The International Market for Corporate Control

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Cross-Border M&As ➔ Unprecedented Rates of Growth

- Number of deals 4,163 (2001) ➔ 14,196 (2017)
- Worldwide CBMA activity ➔ 48% of total FDI (2017)

• Numerous features in common with domestic M&As.

• The international nature of these transactions generates many additional complexities ➔ regulatory institutions & market frameworks vary significantly across countries.
Acquiring Control: Extending the Boundaries of the Firm Across Borders

• Explanations lie at the intersection of organizational economics and trade → costly financial contracting, non-verifiable monitoring of technologies, weak investor protections....

• Chapter Outline:

  1. Stylized Facts about magnitude and nature of CBMA.
  2. Incentives/Motivations
  3. Post-Acquisition Outcomes
  4. Policy Considerations (BREXIT, CFIUS, EU Antitrust)
BVD’s Zephyr Database

• A large worldwide database of M&A transactions.
• Sample of 166,311 cross-border acquisitions completed.
• Public & private acquirers & targets from developed & emerging countries.
• Sample period: 1/1/1997 and 12/31/2017.
• Include majority and minority acquisitions, and mergers
• Excluded are IPOs, institutional buyouts, capital increases, joint ventures, management buy-ins and buy-outs, demergers, and share buybacks.
Stylized Facts

Fact #1: Cross-border mergers and acquisitions comprise nearly 50% of FDI flows following the Global Financial Crisis.

Fact #2: The number of cross-border M&A transactions has tripled over the last two decades.

Fact #3: A rising share of transactions are by Asian and Latin American acquirors, but the US and European companies still dominate the market for international corporate control.

Fact #4: Cross-Border M&A Activity is highly concentrated among a small set of countries.

Fact #5: The industrial composition of acquirors shows the rising global dominance of the services sector.

Fact #6: A significant fraction of cross-border M&As involve industry diversification integrating global value chains across borders.

Fact #7: Cross-border M&A transactions occur in waves.
Stylized Facts

Fact #8: Mega-deals in cross-border M&As are on the rise and, also occur in waves.

Fact #9: Cross-Border acquirors tend to be LARGE.

Fact #10: For the most part, firms involved in cross-border M&A deals are privately-held.

Fact #11: Cash is king.

Fact #12: Private equity transactions have increased over time.

Fact #13: Tax haven countries play a significant role in cross-border M&A transactions.

Fact #14: The pattern of control acquisition in cross-border transactions varies across developed and emerging market acquirors.
Incentives/Motivations (Major Themes)

• Factors that drive control acquisition (Fact #14) in a cross-border context are key (protecting intellectual property or improving corporate governance structures especially in countries with weak institutions).

• Valuation differences between acquiror & target firm countries (Fact #7) ➔ stock market valuations or exchange rates in source countries (booms or appreciations) or destination countries (most frequently crises and depreciations).

• The rules of the game (deregulation or protectionism) or changes in regulatory frameworks lead to significant changes in the ownership patterns of firms across borders & the organization of global supply chains.
Post-Acquisition Outcomes

• CBMAs → key drivers of productivity improvements in target firms & spillover effects.

• Evidence consistent with the productivity enhancing role of FDI or the “good cholesterol” in international capital flows.

• CBMA in contrast to domestic M&A → where evidence about value creation more mixed.

• Consistent across cross-border & domestic M&A → post-acquisition reorganization → employment & capital investment
  -fundamentally changing the structure of the merged firms & the industries to which they belong.