

MERGERS AND ACQUISITIONS IN EASTERN EUROPE: 1990-2018

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Abstract

In a context of globalized competition, mergers and acquisitions are presented as effective strategies in front of continues technological changes and rapid growth in global markets, particularly in Eastern European region, which is becoming increasingly important in terms of number and volume of mergers and acquisitions' operations. Our research work consists in providing descriptive complementary insights to previous research, by analyzing the characteristics of mergers and acquisitions market in this region. Our sample includes all transactions realized between the years 1990 to 2018, collected from the Thomson Reuters Eikon database. The statistics indicate that most transactions are in the financial sector, the country of Turkey is the main target region regarding mergers and acquisitions investments, and approximately all transactions are friendly.

Key words: *Mergers, Acquisitions, Eastern Europe, performance.*

JEL Classification: *G34.*

I.INTRODUCTION

Mergers and acquisitions are constantly evolving in the different fields and sectors of activity, almost not a day goes without reporting a new merger and acquisition in the world. They are a rapid way for external growth and for the development of economies. Although these strategies were initially developed in major cases in developed countries, they are getting more and more momentum in emerging countries and are thus an effective means for countries economic development. Indeed, they remain one of the greatest sources of development growth through investment and has become a real phenomenon in the business world that keeps growing permanently.

The value of these operations reached a total of US \$ 3.6 trillion during the full year 2020, with an evolving tenancy for years to come. The European target companies registered a value of US \$ 1.0 trillion in 2020, an increase of 36% compared to the previous year, and of which US \$ 69.318 million are realized in Eastern Europe and US \$ 930,788 million in Western Europe (Global M&A Financial Advisory, 2020). The share of the Easter Europe region stays negligible by representing only 7% of transactions realized in Europe, but it stills constantly growing to reach US \$ 47,991 million during the first nine months of 2021¹ despite the global health crisis covid-19 pandemic context and its impact on the mergers and acquisitions market around the world. Even with the current economic uncertainties' situation and the fierce competition in international markets , the European continent remains active in terms of investments beyond mergers and acquisitions, especially for transactions value which increase from year to year (M&A Predictor, 2020). Even though those mergers and acquisitions strategies are important in the global economy, they needs to be meticulously studied since they involve considerable risks and can undermine the stated objectives, in effect these strategies doesn't always produce the expected performance and can so lead to failure, depending on many factors. (Ott, 2020).

Only few researches have focused on mergers and acquisitions in the Eastern region of Europe, while these strategies are a rich source for investment and economic development (Stiebale and Reize 2011; Larimo 2015; Moghadam, Mazlan et al. 2019). Through this paper, we try to present a first descriptive analysis of all mergers and acquisitions in the Eastern Europe region, to better understand this phenomenon and yield statistical results likely to help future investors make the right financing decisions. This paper is organized as follows: section 1 presents a review of the literature of mergers and acquisitions, considering previous studies relating to

¹ According to the study released by the international firm Deloitte on mergers and acquisitions activity for the year 2021 (for the third quarter), the resumption of mergers and acquisitions activity is impacted by the waves of confinement which creates new uncertainties. However, this context could fuel this activity in some countries, following restructuring strategies and portfolio reviews carried out by the winners and losers of the current health crisis.

our subject, section 2 gives a description of the sample data as well as the methodology used, and section 3 analyses the statistical results of mergers and acquisitions in Easter Europe.

II. LITERATURE REVIEW

External growth strategies through mergers and acquisitions are considered a major research subject for the scientific community and for the business world, it is a theme that has aroused the interest of several authors and subject of various studies, mainly related to the value creation, the motivations, and the performances of these strategies. Traditionally the phenomenon has been perceived as a very heavy, complex, and risky investment decision or strategy. The first work in this field is that carried out by Coase (1937) who focused on the choice between internal and external growth and on their cost by providing a framework for reflection on the decision of vertical integration. It was followed by Chandler (1962) who was interested in external growth by comparing linked diversification and unbound diversification, before being perfected during the 1970s by paying particular attention to the characteristics of diversification by Rumelt (1974).

For Seth (1990), mergers and acquisitions strategies allows the achievement of operational and financial synergy, better use of assets (Healy, Palepu et al., 1992; Shleifer and Vishny, 2003) and taxes (Jensen and Ruback, 1983), the control of industrial shocks (Mitchell and Mulherin, 1996), a fast increase in size, an access to strategic knowledge and skills, and a good way to increase market share and control entry barriers by reducing competitive pressure (Schweiger and Very, 2003). Along the same lines of thought numerous studies approve the creation of great value and performance during a merger or an acquisition operation, and many authors have conducted research that proved the positive result of successful merges and acquisitions for the economic development and the value creation (Lebedev, Peng et al., 2015). However, the majors and well-known studies were done in only developed country, which is generally normal and explained by the great number of transactions especially in particular countries.

Lebedev, Peng et al, (2015) compare and analyze the performance in the emerging economics counties, by highlighting the elements that constitute the point of convergence between developed and emerging economies, like examined payment type (King, Dalton et al., 2004) deal type (Loughran and Vihj, 1997) ownership structure (Wright, Kroll et al., 2002), management characteristics (Krishnan, Miller et al., 1997), previous performance (Heron and Lie, 2002) firm size (Moeller, Stulz et al., 2004) prior acquisition experience (Haleblian and Finkelstein, 1999), and environmental factors such as merger waves (McNamara, John et al, 2008), and as a conclusion of theirs research, the authors finds that some common elements impact the success of mergers and acquisitions in both developed and emerging countries, like the method of entry, the market power, the prior acquisition experience, the real options perspective, the institutional factors, the countries characteristics, and finally the Network characteristics.

At the European level, several researchers have been interested in mergers and acquisitions in the bank and finance sector. Maditinos, Theriou et al, (2009) by using a sample of 492 compagnies distributed between domestic and cross-border acquisitions of the European Community, found that domestic merger among equal-sized partners, significantly increased the performance of the merged banks, the improvement of cost efficiency was found in cross-border acquisitions, and domestic takeovers were found to be influenced predominantly by defensive and managerial motives such as size maximization. In other words, the authors show that two firms together are more valuable than two separate companies, especially in being efficient and competitive. Mergers and acquisitions' performance is also confirmed by other researchers like Beitel and Schiereck, (2001) that analyze the impact of mergers and acquisitions announcements occurred among 1985 to 2000 in Greek. By using the approach of evaluating stock price, the authors conclude to positive performance for the Ioniki-Laiki Bank and Pisteos Bank studied. in similar, Asimakopoulos and Athanasoglou (2013) in theirs studies provide evidence of substantial performance for trading European banks that realize mergers and acquisitions.

Paradoxically, some research show shocking failure rates for mergers and acquisitions, usually justified by the high-level risks managed to complete the operation (Perry and Herd, 2004; Deng and B, 2014; Huang and Powell, 2016; Guo, Shu, et al, 2020). Louis (2004) mentioned many factors influencing the succus of mergers and acquisitions, like financial risks (Hunter and Wall, 1989), the relative size of the target and capital adequacy (Simonson, 1989), the control of payment method (Beatty and Zajac, 1987) the in-terstate mergers (Cheng, Wall et al, 1989) and managerial ownership (Palia,1993).

III. DATA AND METHODOLOGY

In this research work we present a descriptive analysis on the characteristics of target companies that have been subject of a merger or an acquisition, by covering all transactions carried out in the Eastern Europe region between the years 1990 to 2018. We collected our data from the Bloomberg and Thomson Reuters EIKON database, by selecting only complete transactions. Then, for acquisitions, we established thresholds for equity investments in the target company, in two tranches, inferior and superior to 50%. The overall sample totals 566 announced transactions.

IV. DESCRIPTIVE ANALYSIS

Table 1 presents the data collected, distributed over time according to two panels. Panel A reported the number of transactions and their total and average value in millions of dollars. There is a marked variation in the number of transactions over time. In the early years of our sample, from 1990 to 2004, the number of mergers and acquisition’s transactions was very low, coupled with a decline in transaction values during this period. In the following years, we see a substantial increase in the number of transactions and average volumes. In particular, for the years 2005 to 2015, where 83% of mergers and acquisitions activity was recorded. In terms of number of deals, the sample studied shows Turkey as the top mergers and acquisitions attractive country with 163 deals, followed by Russia with 134 deals and Poland with 51 deals. However, Russia holds the largest share in transaction value, with US \$ 26.833 million, i.e., 50% of all Eastern Europe mergers and acquisitions (Panel B). Panel C classifies transactions by sectors. In Eastern Europe, a third of all transactions were in banking and finance, food and beverage, and Oil & Gas, followed by transport & infrastructure services and metals & meaning. In addition, we see on average, a larger transaction size in the metals & meaning sector and the telecommunications services.

Table 1: Distribution of mergers and acquisitions transactions by year, country, and sector of activity.

Panel A: annual distribution			
Year	Number of transactions	Deal size in M USD	Average value in M USD
1990	2	22,93	11,47
1992	4	49,87	12,47
1993	2	50,00	25,00
1994	1	14,22	14,22
1995	7	27,07	3,87
1996	9	85,01	9,45
1997	3	4,60	1,53
1998	3	9,50	3,17
1999	12	18,89	1,57
2000	18	88,38	4,91
2001	5	2,50	0,50
2002	8	20,23	2,53
2003	8	24,33	3,04
2004	6	13,98	2,33
2005	23	6.802,88	295,78
2006	24	825,35	34,39
2007	35	4.283,20	122,38
2008	38	7.686,11	202,27
2009	20	565,89	28,29
2010	42	10.959,56	260,94
2011	34	8.327,58	244,93
2012	42	2.038,89	48,55
2013	37	350,35	9,47
2014	29	90,99	3,14

2015	43	4.958,13	115,31
2016	54	1.885,29	34,91
2017	40	266,30	6,66
2018	17	4.298,25	252,84
Total	566	53.770,25	95,00

Panel B: annual distribution			
Target country	Number of transactions	Deal size in M USD	Average value in M USD
Russia	134	26.835,79	200,27
Turkey	163	20.962,88	128,61
Poland	51	1.731,45	33,95
Hungary	32	1.654,30	51,70
Romania	29	857,64	29,57
Czech Republic	18	430,44	23,91
Slovenia	10	321,61	32,16
Ukraine	34	312,23	9,18
Georgia	15	299,5	19,97
Bulgaria	17	111,87	6,58
Croatia	4	109,38	27,35
Latvia	9	40,79	4,53
Albania	4	27,35	6,84
Lithuania	9	17,19	1,91
Slovakia	6	14,18	2,36
Serbia	11	11,6	1,05
Bosnia and Herzegovina	7	10,07	1,44
Estonia	4	8,07	2,02
Belarus	5	7,08	1,42
Montenegro	4	6,82	1,71
Total	566	53.770,25	95,00

Panel C: Distribution by sector of activity			
Sector of activity	Number of transactions	Deal size in M USD	Average value in M USD
Metals & Mining	33	18.600,25	563,64
Banks	66	10.013,96	151,73
Telecommunications Services	8	6.959,94	869,99
Power	15	5.729,70	381,98
Petrochemicals	3	2.050,00	683,33
Oil & Gas	38	1.866,95	49,13
Non-Residential	16	1.579,49	98,72
Advertising & Marketing	7	1.200,00	171,43
Food and Beverage	56	1.030,32	18,40
Building/Construction	11	723,56	65,78
Agriculture & Livestock	13	400,14	30,78
Textiles & Apparel	13	387,34	29,80
Other Financials	21	342,6	16,31
Other Real Estate	11	286,74	26,07

Internet Software	8	284,84	35,61
Transportation & Infrastructure	36	278,04	7,72
Hotels and Lodging	15	248,48	16,57
Brokerage	12	226,35	18,86
Real Estate Management	7	138,7	19,81
Pharmaceuticals	11	132,09	12,01
IT Consulting & Services	14	131,12	9,37
Machinery	4	126,56	31,64
Diversified Financials	2	120	60,00
Insurance	11	112,19	10,20
Paper & Forest Products	6	107,63	17,94
Food & Beverage Retailing	7	91,87	13,12
Other Retailing	8	88,3	11,04
Chemicals	21	66,9	3,19
Electronics	5	58,04	11,61
Automobiles & Components	5	56,8	11,36
Construction Materials	5	55,78	11,16
Computers & Peripherals	4	45,99	11,50
Broadcasting	7	40,5	5,79
Tobacco	2	34,24	17,12
Credit Institutions	3	24,47	8,16
Hospitals	4	23,81	5,95
Household & Personal Products	8	22,83	2,85
Motion Pictures / Audio Visual	5	20	4,00
Internet and Catalog Retailing	7	18,59	2,66
Software	7	11,16	1,59
Professional Services	11	8,6	0,78
Computers & Electronics		7,87	1,12
Retailing	7		
Publishing	5	6	1,20
Cable	3	6	2,00
Other Consumer Products	2	3,88	1,94
Containers & Packaging	3	1,63	0,54
total	566	53.770,25	95,00

Table 2 provides additional descriptive statistics considering the attitude, status, and percentage of acquisition criterion of the target. We can clearly see that most trades are friendly, with a proportion of 85%, and the rest of the sample are all neutral. Thus, no case of hostile acquisitions has been identified, a substantial difference between the UK and US markets, where hostile operations account for 20% of mergers and acquisitions (Ghosh and A, 2001). The sample shows 271 companies that have been the subject of private mergers and acquisitions, or 48% of transactions against only 90 transactions representing 31% of the sample are listed on the stock exchange. Overall, the sample studied contains 58% of the cases of acquisition of shares less than or equal to 50%.

Table 2: Characteristics of mergers and acquisitions' transactions

Factor	Criteria	Number of transactions	Percent of sample
Attitude	Friendly	480	85%
	Neutral	61	11%
	No Applicable ²	25	4%
	Hostile	0	0%
Target status	Private	271	48%
	Subsidiary	177	31%
	Public	90	16%
	Government	21	4%
	Joint Venture	7	1%
% Of acquisition	<= 50%	330	58%
	> à 50%	236	42%

V.CONCLUSION

This paper highlights the evolution of mergers and acquisitions in the European eastern region, taking into consideration the different factors characterizing transactions. We have analyzed the entire database to have a global vision on this subject and to better understand it in the regions of Eastern Europe. This research has a useful interest since the Easter Europe market is in the process of expanding its presence in the global market beyond mergers and acquisitions activity. This study is limited only to target involved mergers and acquisitions in this Eastern Europe. We believe that this research can be improved and expanded by examining the acquirer companies and the impact of announcement's mergers acquisition in companies stock market.

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² Transactions between parent company and subsidiary.

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