VILNIUS GEDIMINAS TECHNICAL UNIVERSITY
FACULTY OF BUSINESS MANAGEMENT
DEPARTMENT OF FINANCE ENGINEERING

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ANALYSIS OF DEVELOPMENT POSSIBILITIES IN MERGERS AND ACQUISITIONS IN LITHUANIA

ĮMONIŲ SUSIJUNGIMŲ IR ĮSIGIJIMŲ PLĖTROS GALIMYBIŲ LIETUVOJE ANALIZĖ

Final master thesis

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BAIGIAMOJO DARBO UŽDUOTIS:

Išanalizuoti įmonių susijungimų ir įsigijimų plėtros galimybes Lietuvoje bei pateikti išvadas apie tokių sandorių perspektyvas, atsižvelgiant į teorines ir praktines įmonių susijungimų ir įsigijimų sandorių ypatybes bei remiantis įmonių įsigijimų ir susijungimų pasauliniu mastu ir/arba pasirinktų šalių statistika.

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Analysis of Development Possibilities in Mergers and Acquisitions in Lithuania

Author: Eglė Duksaitė Academic supervisor: prof. dr. Rima Tamošiūnienė

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Annotation

Mergers and acquisitions (M&A) not only form a new economic, social and cultural environment, but also enable strong companies to grow faster than competitors and provide entrepreneurs rewards for their efforts. Although at first M&A deals have begun to have a material impact on the economic landscape of the United States, in recent decades the transactions become widely known in Europe and Asia too.

The purpose of the final master thesis is to analyze the development possibilities in mergers and acquisitions in Lithuania.

The thesis present the theoretical perspective on M&A deals, their strategic motives and provides the statistical analysis of M&A transactions worldwide. Through examples of the most recent deals in Lithuania, presentations of the main M&A directions and qualitative research final master thesis gives an idea what the future of M&A transactions in Lithuania could be.

Structure: introduction, theoretical perspective on M&A, analysis of M&A deals worldwide, analysis of development possibilities in Lithuania, conclusions, references.

Thesis consists of 78 p. text without appendixes, 28 figures, 17 tables, 47 bibliographical entries. Appendixes are included separately.

Keywords: mergers, acquisitions, M&A, motives, development possibilities, cross-border acquisitions.

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Įmonių susijungimų ir įsigijimų plėtros galimybių Lietuvoje analizė

Autorė: Eglė Duksaitė Vadovė: doc. dr. Rima Tamošiūnienė

Kalba

	lietuvių
X	užsienio (anglų)

Anotacija

Įmonių susijungimai ir įsigijimai ne tik formuoja naują ekonominę, socialinę bei kultūrinę aplinką, bet kartu padeda stiprioms kompanijoms augti žymiai greičiau nei jų konkurentai bei, žinoma, suteikia atitinkamą atlygį jų savininkams. Pirmiausiai prasidėję Jungtinėse Valstijose, pastaraisiais dešimtmečiais tokie sandoriai tapo gerai žinomi tiek Europoje, tiek Azijoje.

Pagrindinis šio baigiamojo magistro darbo tikslas – įmonių susijungimų ir įsigijimų plėtros galimybių Lietuvoje analizė.

Šis baigiamasis magistro darbas atskleidžia teorinę įmonių įsigijimo ir susijungimo sandorių perspektyvą, taip pat pateikia bendrą statistinę tokių transakcijų analizę pasauliniu mastu. Taip pat darbe pateikiami praktiniai naujausių sandorių, įvykusių Lietuvoje, pavyzdžiai, pagrindinės įsigijimo bei susijungimo sandorių kryptys bei kokybinė analizė – o tai ir atsako į klausimą kokia tokių transakcijų ateitis tikėtina Lietuvoje.

Darbą sudaro šios dalys: įvadas, teorinė įsigijimo ir susijungimo sandorių perspektyva, transakcijų pasauliniu mastu analizė, plėtros galimybių Lietuvoje tyrimas, išvados, literatūros sąrašas.

Darbo apimtis – 78 p. teksto be priedų, 28 iliustr., 17 lent., 47 bibliografiniai šaltiniai. Atskirai pridedami darbo priedai.

Prasminiai žodžiai: įsigijimai, susijungimai, motyvai, plėtros galimybės, užsienio įsigijimai.

List of Figures

List of Tables

Table of Contents

Introduction

Hamlet's most famous phrase "to be or not to be" can be easily adapted in today's business world with a meaning "to grow or not grow", bearing in mind company's choice to grow, not to go out of existence. Companies which choose to grow, normally try to take an additional market share, reach new customer base, create economic profits, provide returns for their stakeholders, etc., while companies which choose not to grow, are obviously doomed to failure due their loss of customers and market shares, destroyed shareholder and stakeholder values and so on.

It is crucial to have in mind that today we live in a time of significant economic change:

- inter-dependence of markets for goods and services is constantly increasing;
- trade liberalization has opened borders, and regional economic integration continues to take place;
- deregulation and privatization have also contributed to increased international investment;
- more and more companies find themselves competing against foreign competition in their home markets while simultaneously looking for new markets in other countries and regions;
- globalization and new technological challenges are increasing, particularly in the areas of information and communication.

Having this in mind it is obvious that many companies are coping with this phenomenon of "globalization" by expanding their geographic reach and "globalizing" as well. This often means that more capital and greater size are necessary to operate in the global marketplace. This growth frequently comes from domestic and cross-border mergers and acquisitions – driven by a philosophy of shareholder value, they not only form a new economic, social and cultural environment, but also enable strong companies to grow faster than competitors and provide entrepreneurs rewards for their efforts, ensuring weaker companies are more quickly swallowed, or worse, made irrelevant through exclusion and ongoing share erosion.

There are many potential benefits of mergers and acquisitions, which mainly focus on boosting profits and shareholder value through:

1) the economies of scale produced by increasing market share;
2) the expanded use of an existing distribution network by the acquisition of new product capabilities;
3) the extension of a strong product capability into new markets;
4) the diversification of product and market risks.

This way mergers and acquisitions become an essential tool for corporate development in today's global marketplace, which is characterized by consolidation, convergence, the competition for talent and technology, and the increasing importance of such intangible assets as knowledge, skills and customer relationships.

Although at first mergers and acquisitions have begun to have a material impact on the economic landscape of the United States, in recent years the transactions have become widely known in Europe and Asia as well. As recently as the early 1990s, almost all companies – even many of the Fortune 500 – viewed M&A transactions as arcane and complicated deals with which they were uncomfortable, and they depended on more traditional business tools such as marketing, sales, and partnerships to drive high-growth goals (Frankel, 2007). But today, the transactions are accepted and common business tools employed by thousands of companies in the world – the numbers which will be presented in this work will once again confirm this statement.

Furthermore, the abbreviation of mergers and acquisitions – “M&A” – today has become a well known and understandable term, which is widely used by practitioners, businessmen, journalists, etc. all around the world. Just for a matter of interest I have once typed in “M&A” in google search page and it returned with 14 500 000 results.

Finally, let’s consider the following: during the last few years only there was over 30.000 M&A transactions each year, equivalent to the completion of one deal every 17 minutes (Faulkner, Campbell, 2003) – does it not once again confirm the strategic importance of this M&A phenomena?

Having in mind all the above, I decided to analyze the development possibilities in mergers and acquisitions in Lithuania, which becomes the main purpose of my final master thesis. I am sure the M&A term itself is very popular among lawyers’ offices and professional consulting companies in Lithuania, which provide the evaluation of targeted companies, often to foreign potential buyers, but apart from that – are mergers and acquisitions common in Lithuania, especially if we analyze them in global context? Do they have any future and any perspectives?

In addition to those questions, the major goals of my final master thesis are as follows:

1. To reveal the theoretical perspective on mergers and acquisitions transactions: to define them, to analyze the types possible, and to reveal the strategic motives of companies participating in the deals. Since the deals always involve two parties – the buyer and the seller – my aim is to distinguish the motives for both parties.
2. To analyze M&A transactions worldwide: to distinguish different activity periods, to analyze the statistics of M&A deals in USA and Europe and to provide the general future trends and possible development scenarios.
3. To analyze M&A development possibilities in Lithuania: to provide the general statistics on major business and macroeconomics, to distinguish major M&A development directions and to prepare a qualitative analysis on development possibilities.

My final thesis consists of three main parts which are the same as the major three goals mentioned above.

1. Theoretical Perspective on Mergers and Acquisitions Transactions: Definitions, Types and Strategic Motives for Participating in the Deals

1.1. Definitions

According to Gaughan (2007), DePamphilis (2003), Moye (2004), Lee (2006) a merger is a combination of two corporations in which only one corporation survives and the merged corporation goes out of existence. In a merger, the acquiring company assumes the assets and liabilities of the merged company. Moreover, although the buying firm may be a considerably different organization after the merger, it retains its original identity.

Sometimes the term "statutory merger" is used, particularly in the United States, in order to refer that the acquiring company assumes the assets and liabilities of the target in accordance with the statutes of the state in which it is incorporated (DePamphilis, 2007). It is different from a subsidiary merger, which is a merger of two companies in which the target company becomes a subsidiary or part of a subsidiary of the parent company. The acquisition by General Motors of Electronic Data Systems is an example of a subsidiary merger. In a reverse subsidiary merger, a subsidiary of the acquirer is merged into the target (Gaughan, 2007).

A merger differs from a consolidation, which is a business combination whereby two or more companies join to form an entirely new company. All of the combining companies are dissolved and only the new entity continues to operate. In a consolidation, the original companies end to exist and their stockholders become stockholders in the new company.

One way to look at the differences between a merger and a consolidation is that with a merger A + B = A, where company B is merged into company A. In a consolidation, A + B = C, where C is an entirely new company. Despite the differences between them, the terms merger and consolidation, as is true of many of the terms in the M&A field, are sometimes used interchangeably. In general, when the combining firms are approximately the same size, the term consolidation applies; when the two firms differ significantly by size, merger is the more appropriate term. In practice, however, this distinction is often blurred, with the term merger being broadly applied to combinations that involve firms of both different and similar sizes (Gaughan, 2007).

A merger of equals is a merger framework usually applied whenever the merger participants are comparable in size, competitive position, profitability, and market capitalization. Under such circumstances, it is unclear if either party is ceding control to the other and which party is providing the greatest synergy. Consequently, target firm shareholders rarely receive any significant premium for their shares. It is common for the new firm to be managed by the former CEOs of the merged firms who will be co-equal and for the composition of the new firm's board to have equal representation from the boards of the merged firms (DePamphilis, 2003).

Another term that is broadly used to refer to various types of transactions is a takeover or buyout. These are generic terms referring to a change in the controlling ownership interest of a corporation (DePamphilis, 2003). Sometimes they refer only to hostile transactions, and other times they refer to both friendly and unfriendly mergers (Gaughan, 2007).

Finally, according to Coffey, Garrow, Holbeche (2002), Henry (2008) an acquisition occurs when one company takes a controlling ownership interest in another firm, a legal subsidiary of another firm, or selected assets of another firm such as a manufacturing facility. In other words, an acquisition is the purchase of an asset such as a plant, a division, or even an entire company (Scott, 2003). For example, Procter & Gamble made a major acquisition in 2005 when it purchased The Gillette Company, Inc., in order to extend its reach in the consumer products industry.

On the surface, the distinction in meaning of "merger" and "acquisition" may not really matter, since the net result is often the same: two companies (or more) that had separate ownership are now operating under the same roof, usually to obtain some strategic or financial objective. Yet the strategic, financial, tax, and even cultural impact of a deal may be very different, depending on the type of transaction (Sherman, Hart, 2006):

- a merger typically refers to two companies joining together (usually through the exchange of shares) as peers to become one;
- an acquisition typically has one company - the buyer - that purchases the assets or shares of the seller, with the form of payment being cash, the securities of the buyer, or other assets of value to the seller. In a stock purchase transaction, the seller's shares are not necessarily combined with the buyer's existing company, but often kept separate as a new subsidiary or operating division. In an asset purchase transaction, the assets conveyed by the seller to the buyer become additional assets of the buyer's company, with the hope and expectation that the value of the assets purchased will exceed the price paid over time, thereby enhancing shareholder value as a result of the strategic or financial benefits of the transaction. An acquisition may involve the purchase of another firm's assets or stock, with the acquired firm continuing to exist as a legally owned subsidiary of the acquirer.

1.2. What are the Types of Mergers and Acquisitions?

Mergers and acquisitions are usually, but not of course always, a part of company's expansion strategy. According to Gaughan (2007), Moeller and Brady (2008), Aluko, Amidu (2005) mergers are often categorized as follows:

1) Horizontal merger. These are mergers among competitors or those in the same industry operating before the merger at the same points in the production and sales process. For example, the deal between two automotive giants, Chrysler in the US and Daimler in Germany, was a horizontal merger. If a horizontal merger causes the combined firm to experience an increase in market power that will have anticompetitive effects, the merger may be opposed on antitrust grounds.

   An example of horizontal transaction in Lithuania could be "Pieno žvaigždės", AB and "Panevėžio pienas", AB in 2004. Both companies are and were engaged in manufacturing diary products and today "Panevėžio pienas" is a subsidiary of "Pieno žvaigždės".

2) Vertical mergers are deals between buyers and sellers, or a combination of firms that operate at different stages of the same industry. There is often less common knowledge between the two companies in a vertical deal, though there may still be some small degree of common clients and suppliers, plus some previously shared employee movement. For example, in 1993, Merck, the world's largest drug company, acquired Medco Containment Services, Inc., the largest marketer of discount prescription medicines, for $6 billion. The transaction enabled Merck to go from being the largest pharmaceutical company to also being the largest integrated producer and distributor of pharmaceuticals. This transaction was not opposed by antitrust regulators even though the combination clearly resulted in a more powerful firm. Ironically, regulators cited increased competition and lower prices as the anticipated result. Merck, however, might have been better off if the deal had been held up by regulators. Following this acquisition, and other copycat deals by competitors, great concerns were raised about Merck's effect on consumer drug choice decisions. While Merck saw the deal as a way to place its drugs in the hands of patients ahead of competitors, there was a backlash about drug manufacturers using distributors to affect consumer drug treatment choices. When this problem emerged, there were few benefits of the deal and Merck was forced to part with the distributor. This was a good example of a bidder buying a company in a similar business, one which it thought it knew well, where it would have been better off staying with what it did best making and marketing drugs.

   A good example of vertical transaction in Lithuania could be "Nematekas", ZUB (company which is primary engaged in meat processing) and "Girelės paukštynas", UAB (the company engaged in raising chickens) in 2005.

3) Conglomerate mergers occur between unrelated companies, not competitors and those which do not have a buyer-seller relationship. Conglomerate mergers do not have a strategic rationalization (like cost savings) as a driver, but do typically manage to feature creative uses of business intelligence. One example would be Philip Morris, a tobacco company, which acquired General Foods in 1985 for $5.6 billion, Kraft in 1988 for $13.44 billion, and

Nabisco in 2000 for $18.9 billion. Interestingly, Philip Morris, now called Altria, has used the cash flows from its food and tobacco businesses to become less of a domestic tobacco company and more of a food business. This is because the US tobacco industry has been declining at an average rate of 2% per year (in shipments), although the international tobacco business has not been experiencing such a decline. Another major example of a conglomerate is General Electric (GE). This company has done what many others have not been able to do successfully manage a diverse portfolio of companies in a way that creates shareholder wealth. GE is a serial acquirer and a highly successful one at that.

It's quite difficult to find an example of conglomerate transactions in Lithuania, since most of the common transactions are either horizontal or vertical. Nevertheless, let's consider the investment companies' acquisitions of shares of any other companies, operating in different industry, e.g. the investment fund called Enterprise Investors in Poland acquired Lithuania-based entity Novaturas, the tourism agency, in 2007.

Although the above presents mergers types only, the listed categories can be applied to acquisitions too – depending on the nature of two combining companies. Hence, the identified types on mergers can be generally applied to all M&A transactions.

In addition, deals can be either complementary of supplementary (Moeller, Brady, 2008):

- complementary deal helps to compensate for some weakness of the acquiring firm;
- supplementary deal is one where the target reinforces an existing strength of the acquiring firm; therefore, the target is similar to the acquirer.

Finally, M&A transactions can also be classified into other two categories:

1) domestic/national/local M&As, which occur within the country, i.e. the buyer and the seller are based in the same country;
2) cross-border M&A, when the buyer or the seller is located in different countries. In other words, cross border M&A occur when the assets and operations of firms from different countries are combined (Colcera, 2007).

*1.2.1. Features of Cross-***Border** *M&As*

Cross-border M&As are the main vehicle for foreign direct investment (Brakman, Garretsen and van Marrewijk, 2008). As cited by Schoenberg and Seow (2005), cross-border M&As account for approximately 60% of all foreign direct investment inflows.

Successful deal making across borders today requires more than expertise in the laws, economic conditions, cultural differences and social issues affecting the target company.

According to Rosenbloom (2002), the complexities of cross-border transactions can fall into one of the three categories, shown in Figure 1. These factors affect the firm’s stand-alone value and become increasingly important when evaluating the strategic rationale of a deal.

Peculiarities of Local Markets	**Cultural Differences**	**Regulatory/ Legal Issues**
Different sales channels	Ways of doing business	Labor laws
Different purchasing patterns	Organizational structures	Tax implications
	Local politics	Antitrust laws
		Financial/operational reporting requirements

Figure 1. Cross-Border complexities.

Peculiarities of local markets: a variety of factors, from climate to the dominance of local players, drive customer trends in a market. One classic example may be the popularity of sport utility vehicles in the US automobile market, compared with a much lower penetration of such vehicles in Europe. There are many reasons why this is true, not the least of which is substantially lower fuel prices in the United States.

Cultural differences: different styles of doing business often make a market for the same product vary from country to country. Also, cultural peculiarities often dictate the organizational structure of the target company (such as hierarchical organizational structures in Japan). Some cultural differences can be overcome; others cannot. Due diligence can determine the extent to which change can or cannot occur smoothly within a firm or market.

Regulatory issues: they involve various labor laws, regulatory and government issues, tax and accounting implications.

In addition, the difficult and competitive environment in the current marketplace also requires knowledge of the distinctive and sometimes complex characteristics of deal terms and structures, international financing techniques and human resource issues to be taken into account (Financial Executives International Research Foundation, further referred as FERF, 2003).

Let’s take a look into example of the US acquisitions by European buyers, which in fact is a relatively recent phenomenon. Very few continental European companies were active acquirers in the US until about 15 years ago. While some large companies have been active in the US market for a much longer time, most continental European companies preferred to simply export, or to execute license agreements or joint ventures, rather than conduct a formal acquisition program. Worldwide, cross-border deals have been driven by the increasing globalization of business and the new business opportunities/risks presented by changes in the global competitive environment (e.g. regulatory changes, technological changes, capital market changes, etc.). From a more micro perspective, individual firms pursue M&A strategies as a part of a strategic plan to maintain a sustainable competitive advantage in a changing environment (e.g., growth, synergies, access strategic proprietary assets, etc.).

What are the key drivers for investing in the US markets? C. A. Sheffield, the senior partner of FinQuest Partners LLC, together with Financial Executives Research Foundation Inc. in their report *Effective Implementation of Cross-Border Mergers and Acquisitions – Acquisitions of US Companies by European Buyers* identified the following drivers:

1. Access to one of the largest single markets in a global economy. The vast majority of the business units in these multi-national companies operate in global industries. The US is by far the largest market in many of these industries. The size and growth of the US market alone has been a key incentive for M&A activity in the US.
2. Speed of entry into an important market. Given that a company wants to participate in the large US market, then the next step is to determine the relative merits of an internal growth strategy versus an acquisition strategy. Since an M&A strategy allows a much faster access to this important market, many companies have opted to pursue US acquisitions rather than launch local startup organizations (i.e., a green field strategy).
3. Access to technology. Regarding technology, US companies have a competitive advantage in the global arena because their home markets represent approximately 40% of the world market. Due to the size of the market, the leading companies serving this market will clearly have a substantial critical mass as well. This critical mass has contributed to the ability of US companies to gain competitive cost positions and to accelerate their rate of innovation, relative to other parts of the world.
4. Access to financing. The US capital markets are larger and more liquid than the markets in any other nation. Many of the largest investors in the world are US based investors. As a result, it is beneficial to have a significant market position in the US in order to have access to the US capital markets.
5. Strong legal protections. A weaker driver, yet still significant, is the additional protection on intellectual property, brands and copyrights that could be gained by having a major presence in the US. The legal protections afforded these intangible assets are considered to be stronger in the US than in other parts of the world.

1.3. Strategic Motives and Determinants of Mergers and Acquisitions

There is no one explanation on the factors that have fueled the current revival of merger and acquisition activity, because the full impact on the economy is complex and remains to be seen. Nevertheless, there are certain themes and trends that have emerged.

Since all M&A transactions involve two parties – the buyer and the seller – it is obvious that the motives and determinants for M&A deals can be analyzed from two perspectives. I shall now present the theoretical overview on both perspectives.

1.3.1. Buyer's Perspective on Strategic Motives and Determinants for M&A

Sherman and Hart (2006) state that there are ten key reasons deals are getting done today and these reason are also described by other authors namely Gaughan (2007), DePamphilis (2003), Faulkner and Campbell (2003). They are as follows:

1. Mergers can be the most effective and efficient way to enter a new market, to add a new product line, or to increase distribution reach.

   This can be described as an expansion reason for M&A transactions. Indeed, acquiring a company in a line of business or geographic area into which the company may want to expand can be quicker than internal expansion. An acquisition of a particular company may provide certain synergistic benefits for the acquirer, such as when two lines of business complement one another. However, an acquisition may be part of a diversification program that allows the company to move into other lines of business. In the pursuit of expansion, firms engaging in M&As cite potential synergistic gains as one of the reasons for the transaction.
2. Mergers and acquisitions are more strategically motivated than in the past. One key trend in M&A is to acquire a company to access today's "knowledge worker" and to obtain the intellectual property. Many technology companies – such as Cisco, Google and Yahoo! – pursue acquisitions as a means to get the employees in addition to the products and intellectual property.
3. The financing behind the deal is more sound and secure than ever before. Companies continue to use their stock as currency giving the seller potential upside in the combined entity. This motivates both parties to work together on a post-closing basis to truly enhance shareholder value. In addition, third-party financing is more readily available. The number of financing sources has continued to grow giving middle market companies more access to capital than in the past.
4. Mergers and acquisitions are being driven in many cases by a key trend within a given industry, such as:
   a) rapidly changing technology, which is driving many of the deals in high technology;
   b) fierce competition, which is driving many of the deals in the telecommunications and banking industries;

c) changing consumer preferences, which is driving many of the deals in the food and beverage industry;
d) the pressure to control costs, which is driving many of the deals in the healthcare industry;
e) a reduction in demand, such as the shrinking federal defense budget, which is driving the consolidation in the aerospace and defense contractor industries.

5. Some deals are motivated by the need to transform corporate identity.
   In 2003, videogame company Infogrames, for example, gained instant worldwide recognition by acquiring and adopting the old but famous Atari brand. Similarly, First Union adopted the brand of acquisition target Wachovia in hopes of benefiting from Wachovia's reputation of quality and customer service.
6. Many deals are fueled by the need to spread the risk and cost of:
   a) developing new technologies, such as in the communications and aerospace industries;
   b) research into new medical discoveries, such as in the medical device and pharmaceutical industries;
   c) gaining access to new sources of energy, such as in the oil and gas exploration and drilling industries.
7. The global village has forced many companies to explore mergers and acquisitions as a means to develop an international presence and expanded market share. This market penetration strategy is often more cost-effective than trying to build an overseas operation from scratch.
8. Many recent mergers and acquisitions come about with the recognition that a complete product or service line may be necessary to remain competitive or to balance seasonal or cyclical market trends. Transactions in the retail, hospitality, food and beverage, entertainment, and financial services industries have been in response to consumer demand for "one-stop shopping".
9. Many deals are driven by the premise that it is less expensive to buy brand loyalty and customer relationships than it is to build them. Buyers are paying a premium for this intangible asset on the balance sheet, which is often referred to as goodwill. In today's economy, goodwill represents an asset that is very important but which is not adequately reflected on the seller's balance sheet. Veteran buyers know that long-standing customer and other strategic relationships that will be conveyed with the deal have far greater value than machinery and inventory.

10. Some acquisitions happen out of competitive necessity. If an owner of a business decides to sell a business, every potential buyer realizes that their competitors may buy the target, and in so doing, must evaluate whether they would prefer to be the owner of the business for sale.

1.3.1.1. Decision to Buy vs. Decision to Build

Behind the decision to participate in mergers and acquisitions transactions there is a fundamental question: is it better to buy a new capability, market entry, customer base, earnings opportunity, etc. or to attempt to build it by ourselves (Sherman, Hart, 2006)?

In other words, managers who wish to comply with the owners' and shareholders' desire to quickly raise the value of the company or the shareholder value must therefore decide:

- do they want to achieve further growth potentials through their own time and strength, consuming corporate and product developments (i.e. meaning the internal or organic growth, mentioned by Gaughan (2007));
- do they prefer the time-saving purchase or merger with companies in the same or related branches of business, as shown in Figure 2 (Picot, 2002).

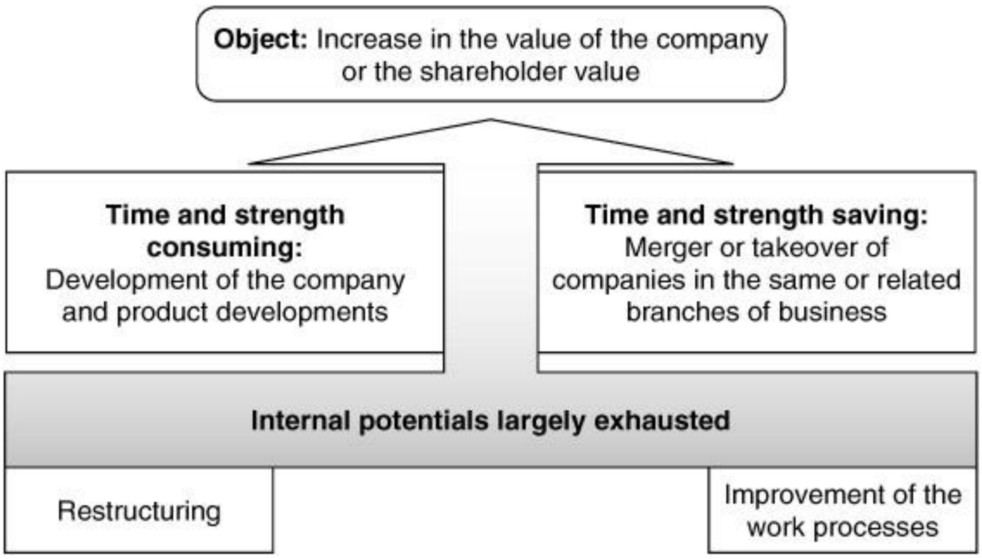


Figure 2. Increasing company or shareholder value.

In many cases the internal growth may be a slow and uncertain process. Of course, growth through M&A transactions may be a much more rapid process, although it obviously brings its own uncertainties.

Nevertheless, there are two ways for companies to grow (Gaughan, 2007):

- within their own industry;
- outside their business category, which means diversification.

If a company seeks to expand within its own industry they may conclude that internal growth is not an acceptable alternative. For example, if a company has a window of opportunity that will remain open for only a limited period of time, slow internal growth may not suffice. As the company grows slowly through internal expansion, competitors may respond quickly and take market share. Advantages that a company may have can dissipate over time or be whittled away by the actions of competitors. The only solution may be to acquire another company that has the resources, such as established offices and facilities, management, and other resources, in place. There are many opportunities that must be acted on immediately before they disappear. It could be that a company has developed a new product or process and has a time advantage over competitors. Even if it is possible to patent the product or process, this does not prevent competitors from possibly developing a competing product or process that does not violate the patent. Another example would be if a company developed a new merchandising concept. Being first to develop the concept provides a certain limited time advantage. If not properly taken advantage of, it may slip by and become an opportunity for larger competitors with greater resources.

The dedication of financial and human resources to organize growth must be based on long-term, sustainable value creation to the company's stakeholders, but may require more patience to achieve these objectives and may result in some lost opportunities. The allocation of resources to M&A will tend to expedite the achievement of growth objectives, but also increase the level of risk if deals are not structured and negotiated properly.

What variables should a growing company consider in striking the right balance between organic growth (build) vs. mergers and acquisitions (buy)? These include (Sherman, Hart, 2006):

1) the competitiveness, fragmentation and pace of marketplace and industry;
2) the access to and cost of capital;
3) the specific capabilities of management and advisory teams;
4) the strength and growth potential of current core competencies;
5) the volatility and loyalty of distributions channels and customer base;
6) the degree to which speed to market and scale are critical in business (including typical customer acquisition costs and timeframes);
7) the degree to which company operates in a regulated industry.

1.3.1.2. Access to Intangible Assets

The emergence of the knowledge era since the 1980s has brought significant change in both global and local markets. Knowledge, as a core organizational resource and the basis for the development of organizational capabilities, is playing a key role in driving changes in companies.

Today the value of knowledge-based, intangible resources has grown geometrically in companies. The intangible assets (as shown in figure 3) include (Saint-Onge, Chatzkel, 2009):

1) human capital, which is the sum of all the capabilities of everyone who's currently working in company, i.e., the cumulative knowledge, experience, attributes, competencies, and mindsets of all employees, managers, and leaders. These individual capabilities of employees create value for the customers;
2) structural capital, which consists of the strategies, structures, processes, and leadership that translate into a company's specific core competencies. These organizational capabilities leverage employees' individual capabilities to create value for customers. Structural capital also includes the organizational capacity and physical systems used to transmit and store intellectual material. Structural capital is composed in large part of:
   a. company's organization (investment in systems, operational philosophy, and supplier and distribution channels),
   b. innovation (capability to renew company along with the outcomes of innovation, which include the ability to anticipate market needs and lead the market in responding, the ability to bring new products to market rapidly, intellectual assets and intellectual property (which include copyrights, patents, trademarks, and trade secrets), company's brand and theory of your business. Although the best-known innovation capital is usually intellectual property, these are even more critical to company's well-being),
   c. processes (comprises all the processes of the company that enable to create and deliver goods and services to both internal and external customers. These can be production, design, and product development processes; people development processes; communication processes; strategy-making processes, and knowledge development, capture, and leveraging processes).
3) customer capital, which is the sum of all customer relationships, that can be defined by four parameters:
   a. depth – penetration or share of customers' wallets,
   b. breadth – coverage or share of the market,
   c. sustainability – the durability of relationship with customers,
   d. the profitability of company's relationships with all customers.

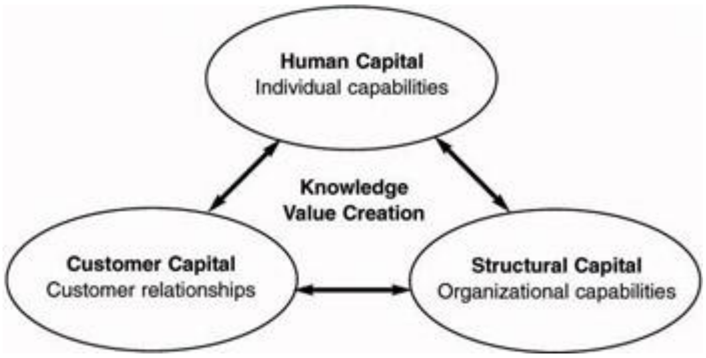


Figure 3. The knowledge capital model.

Furthermore, as it can be seen from the figure 3 above, human capital interfaces with customer capital and structural capital to create knowledge value capital. These weightless assets now have a greater value in organizations than physical or financial assets have. This has been coupled with fundamental changes in legal, competitive, and global requirements.

For example, one such quantum shift is the emergence of the European Union (EU), with its dismantling of boundaries and reduction of trade barriers. The emergence of the EU has also led to a shift in the regulatory environment in Europe, creating pressures to combine organizational strengths simply to be able to compete on a larger scale.

Another quantum shift in the importance of intangible assets is demonstrated by the rise of Chinese and Indian competitors in areas ranging from software outsourcing to manufacturing consumer and capital goods. Corporations now must have a “China strategy” and must also be ready to acquire emerging companies in India in order to maintain and grow their strategic position in world markets. Moreover, Indian and Chinese companies are not exempt from the effects of globalization. They are beginning to realize that they also need to consider actively acquiring companies in other parts of the world in order to have a more formidable competitive presence in the Americas, Europe, and the Middle East (Saint-Onge, Chatzkel, 2009).

A merger or acquisition can open up and recombine the resource sets of the two companies involved. Figure 4 below shows that the intangible, financial, and tangible assets of Company A are joined with the clusters of those resources from Company B. In a merger or an acquisition, there are unprecedented opportunities to bring these resources from the acquiring and the acquired companies together in novel ways – and in ways that were not previously possible – to produce significant gains in your company’s overall performance and wealth. This is the potential promise of a merger or acquisition. It is not merely adding the cumulative resources of one company to those of the other, but a recombining of all resources: financial, tangible, and all the dimensions of intangibles (Saint-Onge, Chatzkel, 2009).

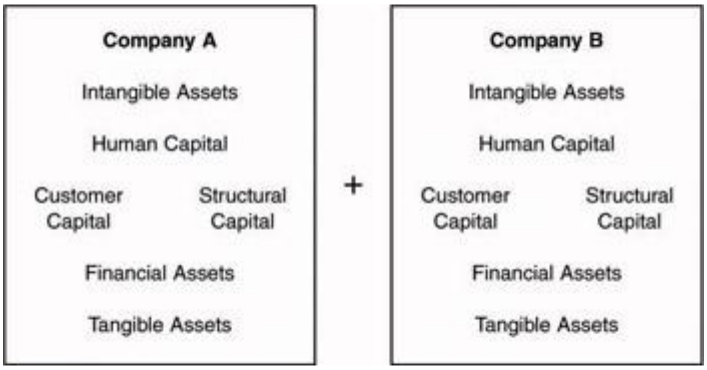


Figure 4. Joining the different assets of two companies.

For example, Symantec's acquisition of Axent Technologies in 1999. That "acquisition was also the catalyst for changing Symantec processes to support an enterprise business. Axent had systems in place for serving major corporate customers, and just as important, its senior executives had an understanding of the service and support needs of that market. As the former Axent executives assumed leadership roles at Symantec, they helped guide the company's investment in and deployment of new systems to undergird the new enterprise thrust. As a global enterprise, Symantec needed to become euro-compliant. It needed better overall enterprise resource planning to make sure management was in control of critical processes. Because Symantec's customer relationships had historically been with the distribution channel, not the end-user, it now needed end-user–centered systems to track problems and make sure they got solved, and to track relationships on a global basis" (Fisher, 2003).

In today's knowledge economy intangible assets, which are seen as organization's most valuable assets, are also the most fragile and difficult to control since they depend on the goodwill and commitment of people (Coffey, Garrow, Holbeche, 2002).

1.3.1.3. Additional Buyer Motives

In addition to the above strategic motives and determinants of M&A transactions, there is additional reasons or theories on motives, as described below:

1. Efficiency theory (cited by Wang, Boateng (2007)) claims that firms engage in M&A to achieve synergies. The term is often associated with the physical sciences rather than with economics or finance. It refers to the type of reactions that occur when two substances or factors combine to produce a greater effect together than that which the sum of the two operating independently could account for. For example, a synergistic reaction occurs in chemistry when two chemicals combine to produce a more potent total reaction than the sum of their separate effects. Simply stated, synergy refers to the phenomenon of 2 + 2 = 5. In mergers this translates into the ability of a corporate combination to be more profitable than

the individual parts of the firms that were combined. The two main types of synergy are (DePamphilis, 2003):

1) operating synergy, which consists of both economies of scale (which refer to the spreading of fixed costs, such as depreciation of equipment and amortization of capitalized software; normal maintenance spending; obligations such as interest expense, lease payments, and union, customer, and vendor contracts; and taxes, of over increasing production levels) and economies of scope (which refer to using a specific set of skills or an asset currently employed in producing a specific product or service to produce related products or services). The survey of CFOs of US firms engaged in M&As revealed that the primary motivation for M&As is to achieve operating synergies (Mukherjee, Kiymaz, Baker, 2004);
2) financial synergy, which refers to the impact of mergers and acquisitions on the cost of capital of the acquiring firm or the newly formed firm resulting from the merger or acquisition. Theoretically, the cost of capital could be reduced if the merged firms have uncorrelated cash flows, realize financial economies of scale, or result in a better matching of investment opportunities with internally generated funds.

2. Strategic realignment theory that firms use M&As as ways of rapidly adjusting to changes in their external environments. Although change can come from many different sources, only changes in the regulatory environment and technological innovation are considered (DePamphilis, 2003).
3. Hubris and the “winner’s curse” (DePamphilis, 2003, Kreitl and Oberndorfer, 2004). The hubris hypothesis is an explanation of why mergers may happen even if the current market value of the target firm reflects its true economic value. As a result of hubris, managers believe that their own valuation of a target firm is superior to the market's valuation. Thus, the acquiring company tends to overpay for the target because of over-optimism in evaluating potential synergies. Even in the presence of significant synergies, competition among bidders is likely to result in the winner overpaying because of hubris, even if significant synergies are present. The desire not to lose can result in a bidding war that can drive the purchase price of an acquisition well in excess of the actual economic value of that company. Hubris or ego-driven decision making is a factor contributing to the so-called “winner’s curse”. In an auction environment where there are many bidders, there is likely to be a wide range of bids for a target company. The winning bid is often substantially in excess of the expected value of the target company, given the difficulty all participants have in estimating the actual value of the target and the competitive nature of the process. The winner is cursed in the sense that he paid more than the company is worth.

4. Buying undervalued assets (the q-ratio) (DePamphilis, 2003). The q-ratio is the ratio of the market value of the acquiring firm's stock to the replacement cost of its assets. Firms interested in expansion have a choice of investing in new plant and equipment or obtaining the assets by acquiring a company whose market value is less than the replacement cost of its assets (i.e., q-ratio <1). This theory was very useful in explaining M&A activity during the 1970s when high inflation and interest rates depressed stock prices well below the book value of many firms.
5. Mismanagement (agency problems) (DePamphilis, 2003). Agency problems arise when there is a difference between the interest of incumbent managers and the firm's shareholders. This happens when management owns a small fraction of the outstanding shares of the firm. These managers are more inclined to focus on maintaining job security and a lavish lifestyle than maximizing shareholder value. When the shares of a company are widely held, the cost of mismanagement is spread across a large number of shareholders. Each shareholder bears only a small portion of the cost. This allows for such mismanagement to be tolerated for long periods. According to this theory, mergers take place to correct situations where there is a separation between what the managers may want and what the owners want.
6. Tax considerations (DePamphilis, 2003), namely tax-free status of the deal, tax benefits (such as loss carry forward and investment tax credits) associated with the target's unused net operating losses and tax credits as well as the revaluation or write-up of acquired assets.
7. Market power (DePamphilis, 2003). This theory suggests that firms merge to improve their monopoly power to set product prices at levels not sustainable in a more competitive market.

1.3.2. Motives behind the Decision to Sell: Seller's Perspective

While most of the practitioners focus on the buyer's motives to participate in M&A transactions, as previously mentioned, we must not forget that M&A includes another party – the seller – without which the transaction would not be possible. What are the reasons behind the decision to sell the business?

Of course, the one most obvious one is because the businesses, like any asset, are valuable (Sherman, Hart, 2006). Like many things of value, there is a market for the trade of companies – a market where people with different expectations for the future will value the same company differently, thus enabling a buyer and seller to come to a mutually agreeable trade.

M.E.S. Frankel (2007), one of a few practitioners, describes the M&A motives from two different perspectives – the buyer's (which was already described up until now) and from the seller's, which we will have a look at.

The choice to sell the business is clearly one of the most dramatic ones, because it might be the last, big decision that a company will ever make. Obviously, it has dramatic and far-reaching effects on everyone associated with the company, both emotional and financial.

The decision to sell is generally a long-thought and controversial one, though it can be triggered and/or accelerated by either an internal decision to initiate a process or an unsolicited offering triggering a decision.

There are a range of reasons for a company to choose to sell, driven by both internal and external factors. Few of them are shown in Table 1.

Seller Motivations			
Peak of Market	Peak of Industry/Sector	New Competitors	Seeking Liquidity Event
Stock Sector Is Peaking	*Dominating Niche*	*Getting Noticed by Others*	*Investors Want Return*
Industry sector is peaking and decline is feared	Company is running out of space in a small niche; has picked all the low-hanging fruit	Company has grown its niche to the point where it is attracting big players	Investment has been successful and private investors want to cash out through an initial public offering (IPO) or an acquisition
Equity Market Is Peaking	*Sector Has Peaked*	*New Competitors Enter the Space*	*Family/Founder-Owned Business*
Stock valuations are perceived to be peaking and decline is feared	Traditional cash cow—strong cash flow in a declining business	New competitors emerge from adjacent geographies, product, or customer spaces	Founder is retiring and no heir apparent

Table 1. Examples of seller motivations.

From a company point of view, there might be a variety of reasons to sell, including, but not limited to the following ones (Frankel, 2007, Kreitl and Oberndorfer, 2004):

1. For an owner selling his/her business the motive is often a one-time experience, the culmination of a successful career and to turn equity into cash.
2. Company may choose to sell because it has maximized growth in its own market and does not think it can expand to new markets. While trying to leverage your strength in one vertical product or technology to expand into others is certainly a viable strategy, it comes with substantial risks. For every company that successfully redefines and broadens its market space, others fail in the attempt and damage themselves in the process. In this case company will often choose instead to cash out and sell its dominant position to a larger player that is looking for a shortcut to entering that niche. Even if it does not want to sell to a much larger player, it may often choose to expand by finding a similar little complementary

player and merging with it so that each company can leverage the other's dominance in new markets or with new products.

3. Company may choose to sell because it has reached a plateau and does not believe it has the resources to grow any further. An example of this would be a company that has grown in a niche market but now faces the discouraging task of competing head-on with a much larger player. In this situation the small company, no matter how intent on maintaining its independence, may have no choice but to sell out while it still has a strong niche position rather than wage a painful head-to-head battle with a much larger and better-funded company intent on entering its space. No matter how independent a company may be, the day that Microsoft takes an interest in its market space is the day this company must seriously consider the sale alternative.
4. A company may simply be taking advantage of what it perceives as a historical peak in its valuation. Some technology companies were wise, or lucky, enough to put themselves on the block in 2000, as the technology market hit its peak. One could argue that valuations before the dot.com bubble burst will never again be reached and that selling at that time maximized value for shareholders versus any conceivable strategy for continued growth.
5. Founder's retirement – a very common reason in the case of privately owned companies, when there is a lack of a viable replacement for the founder. A rational shareholder would take into account the eventual departure of a CEO and put in place effective succession planning to ensure that someone good had been prepared to take over. But when the owner is also that CEO, it is often difficult for him or her to think beyond his or her own role as CEO, which can leave the company with no natural leadership when the founder dies or simply decides to retire. In the absence of a natural successor for a founder, there is a huge risk that the company will dramatically decline or even fail when its leader exits the picture. When this happens, the company can be forced into a rapid sale, and the lack of a complete leadership team can sometimes substantially damage the business.
6. Lack of access to capital. Smaller companies often become resource-constrained from a lack of access to capital. To grow fast, some businesses require huge upfront expenditures to buy equipment, real estate, or raw material. At some point, the opportunities available to a smaller company, even a successful one, may outstrip its borrowing capacity, and only a sale to a larger company allows it to take advantage of these opportunities. Sometimes the big new resource demand comes with the need to expand into a new vertical, as is the case with the big fish in a little pond. In other cases, changes in the market may drive a new demand for resources. The advent of new technology, or the imposition of new regulatory requirements, can substantially increase the capital required to run a business and leave a smaller company struggling to keep up with the new realities of their old market. For

example, many doctors operating individual practices might argue that the dramatic increase in the cost of malpractice insurance over the past three decades has made it impossible for them to survive and forced them to sell their practices to larger groups or join a managed-care provider.

2. The Analysis, Trends and Future Guidelines of M&A Transactions Worldwide

2.1. M&A Waves

There have been many interesting trends in recent M&A history, for instance, if before 1970s M&A were rarely used, in the early 1970s the art of M&A began to develop, and the transactions became a viable and socially acceptable business tools. Furthermore, if at the very beginning they were mainly centered in the United States, later M&A has become a worldwide phenomena. Other trends include the rise of the emerging market acquirer, which has brought a very different type of bidder to the takeover scene.

It has become common to distinguish five M&A waves or, in other words, five periods of high M&A activity in economic history (Cassiman, Colombo, 2006, Gaughan, 2007). These periods were characterized by cyclic activity, that is, high levels of mergers and acquisitions followed by periods of relatively fewer deals. The waves have been clearly identified in the USA. In Europe, the evidence on the first three waves is less systematic and covers mainly the UK and Germany.

The various M&A waves provoked major changes in the structure of American business. They were instrumental in transforming American industry from a collection of small and medium-sized businesses to the current form, which includes thousands of multinational corporations. Each merger movement occurred when the economy experienced sustained high rates of growth and coincided with specific developments in the economy. Each wave corresponded to the emergence of some key economic factor such as a rising stock market and low interest rates or technological development. Whereas important economic factors affecting the overall economy provide a favorable environment for M&A activity, developments in specific industries largely determine where such activity will be concentrated.

Which factors cause M&A waves? Based on the neoclassical framework of the dynamic industry structure, empirical work on the modeling of M&A activity study, in particular the industrial variation in M&A activity provides a dynamic explanation of M&A activity: industry shocks hypothesis, addressed by Mitchell & Mulherin (1996) argue that rather than broad-based economic factors, it is industry shocks that determine merger activity across industries. They define an industrial shock as any factor which alters industry structure, for instance, deregulation, changes in input costs, and innovations in financing technology that induce or enable alterations in industry structure. Furthermore, research has showed that merger waves tend to be caused by a combination of the following three shocks:

1. Economic shock, which comes in the form of an economic expansion that motivates companies to expand to meet the rapidly growing aggregate demand in the economy. M&A is a faster form of expansion than internal, organic growth.

2. Regulatory shock, which occurs through the elimination of regulatory barriers that might have prevented corporate combinations. Examples include the changes in US banking laws that prevented banks from crossing state lines or entering other industries.
3. Technological shocks, which come in many forms as technological change can bring about dramatic changes in existing industries and can even create new ones.

This approach assumes that firms can respond to a shock either internally or externally. Once a technological, regulatory, or economic shock to the industry's environment occurs, the collective reaction of firms inside and outside the industry is such that industry assets are reallocated through mergers and partial firm acquisitions (Zou, Simpson, 2008).

Harford (2005) showed that these various shocks by themselves are generally not enough to bring about a merger wave. He looked at industry waves, rather than the overall level of M&A activity, over the period 1981-2000. His research on 35 industry waves that occurred in this period showed that capital liquidity was also a necessary condition for a wave to take hold. His findings also found that misevaluation or market timing efforts by managers was not a cause of a wave, although it could be a cause in specific deals. The misevaluation findings, however, were contradicted by Rhodes-Kropf, Robinson, and Viswanathan (2005), who found that misevaluation and valuation errors do motivate merger activity. They measure these by comparing market to book ratios to true valuations. These authors do not say that valuation errors are the sole factor in explaining merger waves but that they can play an important role that gains in prominence the greater the degree of misevaluation.

Using the approximate dates, which in fact might vary according to different authors (for instance, Gaughan (2007), DePamphilis (2003) and Cassiman, Colombo (2006) indicate a bit different periods, which, nevertheless, involve the peaks) the waves correspond to the following time periods (Cassiman, Colombo, 2006):

I. <u>1887–1906: horizontal consolidation</u>

   It occurred after the Depression of 1883 and was spurred by a drive for efficiency, lax enforcement of the Sherman Anti-Trust Act, westward migration, and technological change. Helped by the economic recovery and development of financial markets during this period, several great oil, steel, and other trusts were created. The horizontal integration of many smaller firms into larger groups threatened to monopolize some of these economic sectors, namely metals, transportation, and mining. The development of the US transportation system and the liberalization of corporate laws were the major factors that initiated this wave.

II. <u>1918–1929: increasing concentration</u>

   Activity during this period was a result of the entry of the United States into World War I and the postwar economic boom. A further consolidation within industries took place during this period. The oligopolies that emerged created concern and gave rise to the design and implementation of an effective anti-trust legislation in the USA. At the same time, a significant number of vertical mergers in resource intensive sectors took place, putting the complete production and distribution chain under the control of a single firm. The continued development of a nationwide rail transportation system, combined with the growth of motor vehicle transportation, continued to transform local markets into national markets. The second wave ended with the stock market crash in 1929, after which the number of corporate M&A declined dramatically. The number of mergers that took place during the first two waves demonstrates that investment banks generally supported merger activities. However, in the third merger period, the conglomerate era, the financial impetus for mergers would come from sources other than investment banks.

III. 1958–1971: conglomerate era

This period of M&A activity was characterized by the emergence of financial engineering and conglomeration. A rising stock market and the longest period of uninterrupted growth in the nation's history up to that time resulted in record price to-earnings (P/E) ratios. Companies given high P/E ratios by investors learned how to grow earnings per share (EPS) through acquisition rather than through reinvestment. Companies with high P/E ratios often would acquire firms with lower P/E ratios and increase the EPS of the combined companies. During this period of strong economic growth many firms diversified their operations and product lines. Many smaller firms in non-related sectors were bought by the larger firms. The more stringent US anti-trust laws stimulated this movement. In Europe, the milder anti-trust legislation did not prevent horizontal mergers to the same extent, believing that many European firms were still at a size disadvantage with regard to their American counterparts.

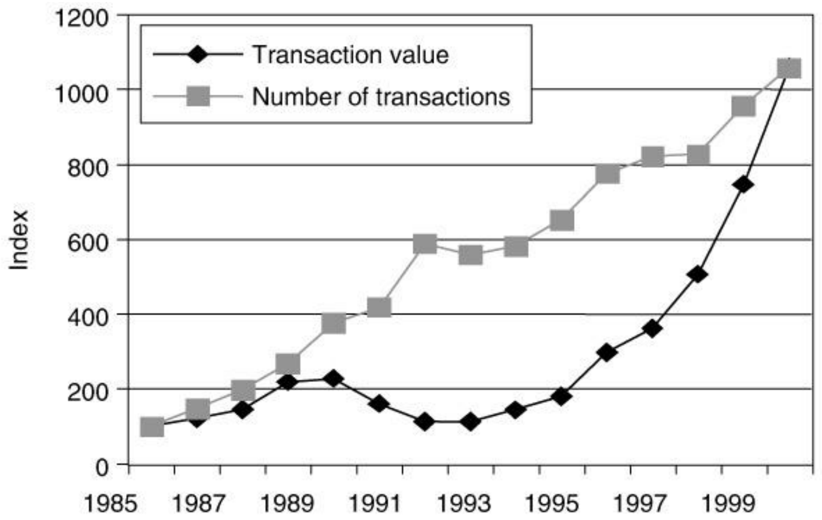
IV. 1978–1989: retrenchment era

This period was characterized by many hostile takeovers (if the board approves the takeover, it is considered friendly; if the board is opposed, the takeover is deemed hostile) and leveraged buy outs, benefiting from the development of more efficient capital markets and new financing instruments, including junk bonds. At the same time, an increasing number of cross-border M&A took place, e.g. for the first time, takeovers of U.S. companies by foreign firms in the 1980s exceeded in number and dollars the acquisitions by U.S. firms of companies in Europe, Canada, and the Pacific Rim, excluding Japan. The fourth merger period may also be distinguished from the other three waves by the size and prominence of the M&A targets. Some of the nation’s largest firms became targets of acquisition during the 1980s. The fourth wave became the wave of the megamerger.

V. 1993-present day: the age of the strategic mega-merger

The most recent wave shows a strongly rising trend in high value cross-border mergers, with a very significant participation of European firms in the global M&A market. The combination of the information technology revolution, continued deregulation, reductions in trade barriers, and the global trend toward privatization powered the longest economic expansion and stock market boom in history. The current wave can, therefore, be considered as the first truly international takeover wave. For example, the € 180 billion Vodafone's acquisition of Mannesman in telecommunications was unprecedented in value, while the Daimler Chrysler merger has created one of the largest automotive groups in the world. By 1999, the value of deals in Europe was almost as large as that of deals in the US. Deals of this period were mostly strategic transactions that involved companies seeking to expand into new markets or to take advantage of perceived synergies.

The data shown in figure 5 below, illustrates the fifth merger wave, described above.



Note: Index = 100.

Source: Black, B.S., 2000, 'The First International Merger Wave (and the fifth and last US Wave)', *University of Miami Law Review*, p. 19.

Figure 5. Transaction value and number of worldwide transactions.

The data on announced takeover activity over the period 1985–99 show a clear upward trend, with a strong acceleration since 1994. This is especially true in value of transactions. The value of transactions in 1999 was more than seven times higher than the corresponding value in 1993, but was probably driven by the bubble in the stock market during those years. The increase of the number of transactions was less spectacular but still this number nearly doubled over the same period (see Figure above).

Today's M&A deals are fundamentally different from those that figured just a couple decades ago – as shown in Figure 6 (Galpin, Herndon, 2000).

	1980s	Today
Reasons	Financial play	Operational leap
Risks	Overleverage	Integration
Targets	Diverse	Similar
Prizes	Hard assets	4 Cs: *customers, channels, competencies, content*
Mandate	Stabilize	Exploit instability
Market	Forgiving	Merciless

Figure 6. Deals in 1980s and now.

For example, in 1980s, a merger deal was primarily a financial transaction aimed at gaining control of an undervalued asset, which was then often resold or left to stand alone as an independent entity. The target was often a dissimilar industry, or a business line distinctly separate from the acquirer's main business. Price premiums were less common, and the margin for error was often greater. The main risk involved taking enough cost out of the business to ensure sufficient cash flow for debt service. Whereas today, the typical merger or acquisition is quite strategic and operational in nature. Executives are buying an installed customer base as well as new and better distribution channels and geographic markets. They are buying organization competencies and an infusion of talent that leverage and extend strategic opportunities, and they are gaining control over competitors' products and services. They are also consolidating business units or industries in a down cycle, to increase revenue and share price. The differences don't stop there, however. Given the all-out race for globalization, not to mention the constant short-term pressure for earnings growth, desirable targets are fewer in number, demand for them is much greater, and price premiums are far more common. There is less margin for error in actually achieving the economic projections of the deal. Costs must still be driven out of the business, but now without any sacrifice of the ability to capture revenue-generating synergies (Galpin, Herndon, 2000).

Moreover, in contrast to the 1980s (an era when an acquisition normally could be integrated over a longer period, perhaps two or three years), today the businesses must be merged as quickly as possible – often within six to twelve months after the close. Managers and employees, instead of having to survive only one or two M&A transactions in their careers, must now be ready to do deals routinely, incorporating new businesses as a matter of course, one right after another, and often with multiple transactions occurring simultaneously. It is no longer sufficient just to buy the right company at the right price. Today's deals start there, but they also demand effective execution of the right integration plan (Galpin, Herndon, 2000).

2.2. Analysis of M&A Deals Worldwide

Thomson Reuters, the world's leading source of intelligent information for businesses and professionals, was combined in 2008 from the Thomson Corporation and Reuters Group PLC. Every quarter they publish their standard league tables, based on a single set of globally consistent criteria, transaction classifications in order to allow everyone to analyze the transactions from around the world. The tables are available on the following website:

http://www.thomsonreuters.com/business_units/financial/league_tables/

I shall analyze the data of five consecutive years, starting at 2004 and ending in 2008.

According to Thomson Reuters data, provided in their M&A archive, the highest level of M&A worldwide was in 2007, when the number of announced deals has climbed over 43.000 and the total volume of M&A has overcome 4 trillion US dollars, as shown in Figure 7 below.

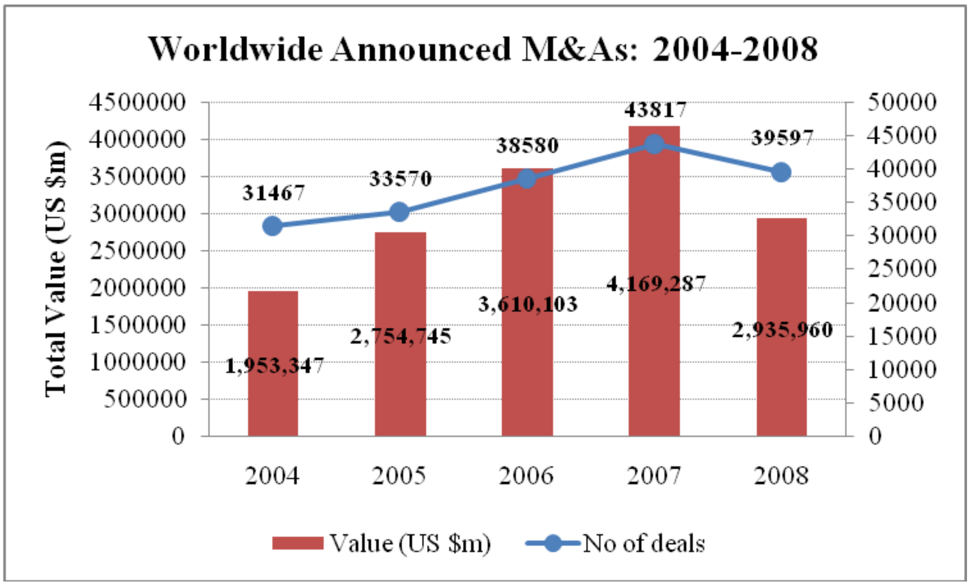


Figure 7. Worldwide announced M&A deals during 2004-2008.

M&A has grown by approximately:

- 41% by its value (or 6.7% by its number of deals) in 2005, compared to its previous year of 2004;
- 31% by its value (or 14,9% by its number of deals) in 2006, compared to the previous year of 2005;
- 15,5% by its value (or 13,57% by its number of deals) in 2007, compared to its previous year of 2006.

As it is evident from the data above, unfortunately, the year 2008 has ended the three consecutive years of M&A growth: the volume of worldwide mergers and acquisitions totaled 2.9

trillion US dollars in announced deals during 2008, which is a decrease of 29.6% in comparison to 2007 totals.

Moreover, highlighting the difficult deal-making environment in 2008 was a spike in the number of withdrawn M&A transactions, which hit an all-time record in 2008. There were 1,194 worldwide M&A transactions that were cancelled during the year – the highest level since 2000.

Government M&A investments totaled US$ 396 billion during 2008, or 13.5% of worldwide M&A, as shown in Figure 8 below.

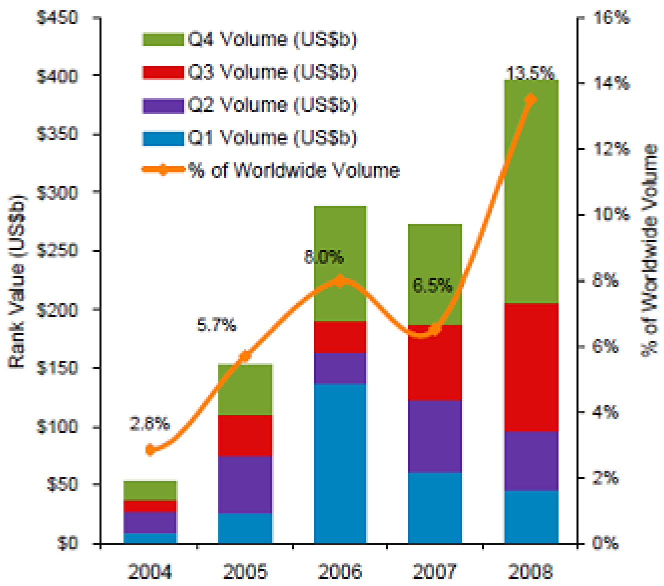


Figure 8. Government M&A investments.

Government stakes arrived with increasing frequency throughout the year with nearly US$ 200 billion invested in the fourth quarter alone. As seen from the above Figure 8, government M&A investments during 2008 were the highest compared to the previous years.

Now, let's have a look at different sectors which were the most active ones according to M&A activity in the global context. The three largest sectors during the appropriate analyzed years were as follows (the full figures with data are available in Appendix 1:

1. Year 2005:
   1.1. Energy and power: US$ 416 billion or 15,1% of all announced deals;
   1.2. Financials: US$ $413.8 billion or 15% of all announced deals;
   1.3. Telecommunications: US$ 264,5 billion or 9,6% of all announced deals.

   In total the three above sectors combined for approximately 40% of worldwide M&A activity during 2005, whereas energy and power together with financial sector constituted 30,1% of all announced deals.
2. Year 2006:
   2.1. Energy and power: US$ 600 billion or 16,6% of all announced deals;

2.2. Financials: US$ 581,2 billion or 16% of all announced deals;

2.3. Media and entertainment: US$ 383,9 billion or 10,6% of all announced deals.

In total the three above sectors combined for approximately 43% of worldwide M&A activity during 2006, whereas energy and power together with financial sector constituted 32,6% of all announced deals.

3. Year 2007:

3.1. Financials: US$ 725 billion or 17,3% of all announced deals;

3.2. Materials: US$ 645 billion or 15,5% of all announced deals;

3.3. Energy and power: US$ 625 billion or 15% of all announced deals.

In total the three above sectors combined for approximately 48% of worldwide M&A activity during 2007, whereas energy and power together with financial sector constituted 32,8% of all announced deals.

4. Year 2008:

4.1. Financials: US$ 675 billion or 23% of all announced deals;

4.2. Energy and power: US$ 440 billion or 15% of all announced deals;

4.3. Consumer staples: US$ 352 billion or 12% of all announced deals.

In total the three above sectors combined for approximately half of worldwide M&A activity during 2008, whereas energy and power together with financial sector constituted 38% of all announced deals.

To sum up, when looking at the worldwide M&A activity across the variety of sectors, it must be concluded, that during the analyzed period from 2005 to 2008, more than 30% of all M&A took place either in financial or energy and power sector.

The data on M&A activity reported by Thomson Reuters each quarter is divided into the following five regions:

1. *Americas:* Central America: Mexico; South America: Argentina and Brazil, Caribbean, North America: Canada and United States;
2. *Africa/Middle East:* North Africa, Sub-Saharan Africa, Middle East;
3. *Europe:* Eastern Europe, Western Europe: France, Germany, UK;
4. *Asia-Pacific:* Australasia: Australia and New Zealand; South East Asia: Malaysia and Philippines; North Asia: China and Hong Kong; South Asia; Central Asia;
5. *Japan*.

The data of countries indicated above are all available in the published reports.

The announced M&A activity distribution across the targeted regions in shown in Figure 9 below.

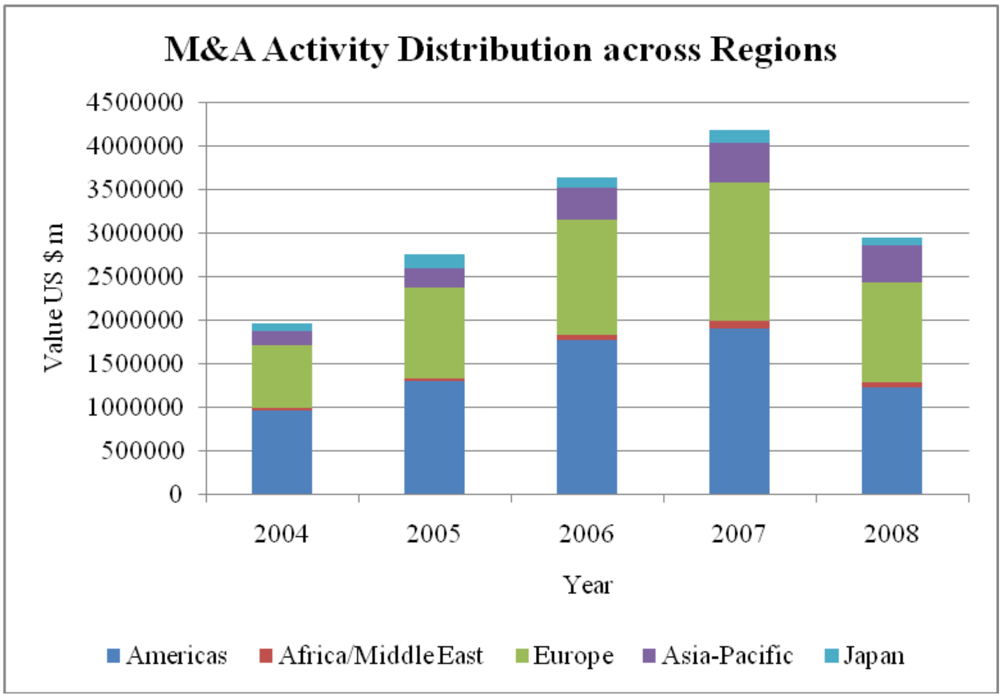


Figure 9. M&A activity distribution across targeted regions by total value.

As seen from the picture, the most targeted regions are Americas (almost 50% of total deal value during 2004; 47% during 2005; 49% during 2006; 45% during 2007 and 41,5% during 2008) and Europe (respectively 37% of total deal value during 2004; 38% during 2005; 36% during 2006; 38% during 2007 and 39% during 2008).

Finally, using the data on M&A activity distribution across the targeted regions based on the number of transactions, the following Figure 10 is made up.

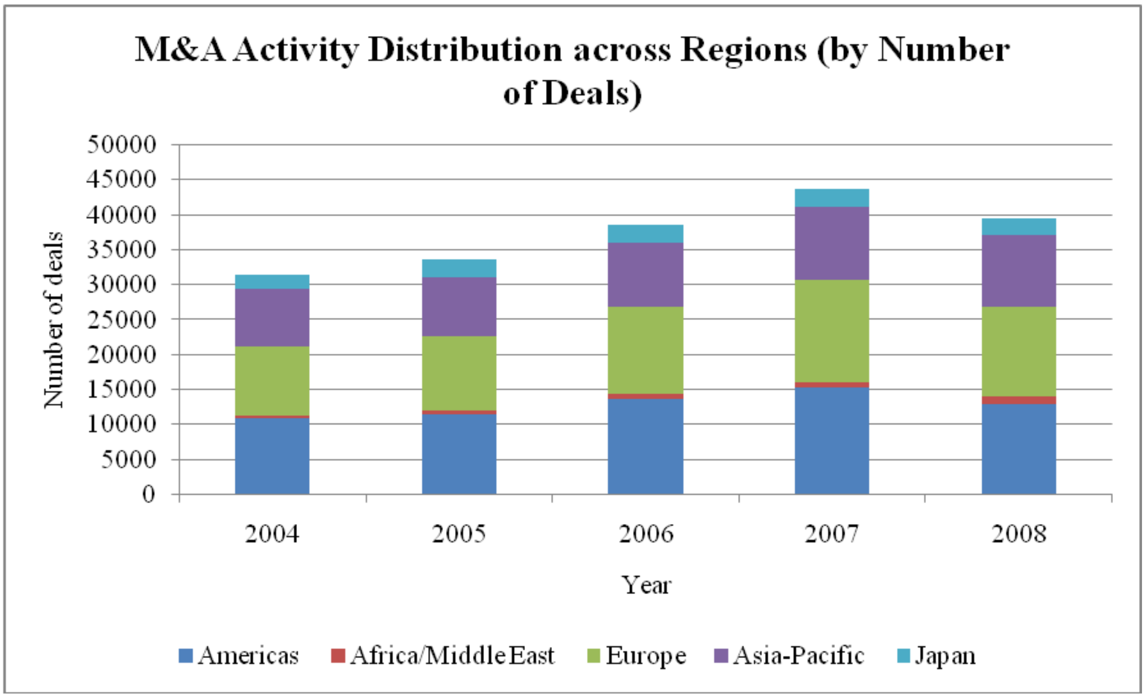


Figure 10. M&A activity distribution across regions (by number of deals).

As it is seen, the two most active regions are again Americas and Europe. The percentage of total number of deals is as follows: Americas constituted 34% of total number of deals during 2004 and 2005; 35% during 2006 and 2007; 33% during 2008; whereas Europe constituted 32% of total number of deals during 2004, 2005, 2006; 33% during 2007 and 2008.

To sum up, if Europe and Americas regions are compared with each other by the number of M&A deals announced, no doubt they are almost the same in this respect, but if Europe and Americas regions are compared by the value of M&A transactions, Americas region clearly becomes a leader. Other regions – namely Africa with Middle East, Asia-Pacific and Japan – are not as significant as to compared to the first two leaders.

2.2.1. Analysis of M&A Transactions in the USA

M&A activity in the USA during 2004-2009 (year 2009 includes the first four months: January to end of April) is shown in Table 2 (MergerStat, 2009) – the full report is enclosed in Appendix 2.

Year	Deals	Value($bil)[(1)]
2009	2 014	$201.5
2008	8 268	$865.7
2007	10 574	$1345.3
2006	11 750	$1484.3
2005	11,013	$1234.7
2004	10 296	$823.2

[(1)]*Value is the Base Equity price offered.*

Table 2. M&A activity in the USA and USA cross-border transactions.

This year the most popular sectors for M&A transactions are shown in Table 3. The full list of all sectors is shown in Appendix 3.

Classification	Deals	Rank	Classification	Value($mm)(1)
Computer Software, Supplies & Services	387	**1**	Drugs, Medical Supplies & Equipment	$117 024.7
Miscellaneous Services	262	**2**	Banking & Finance	$17 461.2
Brokerage, Investment & Mgmt. Consulting	156	**3**	Brokerage, Investment & Mgmt. Consulting	$9 348.0
Wholesale & Distribution	101	**4**	Computer Software, Supplies & Services	$9 336.2
Drugs, Medical Supplies & Equipment	89	**5**	Chemicals, Paints & Coatings	$8 877.2
Health Services	78	**6**	Electronics	$7 374.2
Construction Contractors & Eng. Svcs.	74	**7**	Beverages	$6 374.9
Banking & Finance	69	**8**	Miscellaneous services	$3 855.3
Insurance	59	**9**	Oil and Gas	$3 465.4
Retail	55	**10**	Mining & Minerals	$2,594.3

(1)Value is the Base Equity price offered.

Table 3. M&A activity in USA: top 10 industry rankings for 2009.

As seen from the above figure, some sectors, where there was the largest number of M&A deals, are the same sectors with largest M&A deals value: computer software, supplies and services; brokerage, investment and management consulting; drugs, medical supplies and equipment; banking and finance.

Today, bearing in mind that 4 months (one-third) of this year have already passed, I can compare the M&A deals value with the year 2008: only 24,82% of 2008 number of deals were completed so far (or 23,29% if we compare the value of the deals) – which is much less, compared to last year, bearing in mind that only 8 months are left till the end of the year (the calculations are based on data provided in Appendix 2).

2.2.2. Analysis of M&A Transactions in Europe

Alternatively, let's have a look at M&A activity in Europe. Contrary to USA data, MergerStat provides only very little information on European deals – the deals are recorded for the last 5 years, coming back to 2005.

M&A activity in Europe during 2005-2009 is shown in Table 4 (MergerStat, 2009). We can note the increase of number of deals until 2007, whereas the largest value of M&A was in 2006.

Year	Deals	Value($bil)[(1)]
2009	2,631	$160.9
2008	4,461	$470.4
2007	4,935	$926.8
2006	4,834	$1159.3
2005	4,713	$291.9

Table 4. Number and value of M&A deals in Europe.

Today, when four months of the year have passed, 58,98% number of deals were completed in comparison to 2008 (or 34,20% total value, compared to the value through 2008). In 2008, the annual M&A value in Europe dropped to its lowest level since 2006 amidst recessionary pressures. It is very likely that the number of deals might be somewhere similar to the number in 2008, whereas the total value of the transactions might be lower, compared to 2008.

The most common sectors for M&A transactions in Europe are shown in Table 5 (the full list of sectors is available in Appendix 4).

Classification	Deals	Rank	Classification	Value($mm)[(1)]
Computer Software, Supplies & Services	60	**1**	Drugs, Medical Supplies & Equipment	$5160.6
Miscellaneous Services	44	**2**	Brokerage, Investment & Mgmt. Consulting	$4629.7
Brokerage, Investment & Mgmt. Consulting	24	**3**	Mining & Minerals	$4632.3
Drugs, Medical Supplies & Equipment	18	**4**	Insurance	$2005.7
Industrial & Farm Equipment & Machinery	17	**5**	Chemicals, Paints & Coatings	$1782.9
Instruments & Photographic Equipment	17	**6**	Computer Software, Supplies & Services	$1329.2
Wholesale & Distribution	14	**7**	Miscellaneous Services	$872.6
Construction Contractors & Eng. Svcs.	13	**8**	Beverages	$645.1
Mining & Minerals	12	**9**	Leisure & Entertainment	$625.3
Communications	12	**10**	Primary Metal Processing	$623.0

Table 5. M&A activity in Europe: top 10 industry rankings for 2009.

As seen from the above figure, some sectors, where there was the largest number of M&A deals, are the same sectors with largest M&A deals value: computer software, supplies and services; brokerage, investment and management consulting; drugs, medical supplies and equipment; miscellaneous services.

In comparison to USA sectors rankings, it should be pointed out that the most common sectors remain the same: computer software, supplies and services; miscellaneous services; brokerage, investment and management consulting.

2.3. Possible Future Trends for M&A Transactions Worldwide

A lot has happened to the economy during the past year. When the credit crisis started, it was a USA phenomenon; nevertheless, later it has appeared that it's a global problem.

Today it's clear that the activeness of M&A has started to slow down. As seen from the figures, previously presented on USA number and volume of deals, it is obvious that the pace of increase has dropped. In Europe it is not as clear, although the trend should be more evident after the first half of the year ends.

According to Alan Alpert, the senior partner of M&A transaction services at Deloitte Tax LLP in USA, there are two things for a good M&A market: credit and good economy. Those two things currently are dampening M&A and the desire and willingness of companies or alternative investment funds to make acquisitions. Mr. Alpert says that there isn't a specific "hot" M&A country today. All countries are running much slower than they have in the past. Furthermore, considering the certain industries, the financial services industry needs capital, there is a lot of consolidation going on, and it's clear there will be future activity in that market. Other companies in retail and consumer brand may also have problems in the near future. Companies that fail to deliver on revised projections of holiday sales my need capital or have a desire to merge in those industries. Another distressed sector is the automotive sector, which has a tremendous desire for capital and the consolidation in that area can also be seen. Other industries such as oil and gas and healthcare generally tend to be recession-resistant and continue to be of interest (Alpert, 2008).

Another trend for the future is that companies and groups that have cash will be generating M&A deal activity. It's likely that in the future we will witness companies looking for opportunities where they can make an acquisition and substantially reduce target's cost and their cost to justify the acquisition in today's economy.

Another scenario for the future would be that troubled companies will look to align with larger, stronger players in order to survive, creating the perfect storm for mergers of necessity (PricewaterhouseCoopers, 2008).

Finally, according to A. Alpert, depending on the length of time needed to take the economy to turn around, things should begin to stabilize as people should begin to feel more comfortable with the financial market. Companies and private equity groups will return to the market to make acquisitions and they will be very opportunistic. The question is when – it's probably going to be the latter part of 2009 – at least – assuming everything stabilizes. The return to mega-billion dollar deals are going to be few and far between, particularly in the next two years, whether it's from a strategic buyer who uses stock and most stock prices are very low right now, or a private equity group who will need to finance a transaction and credit is still not yet available. For the foreseeable future, we are not going to see many, if any, mega-deals (Alpert, 2008).

To conclude, as the financial crisis is felt across the world, it appears no industry or region is a sure-bet for M&A, with key players scrutinizing deals more than ever before.

2.4. Correlation Regression Analysis: Number of M&A Deals Dependence on the Selected Factors

Correlation-regression techniques have become widely used throughout all social sciences. Business and economics research also relies heavily on this form of analysis, which is largely due to the predictive capability of regression (Sirkin, 2005).

The relationship between two variables is analyzed statistically by either a regression analysis or a correlation analysis. In regression analysis, one of the variables is considered independent and the other is considered dependent (although the relationship does not have to be a cause-and-effect relationship). The object of a regression analysis is to develop a mathematical equation that describes the relationship. The equation can then be used in the future to predict values of the dependent variable from the values of the independent variable. In correlation analysis, we study the strength of the relationship between two independent variables, both of which are assumed to have random variation (Bernstein, 1999).

In general, the reasons for use regression analysis fall into one of the two categories (Trotta, 2003):

- focus on drivers. Regression analysis can be used to identify the “levers” (or explanatory variables) that can most effectively influence or control the value of the dependent variable. For example, if regression analysis shows that advertising expenditures are strongly related to total sales, the firm can then view advertising as one “lever” that can be used to influence or control the value of total sales;
- predicting the value of a variable. Regression analysis can also be used to estimate the future value of a variable. The equation that defines the relationships between the dependent and independent variables can be used in a predictive manner by first replacing explanatory variables with predicted values, then solving the equation to arrive at a predicted value for the dependent variable.

In order to find out the number of M&A transactions dependence on some factors, I have decided to take into account the following variables:

- total value of M&A transactions;
- country’s gross domestic product (GDP);
- country’s inwards foreign direct investments (FDI);

- country's outwards foreign direct investments (FDI).

It must be pointed out that the above factors were chosen due to the available information. It would have been interesting, for example, to analyze whether the number of M&A transactions depends on overall number of companies operating in the country, or number of profitable companies in the appropriate country, but such information is not published for all the countries, hence, I have chosen the variables where the information is available.

So my initial hypothesis would be that the number of M&A deals depends on all the four factors: the total value of M&A transactions, country's GDP, country's inwards FDI and country's outwards FDI.

The data analyzed is for the year 2007, because not all official data is yet available for 2008. The selection of countries is based on the information provided by Thomson Reuters reports for 2008 (it includes the final figures for 2007). The data for analysis is shown in Table 6 below.

Country	No of deals Y	Total M&A value (billions US$) X1	GDP (billions US$) X2	FDI inward (billions US$) X3	FDI outward (billions US$) X4
1. USA	10574	1345.30	13751.40	2093.05	2791.27
2. Canada	2286	197.65	1329.89	520.74	520.74
3. Brazil	715	45.96	1313.36	328.46	129.84
4. UK	3330	387.13	2772.02	1347.69	1705.10
5. Switzerland	432	35.64	424.37	278.16	603.62
6. Germany	1897	148.40	3317.37	629.71	1235.99
7. Australia	2389	136.46	820.97	312.28	277.92
8. China	2587	75.39	3205.51	327.09	95.80
9. Hong Kong	1024	45.70	207.17	1184.47	1026.59
10. Japan	2697	136.43	4384.26	132.85	542.61
Total:	27931.0	2554.04	31526.31	7154.48	8929.47
Mean:	2793.1	255.40	3152.63	715.45	892.95

Table 6. Analyzed data.

Source: number of deals and total M&A value obtained from Thomson Reuters league tables, GDP provided by World Bank, FDI provided by United Nations Conference on Trade and Development

Now, using the below formulas, I will find out whether number of M&A deals depends on total M&A value, GDP and foreign direct investment (both inwards and outwards). For this the following formulas will be used:

Dispersion: $DX = \overline{X^2} - \left(\overline{X}\right)^2$, where $\overline{X^2} = \frac{\sum x_i^2}{n}$, $\overline{X} = \frac{\sum x_i}{n}$ and n=10

Correlation coefficient r: r = $\frac{n \cdot \sum xy - \sum x \cdot \sum y}{\sqrt{n \cdot \sum x^2 - \left(\sum x\right)^2} \cdot \sqrt{n \cdot \sum y^2 - \left(\sum y\right)^2}}$

Correlation coefficient r can be checked by using Excel spreadsheet function Correl.

Statistics t: $t = \left| r \cdot \sqrt{\frac{n-2}{1-r^2}} \right|$

For this reason in Excel worksheet I submitted the following tables and calculated the appropriate data, as shown in the Tables 7, 8, 9 and 10 below:

Y = Number of M&A deals

X1 = Total M&A value

No.	X1	Y	Y*Y	X1 * X1	X1*Y
1	1345.30	10574	111809476.0	1809832.09	14225202.2
2	197.65	2286	5225796.0	39065.1272	451825.614
3	45.96	715	511225.0	2111.862025	32857.825
4	387.13	3330	11088900.0	149866.5399	1289129.58
5	35.64	432	186624.0	1270.352164	15397.344
6	148.40	1897	3598609.0	22021.66961	281509.109
7	136.46	2389	5707321.0	18620.51285	325995.773
8	75.39	2587	6692569.0	5683.501321	195031.343
9	45.70	1024	1048576.0	2088.398601	46795.776
10	136.43	2697	7273809.0	18612.32633	367943.619
Total:	2554.041	27931.0	153142905.0	2069172.38	17231688.18
Mean:	255.4041	2793.1	15314290.5	206917.238	1723168.818
Dispersion:	141685.9837	7512882.8900			
r1:	0.97874251				
r (correl):	0.97874251				
t1:	13.4977943				

Table 7. Calculations completed in Excel on the number of M&A deals and the total M&A value.

X2 = GDP

No.	X2	Y	Y*Y	X2*X2	X2*Y
1	13751.40	10574	111809476.0	189101002	145407303.6
2	1329.89	2286	5225796.0	1768594.113	3040117.11
3	1313.36	715	511225.0	1724917.116	939053.115
4	2772.02	3330	11088900.0	7684117.057	9230839.92
5	424.37	432	186624.0	180087.3507	183326.544
6	3317.37	1897	3598609.0	11004910.54	6293041.405
7	820.97	2389	5707321.0	673998.3087	1961306.886
8	3205.51	2587	6692569.0	10275275.13	8292646.609
9	207.17	1024	1048576.0	42918.99456	212141.056
10	4384.26	2697	7273809.0	19221691.91	11824335.74
Total:	31526.307	27931.0	153142905.0	241677512.5	187384112
Mean:	3152.6307	2793.1	15314290.5	24167751.25	18738411.2
Dispersion:	14228670.92	7512882.89			
r2:	0.960696356				
r (correl):	0.960696356				
t2:	9.78835152				

Table 8. Calculations in Excel on the number of M&A deals and the GDP.

X3 = FDI (inwards)

No.	X3	Y	Y*Y	X3*X3	X3*Y
1	2093.05	10574	111809476.0	4380854.12	22131900.13
2	520.74	2286	5225796.0	271167.02	1190404.782
3	328.46	715	511225.0	107882.69	234845.325
4	1347.69	3330	11088900.0	1816262.95	4487801.04
5	278.16	432	186624.0	77370.20	120162.96
6	629.71	1897	3598609.0	396535.94	1194561.767
7	312.28	2389	5707321.0	97515.68	746024.975
8	327.09	2587	6692569.0	106985.91	846174.069
9	1184.47	1024	1048576.0	1402971.55	1212898.304
10	132.85	2697	7273809.0	17649.39	358299.147
Total:	7154.479	27931.0	153142905.0	8675195.44	32523072.5
Mean:	715.4479	2793.1	15314290.5	867519.5439	3252307.25
Dispersion:	355653.8463	7512882.89			
r3:	0.76714403				
r (correl):	0.76714403				
t3:	3.38253459				

Table 9. Calculations completed in Excel on the number of M&A deals and the inwards FDI.

X4 = FDI (outwards)

No.	X4	Y	Y*Y	X4*X4	X4*Y
1	2791.27	10574	111809476.0	7791182.63	29514878.41
2	520.74	2286	5225796.0	271167.02	1190404.782
3	129.84	715	511225.0	16858.43	92835.6
4	1705.10	3330	11088900.0	2907348.96	5677966.35
5	603.62	432	186624.0	364359.52	260764.704
6	1235.99	1897	3598609.0	1527668.81	2344671.133
7	277.92	2389	5707321.0	77237.86	663943.713
8	95.80	2587	6692569.0	9177.45	247832.013
9	1026.59	1024	1048576.0	1053880.87	1051225.088
10	542.61	2697	7273809.0	294429.95	1463429.958
Total:	8929.47	27931.0	153142905.0	14313311.49	42507951.75
Mean:	892.9469	2793.1	15314290.5	1431331.149	4250795.175
Dispersion:	633976.9832	7512882.89			
r4:	0.80493133				
r (correl):	0.80493133				
t4:	2.22602655				

Table 10. Calculations completed in Excel on the number of M&A deals and the outwards FDI.

In order to determine, whether the two analyzed variables are related to each other, we have to calculated the critical t score value. This is done in Excel with function TINV (where probability rate is equal to 0,05 and degree of freedom equals to (n – 2). I get that this value is equal to 2.306004133.

Now we have to compare the critical t score value (2.306004133) with the calculated t values above. If the calculated critical t score is smaller than or equal to the previously calculated t value, then it is claimed that correlation coefficient r is statistically significant and the conclusion would be that the stochastic relationship exists between Y and X analyzed.

In the analyzed case the relationship exists between number of M&A deals and:

- total M&A value (13.4977943 > 2.306004133);
- GDP (9.78835152 > 2.306004133);
- FDI (inwards) (3.38253459 > 2.306004133).

There is no stochastic relationship between number of M&A deals and FDI (outwards) (2.22602655 < 2.306004133).

Now another step of the analysis is to choose the linear function that describes the sum of statistical points at its best – that means that simple linear regression analysis develops an equation to express the linear effect of the independent variable on the dependent variable, and thus, it is assumed that the relationship between these two variables is indeed linear in nature. If a positive relationship exists, linear means that as the independent variable increases, the dependent variable will increase by the value of the coefficient for the independent variable; if a negative relationship exists, linear means that as the independent variable increases, the dependent variable will decrease by the value of the coefficient for the independent variable (Kahn, 2006).

The basic formula for calculating the linear regression trendline is as follows:

Y = a + b · X, where: $a = \frac{\sum y_i}{n} - b \cdot \frac{\sum x_i}{n}$ (or Excel function Intercept);

$b = \frac{n \cdot \sum x_i \cdot y_i - \sum x_i \cdot \sum y_i}{n \cdot \sum x_i^2 - \left(\sum x_i\right)^2}$ (or Excel function Slope)

Using the above formulas, I calculate the coefficients a and b, as shown in Table 11.

	a	**b**
X1	972.8284525025	7.1270255548
X2	592.3009708103	0.6980833591
X3	270.52	3.53

Table 11. Calculation of coefficients.

So, the linear regression trendlines are as follows:

Y = 972,8284525025 + 7.1270255548 · X1

Y = 592,3009708103 + 0,6980833591 · X2

Y = 270,52 + 3,53 · X3

Regression trendlines are also shown in the below Figures 11-13.

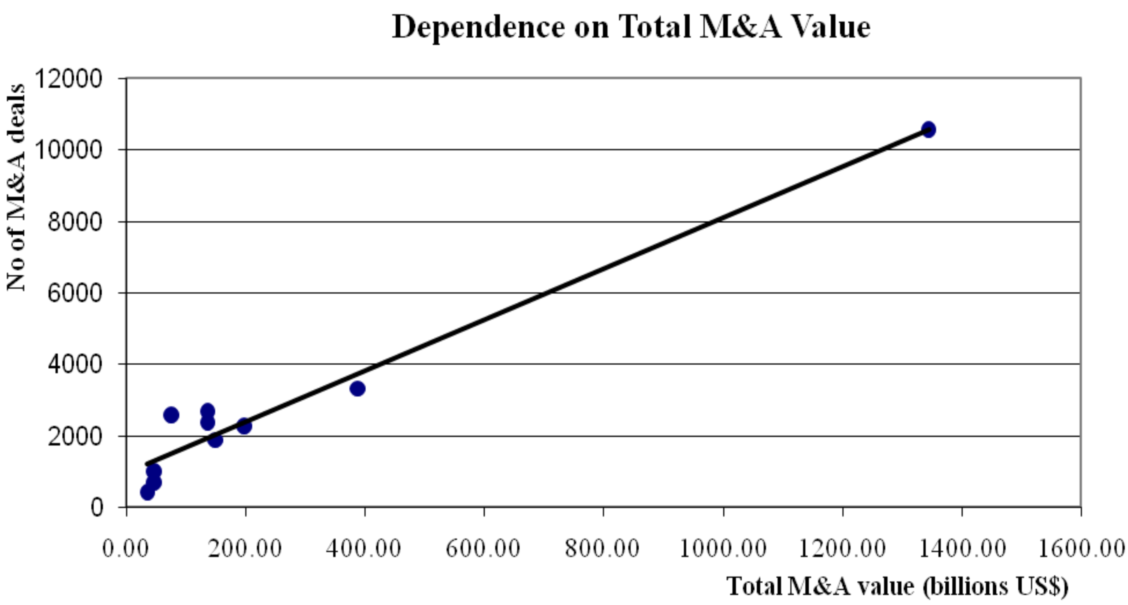


Figure 11. Number of M&A deals dependence on total M&A value.

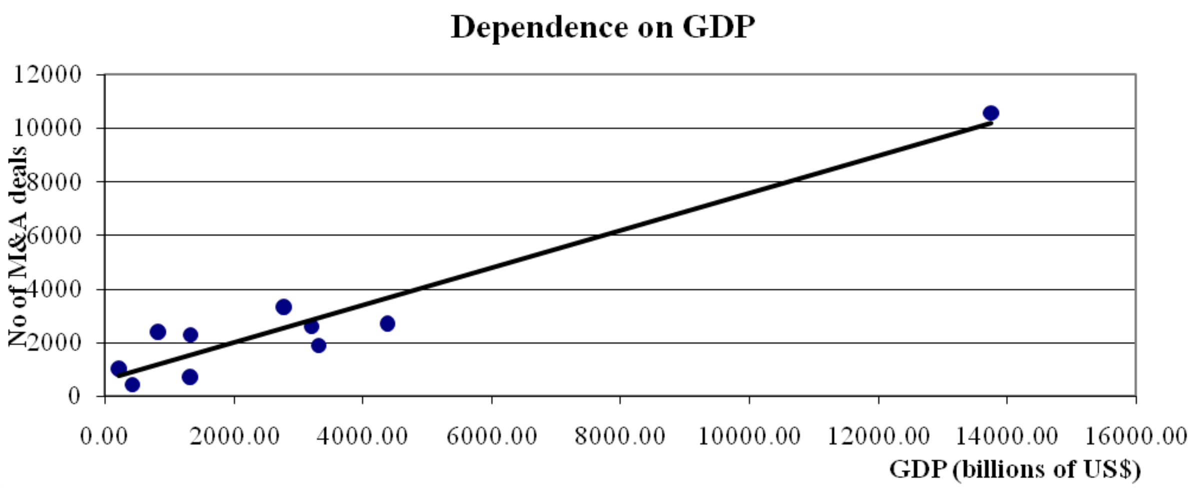


Figure 12. Number of M&A deals dependence on GDP.

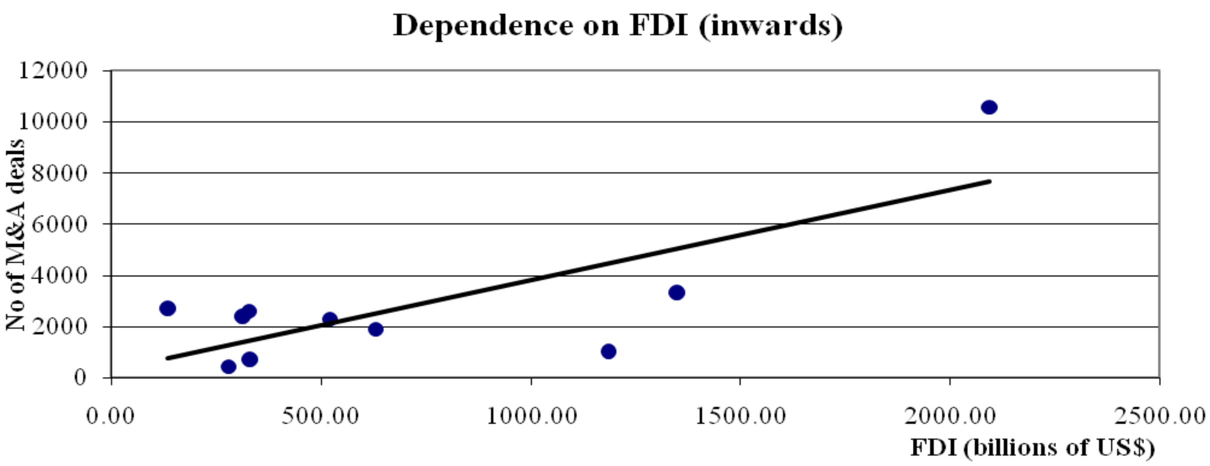


Figure 13. Number of M&A deals dependence on FDI (inwards).

Now I insert the appropriate X1, X2 and X3 values into the above equations and submit the following Table 12:

No.	Y^(X1)	(Y-Y^(X1))^2	Y^(X2)	(Y-Y^(X2))^2	Y^(X3)	(Y-Y^(X3))^2
1	10560.81593	173.819666	10191.92448	145981.7063	7650.3443	8547762.649
2	2381.477926	9116.034426	1520.671559	585727.6228	2106.574409	32193.54269
3	1300.350912	342635.69	1509.136429	630652.6686	1428.612807	509243.2385
4	3731.885347	161511.8325	2527.404796	644159.0609	5022.297278	2863870.077
5	1226.849897	631786.3593	888.5445117	208432.8911	1251.261476	671189.3667
6	2030.457664	17810.94802	2908.098274	1022319.719	2490.802718	352601.6673
7	1945.360979	196815.5813	1165.409258	1497174.303	1371.564208	1035175.591
8	1510.127782	1159653.774	2830.012065	59054.8638	1423.789415	1353058.865
9	1298.526393	75364.74064	736.9222022	82413.66197	4446.815128	11715663.4
10	1945.147168	565282.6812	3652.876429	913699.7466	738.9382604	3834005.776
Total:	27931	3160151.461	27931	5789616.243	27931	30914764.17

Table 12. The appropriate calculations completed in Excel.

The purpose is to check whether the derived equations are adequate to the reality and whether they can be used in planning and forecasting. In order to do so, I calculate F (the ratio of dispersions) using the following formula:

$$F = \frac{S(regression dispersion.)}{S(residual)} = \frac{\sum\left(\hat{y}_i - \bar{y}\right)^2}{\frac{\sum\left(\hat{y}_i - y_i\right)^2}{n-2}}$$

The calculated F must be compared with the tabulated value of $F_{\alpha;\, n-1;\, n-2}$ which is derived with Excel function Finv, where probability α = 0,05 and degree of freedom n = 10. Again, if F is more than or equal to tabulated value of F, then the regression trendlines derived are adequate to the reality. Let’s see what we get by filling the Table 13:

	S (residual)	F	Tabulated value of F
X1	395018.9326	19.01904509	3.388130235
X2	723702.0304	10.38118255	3.388130235
X3	3864345.522	1.944154022	3.388130235

Table 13. S, F and tabulated value of F calculations.

Since in X1 case and in X2 case F is greater than tabulated value of F, then only those two equations of X1 and X2 can be used in planning:

$$Y = 972{,}8284525025 + 7.1270255548 \cdot X1$$

$$Y = 592{,}3009708103 + 0{,}6980833591 \cdot X2$$

They would allow to determine the dependent variable value when the independent variable value is known.

3. M&A Development Possibilities in Lithuania

3.1. Macroeconomic Statistical Analysis on Business in Lithuania

Department of Statistics in Lithuania states that in 2007 (the data announced is not final) there were 39.817 companies operating in Lithuania, which is 1,6 times more compared to the number of companies which operated in 2000. The exact numbers are shown in Figure 14 below.

The data is based on the information provided by non-financial state and municipalities' companies, as well as stock companies (AB), joint stock companies (UAB), cooperative companies and branches of foreign companies. The data provided neither includes sole proprietorship companies nor natural persons who undertake economical activities. The data for the year 2007 is preliminary and unfortunately, there is no data for the year 2008 (as checked on 5 May 2009).

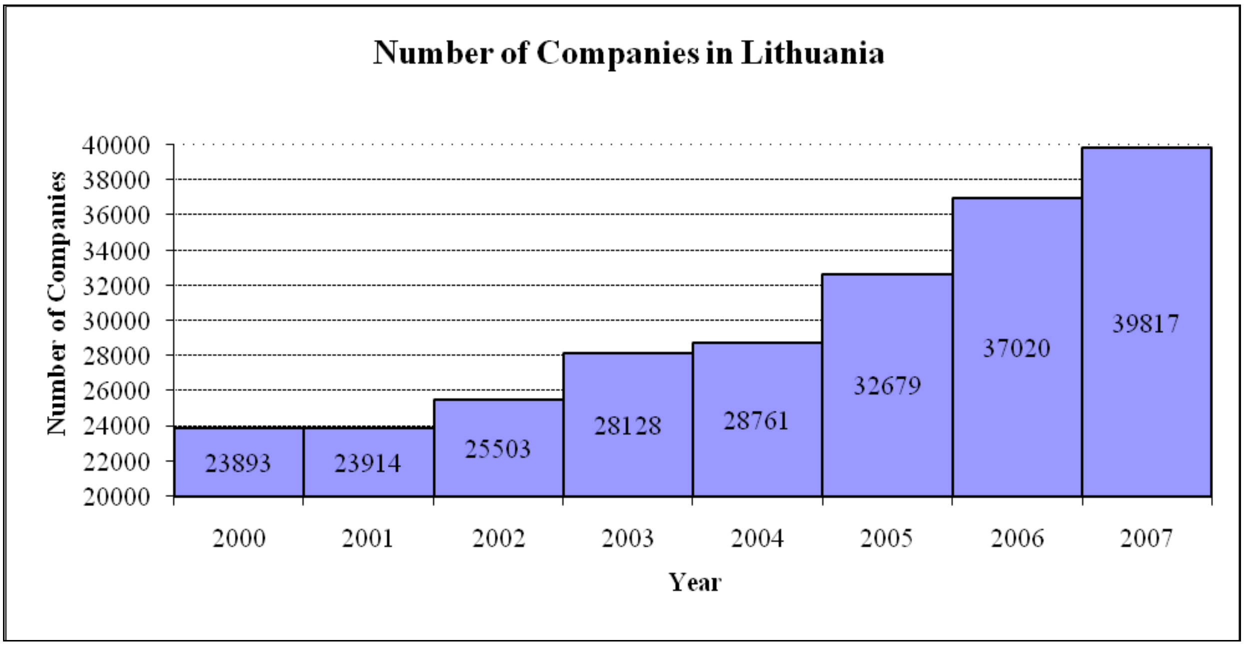


Figure 14. Number of companies in Lithuania.

As seen from the above, the largest increase has been noted after Lithuania joined the EU in 2004 – in 2005 there was the increase by almost 4.000 companies, and in 2006 the number has grown by additional 4.341 companies. In 2007 the total number increased by another 2.797 companies, whereas I am sure in 2008 the number should have grown over 40.000 companies operating in Lithuania.

Furthermore, any chosen company can be classified into one of the following categories:

- state or municipalities capital company;
- private capital company;
- foreign capital company.

Based on the data provided by Statistics Department of Lithuania, capital distribution of companies in Lithuania is shown in Figure 15.

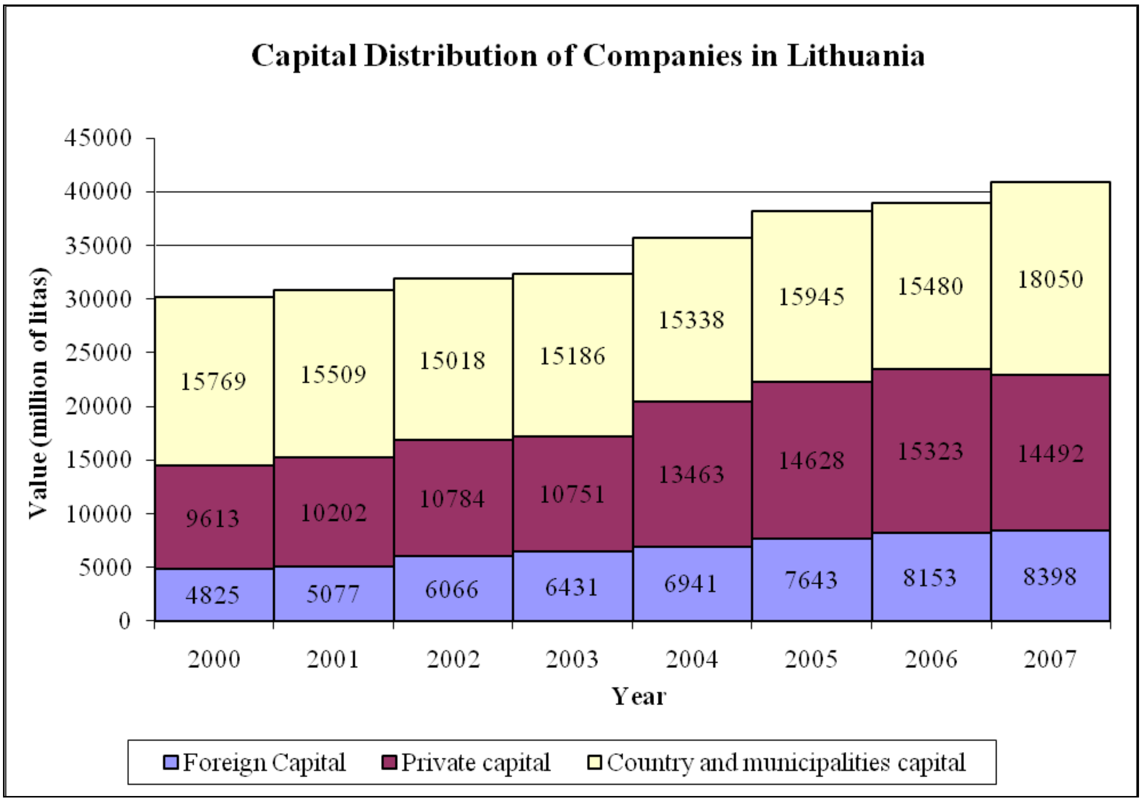


Figure 15. Capital distribution in Lithuania.

Companies with state/municipalities capital comprise of the largest value, shown in million of litas. In 2000 it constituted 52% of all capital and since then it was constantly decreasing, when in 2006 it was 40% and in 2007 it increased up to 44%.

In the meantime, the private capital was increasing in 2000-2006, but it decreased in 2007 and it constituted 35% of all companies capital value – similar as 7 years ago, when it was 32%.

The foreign capital has been constantly increasing during 2000-2007: in 2007 it constituted 20%, or one-fifth, of all companies capital value (whereas in 2000 it was 16%). The detailed calculations are provided in Appendix 5.

Another interesting statistical measure to look at is foreign direct investments, as shown in Figure 16 (please note that the data provided is for January 1 of each indicated year). As it can be seen from the chart, FDI has very much increased in recent years. If in during 2000-2002 the increase was just about 15%, in 2006 it has skyrocketed by almost 50%, in later years – by approximately 22%.

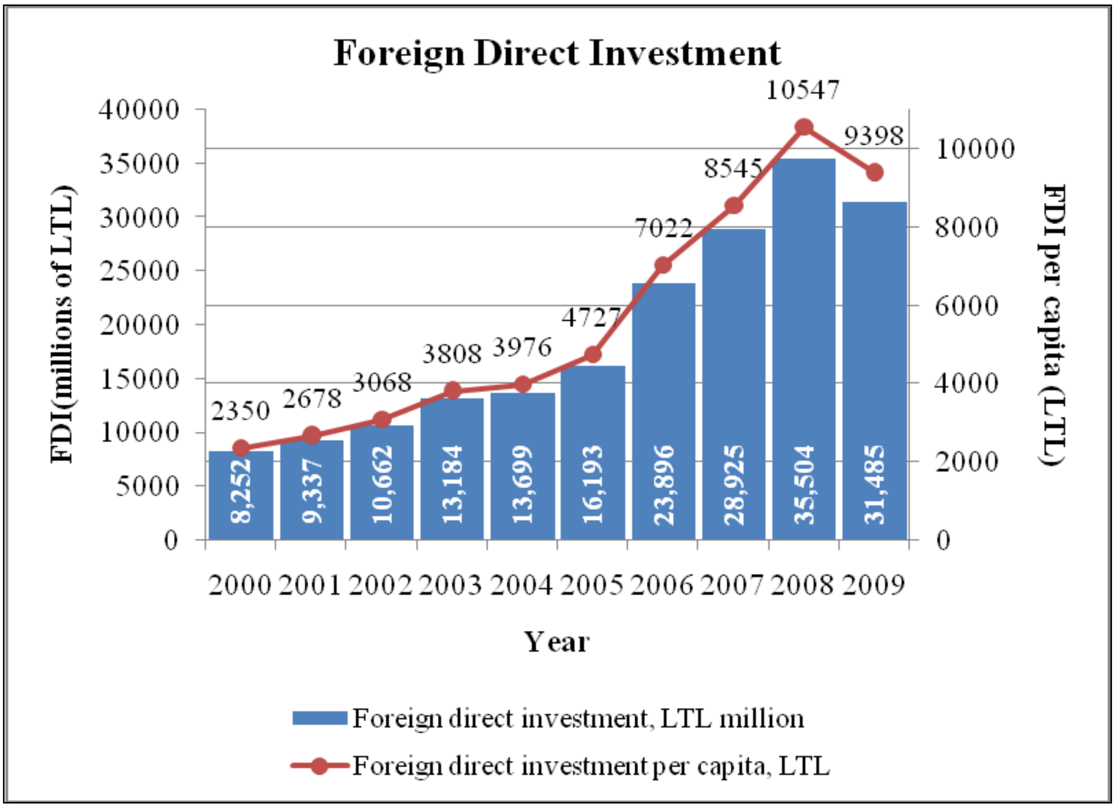


Figure 16. Foreign direct investment in Lithuania.

The list of countries, where the investors flow is higher than 100, is shown in Table 14 (sorted by the total invested amount by country from the largest to the smallest) below.

Country	No of investors	FDI: Invested amount during 2008 (in millions of litas)
Poland	156	6 259,254
Denmark	260	4 491,081
Sweden	229	4 056,553
Russia	157	3 466,975
Germany	425	3 040,089
Estonia	295	2 030,014
Finland	185	1 810,540
Latvia	310	1 633,172
Netherlands	127	1 495,682
Norway	192	1 098,202
United States	138	677,106
United Kingdom	165	621,182

Table 14. List of countries with number of investors exceeding 100.

The following Lithuanian sectors has caught the greatest investor’s attention:

- manufacturing: 543 enterprises, 12 586,804 millions of litas;
- wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods: 1043 enterprises and 3 980,801 millions of litas;

- financial intermediation: 59 enterprises, 5 945,962 millions of litas;
- real estate, renting and business activities: 701 enterprises, 2900,690 millions of litas.

Figure 17 shows Lithuanian direct investment abroad at the beginning of the indicated years (year 2009 means the direct investment on 2009-01-01).

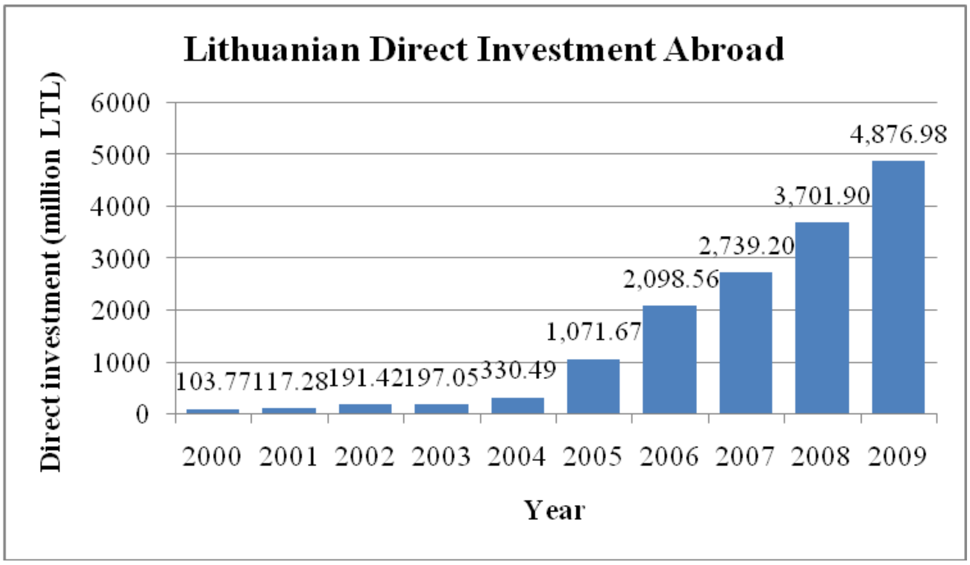


Figure 17. Lithuanian direct investment abroad.

In 2008, 44 investors invested to Belarus 53,704 million of litas, 44 – Estonia, 260,973 million of litas, 125 – Latvia, 1088,596 million of litas, 23 – Poland, 381,362 million of litas, 48 – Russia, 232,881 million of litas, 42 – Ukraine, 385,695 million of litas. The largest sectors in 2008 were as follows:

- real estate, renting and business activities (48 enterprises, 1245,5 million of litas);
- manufacturing (48 enterprises, 752,327 million of litas);
- whosale and retail trade, repair of motor vehicles, motorcycles and personal and household goods (104 enterprises, 433,319 million of litas).

Examples of Lithuanian direct investment abroad could be two recent acquisitions of company's shares abroad. For example, Sanitas – the biggest Lithuanian drug make – acquired 100% of shares in Polish ointment producer Homeofarm for PLN 10.9 million. The transaction was executed between Sanitas' subsidiary Jelfa and company Hand-Prod. "Homeofarm product portfolio nicely fits to our business development strategy. Some products we were developing in-house and this acquisition will let us complete our dermatological portfolio faster," the CEO of Sanitas Saulius Jurgelėnas said. "We see a lot of synergies to be utilised in 2009," added Mr. Jurgelėnas

Another example is Palink (which is operating retail trade chains Iki, Ikiukas, Cento) transaction of overtaking 17 stores of the Latvian retail trade chain Nelda. According to the IKI CEO Mr. Marcel Haraszti, the geography of Nelda conforms perfectly to IKI's development plans, and the similar format of this chain of shops will facilitate a fast merger: "A few new points of sale will inevitably consolidate IKI's position in the Latvian market, where the leader's position is aspired to by the group. We plan to achieve this goal through the introduction of the highest standards in a range of products, plus customer care and the application of pricing meeting the economic situation of the country".

3.2. First Direction: Privatization Transactions

After restoring its independence, Lithuania tried to recover from the command economy of the former Soviet Union and due to high inflation, reduction of GDP, loss of previous economic relations, fall of investments, the primary emphasis of Lithuania's economic transition policy has been placed on the restructuring its ownership relations. Lithuania chose one of the most ambitious methods of privatization compared to other countries in Central and Eastern Europe – privatization of its state property.

The biggest privatization transactions of companies in Lithuania are shown in Figure 18 below (data was obtained from yearly reports published by State Property Fund). The full compilation of the biggest transactions completed is available in Appendix 6.

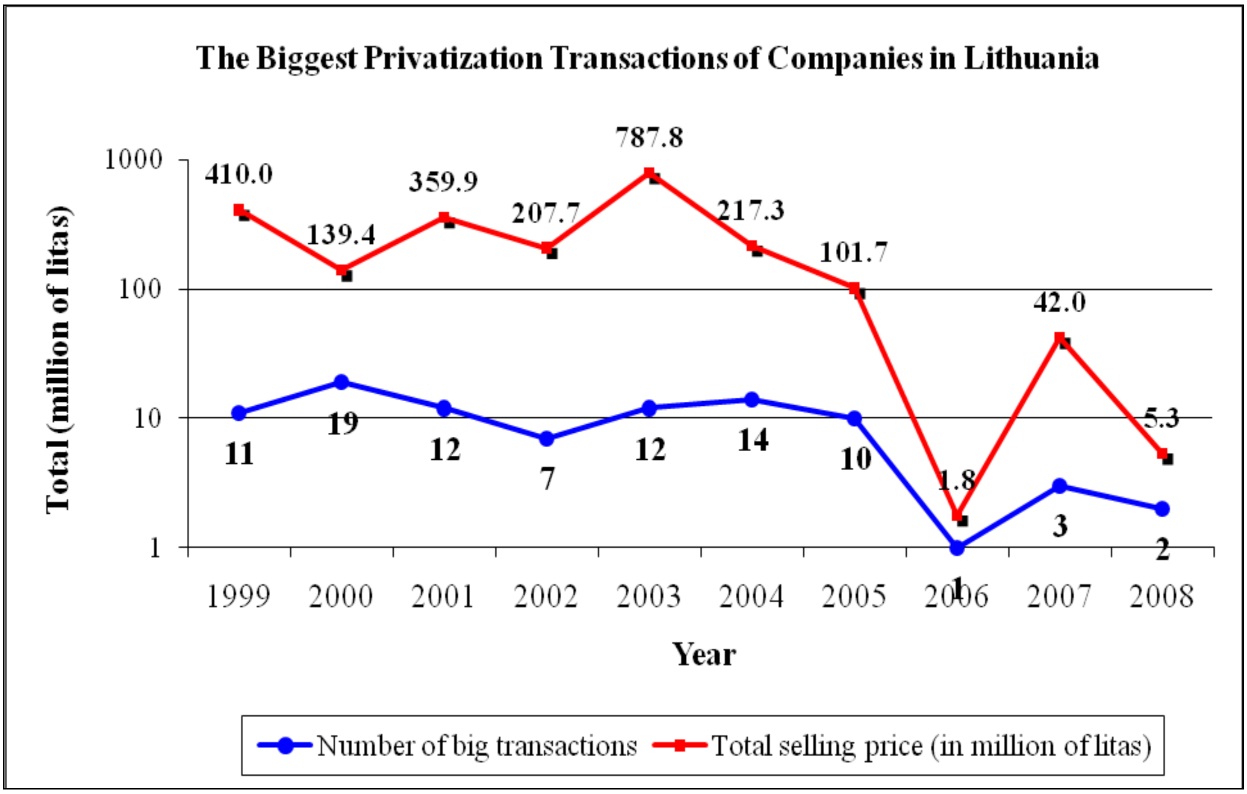


Figure 18. The biggest privatization transactions of companies in Lithuania.

The above picture illustrates the sale of state companies' shares to both Lithuanian and foreign investors. The shares were sold either through the public tender, public auction or stock exchange. In very rare cases the companies were sold after the direct negotiations.

It is claimed that the privatization was largely completed by mid-2000s, although the state retains minority stakes in the major utilities including Lithuanian Telecoms (TEO LT), Lithuanian Gas (Lietuvos Dujos), Klaipėdos Nafta. The last shares of Mažeikių nafta AB were recently sold to PKN Orlen on 30 April, 2009.

Certain companies are deemed either too important to privatize for strategic reasons, including the Klaipeda Seaport Authority; the Vilnius, Kaunas and Palanga airports; and the postal service, or, in the case of the Ignalina nuclear-power plant, are set for closure.

Even though on the first sight it looks as if all the major companies in Lithuania have been privatized, we must not forget the remaining state companies, such as AB "Vilniaus vandenys", AB "Klaipėdos energija", UAB "Kauno švara", AB "Lietuvos jūrų laivininkystė", AB "Klaipėdos nafta", AB "Lietuvos geležinkeliai", AB "Smiltynės perkėla", AB "Betonas", AB "Radijo ir televizijos centras", AB "Tukompa", AB "Pasala" and others.

Considering the privatization necessity, it must not be forgotten, that it is claimed that the companies, managed by private investors, usually are more efficient and the country gets more revenue through taxes rather than through dividends, if it retains the ownership of companies. Companies, that are controlled by the state often performs at a loss and do not provide the expected profit - this was confirmed by State Control research. Moreover, the possibility to sell the state company today would include the risk that the buyer(s) intend to pay less, in comparison to the amounts during the previous years, because buyer(s) would expect that the seller's decision to sell the company comes from the poor company's performance and unlikely positive outcomes.

The president of the finance broker association in Lithuania Marius Dubnikovas states, that "selling the profitable state enterprise today would not be a good decision, because the future received amount could be much more significant to the country's finance. […] the decision to sell the last shares of Mažeikių nafta was the right one, because the price was very high and the revenue for the budget was significant".

3.3. Second Direction: Local M&A Transactions

The most recent domestic M&A transactions in Lithuania are shown in Table 15. Since the transaction value in most cases is not disclosed, it is not included in the table. Moreover, the transactions listed below include only those where the shares acquired were 100%.

Target	Sector	Buyer	Date
Akistata, UAB	Media	Balsas, UAB	April, 2009
Vidviktos projektai, UAB	Consumer services	Cowi Baltic, UAB	April, 2009
Orion Securities, UAB	Finance	Scaent Baltic, UAB	April, 2009
Draudimo efektas, UADBB	Insurance	Mai Lietuva, UADBB	March, 2009
Būsto investicijų valdymas, UAB	Consumer services	City Service, AB	December, 2008
Verslo Investicijos, UAB	N/A (newly established company)	Teo LT	December, 2008
Baltic Ground Services, UAB	Consumer services	FlyLaL Group, AB	November, 2008
Alytaus kabelinė televizija	Media	Viginta	September, 2008
Vilko pėda	Consumer services	City service, AB	August, 2008
Norby Networks, UAB	IT	Baltnetos Komunikacijos, UAB	August, 2008
Acena, UAB	IT	Invalda, AB	April, 2008
Euritecha, UAB	IT	Webmedia, UAB	April, 2008

Table 15. Recent domestic M&As in Lithuania.

In order to find out, what are the motives for domestic M&A in practice, let's have a look on the brief comments, provided by acquirers or other parties of interest, on recently concluded M&A deals:

- Balsas, UAB acquired one of the oldest criminal publications in Lithuania, called Akistata, UAB. According to the head editor of Akistata, Vytautas Žutautas, the change of publishers is very useful, because it will strengthen the newspaper and will restore its popularity. The newspaper has started facing the difficulties, when the VAT was increased from 5% to 19% by the new government. The newspaper, issued twice a week, will have a new design and revised content. It will also include some articles published by Balsas.lt. The cooperation of Balsas.lt will also help the newspaper to provide its readers with the new daily topics, which are important today.
- Cowi Baltic acquired Vidviktos projektai, UAB, the leader of projecting anti-fire systems in Lithuania. Andrius Končius, the general director of Cowi Baltic expects that „the acquisition will allow Cowi to offer the greater range of services and will also contribute to the greater amount of orders both in Lithuania and abroad. Although the real estate market in Lithuania is currently shrinking, the public projects, where the fire systems are crucial, are still being implemented. We hope that the real estate market will start growing at the beginning of 2011."
- The chief of the board of Scaent Baltic, commented on group's acquisition of Orion Securities: "In Lithuania, just like in another markets, we have reached the point where M&As become both strategically perspective and financially attractive transactions. The most important thing becomes choosing the appropriate investment objects. Our last acquisition is very important to our group, because it not only diversifies our business, but also strengthens its current position in financial sector". Moreover, the director of "Orion

Securities” agrees that the new shareholder of the company will allow to strengthen the capital base of the company and will help to develop investment banking services.

- City Service, AB director Žilvinas Lapinskas comments on company’s acquisition of Būsto investicijų valdymas, UAB: „As previously planned, we are continuing the process of market consolidation. This acquisition is the most important step of group’s development process, since the beginning of trade of stock in stock exchange. With this acquisition, we shall increase the area of serving blocks of flats in Lithuania by 28% - from 6,6 million to 8,5 million square meters. Finally, the acquisition will allow us to increase the business efficiency of our group in Vilnius. We are expecting to derive the good results in the future”.
- Teo LT acquired a newly established Verslo investicijos, UAB, which has not provided any services so far. The purpose of the acquisition was for implementation of the new project, of which no further information has been provided so far.
- Baltic Ground Services, UAB, which provides services above the ground, was acquired by flyLAL Group Services, AB, which is aviation business group. Linas Dovydėnas, the general director of flyLAL Group Services, commented on the acquisition as follows: “The acquisition of Baltic Ground Services allowed us to finally complete the formation of aviation service package and also increased the group’s value. This is a step of strategic expansion, which will allow us to offer our clients a complete list of aviation services from one company, which will guarantee the optimal quality and price proportion.”
- The managing director of Viginta Vilius Macijauskas comments on Alytaus kabelinė televizija acquisition: “the transaction will not only allow us to provide new high quality services, but also will strengthen the company’s position on the market”. In 2007, the company completed another transaction – the acquisition of Marijampolės kabelinė televizija. It is a clear intention of consolidation in cable television, internet and fixed telephone line market in Lithuania.
- The complex IT and data communication solutions company Baltnetos Komunikacijos has acquired all of Norby Networks shares from investment fund Martinson Trigon. Baltnetos Komunikacijos CEO Mindaugas Pranskevičius emphasized the following benefits of this merger to both companies and their clients: “Acquisition of Norby Networks is a turning point in the company’s history that provides new perspectives for business development. I am sure that our increasingly strong position on the market will allow us to provide even more reliable and competitive services to the clients of both companies, as well as opening new career prospects for the personnel. The acquisition is also bound to have influence on the overall internet market as it will create a strong competitor to the dominant internet services provider in Lithuania for the first time. Becoming a bigger company with a more advanced infrastructure and more IT professionals will enable it to be more efficient, while

the increased number of skilled staff will improve responsiveness to customers' needs and inquires".

- The two joined companies Webmedia and Euritecha have formed one of the most comprehensive software development and consultancy companies in Lithuania. The newly formed company is well positioned to grow into the market leader on the Lithuanian market. Webmedia Lithuania is recognized on the Lithuanian market as a leading software development and business consultancy company delivering services to the most demanding customers in the areas of telecommunication, financial services, public sector, retail and media. The merger will further increase the company's ability to deliver a wide spectrum of services, and there will be more growth opportunities for the 74 people that will work in Webmedia after the merger. The director of Webmedia Arnoldas Jankūnas stated that both companies have a very similar culture. Both companies have historically been focused on offering a faster time to value for its customers, combining speed of implementation, quality and lower total cost of ownership. After the merger, Webmedia is even better positioned to help its customers in complex projects that require external business consultancy and process re-engineering. After the merger Webmedia will be the largest competence center in Lithuania for Microsoft specialists, enabling the company to take on the most challenging projects in application development and system integration.

Mergers and acquisitions between Lithuanian companies often occur from the demand to increase the effectiveness and to strengthen the position on the current market. It is obvious that this is needed due to the intense internal and external competition.

M&As between Lithuanian companies often are done through:

1. Consolidating the market;
2. Taking over the competitors;
3. Moving to neighboring or strategically important business areas;
4. Increasing the effectiveness through terminating non-primary business activities.

Since Lithuanian market is not big, the deals completed are relatively small. The mergers of leading competitors are restricted by certain competition laws.

3.4. Third Direction: Cross Border M&As in Lithuania

The very first cross border M&A wave in Lithuania occurred in 1998-2001 (Matulaitis, 2008) when the following leading companies in appropriate sectors were acquired:

- Omnitel, acquired by Teliasonera in 1998;
- Kauno diena newspaper, acquired by Orkla ASA in 1998;
- SEB Vilniaus bankas AB, acquired by Skandinaviska Enskilda Banken AB in 1999;

- Švyturys, acquired by Carlsberg in 1999;
- Lietuvos draudimas, acquired by RSA Insurance Group Plc in 1999;
- Švenčionių vaistažolės, acquired by Vip Progress Overseas Ltd in 2000;
- Baltnetos komunikacijos, acquired by Finnet International Oy in 2000;
- Spar Lithuania, acquired by Baltic Food Holding AS in 2000 and so on.

Today we experience the so called second cross-border M&A wave, which started when Lithuania joined the European Union (Matulaitis, 2008).

The developing companies which operate in various sectors, namely in wholesale and retail, real estate, transport and logistics, IT, construction, finance and other sectors participate in M&A transactions.

The most recent cross border M&A transactions in Lithuania are shown in Table 16. Since the transaction value in most cases is not disclosed, I do not include it in the table. Moreover, the transactions listed below include only those where the shares acquired were equal to 100%.

Lithuanian Company	Sector	Buyer / Country	Date
Fontes Vilnius, UAB	HR	MPS	December, 2008
AITECS Medical, UAB	Manufacturing	Moog, Inc. / USA	December, 2008
Gensina, UAB	Construction	Rautaruukki Oyj / Finland	December, 2008
Girių Bizonas, UAB	Manufacturing	IKEA of Sweden AB / Sweden	December, 2008
TMG Cargo, UAB	Logistics	Hellmann Worldwide Logistics GmbH & Co. KG / Germany	September, 2008
Termosistem Projektai UAB	Consulting	AF AB / Sweden	September, 2008
General Finance	Finance	Societe Generale Consumer Finance / France	September, 2008
MTV Networks Baltic	Media	Ananey Communications Ltd. / Israel	August, 2008
Kauno audinių projektas, UAB	Real estate	DekaBank Deutsche Girozentrale / Germany	August, 2008
Taikos 151	Manufacturing	Kitron ASA / Norway	June, 2008
Creditcollect, UAB	Finance	TeliaSonera AB / Sweden	March, 2008
Reso Europa, UAB	Insurance	Gjensidige Baltic / Norway	January, 2008

Table 16. Recent cross-border M&As in Lithuania.

In order to find out, what are the motives for cross-border M&A in practice, let's have a look on the brief comments, provided by acquirers, on their cross border M&A deals:

- Fontes Vilnius was acquired by MPS Enterprises Ltd., which is an EU-based, private partnership corporation. Pasis Hartunen, the managing director of MPS for Baltic region, says that the purpose of the transaction is to settle down in quickly developing Lithuanian and Baltic human resource consulting market. We will be looking for opportunities to provide new services to the current and prospective clients in Baltics and international markets. Alternatively, Regina Laimikienė, the managing partner of Fontes Vilnius, says that "now we will be able to learn from the long-lasting experience of the leading corporation and its broad spectrum of services, which was formed while working in international markets. This transaction will allow us to offer the greater value to the client, but also to provide with the exceptional human resources decisions. This way we can become a trustworthy partner not only in Lithuania, but also abroad."

- Moog Inc. has acquired 100% of the stock of AITECS Medical UAB, a Lithuanian based manufacturer of syringe-style infusion therapy pumps, for €15 million (US$ 21 million), paid in cash. The acquisition complements Moog's current medical devices product line. "This acquisition is a great fit while broadening our product offering and geographic presence in the infusion therapy market," - said Martin Berardi, President of the Medical Devices Group of Moog.
- Rautaruukki Corporation has acquired the entire share capital of the Lithuanian steel frame company Gensina from the company's private owners. "Gensina has a very strong position in the market, hence the acquisition furthers Ruukki's frame and envelope project management business in Lithuania and the other Baltic states, and also strengthens Ruukki's manufacturing network serving the Baltic states," – says Saku Sipola, Ruukki's president.
- Hellmann Woldwide Logistics acquisition of TMG Cargo is believed will help to develop and increase the number of consignments dispatched by sea, air and ground. Its aim is to establish the new offices in order to guarantee that the clients will be served in the biggest cities and ports in Baltics.
- An acquisition of Termosistem projektai UAB by Swedish technical consulting group AF AB strengthens the AF's position in Lithuanian market, making it one of the largest companies in the Lithuanian energy and environmental consultancy market.
- Societe Generale Consumer Finance acquired General Financing, a Lithuanian entity specialized in consumer credit activities (including the brand Kreditas123). Jean-Francois Gautier, Head of Specialized Financial Services of Societe Generale Consumer Finance declared: "The acquisition of General Financing allows us to set foot on the new fast-growing market while relying on the local knowledge of one of the leaders of consumer finance in Lithuania". "This acquisition is a timely coincidence of Societe Generale strategic entry to Lithuanian consumer finance market and of General Financing's goal to have a strong, established funding base necessary for further rapid expansion," commented Karolis Pocius, partner of GILD Bankers. "With the coming of Societe Generale Consumer Finance, UAB „General Financing" has completed its first stage of development and obtained one of the strongest possible partners to expand further its market share. Despite a controversial macroeconomic outlook the company is now set for rapid expansion", - commented the general manager of General Financing Raimondas Rapkevičius. This acquisition completed

the Societe Generale Group's Specialized Financial Services offer in the Baltic States, since the company already owns some companies in Latvia and Estonia.

- The Israeli media company Ananey Communications has purchased MTV Networks Baltic, UAB. Ananey intends to invest 600,000 euros in the company, and intends to use the platform for launching additional channels in the Baltics and Eastern Europe. "This is another step in Ananey's strategy towards international activity. We plan to leverage the new platform to launch additional channels in the area," said Udi Miron, CEO of Ananey.
- German company Deka Immobilien GmbH acquired 100% of Kauno audinių projektas, UAB, which in turn is the owner of Kaunas' Akropolis. The investor is interested in business perspectives of the shopping centre. The representative of DekaBank Deutsche Girozentrale Jutta Holkotter said that acquisition was mainly driven by the motivation to diversify the investors' portfolio and to expand geographically. The new owners were mostly interested in successful investment and they had no plans to change the activities of the shopping centre.
- Kitron concluded a deal on acquisition of a factory and the underlying land lease in Lithuania for EUR 3.4 million from a group of Irish investors. The property is called Taikos 151 and is the same at which Kitron is currently conducting its operations. This investment is in line with Kitron's strategy to increase its production capacity in Lithuania. The plan is to develop the property and double the floor space from today's approximately 5000 m2 and substantially increase the production capacity within the next few years.
- TeliaSonera, through its subsidiary Sergel in Sweden, which is one of the leading companies in the debt collection industry in the Nordic countries, acquired Creditcollect. "Our expansion in the Nordic countries has been successful, and the Baltic countries are the natural next step for us," said Magnus Melberg, CEO, Sergel Kredittjänster. Sergel aims at becoming a leader on the Nordic and Baltic markets. The acquisition of UAB Creditcollect is the first acquisition on the Baltic markets but will be followed by others. "The acquisition of UAB Creditcollect makes us directly one of the leading players on a rapidly growing market. At the same time, we can now provide our global customers with services through our own company in yet another country," said Magnus Melberg.
- Norwegian non-life insurance company Gjensidige Baltic acquisition of Reso Europa is expected to help the company to develop in Lithuania. Dace Brumziede, the Chairwoman of the Board of Gjensidige Baltic, declares: "By our substantial investment in the Lithuanian insurance market we further highlight the excellent prospects for the further growth and manifest our expectations to strongly position ourselves in this market. Currently our share of the Baltic States insurance market accounts for about 6 per cent which is definitely not a limit to our ambitions. We view Reso Europa as a perfect foundation for the further

development in the Lithuanian market that has being specifically strong in property, transportation and the civil liability insurance services. We have been present in Lithuanian since 1999 and could perfectly notice and evaluate the strengths and the professional excellence of Reso Europa". "I am absolutely convinced that the profitable performance of the company of the past few years – a perfect reflection of its economic stability – will further strengthen the confidence and the loyalty of our customers," – said Saulius Nekrošius, the new Chairman of the Board and the General Manager of Reso Europa.

Cross border mergers and acquisitions have taken up the largest share of M&As in Lithuania. The main determinant for those cross border deals is the aim to settle down in Lithuanian market, which is believed to have a big potential to grow.

Cross border M&As are also driven by the intense international competition, where the leaders undoubtedly are multinational companies, characterized by their effectiveness and huge mass economy. In this case Lithuania becomes only one of the markets, where there is a necessity to have a branch – this way the acquisition of or merger with the local leading companies is the easiest way to implement the development strategy of the company.

Furthermore, the foreign companies, choosing to enter the Lithuanian market, in most cases hold the ambitious plans to grow, especially when the development opportunities in their homelands are often exhausted.

Up until last autumn, Lithuania's economy was rapidly growing: this was seen from the increase of consumption of households, also the development of construction, retail and wholesale sectors. Hence the strategic foreign investors were also interested in sectors, which were mostly orientated to the inner market of Lithuania. Of course, they were also interested in big companies, operating ir competing internationally, namely companies in oil refinery, navigation, textile sectors. In this case the main motive becomes not the growing Lithuanian market and its potential, but the certain company's competitiveness.

3.5. Fourth Direction: M&A Deals Completed by Financial Investors

One of the most active participants in M&A transactions in recent years has been the financial investors, namely:

- investment companies, i.e. Hermis Capital, Avestis, Baltvesta, BT Invest;
- private capital funds, i.e. Askembla Growth Fund, Amber Trust, Alta Capital Partners, Baltcap;
- industrial financial groups, i.e. MG Baltic, Invalda, Achemos Group, EVA group.

The active involvement of financial investors in M&A transactions in Lithuania can be justified by the following:

1. Active practice of private capital funds both in the world and in our region.
2. Accumulation of local capital.
3. Establishment of investment companies.
4. Easy credit access for financing M&A transactions.

Financial investors normally buy the controlling shares of selected companies and participate in their businesses in order to increase the value of the company purchased. This is done through:

- implementation of motivation system that is connected to the value creation;
- further M&A transactions that add the value to the owing companies;
- optimization of capital structure;
- realization of the capital which is not used in the primary business.

The main motive of M&A in this case is not the expected additional economical benefit (synergy), as in strategic M&A case, but the takeover of the control, allowing to manage the acquired company according to the chosen strategy.

Financial investors often participate in the market of companies' control. Control gives the right to appoint the management team as well as to restructure the business and to optimize the use of the capital and to optimize the financial structure, as shown in Table 17.

Shares	Control rights
100%	Complete ownership
95%	Possibility to obtain the remaining shares from other shareholders constrainedly
67%	Qualified majority
50,1%	Simple majority
50%	Joint company, if 50%+50% (both shareholders have the same rights)
34%	Minority blocking share pack
10%	Possibility to initiate shareholder meetings
5%	Necessity to reveal shareholder's identity

Table 17. The shares and company's control rights.

Financial investors are often interested in the companies which are under-evaluated in the market, are not working effectively and/or which have the dissolved structure of shareholders. Attempts to take over the management and control of the company are called hostile takeovers.

Private and risk capital funds normally have the determined level of investment and the investment period. Once the period ends, they sell the companies. Investment companies in this case are more flexible, since they aim to realize the investments at the most convenient time, i.e. when the value is the largest. For example, European Bank for Reconstruction and Development (EBRD) in

2006 sold 92,37% shares of Vilkma, AB (the shirt sewing company in Ukmergė) to textile company “Hlunnur ehf” in Iceland. EBRD invested in Vilkma in 1996. The bank, together with “Scandinavian Baltic Development” fund decided to sell the shares, because they “achieved all the financial goals, helped the company to become growing and successfully competing business. We are happy that the company was acquired by experienced in this sector investors, who already proved that they can successfully manage and develop textile companies in Central and Eastern Europe”, - said “Scandinavian Baltic Development” manager Bjorn Gillberg.

3.6. Qualitative Analysis of Development Possibilities in Mergers and Acquisitions in Lithuania

In order to find out about development possibilities in mergers and acquisitions in Lithuania, I have decided to prepare a questionnaire, distribute it among the directors of companies operating in Lithuania and to summarize their answers.

The questionnaire, or sometimes called the self-completion questionnaire (Bryman, Bell, 2003), is a form of survey, where respondents answer questions by completing questionnaire themselves. Hence the point is that the questions prepared have to be very easy to answer. Having this in mind I prepared a questionnaire which has:

- a few open questions (since closed ones tend to be easier to answer);
- an easy-to-follow designs in order to minimize the risk that the respondent will fail to follow filter questions or will inadvertently omit a question;
- shorter questions in order to reduce the risk of “respondent fatigue”, since it is manifestly easier for a respondent who becomes tired of answering questions in a long questionnaire.

The form of questionnaire allowed me to distribute it to many companies at the same time (for example, if it was in a form of interview, it would have been very time consuming to question 100 people – nevertheless, the questions asked could be expanded or omitted in every case, depending on a situation). The questionnaires are more convenient for respondents, because they can complete a questionnaire when they want and at the speed they want to go.

In order to improve the response rates of the questionnaires, Bryman and Bell (2003) suggest the following steps:

1. Write a good covering letter explaining the reasons for the research, why it is important, and why the recipient has been selected; mention sponsorship, if any, and provide guarantees of confidentiality.
2. Postal questionnaires should always be accompanied by a stamped addressed envelope or, at the very least, return postage.
3. Follow up individuals who do not reply at first, possibly with two or three further mailings. The importance of reminders cannot be overstated – they do work. Our preferred and

recommended approach is to send out a reminder letter to non-respondents two weeks after the initial mailing, reasserting the nature and aims of the survey and suggesting that the person should contact either the researcher or someone else in the research team to obtain a replacement copy of the questionnaire if the initial mailing has been mislaid or lost. Then, two weeks after that, all further non-respondents should be sent another letter along with a further copy of the questionnaire. These reminders have a demonstrable effect on the response rate. Some writers argue for further mailings of reminder letters to non-respondents. If a response rate is worryingly low, such further mailings would certainly be desirable.

4. Unsurprisingly, shorter questionnaires tend to achieve better response rates than longer ones. However, this is not a clear-cut principle, because it is difficult to specify when a questionnaire becomes “too long”. Also, the evidence suggests that the effect of the length of questionnaires on response rates cannot be separated very easily from the salience of the topic(s) of the research for respondents and from the nature of the sample. Respondents may be highly tolerant of questionnaires that contain many questions on topics that interest them.
5. Clear instructions and an attractive layout improve questionnaire response rates.
6. Do not allow the questionnaire to appear unnecessarily bulky. A booklet format is sometimes recommended for the questionnaire and using the photocopier to reduce the size of the questionnaire to fit the booklet format. This approach also gives the impression of a more professional approach.
7. Begin with questions that are more likely to be of interest to the respondent. This advice is linked to the issue of salience, but has particular significance in the context of research that may have limited salience for the respondent.
8. There is some controversy about how significant for response rates it is to personalize covering letters, by including the respondent’s name and address.
9. We are inclined to the view that, in general, questionnaires should comprise as few open questions as possible, since people are often deterred by the prospect of having to write a lot. In fact, many writers on the subject recommend that open questions are used as little as possible in self-completion questionnaires.
10. Providing monetary incentives can be an effective way of increasing the response rate, although it is very unlikely to be an option for most students undertaking project work or research for their dissertation. Incentives are more effective if the money comes with the questionnaire rather than if it is promised once the questionnaire has been returned. Apparently, respondents typically do not cynically take the money and discard the questionnaire! The evidence also suggests that quite small amounts of money have a positive

impact on the response rate, but that larger amounts do not necessarily improve the response rate any further.

The sample of my questionnaire is shown in Appendix 7. The questionnaire was distributed in two ways: handed over personally and submitted by email. The purpose of this research was to find out the general attitude towards M&A transactions, to figure out the main trends and to forecast whether M&A transactions in Lithuania have any development possibilities in the nearest future.

The questionnaire was given/sent out to 100 small and medium enterprises in Lithuania. The response/completion/return rate (or ratio of number of people who answered the survey divided by the number of people in the sample) was 71%, because 71 companies completed questionnaire. I think the response rate can definitely be considered as very good.

Mangione (1995) has provided the following classification of bands of response rate to the questionnaires:

- over 85% excellent;
- 70–85% very good;
- 60–70% acceptable;
- 50–60% barely acceptable;
- below 50% not acceptable.

According to Mangione's rating, the response rate is very good. Nevertheless, this can be justified by the fact that some of the questionnaires were handed over personally. In this case the recipient feels obliged to return the questionnaire as soon as it's completed. The drawback of sending the questionnaire by email is that the recipient might find himself/herself busy at the time of receiving the email, and he or she, with an intent to fill it in later, might actually never do it.

My first question was whether the company is planning to sell or buy the business. The responses are shown in Figure 19. The majority replied that they don't plan to sell or buy the business – whereas the majority replied that the are planning to buy or sell it.

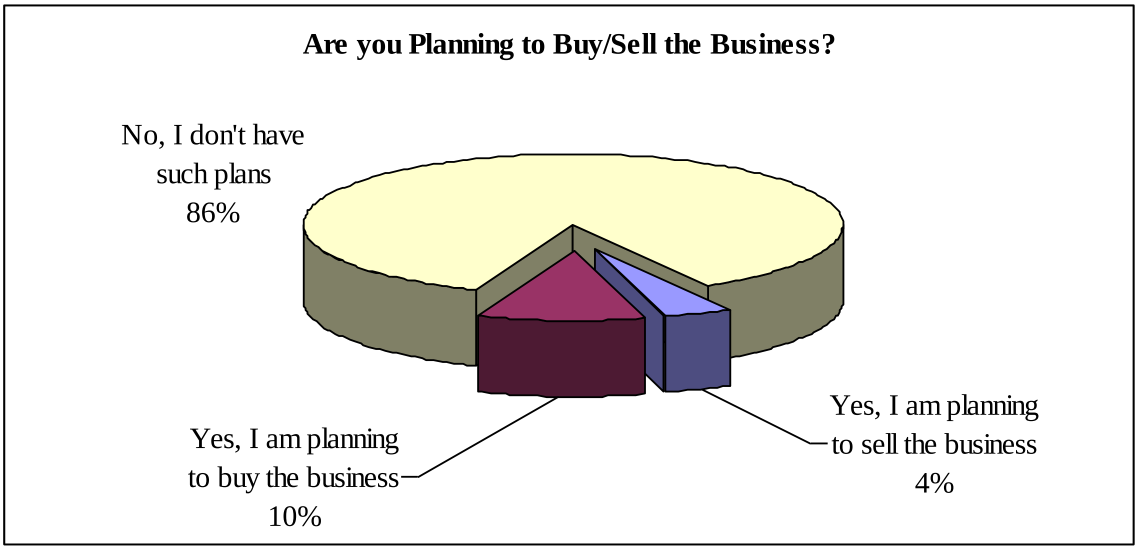


Figure 19. Plans regarding sale or purchase of the business.

The second question was whether, according to the correspondent, mergers and acquisitions were effective ways of expanding the business. The answers are shown in Figure 20. The majority replied that they really think that it's a good way of expanding the business.

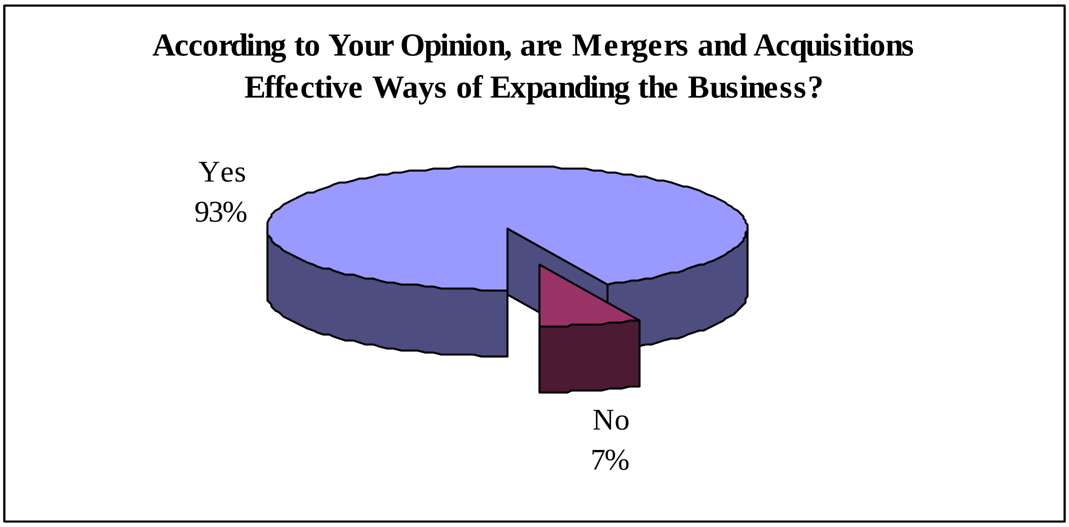


Figure 20. Answers to the question whether mergers and acquisitions are effective ways of expanding the business.

The third question was regarding the growth – would the correspondent prefer to grow through its own resources, slowly, or through acquiring/merging with another company (if it was possible). The replies are shown in Figure 21. Again, the majority says that they would prefer to grow through M&As, if they could. Of course, it should be taken into account that M&As require a big financial investment, hence I suppose this is the first boundary to involve in them. That's why the majority to the first question replied that they do not have plans to merge or acquire.

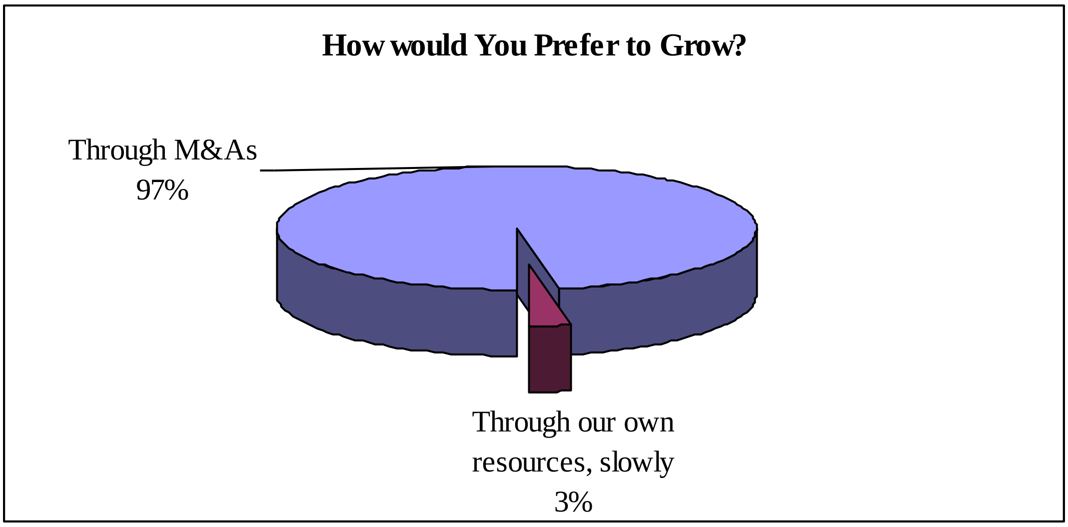


Figure 21. Responses to the question regarding way of growing.

The fourth and fifth questions were on determination of the most common motives, as shown in Figures 22-23. In the first part of my final thesis I have analyzed the main motives for M&As and the main one was decided to be growth. According to the questionnaire, 56% agreed with it. 24% said access to intangible assets were the most common and 20% it was something else, not the growth and not the access to intangible assets.

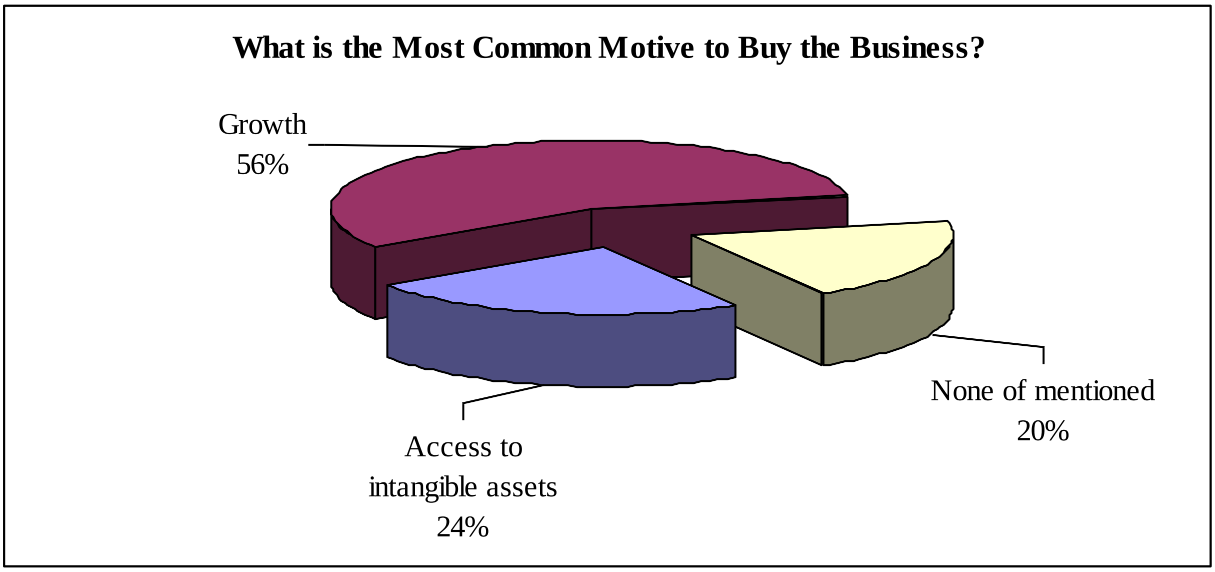


Figure 22. The most common motives in buying the business.

Same was asked about the selling the business. According to them, most of the respondents said that three factors are most common: getting the investment back, reaching the maximum / maximizing growth or decision to go out of the business. Lack of capital and none of the mentioned options were chosen by the least number of respondents, as seen in Figure 23.

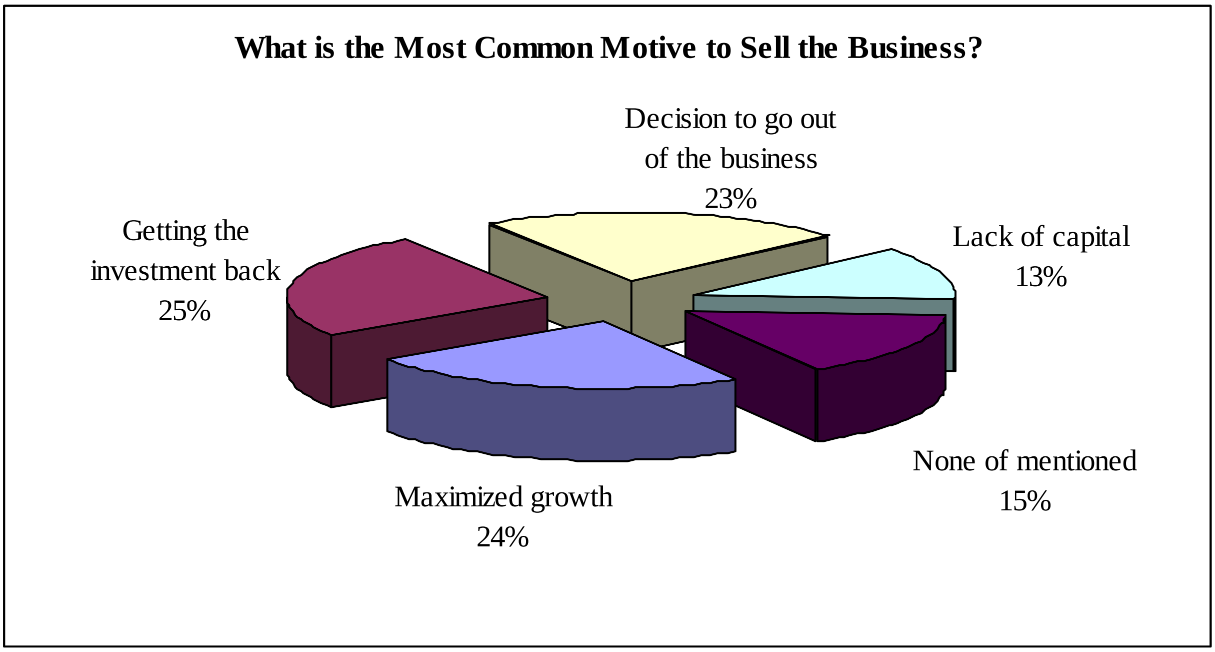


Figure 23. The most common motives in selling the business.

The sixth and seventh questions were whether the correspondent would consider buying or selling the business if he or she received an offer (Figure 24). The majority of respondents (51%) said they wouldn't consider buying the business

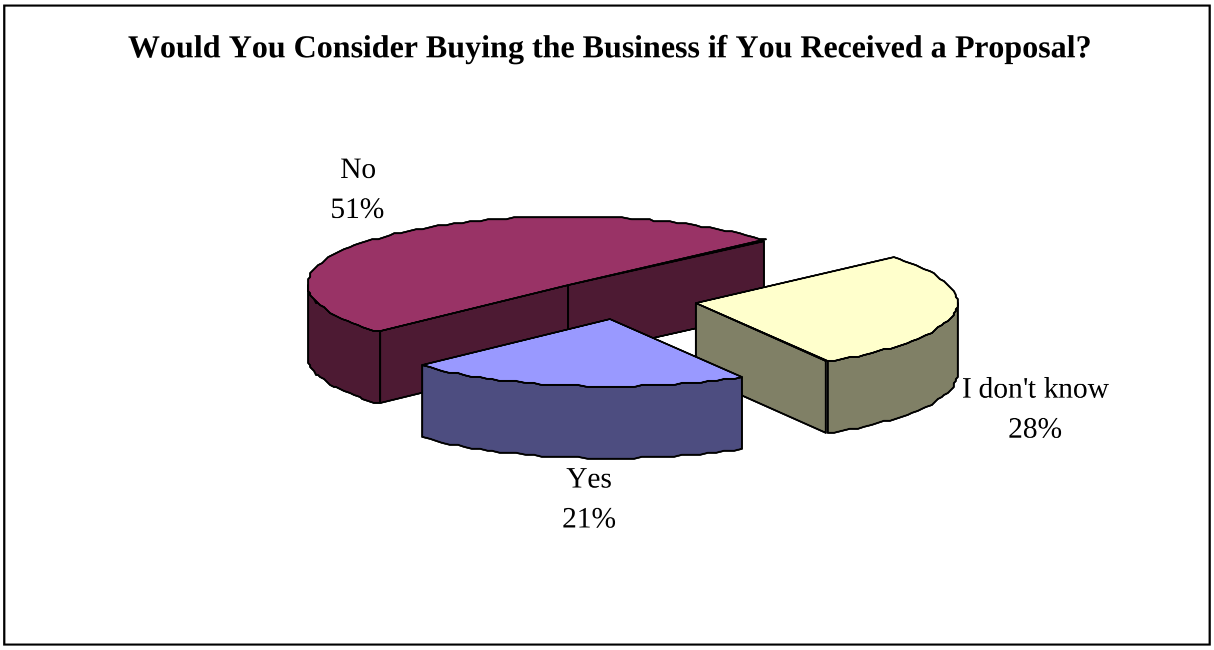


Figure 24. Replies to the question whether the company would consider buying the business if they received a proposal.

The replies to the following questions have another tendency: 43% said they would consider selling the business and 34% said they wouldn't.

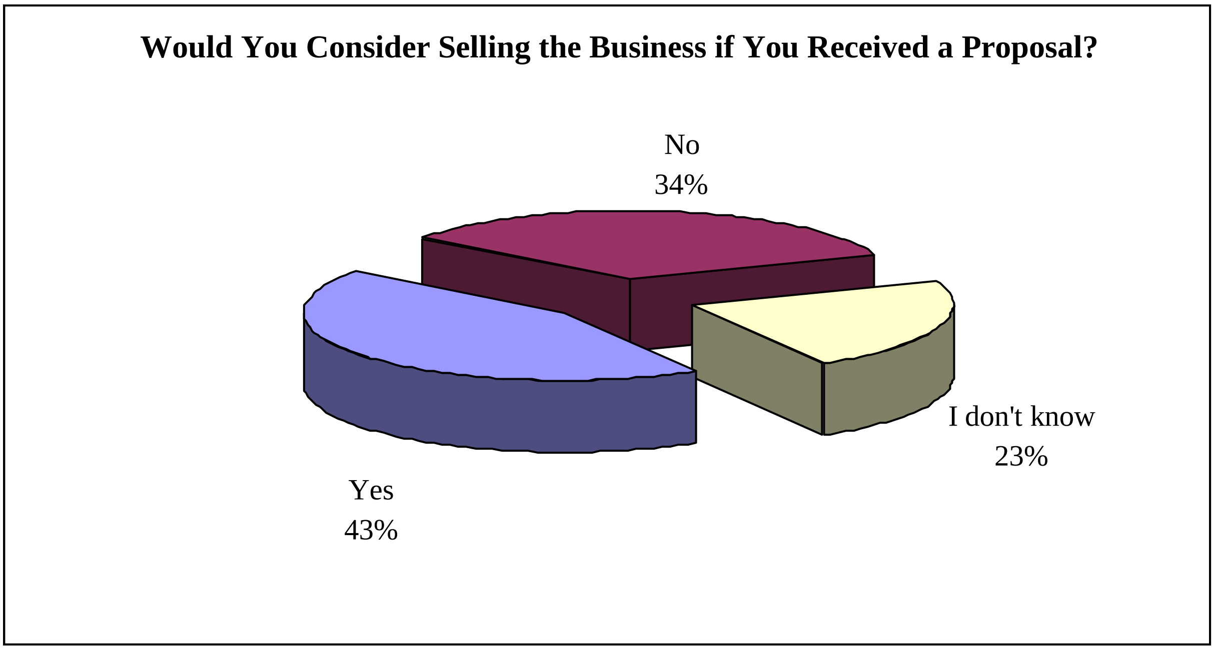


Figure 25. Replies to question whether the respondent would consider selling the business, if the proposal was received.

The eighth question was whether, according to the respondent, the number of M&A proposals would increase in Lithuania (Figure 26). The largest majority – 92% - says they think they would. 4% think that they wouldn't and another 4% do not know.

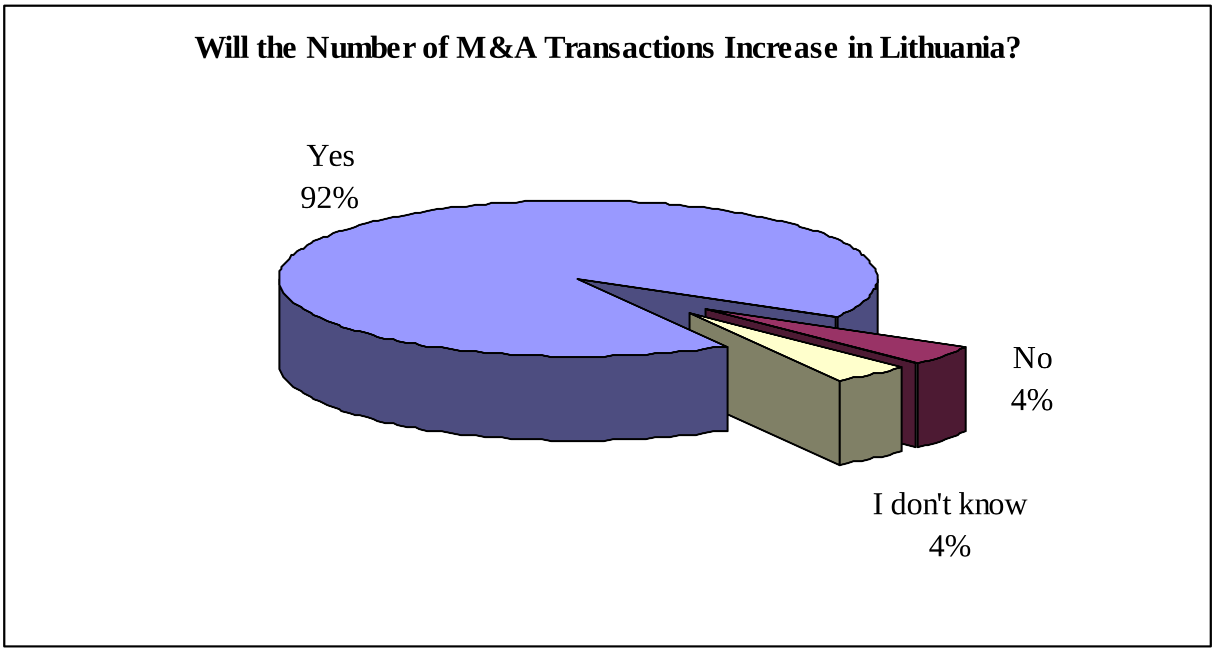


Figure 26. The responses the question whether, according to the correspondent, the number of M&A transactions will increase in Lithuania.

The ninth question was regarding the advisors – should the third party be involved in M&A transactions? The responses are shown in Figure 27. Again, the largest majority says it should. Indeed, involving the third party, lawyers, external consultants, who are competent in valuating companies, means having the professional advice on the possible outcomes of the transaction. Although the involvement of the third parties often means additional expenses, but it also helps objectively evaluate the current value.

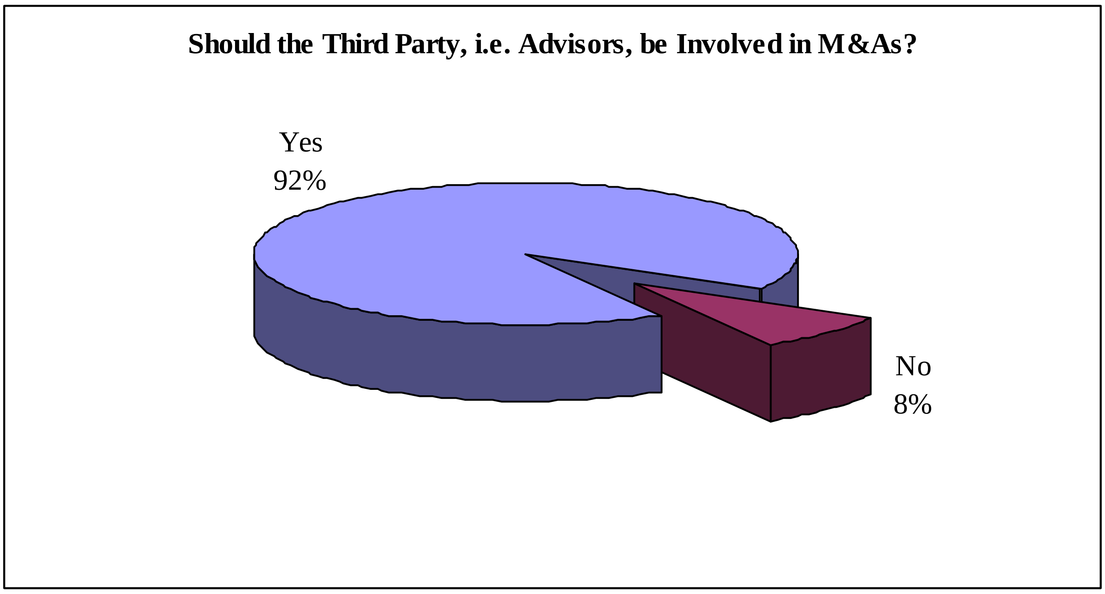


Figure 27. Responses to the question whether the third party, i.e. advisors, should be involved in M&A transactions.

Finally, the tenth question was whose opinion would the respondent involve in M&As (figure 28). 36% said they would involve lawyers, 35% - consulting companies, 14% - banks and 15% other.

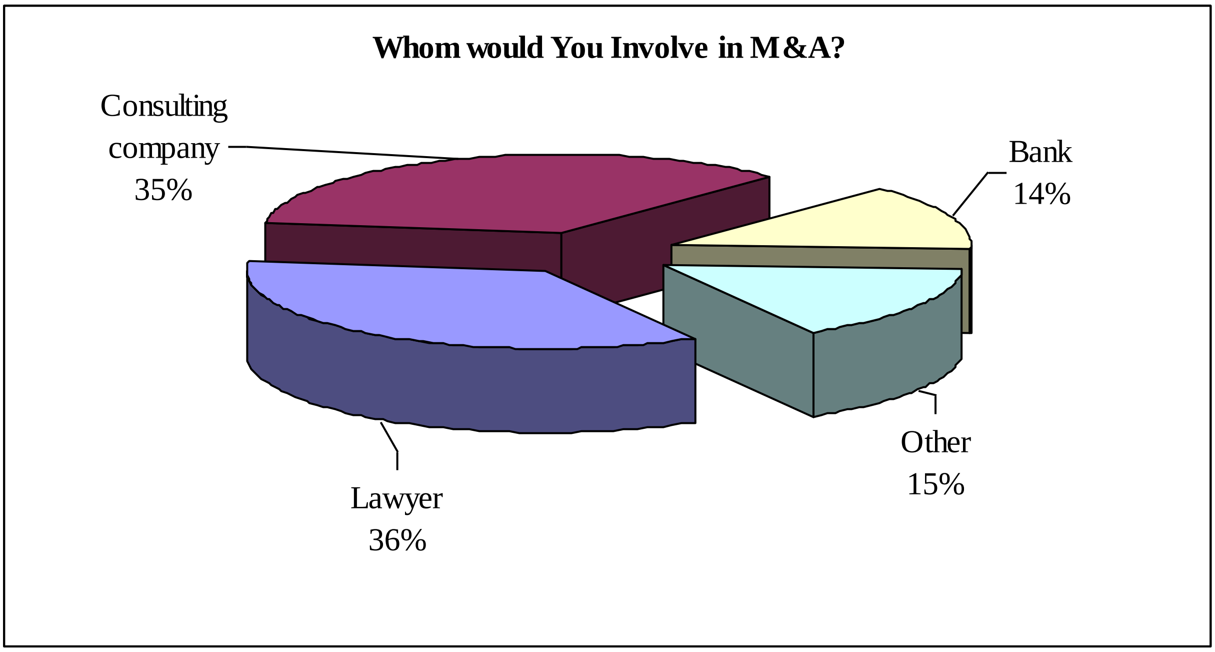


Figure 28. Responses to the question whom would you involve in M&A transactions.

To sum up the above research, it can be concluded that even though Lithuanian businessman agree that mergers and acquisitions are effective ways of expanding the business, today the majority questioned does not have the plans to buy or sell the business. Although they have also agreed that they would consider buying or selling the business. It was more businessmen who said they would consider buying the business, rather than selling it. Nevertheless, we must not forget that today the slowdown of economics also affects the business – if just a few years ago businessmen were interested in increasing their companies' value, today most of them are trying to survive the crisis in order to avoid the bankruptcy. Obviously, this determines the increased interest in selling the business. Of course, the current situation has also affected the potential buyers too. Nevertheless, the decrease of price should attract some potential buyers, especially the ones who currently hold some extras. This way the total number of transactions should be similar to previous years or even larger.

Finally, the largest amount of transactions today involves the third parties – this was also agreed by the respondents. Value of companies has increased dramatically, hence, even a small mistake can mean a lot for any M&A transaction (both from the seller and from the buyer side).

Conclusions

My final master thesis has analyzed the development possibilities in mergers and acquisitions in Lithuania. Nevertheless, before concentrating on Lithuanian case, I have presented the theoretical background on M&As and their importance in today's economy and strategic determinants of companies participating in the deals.

In order to complete the above task, the following conclusions can be made:

1. Mergers and acquisitions are a vital part of any healthy economy and the primary way that companies are able to provide returns to owners and investors.
2. Generally, M&A deals can be classified into horizontal (those among competitors or those operating in the same industry), vertical (deals between buyers and sellers) and conglomerate M&As (which occur between unrelated companies, not competitors and those which do not have a buyer-seller relationship). In addition, they can also be either domestic/national/local, which occur within the same country; and cross border, when the assets and operations of firms from different countries are combined.
3. Cross-border M&As are the main vehicle for foreign direct investment. They require expertise in the laws, economic conditions, cultural differences, social issues affecting the target company as well as knowledge of deal terms and structures, international financing techniques and human resource issues.
4. From the buyer point of view, strategic motives to undertake M&A deals are primary related to decision quickly grow (as opposed to slow growth through their own resources) and to get the access to intangible assets, namely, human capital, structural capital and customer capital. Other additional motives include the achievement of synergies, adjustment to changes, undervalued assets, mismanagement problems, tax savings and so on. From the seller point of view, the strategic motives to sell the business include the decision to turn equity into cash, growth maximization, peak in valuation, owner's retirement, lack of access to capital.

The theoretical part of my final paper was followed by the analysis, trends and future guidelines for M&A transactions worldwide. The following conclusions are made concerning this part of the final work:

5. The analysis of M&A waves in the USA, caused by a combination of economic, regulatory and technological shocks, revealed that the merger waves have become longer and more frequent. The time periods between waves also has shrunken. When these trends are combined with the fact that M&A has rapidly spread across the modern world, it is seen that the field is increasingly becoming an ever more important part of the worlds of corporate finance and corporate strategy.

6. The peak of M&A deals worldwide was in 2007, when the number of transactions overcame 43 000 and the volume exceeded 4 000 billion US dollars. More than 30% of all M&A transactions took place either in financial or energy and power sector. The biggest volume of deals took place in Americas and Europe (as compared to other continents), whereas the number of deals additionally involve Asia-Pacific too.
7. Today, due to the worldwide crisis, the activeness of M&A deals has started to slow down, since all countries are running much slower in comparison to the past. The following trends are likely to evolve:
   - companies and groups that have cash will be generating M&A deal activity;
   - companies will look for opportunities where acquisition could reduce target's cost and their cost in order to justify the acquisition;
   - troubled companies will look to align with larger and stronger companies in order to survives, thus creating the mergers of necessity;
   - once the economy turns around and everything stabilizes, there will be a return to M&A market;
   - no or very few mega-deals will take place.
8. The correlation regression analysis of the number of M&A deals dependence on the selected four factors – total value of M&A transactions, country's GDP, inwards FDI and outwards FDI – has revealed that the stochastic relationship exists between number of M&A deals and total M&A value; GDP; inwards FDI. The further – simple linear regression analysis – allowed to conclude that the equations $Y = 972{,}83 + 7.13 \cdot X1$, whereas $X1$ = M&A value and $Y = 592{,}30 + 0{,}70 \cdot X2$, whereas $X2$ = GDP can be used in planning and forecasting.

Finally, the third master thesis part contained the analysis of M&A development possibilities in Lithuania. Following the analysis completed, the conclusions are as below:

9. M&A deals in Lithuania started late, in comparison to the rest of the world: after restoring the independence, when the privatization of state capital started.
10. In Lithuania, companies with state/municipalities capital comprise the largest value of all capital. Foreign capital has been constantly increasing, since 2000. FDI has been increasing by approximately 22% up until 2009-01-01, when it decreased. Direct investment from Lithuania was smaller than country's FDI: if FDI on 2009-01-01 was 31 484 millions of litas, the country's direct investments were 4 877 millions of litas.
11. Lithuanian companies' decision to buy companies abroad are primary determined by motive to consolidate markets and to complete the current product portfolios.
12. The first cross-border M&A wave in Lithuania occurred in 1998-2001, the second one – after Lithuania joined the EU. The most common primary strategic motive for cross-border

M&A deals is entry or settling down in Lithuanian/Baltic market. It also justifies the rapid expansion of the companies.

13. The need to locally merge with another Lithuanian company or to acquire it is often because of the motive to increase the effectiveness of company’s activities or strengthen the position in the market due to intense internal and external competition. In addition, another strategic determinant is consolidation of the market.
14. M&A deals between Lithuanian companies are done through market consolidation, take-over of competitors, moving to another strategically important business areas and through terminating non-primary business activities.
15. Another type of M&A, common in Lithuania, is conglomerate M&As, in other words, deals completed by financial investors. The main motive behind this type of transactions is synergy. In this case both the level of investment and the investment period are limited, and the realization of investments is completed at the most convenient time, when the value is the largest.
16. Because Lithuanian market in its size is not big, the M&A transactions are relatively small. Mergers of big leading companies are limited by competition laws. In general, the amount of M&A transactions is small, because in the past years when the market was growing it was easy to start the business from the very beginning.
17. The completed qualitative analysis in mergers and acquisitions in Lithuania revealed that even most of the respondents agree on the benefits of M&A transactions, nevertheless, today they are not planning to buy/sell the business. The paradox is that the majority says they would not consider buying the business, if the proposal was received. There was no clear tendency on considerations of selling the business if the proposal was received.

To sum up, the development possibilities in mergers and acquisitions in Lithuania are positive and very likely, especially having in mind the challenging times business is facing.

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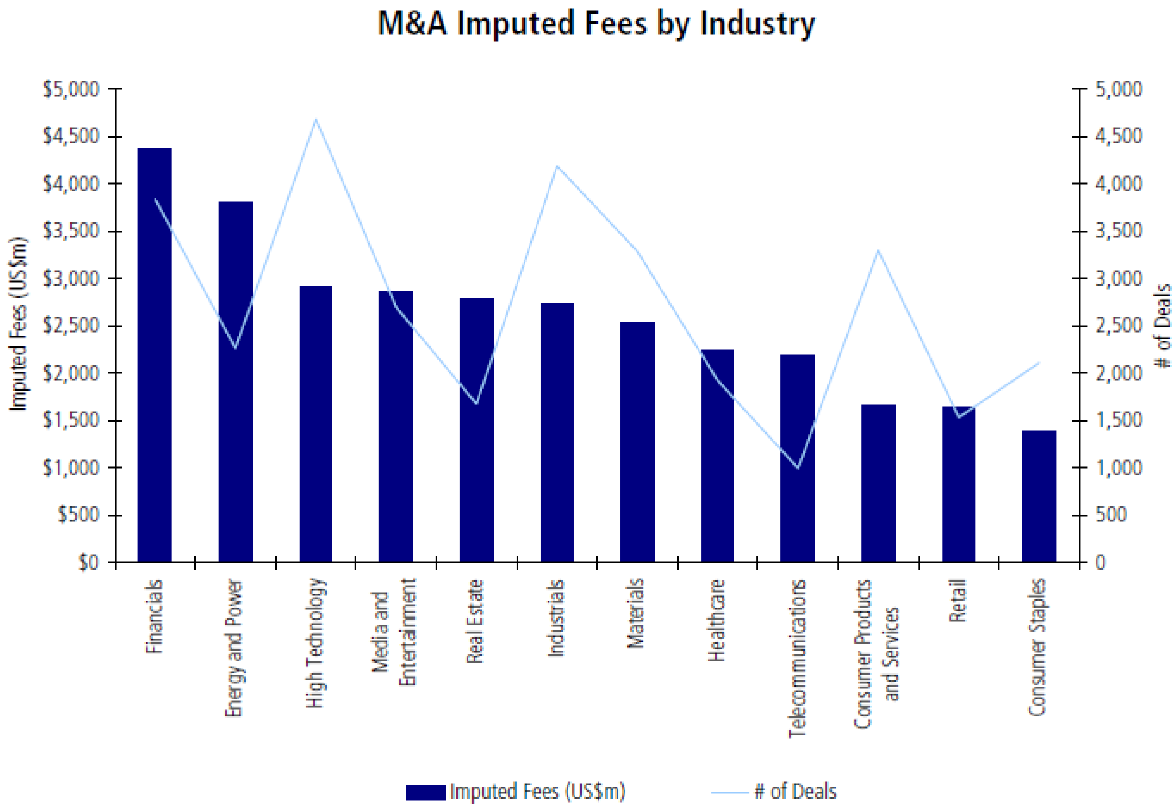
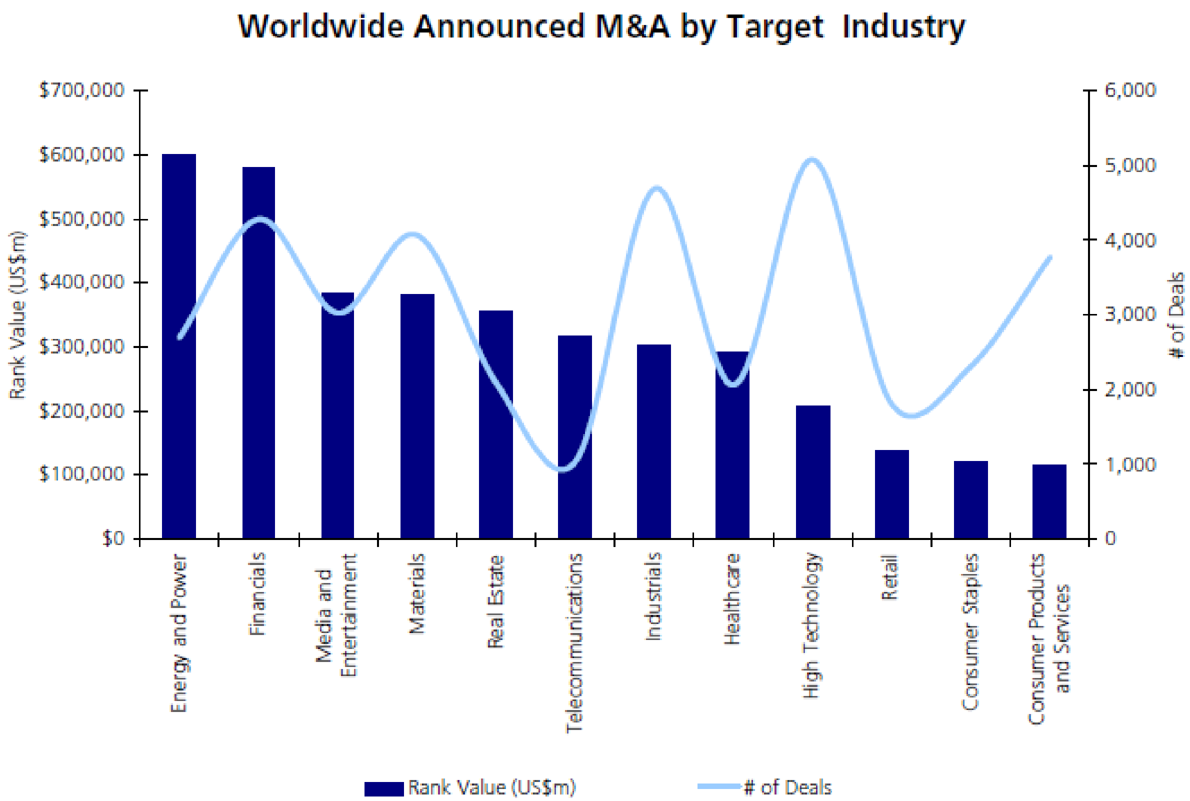
APPENDIXES

APPENDIX 1

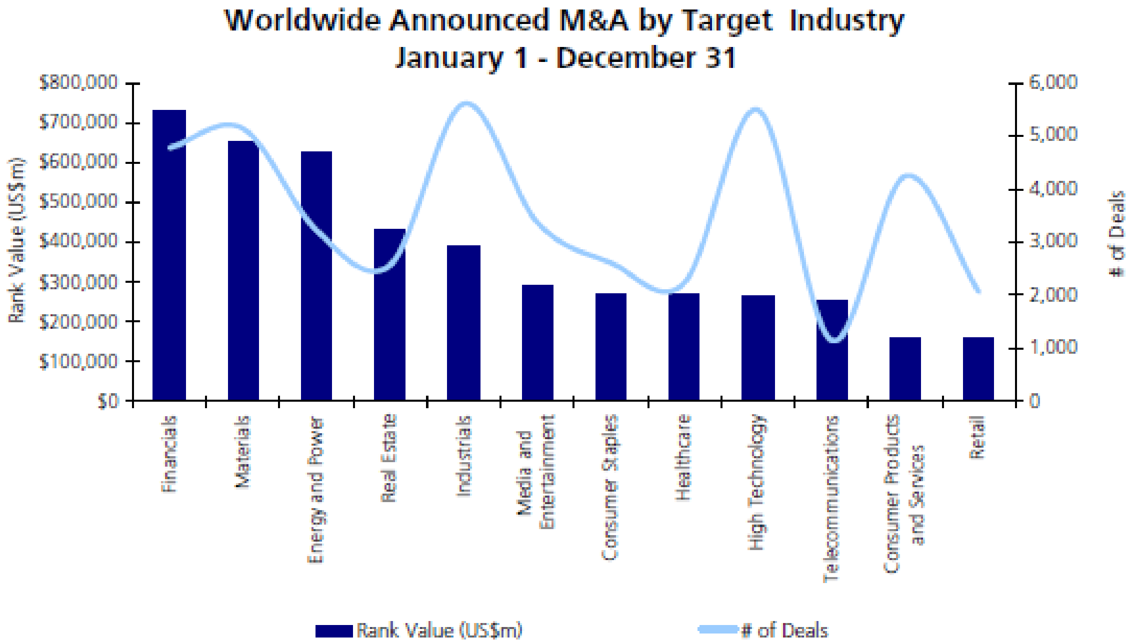
Year 2005



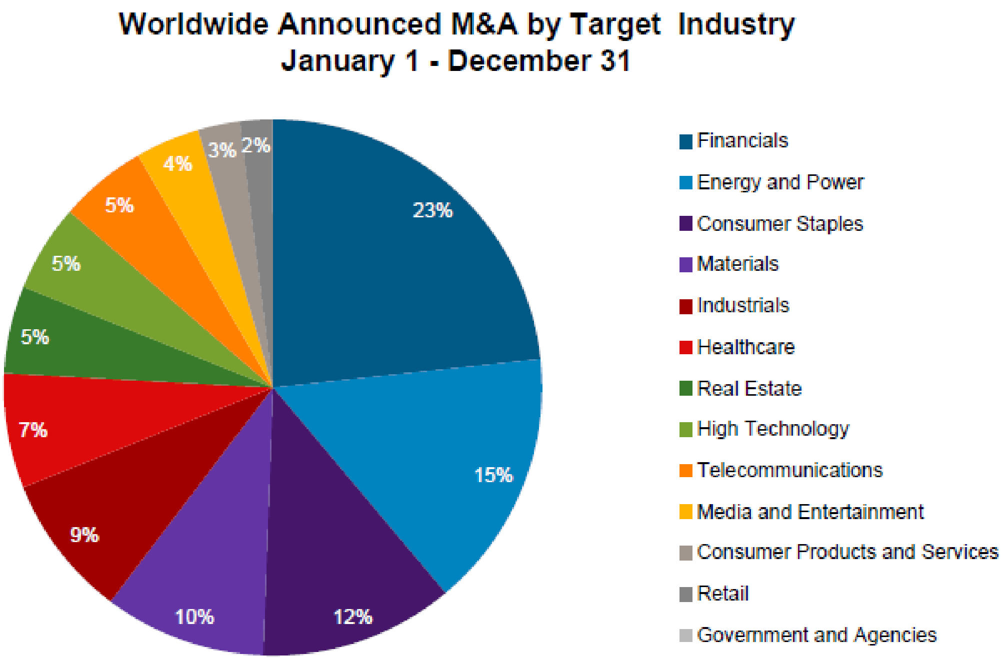
Year 2006



Year 2007



Year 2008



APPENDIX 2

M&A Activity
U.S. and U.S. Cross-Border Transactions

Includes public and private transactions

Year	Deals	Value($bil)[1]
2009	2,052	$201.6
2008	8,268	$865.7
2007	10,574	$1345.3
2006	11,750	$1484.3
2005	11,013	$1234.7
2004	10,296	$823.2
2003	8,232	$530.2
2002	7,411	$441.6
2001	8,545	$683.0
2000	11,123	$1268.6
1999	9,628	$1387.4
1998	8,047	$1283.4
1997	7,848	$674.8
1996	5,862	$469.1
1995	3,510	$356.0
1994	2,997	$226.7
1993	2,663	$176.4
1992	2,574	$96.7
1991	1,877	$71.2
1990	2,074	$108.2
1989	2,366	$221.1
1988	2,258	$246.9
1987	2,032	$163.7
1986	3,336	$173.1
1985	3,001	$179.8
1984	2,543	$122.2
1983	2,533	$73.1
1982	2,346	$53.8
1981	2,395	$82.6
1980	1,889	$44.3
1979	2,128	$43.5
1978	2,106	$34.2
1977	2,224	$21.9
1976	2,276	$20.0
1975	2,297	$11.8

1974	2,861	$12.5
1973	4,040	$16.7
1972	4,801	$16.7
1971	4,608	$12.6
1970	5,152	$16.4
1969	6,107	$23.7
1968	4,462	$43.6
1967	2,975	N/A
1966	2,377	N/A
1965	2,125	N/A
1964	1,950	N/A
1963	1,361	N/A
1962	1,260	N/A

(1) Value is the Base Equity price offered.

APPENDIX 3

M&A Activity
U.S. Industry Rankings for 2009

Includes public and private transactions

Rank	Classification	Deals	Value($mm)[1]
1	Computer Software, Supplies & Services	387	$9,336.2
2	Miscellaneous Services	262	$3,855.3
3	Brokerage, Investment & Mgmt. Consulting	156	$9,348.0
4	Wholesale & Distribution	101	$273.5
5	Drugs, Medical Supplies & Equipment	89	$117,024.7
6	Health Services	78	$176.8
7	Construction Contractors & Eng. Svcs.	74	$2,311.2
8	Banking & Finance	69	$17,461.2
9	Insurance	59	$2,068.5
10	Retail	55	$159.7
11	Leisure & Entertainment	51	$2,508.8
12	Industrial & Farm Equipment & Machinery	41	$344.6
13	Instruments & Photographic Equipment	41	$2,268.6
14	Electric, Gas Water & Sanitary Services	41	$1,487.6
15	Communications	38	$100.9
16	Electrical Equipment	37	$1,480.5
17	Printing & Publishing	35	$74.0
18	Electronics	28	$7,374.2
19	Food Processing	27	$111.1
20	Beverages	25	$6,374.9
21	Chemicals, Paints & Coatings	24	$8,877.2
22	Real Estate	24	$506.2
23	Energy Services	23	$644.1
24	Transportation	22	$51.1
25	Mining & Minerals	21	$2,594.3
26	Plastics & Rubber	18	$118.0
27	Office Equipment & Computer Hardware	17	$957.6
28	Broadcasting	16	$464.5
29	Oil & Gas	15	$3,465.4
30	Apparel	14	$288.9
31	Fabricated Metal Products	14	$208.1
32	Automotive Products & Accessories	13	$16.7
33	Aerospace, Aircraft & Defense	13	$14.7
34	Miscellaneous Manufacturing	11	Undisclosed
35	Household Goods	10	$16.3
36	Agricultural Production	10	$91.2
37	Textiles	10	$172.6
38	Valves, Pumps & Hydraulics	8	Undisclosed
39	Primary Metal Processing	8	$125.8

40	Paper	7	$10.0
41	Toiletries & Cosmetics	7	$412.3
42	Toys & Recreational Products	7	Undisclosed
43	Building Products	6	$22.5
44	Construction Mining & Oil Equip & Mach.	6	$46.1
45	Autos & Trucks	4	$52.0
46	Timber & Forest Products	4	$8.8
47	Stone, Clay & Glass	4	Undisclosed
48	Furniture	3	Undisclosed
49	Packaging & Containers	2	Undisclosed

(1)Value is the Base Equity price offered.

APPENDIX 4

M&A Activity Europe Industry Rankings for 2009

Includes public and private transactions

Rank	Classification	Deals	Value($mm)(1)
1	Computer Software, Supplies & Services	60	$1,329.2
2	Miscellaneous Services	44	$872.6
3	Brokerage, Investment & Mgmt. Consulting	24	$4,629.7
4	Drugs, Medical Supplies & Equipment	18	$5,160.6
5	Industrial & Farm Equipment & Machinery	17	$61.8
6	Instruments & Photographic Equipment	17	$124.6
7	Wholesale & Distribution	14	$138.5
8	Construction Contractors & Eng. Svcs.	13	$51.0
9	Electric, Gas Water & Sanitary Services	12	$9.2
10	Communications	12	$102.4
11	Mining & Minerals	12	$4,632.3
12	Insurance	10	$2,005.7
13	Health Services	9	$4.8
14	Chemicals, Paints & Coatings	8	$1,782.9
15	Electronics	6	$128.7
16	Leisure & Entertainment	6	$625.3
17	Transportation	6	$16.3
18	Printing & Publishing	6	$39.0
19	Retail	6	$58.2
20	Food Processing	5	$71.4
21	Office Equipment & Computer Hardware	5	Undisclosed
22	Beverages	5	$645.1
23	Broadcasting	5	$50.2
24	Aerospace, Aircraft & Defense	4	$14.7
25	Energy Services	4	$165.3
26	Banking & Finance	4	$160.5
27	Miscellaneous Manufacturing	4	$160.9
28	Primary Metal Processing	4	$623.0
29	Valves, Pumps & Hydraulics	4	Undisclosed
30	Plastics & Rubber	3	$1.5
31	Fabricated Metal Products	3	Undisclosed
32	Electrical Equipment	3	Undisclosed
33	Building Products	3	$22.3
34	Apparel	2	Undisclosed
35	Automotive Products & Accessories	2	$26.7
36	Construction Mining & Oil Equip & Mach.	2	Undisclosed
37	Oil & Gas	2	Undisclosed
38	Stone, Clay & Glass	2	Undisclosed

39	Textiles	1	Undisclosed
40	Toiletries & Cosmetics	1	$411.5
41	Toys & Recreational Products	1	Undisclosed
42	Paper	1	Undisclosed
43	Household Goods	1	Undisclosed
44	Autos & Trucks	1	Undisclosed
45	Agricultural Production	1	Undisclosed

(1)Value is the Base Equity price offered.

APPENDIX 5

Capital Distribution of Companies in Lithuania

Year	2000	2001	2002	2003	2004	2005	2006	2007
Foreign capital (million of litas)	4824.699	5076.689	6065.76	6431.129	6940.644	7642.766	8153.022	8397.685
Private capital (million of litas)	9613.121	10201.685	10783.845	10751.318	13463.207	14628.035	15322.781	14492.004
Country and municipalities capital (million of litas)	15768.64	15509.104	15018.107	15185.936	15337.672	15945.165	15480.396	18050.108
Total (million of litas):	30206.46	30787.478	31867.712	32368.383	35741.523	38215.966	38956.199	40939.797
Foreign capital (%)	15.97%	16.49%	19.03%	19.87%	19.42%	20.00%	20.93%	20.51%
Private capital (%)	31.82%	33.14%	33.84%	33.22%	37.67%	38.28%	39.33%	35.40%
Country and municipalities capital (%)	52.20%	50.37%	47.13%	46.92%	42.91%	41.72%	39.74%	44.09%

Value adapted from Statistics Department of Lithuania on
http://db1.stat.gov.lt/statbank/default.asp?w=1280

APPENDIX 6

The Biggest Privatization Transactions of Companies in Lithuania

Transaction Year	Company Name	Privatized Capital Amount to Authorized Capital, %	Selling Price (thousand LTL)
1999	AB "Klaipėdos jūrų krovinių kompanija" (KLASCO)	90	200000
1999	AB "Lietuvos draudimas"	70	105200
1999	AB "Klaipėdos hidrotechnika"	95	11200
1999	AB "Klaipėdos era"	52	850
1999	AB "Anykščių kvarcas"	47.05	1960
1999	AB "Danga"	57.54	790
1999	AB "Sportinė aviacija"	100	50
1999	AB "Šilutės durpės", BĮ UAB "Laukėsa - WTL", UAB "Gedrimų durpės"	40.29; 49; 11	4530
1999	AB "Žalvaris"	69.9	1200
1999	AB "Titnagas"	70.84	1200
1999	AB "Klaipėdos transporto laivynas"	80.89	83000
		Total of largest transactions through 1999:	409980
2000	AB „Geonafta"	80.94	52000
2000	AB „Ventus nafta"	90.33	5500
2000	AB „Drobė"	68.39	19200
2000	AB „Ortopedijos technika"	56.62	8000
2000	AB „Pajūrio viešbučiai"	100	8000
2000	AB „Antrimeta"	70.9	3350
2000	AB „Įkrova"	70	
2000	AB „Metalo laužas"	70	
2000	AB „Antriniai metalai"	70	
2000	UAB „Švenčionių vaistažolės"	99.71	3500
2000	AB „Vilniaus buitinė chemija"	66.1	460
2000	AB „Naujasis Vilnius"	87.14	11300
2000	UAB„Klaipėdos alba"	59.95	98
2000	AB „Uostamiesčio žiedas"	67.17	1000
2000	AB "Šilunga"	69.38	350
2000	AB "Panevėžio aviacija"	100	100
2000	UAB "Vilniaus agrochemija"	70.67	18
2000	UAB "Daukšių aerodromas"	100	200
2000	UAB "Pajūrio Alka"	69.55	1800
2000	AB "Statybos apdailos mašinos"	91.4	1
2000	AB "Kuro aparatūra"	33.48	651
2000	UAB "Lietuvos vystymo bankas"	59.26	23889
		Total of largest transactions through 2000:	139417
2001	AB „Biosintezė"	69.72	500
2001	AB Vilniaus farmacijos fabrikas	53.17	530
2001	AB „Tvoklė""	89.69	600

2001	AB „Dilikas“	74.15	260
2001	AB „Mažeikių automobilių keliai“	100	1 300
2001	AB „Lietuvos jūrų laivininkystė“ (LISCO)	76.36	190400
2001	AB Lietuvos taupomasis bankas	90.73	150000
2001	UAB „Sporto“ viešbutis	94.43	1000
2001	UAB „Zokvija“	100	3000
2001	AB „Vilma“	97.08	5600
2001	UAB Leidybos centras	100	2200
2001	AB „Takioji Neris“	71.2	5800
		Total of largest transactions through 2001:	359890
2002	AB Lietuvos žemės ūkio bankas	76.01	71000
2002	AB „Lietuvos dujos"	34	116000
2002	AB „Šilutės automobilių keliai“	100	4220
2002	AB „Pajūrio viešbučiai“	100	6201
2002	AB Kauno aviacijos gamykla	100	1740
2002	AB „Eglės sanatorija“	94.53	8572
2002	AB „Rietavo veterinarinė sanitarija“	100	3 520
		Total of largest transactions through 2002:	207733
2003	AB „Suskystintos dujos“	92.36	7150
2003	AB „Klaipėdos transporto laivynas“	80.89	48668
2003	AB „Šiaulių energetikos statyba“	85.72	2060
2003	AB „Aušra“	91.78	5555
2003	AB „Stumbras“	91.95	152001
2003	AB „Vilniaus degtinė“	82.27	20700
2003	AB Gelžbetonio atramų gamykla	85.72	5360
2003	AB „Vakarų skirstomieji tinklai“	77	539846
2003	AB spaustuvė „Spindulys“	84.31	1949
2003	AB „Krašto projektai“	36.48	2202
2003	AB „Granitas“	41.65	1490
2003	UAB „Palangos Agila“	100	850
		Total of largest transactions through 2003:	787830
2004	AB „Alita“	83.77	58050
2004	AB „Lietuvos dujos“	34	100000
2004	UAB Lietuvos kino studija	100	14150
2004	AB „Kruonio hidroakumuliacinės elektrinės statyba“	85.72	2100
2004	AB „Nacionalinė vertybinių popierių birža“	44.31	5014
2004	AB „Lietuvos centrinis vertybinių popierių depozitoriumas“	32	582
2004	AB „Elektros viešbutis“	8572	4600
2004	AB „Anykščių vynas“	72.93	25610
2004	AB „Klaipėdos laivų remontas“	70.01	5 200
2004	AB “Eutelsat S.A.”	0.05	2676
2004	AB “Klaipėdos duona”	20	2163
2004	UAB “Forumas”	21.85	584
2004	UAB “Minera”	100	628
2004	Hotel in Smiltynės St. 17, Klaipėda	-	1188
		Total of largest transactions in 2004:	217344
2005	AB „Elektros tinklų statyba“	85.72	8108
2005	AB „Spauda“	68.69	10551
2005	UAB draudimo įmonė Lietuvos eksporto ir importo draudimas	99.92	21062
2005	AB „Kietaviškių gausa“	98.81	5200

2005	UAB „Eismas“	100	11110
2005	AB aviakompanija „Lietuvos avialinijos“	100	25778
2005	AB „Mažeikių elektrinė“	85.72	17800
2005	AB „Radviliškio mašinų gamykla“	26.81	496
2005	UAB “Saistas”	53.77	926
2005	UAB “Kauno signalas”	100	703
		Total of largest transactions in 2005:	101733
2006	AB Lietuvos telegramų agentūra ELTA	39.51	1777
		Total of largest transactions in 2006:	1777
2007	UAB „Birštono šaltinis“	51	10250
2007	UAB „Lietuvos“ sanatorija	100	31151
2007	UAB „VETA“	46.94	600
		Total of largest transactions in 2007:	42001
2008	AB „Panevėžio stiklas“	34.22	3252
2008	AB „Vilniaus Sigma“	15.21	2094
		Total of largest transactions in 2008:	5345

Adapted from annual reports published by State Property Fund on

http://www.vtf.lt/index.php?option=com_content&view=article&id=34&Itemid=29

APPENDIX 7

Questionnaire

1. Are you planning to sell or buy the business?
   - Yes, I am planning to sell the business
   - Yes, I am planning to buy the business
   - No, I don't have such plans
   - I have never thought of that

2. Do you think that mergers and acquisitions are effective ways of expanding the business?
   - Yes
   - No

3. Would you prefer to grow:
   - through your own resources?
   - through acquiring another company (if you could)?

4. In your opinion, what is the most common motive to buy the business:
   - growth
   - access to intangible assets (human capital, customer capital, etc)
   - none of the above

5. In your opinion, what is the most common motive to sell the business:
   - due to its maximized growth
   - to get the investment back
   - decision to go out of the business
   - lack of capital
   - none of the above

6. Would you consider the proposal to buy the business, if you received one:
   - yes
   - no

- I don’t know

7. Would you consider the proposal to sell the business, if you received one:
   - yes
   - no
   - I don’t know

8. What do you think, will the number of M&A transactions increase in Lithuania?
   - yes
   - no
   - I don’t know

9. Do you think it is crucial to involve the third party (i.e. adviser) in mergers and acquisitions?
   - yes
   - no

10. Whose opinion would be involve in mergers and acquisitions:
    - lawyer
    - consulting company
    - bank
    - other