

The impact of M&A deals on companies' post-M&A performance: Evidence from TMT sector

The TMT (Technology, Media and Telecommunications) sector is of particular interest to investors as it is the world's fastest growing sector. One of the ways of strategic development in the period of universal digitalization for TMT companies is participation in mergers and acquisitions. It is especially important for such companies to become an acquirer, since this sector is inherent in the principle "eat or be eaten". TMT sector leads in terms of the deal value (US\$ 9 521,88 billion; 19,19 % of global) and ranks second among all sectors in terms of deal number – 48 630 M&As (17,94 % of global) from 2006 to 2021¹. Such companies are forced to develop faster in order to maintain competitive advantages and meet the needs of society. Business needs goods and services of this sector especially after the start of COVID-19.

The study of M&As remains one of the most popular and important areas for researchers in corporate finance. There is a special interest in studying the impact of M&As on the post-M&A performance, especially for high-tech companies. Most researchers apply the *Event study methodology*. The essence of this method actually considers decisions about M&As and their value, but not the value of implementation of these decisions (Haleblian et al., 2009). In order to assess the exact impact of M&As, we must be based on the long run. Many researchers also use methodology based on the study of changes in accounting indicators (*Accounting studies methodology*) (Healy et al., 1992; Manson et al., 1994; Switzer, 1996; Dickerson et al., 1997; Ghosh, 2001; Linn & Switzer, 2001; Heron & Lie, 2002; Sharma & Ho, 2002; Powell & Stark, 2005; Pazarskis et al., 2006; Martynova et al., 2007; Devos et al., 2009; Dutta & Jog, 2009; Bertrand & Betschinger, 2012; Rani et al., 2020; Tsung-Ming, Hoshino, 2000; Yeh & Hoshino, 2002; Papadakis & Thanos, 2010; Rao-Nicholson et al., 2016; Ocieszak, 2020; Fees et al., 2021; Sun et al., 2021).

Unlike most studies we examine the impact of M&As at the sector level, based on the study of changes in *accounting indicators*, as well as in the *Economic profit indicator*. The study of changes in accounting indicators allows us to judge only about changes in the operating performance. Comparison of the results obtained on the basis of both methods give us the opportunity to draw more accurate conclusions. Moreover, it allows us to conclude the creation or non-creation of value as a result of M&As initiated by companies from the TMT sector. There are only a few studies the authors of which analyzed post-M&A companies' value based on the *Economic Profit (EP)*, *Economic Value Added (EVA)* and the *residual income valuation model (RIV)* (Sirower & O'Byrne, 1998; Yook, 2004; Guest et al., 2010; Singh et al., 2012; Kan & Ohno, 2012; Grigorieva & Abuzov, 2012; Leepsa & Mishra, 2013; Hassan & Giouvris, 2019). Most of

¹ Data presented by White & Case (<https://mergers.whitecase.com/>)

these studies are based on samples of M&As with companies from developed countries. And there are no studies the authors of which examined the impact of M&As at the sector (industry) level based on this type of analysis.

Our study contributes to the existing empirical research, the authors of which examine the M&A performance in several directions: 1) we study the impact of M&As, initiated by companies from the TMT sector in both developed and emerging capital markets; 2) we assess the M&A performance based on the *operating performance* indicators and *Economic profit* measure and compare the obtained results; 3) we study the latest time period (M&As completed over the period 2003-2018).

Our study consists of three steps. Firstly, we assess the impact of M&A deals on the post-M&A companies' operating performance (*change model*). Secondly, we examine the impact of M&A deals on the post-M&A company's value using economic profit measure as a proxy (*change model*). Thirdly, we identify and investigate the determinants of the post-M&A operating performance (*regression analysis*). There are not many studies with this type of analysis. In addition, we take into account pre-M&A performance of both acquirer and target company and make industry adjustments in order to exclude industry trends.

We collected M&As data from the Thomson Reuters Eikon Database completed over the period 2003-2018 applying the following criteria: countries: all; status of the deal: completed; deal value: at least \$US 10 million; acquirer and target public status: public; number of participants: one acquirer and one target; number of deals in which the acquirer and the target took part during the study period: one; acquired stake: $\geq 50\%$.

As a result of a multi-stage data selection, we obtained 203 M&As for a total amount of US\$ 142 898, 94 million. The majority of acquirers in our sample belong to the Technology group (153 M&As or 75,37%). The number of M&As with acquirers from the Media group amounted to only 20 or 9,85 %. This result is related to one of our sampling limitations: we excluded serial M&As. The number of M&As involving acquirers from the Telecommunications group amounted to 30 or 14,78%. In our sample we have more M&As with acquirers from developed countries (186 deals or 91,63%). Most of M&As in our sample are domestic (154 or 75,9%) and cash-financed (77 out of 203 M&As).

Our empirical results can be summarized as follows. (i) There is a positive impact of M&As initiated by companies from the TMT sector on the post-M&A performance of the combined company. (ii) *Operating performance* indicators and *Economic profit* measure work in the same direction. (iii) Domestic and stock-financed M&As are more profitable. (iv) Industry relatedness of the deal participants and acquirer's CAPEX intensity before the deal have a positive impact on

the post-M&A results. (v) Acquirer's R&D intensity before the deal has a negative impact on the post-M&A performance due to the substitution effect.

Scientific novelty of the study is dictated by the fact that there are not many studies the authors of which assess the impact of M&As based on a particular sector or industry. The lack of such research leads to inconsistent results (Choi et al., 2020). Moreover, most of the studies are based on the evaluation of the profitability indicators and ignore the importance of the company's value.

The professional significance of the study lies in the need to examine the impact of M&A deals initiated by companies from the TMT sector, which is the leader in the number of mergers and acquisitions. However, there are no unambiguous conclusions about the impact of these M&As on the post-M&A performance of the combined company.

Our findings have practical implications for TMT companies' managers – motivation for them to participate in M&As. These results may also be useful for investors and shareholders who can create their own forecasts for the future companies' results.