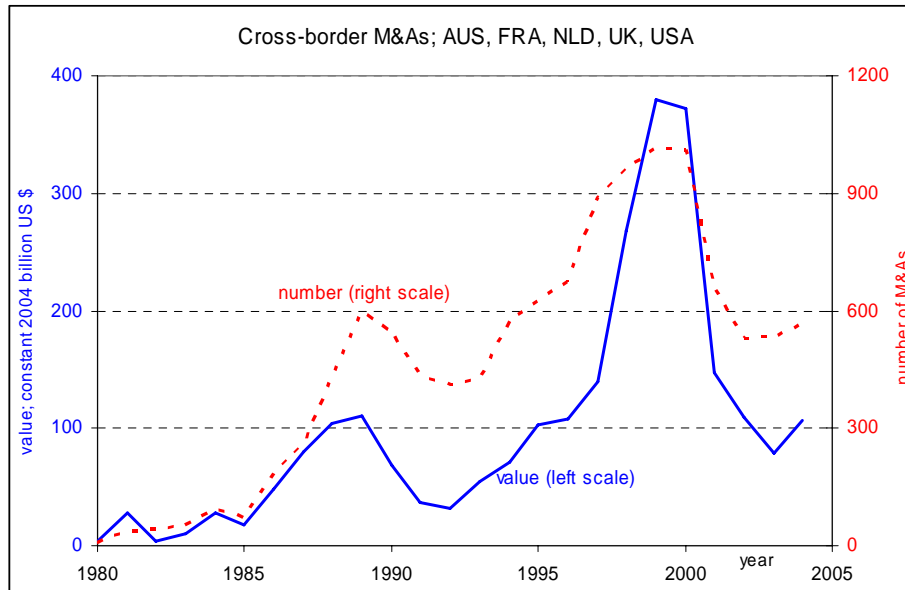
To date, the best and most extensive data source for M&As is the *Global Mergers and Acquisitions* database of *Thomson Financial Securities Data* (Thomson, hereafter). Thomson gathers information on M&As exceeding 1 million US \$ and its main source of information are financial newspapers and specialized agencies like Bloomberg and Reuters. Our Thomson data set begins in 1979 and ends in April 2005. It should be kept in mind that until the mid-1980s Thomson focused very much on M&As for the USA only, and it is only for about the last 20 years that (systematic) M&A data gathering took place for other (developed) countries.

### 3 Mergers and acquisitions: waves

Figure 1 gives an impression of the importance of M&As for our group of five countries and of the ‘wave’ phenomenon (see below). Since the value of the deals is measured in current US dollar, we use the American GDP deflator to adjust all values to constant 2004 dollars. For the period 1985-2004, the average annual number of deals for our five countries is 570 and their annual value is \$122 billion.<sup>1</sup> There is an important stylized fact as to the development of M&A activity over time: they come in waves. It is common to distinguish between five merger waves during the 20<sup>th</sup> century, three of which are recent (Andrade, Mitchell, and Stafford, 2001). The 3<sup>rd</sup> wave took place in the late 1960-early 1970s, the 4<sup>th</sup> wave ran from about the mid 1980s until 1990, and the 5<sup>th</sup> wave started around 1995 and ended in 2000 with the collapse of the “New Economy”. Merger waves are very much (positively) correlated with increases in share prices and p/e ratios and with the overall business cycle in general. When one sticks to standard M&A motives, like the efficiency argument, it is rather difficult to explain the synchronicity of M&As.

<sup>1</sup> We ignore the first four years in which the data set is incomplete.

Figure 1 Volume of cross-border M&As (AUS, FRA, NLD, UK, USA)



Source: Brakman, Garretsen, and van Marrewijk (2005); value is deflated using USA GDP deflator.

The waves are illustrated in Figure 1 for both the number of deals and their value for the last two waves. The first peak (of 1989) was almost 600 deals with a value of \$110 billion. The second peak (of 1999) was 1018 deals with a value of \$380 billion. When compared to the average of the period, it is clear that the most recent wave reached unprecedented levels in terms of number of deals and value. During the 5<sup>th</sup> merger wave, European firms engaged in a number of (mega) M&As with the cross-border take-over of Mannesmann (Germany) by Vodafone (UK) for 172 billion US\$ in 2000 as to date the largest M&A in Europe. For the period as a whole, there are 11,721 observations, or about 28.5 per cent of all cross border M&As, as summarized in Table 2. The USA was the most active country (40.3 percent of the acquisitions and 43.7 percent of the targets), closely followed by the UK (39.5 and 27.6 percent, respectively). Note that cross-border M&As with acquirer and target located in the same country are possible, for example when an American firm takes over another American firm that is active abroad. About 48 per cent of M&As can be classified as horizontal M&As at the 2-digit level. In most cases the M&A is a complete takeover (72.4 percent) or results in a complete takeover (76.8 percent).

*Table 2 Overview of mergers and acquisitions; all sectors, 1980-2005*

		Acquirer					sum
		AUS	FRA	USA	GBR	NLD	
# of M&As							
Target	AUS	562	23	388	351	26	1,350
	FRA	14	223	425	608	74	1,344
	USA	231	310	2,136	2,229	213	5,119
	GBR	137	249	1,602	1,095	154	3,237
	NLD	13	52	178	351	77	671
sum		957	857	4,729	4,634	544	11,721
per cent							
	AUS	4.8	0.2	3.3	3.0	0.2	11.5
	FRA	0.1	1.9	3.6	5.2	0.6	11.5
	USA	2.0	2.6	18.2	19.0	1.8	43.7
	GBR	1.2	2.1	13.7	9.3	1.3	27.6
	NLD	0.1	0.4	1.5	3.0	0.7	5.7
sum		8.2	7.3	40.3	39.5	4.6	100
Horizontal M&As (2-digit sic level):				5,628	(48.0%)		
100 % acquired in M&A				8,487	(72.4%)		
100 % owned after M&A				9,007	(76.8%)		
Value of transaction (million \$):		mean		186.17			
		median		20.00			
		maximum		60,286.67			

#### 4 Conclusion

We have illustrated the importance of M&As for FDI flows, shown that most M&As are horizontal, and that M&As come in waves. These facts, although still ill-understood, have been pointed out by other researchers. Our current research focuses on clarifying, modeling, and estimating the structure of M&As in a general equilibrium framework (based on Neary, 2004). In particular, the novel relationship between M&As and revealed comparative advantage, see Brakman et al. (2005).

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