



# The International Market for Corporate Control

Multinational Corporations in a Changing Global Economy, Brookings Institution, December 19<sup>th</sup> 2019

Anusha Chari



## Cross-Border M&As → Unprecedented Rates of Growth

-Value US\$ 291.4 billion (2001) → US\$ 728.5 billion (2017)

- 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.