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# How to create value from mergers and acquisitions

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Making an acquisition work is an acid test for any chief executive officer (CEO). A key problem is the tendency for combining companies to pay too little attention to revenue growth and to focus almost exclusively on cost synergies as markets frequently demand rapid results. Companies that serve its existing and acquired customers better by prudently integrating business models, rationalising products and services, and integrating the existing information technology platforms are in superior positions to balance revenue growth with cost reductions. These companies are also likely to boost their chances of pulling off successful acquisitions. Here is how.

Mergers and acquisitions (M&A) have bounced back in the UK and internationally for the first time since the end of 2000. Unsolicited bids took centre stage in the first quarter of 2006, as cash-rich companies around the world launched an unprecedented number of hostile bids, fueled by low borrowing costs. Companies have raised a record amount from the global bond markets in the first quarter of 2006, spurred by a need to finance acquisitions and by rising investment in capital expenditure[1]. World-wide investment-grade companies have borrowed the equivalent of £287.47 billion ($513.34 billion), according to data from Dealogic. This is an increase of almost 19% from the same period in 2005, and a jump of 50% from the fourth quarter of 2005.

The bulk of the borrowing came from the US and Europe, where debt markets are more developed (see Figure 1). These two geographies accounted for 34% and 40% respectively, compared with 5.3% for Japan, China and South Korea combined. Bumper size deals related to merger and acquisitions led the way.

There were 38 unsolicited bids with a total value of £135bn ($234bn) announce world-wide in the first quarter of 2006 – the second biggest quarter for unsolicited bids since the fourth quarter of 1999. The threat of shareholder activism has made CEOs hasten plans which would have otherwise been dormant. As a consequence, there has been a significant rise in hostile takeover in the first three months

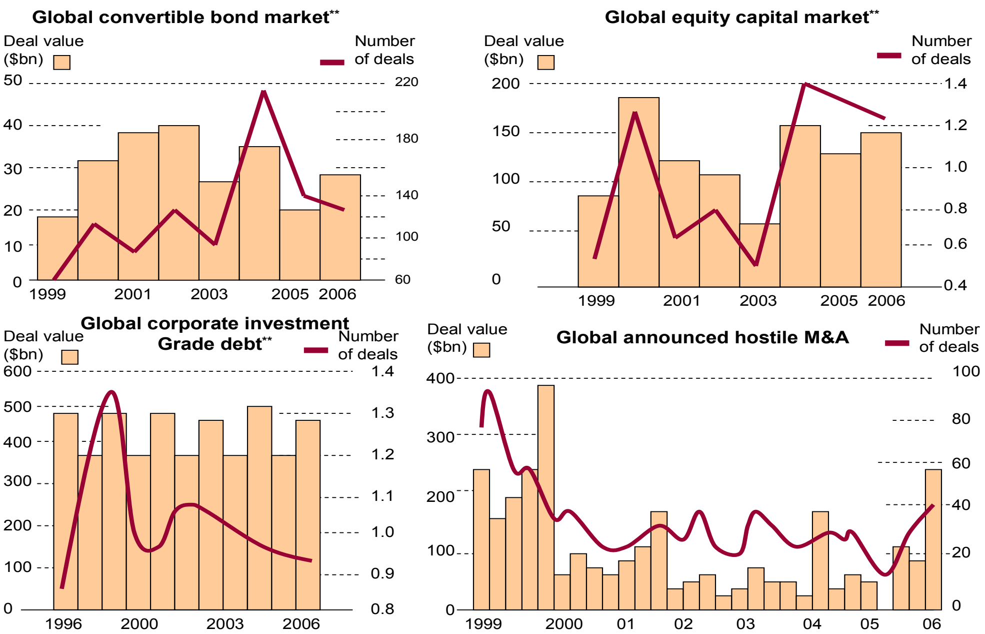


**Figure 1:** *Funding needs push borrowing to record level and global M&A [Source: Dealogic, Sirius & Co Analysis]*

| Rank | Adviser | Deal Value ($bn) | No. of Deals |
|---|---|---|---|
| 1 | Citigroup | 296.28 | 51 |
| 2 | Goldman Sachs | 296.26 | 70 |
| 3 | JP Morgan | 271.93 | 96 |
| 4 | Lehman Brothers | 255.57 | 47 |
| 5 | Merrill Lynch | 227.90 | 67 |
| 6 | UBS | 204.83 | 85 |
| 7 | Morgan Stanley | 184.06 | 56 |
| 8 | Deutsche Bank | 171.30 | 49 |
| 9 | BNP Paribas | 143.84 | 22 |
| 10 | Rothschild | 133.69 | 82 |

**Figure 2:** *Global M&A rankings, Q1 2006 (Source: Dealogic, Sirius & Co Analysis)*

of 2006. The majority of these bids have taken place in the utilities sector, with three deals announced worth £37bn ($66bn), including the bid from Germany's Eon for Endesa of Spain. The rush of unsolicited bids helped to push the value of global M&A to £710.72bn ($912bn) in the first quarter of 2006, an increase of 35% on the same period in 2005.

With takeover premiums remaining low, many CEOs think there is a good chance that they can get their deals done at reasonable prices (such as Aviva's optimistic bid for Prudential in March 2006). Citigroup appears to have replaced Goldman Sachs in the league table rankings for financial advisers in the first quarter of 2006 (see Figure 2).

Although the value of the European M&A increased 125% to a record £213.50bn ($413.4bn), the number of deals rose by only 9% as the average deal size doubled. The US failed to match the M&A fever sweeping the world, with just £170.24 ($304bn) worth of deals announced since January 2006, a fall of 10% on the same quarter of 2005. From our analysis, we found that US companies still demonstrate a clear preference for horizontal consolidation within the same industry, while Europeans favour vertical integration, suggesting that they are more willing to be broader in scope.

In the UK, the value of completed deals in 2005 rose by 45% to £114 billion, from £78 billion in the comparable period of 2004. Foreign takeovers of the UK companies have been on the rise (see Figure 3). The major deals so far included the purchase of $O_2$ by Telefonica, Abbey National by Banco Santander, Royal Bank of Scotland's acquisition of Charter One Financial, and Aviva's acquisition of RAC. Internationally, the figures were lifted by numerous prominent, high-value deals. They included the newly merged Sanofi-Aventis, the French pharmaceutical group and the acquisition by JPMorgan Chase, the investment bank, of Bank One.

## Beware of the synergy trap

Any shareholder, whose company is planning a large acquisition, should be aware and any CEO considering a takeover should be encouraged to read Warren Buffett's unimprovable lesson on the subject, written 25 years

| Date | Deal Status | Target | Acquirer | Value (£bn) |
|---|---|---|---|---|
| 30 May 2000 | Completed | Orange | France Telecom | 46.3 |
| 20 October 1999 | Completed | Orange | Mannesmann | 35.3 |
| 31 October 2005 | Completed | $O_2$ | Telefonica | 31.7 |
| 17 March 2006 | Pending | BAA | Ferrovial | 21.5 |
| 21 April 2005 | Completed | Allied Domecq | Pernod; Fortune Brands | 17.8 |
| 26 July 2004 | Completed | Abbey National | Banco Santander | 16.8 |
| 6 March 2006 | Pending | BOC Group | Linde | 15.7 |
| 18 March 2001 | Completed | Billiton | BHP | 14.5 |
| 9 April 2001 | Completed | PowerGen | Eon | 13.8 |
| 6 August 1999 | Completed | One2One | Deutsche Telekom | 13.6 |

**Figure 3:** *Top ten foreign acquisitions of UK companies since 1995 (Source: HM Revenue & Customs; ONS and Sirius & Co Analysis)*

ago [2]. A study in 2005 by the University of Exeter's Centre for Finance and Investment found that in the five years after a deal, the total return on investment (ROI) underperformed by an average of 26%, compared with shares in companies of similar size. Their work also showed that the effect of acquisitions on share price and dividends varied according to whether the bids were hostile or non-hostile and whether they were equity-financed or cash-backed. The underperformance on share-based deals is 36% over five years, relative to non-acquisitive companies.

The proportion of takeovers that end up damaging the acquiring company's shareholders ranges from 50% to 80%, depending on whose research is read. Mark Sirower of the New York University Stern School of Business put the figure at 65% in his 1997 book *The Synergy Trap.* In how many other cases would the board of a company sanction a course of action that had such a high record of failure and destroy shareholder value?

## Look beyond profit and loss (P&L) statement

When evaluating acquisitions, companies must look beyond the lust for profits the P&L statement promises and examine the balance sheet, where the company keeps track of capital. Our analysis of 100 major acquisitions between 2004 and 2006 shows that ignoring balance sheets caused 84% acquisitions to destroy shareholder's value. The reasons?

First, the acquiring company is paying a premium for its target. In other words, it is paying more for the target than its shareholders would pay if they bought the target company's shares themselves. That premium is invariably justified by the acquiring company on the grounds that it can find "synergies" or ways of cutting the acquired company's costs, often by merging activities of the two companies. There are several reasons why these synergies usually turn out to be illusory. The buying company frequently finds it did not understand its new acquisition as well as it thought it did. Often, putting the two organisations together absorbs so much management time that day-to-day business suffers. The two companies' information technology (IT) systems may be incompatible. When acquisitions are presented as complementary, the companies often fail to decide which of their ways of doing things should prevail.

The safest option appears to be not to acquire other companies at all. The paradox, however, is that some of the world's most successful companies make acquisitions, sometimes hundreds of them. In an intensely competitive business climate, fueled by globalisation and service industrialisation, whether CEOs like it or not, most of them recognise that their companies cannot succeed without making acquisitions. It has become virtually impossible to create a world-class company through organic growth alone. Most industries grow at a relatively slow pace, but investors expect companies to grow quickly. Not everyone can steal market share, particularly in mature industries, like banking and insurance. Sooner or later, companies must turn to acquisitions to help fill the gap.

But, acquisitions can be a treacherous way to grow and that the record of success is rather poor. Yet our research shows that every large international financial services company with sales greater than £10 billion grew through extensive acquisitions. It's not hard to see why. New products and customers are essential for growth, and it's cheaper to buy new products and/or customers than to develop or grow them.

## What is the secret of creating value from acquisition?

First, avoid mega deals. They are often the true disasters: remember Vivendi and AOL Time Warner. Our analysis of over 1,500 acquisitions between 1986 and 2005 showed that the most successful acquirers do a lot of deals, and they do deals more or less continually, and that the average deal size is small. The other key to acquisition success is to understand how your business makes money and to ensure that your purchase supports rather than undermines that. Not understanding this is what dooms so many acquisitions to failure. The acquisition of US manufacturer Newell of Rubbermaid in 1999 was an example of how not to do it. Both companies sold household products through the same channels, they thought synergies would be easy to find. They were not. In 2002, Newell wrote off £265 million in goodwill related to the acquisition. It is tempting to brush off the failure as a lack of due diligence or an error in execution. However, the truth is that the deal was flawed from the start. The companies made their money in different ways. Newell sold workaday products at low prices. Rubbermaid's products were more distinctive and fetched premium prices. The two companies had different production processes and cost structures; they used different value propositions to appeal to customers. If Newell's executives had remained focused on the company's own basis of competition - being a low-cost producer - they would have seen from the outset that Rubbermaid was incompatible. By contrast, Kellogg's acquisition of Keble, the cookie and cracker company, in 2001 as a success. Kellogg had reacted to the fall in the number of people eating breakfast cereals by promoting its cereal bars, a fast-growing market. But it realised it needed a quicker way of getting its bars on the shelves - hence the attraction of Keebler, which took its products directly to the stores. Kellogg had understood how it made money. As a result, it made an acquisition that enhanced its existing strengths rather than damaging shareholder value.

## The recipe for success

Companies acquire other companies for many reasons. For example, to get access to new technologies, products and services to serve existing customers; to get brands, trademarks, patents and talent; to get market-share; but the most significant reason is to acquire customers.

Therefore, to succeed, the acquirer needs to serve its existing and newly acquired customers better than before. This means a successful and value enhancing acquisition demands the smooth integration of *business models,* rationalisation of *products and services,* and rapid creation of a *technology* platform. But the task often plunges the CEO responsible for ensuring the savings into uncharted territory (see *Whose business is IT?* by Pal). Confronted by an immediate technical challenge, companies typically choose one of two questionable routes. Some, fearing costs and complexity, never fully rationalise and consolidate their acquired technologies, products and services and thus gain few synergies. Others focus on the promise of synergy gains and improved performance but, in their haste, simply choose one information system over another, often alienating both customers and employees.

CEOs might consider looking to post-merger consolidation in the banking sector for guidelines that can provide a better approach in other sectors, such as insurance, telecommunications, and pharmaceutical. Financial services companies tend to have complex operational structures, often with many brands and product sets. An acquirer's potential synergies are best viewed as a series of concentric circles (see Figure 4). Those close to the centre tend to be cost reduction synergies, which can be realised quickly and are likely to succeed. Those on the outside are revenue generating synergies, which require lot of time and management, and are less likely to succeed.

Yet even amid the complexity of operational structures, many brands, and product sets, it is possible to structure an approach that taps into synergies, serves customers with services at least as well as they were served before, and achieves suitable trade-offs among internal parties. To consolidate these structures for maximum synergy and minimal customer disruption, it is necessary to revitalise the IT functions that underpin them. We have found that this process must include two sets of rational actions:-

- First, companies must find the middle ground between a rapid consolidation that promises to capture synergies quickly and a slow one that focuses on a smooth experience for customers. This is done by aggregation of services and products offered (see *Why integrate when you can aggregate?* by Pal), and by creation of a technology platform.
- Second, the merging companies must simultaneously balance the requirements of existing and newly acquired customers and disparate interest groups within each company (see **Don't Re-engineer - Reinvent** by Pal).

## Three pillars of performance

Based on our experience of working with large companies which grew by mergers and acquisitions, we have developed a framework, call *Pillars of Performance*, which sets out the three basic principles needed to maximise synergy as described below.

### 1. Business integration

**The internal strategy:** To apply the acquiring company's best business and management disciplines to the acquired company while preserving the independence of the experienced managers of the acquired company.

**The customer retention strategy:** To sell more of the acquiring company's products to the acquired company's existing customer base and visa versa (i.e., cross-selling).

**Compensation:** Key managers of the acquired company to be equally rewarded for generating cross selling business in line with the acquiring company's practice.

**Countering bad business:** The acquiring company to introduce regular meetings of key management to analyse the economic situation and identify the sectors and customers that might be in trouble for selling inappropriate products or services.

**Integrating cultures, values:** Superior cultures must be re-established and the acquired company's out-date culture and values will not prevail.

### 2. Product & service rationalisation

**The acquired company:** The acquiring company to introduce its systems, processes, and services for assessing the acquired company's customers, and marketing relevant products to improve customer lifetime value (CLV). Renewed focus on providing higher quality service for profitable and loyal customers.

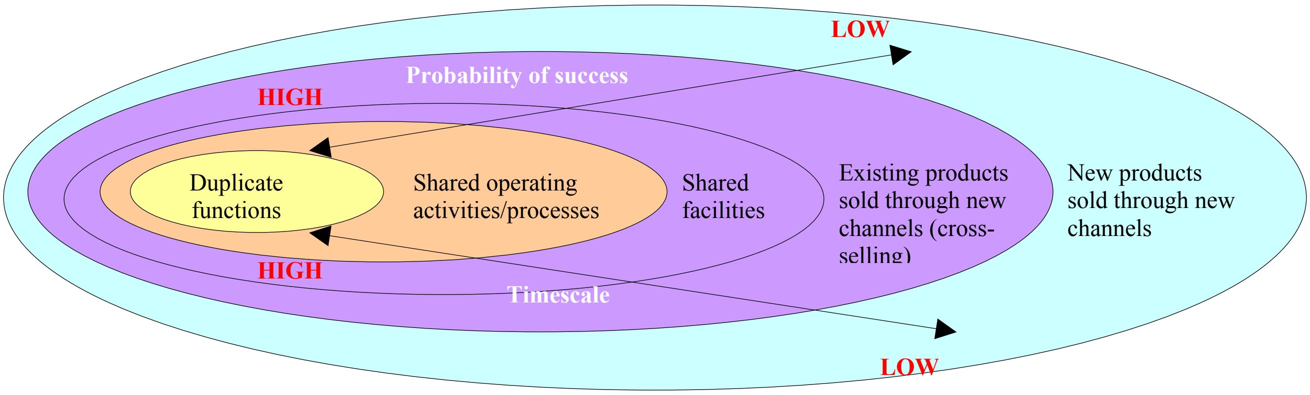


**Figure 4:** *Acquirer's potential synergies model*

**Service and process rationalisation:** Acquiring and acquired companies to use "gap analysis" - going through the business units, spotting the differences between the practices and processes employed by the two organisations and choosing the better of the two. Acquired company's processes will not always prevail.

**Consolidating operations and functions:** This makes sense since prospering in a deregulated world will depend on how closely the combined organisations can work together to generate new income. Some horizontal functions, such as human resources, finance, IT, supply chain could be consolidated and subsequently be a part of a shared services organisation located onshore or offshore. In addition, multiple call centres could be merged, and where appropriate, located offshore.

### 3. Technology integration

**Decouple customer facing applications and backend infrastructure:** To make the acquisition work, the combined company moved from an IT environment, where individual business units controlled both IT infrastructure and customer-facing applications, to a tiered architecture, where control over the customer facing applications is consolidated with customer-focused teams.

**Develop a shared IT infrastructure platform:** By developing a shared technology infrastructure platform, CEOs can effectively address the challenges they face whilst maximising the return from previously lost IT investments and improving the productivity.

## Productivity Matters – Improve it

High performing companies are successful, in large part, because they did not cherry-pick where and when to implement service and/or process improvements. They went for total reinvention with an integrated approach. Indeed, we found that they initiated a near-simultaneous assault on seven business areas:

1. **Governance** ensures that IT and the company are going in the same direction, that they have a way to measure progress, and that they can adjust their course. Senior management from the different business units, geographies, and all support functions work with IT in determining the company's technology direction.
2. **Strategy and planning** articulate business direction and the technology needed to achieve business goals. This process creates a picture of what IT should look like three years, or more, from now and provides a high-level road map for how to get there.
3. **Demand management** ensures that the company can identify the services needed to satisfy customer needs and requests. It includes portfolio management (making sure that everyone who should be included in a project budget is included); joint business unit and IT operational planning and budgeting; and a customer representative program, in which IT and business unit managers jointly develop future plans, manage budgets, and ensure that the right services are provided.
4. **Service offering management** is the company's primary reason for being. This consists of consumer identification and segmentation, service planning, sourcing, service production, product delivery, customer support, and customer satisfaction. It is the place where demand meets supply.
5. **Market intelligence** shows the company how their services and costs compare to others. Internal staff interview their counterparts in other IT organisations; service offering executives interview product managers from suppliers. The objectives are to validate what they are doing right and to identify where they can improve.

6. **Value creation analysis** is an objective and rigorous process that helps the IT and services people understand the value it adds under different sets of circumstances. A company can use this analysis to determine whether to turn to an external supplier or an internal source (their own IT organisation) when they need something, and to sort out the roles each should play.

7. **Performance measurement and regular communication** tells the company and their customers and other stakeholders how they are doing. Service levels are driven not only by strategy, but by customer needs.

## Decide on momentum

Rapid consolidation may garner immediate synergies, but it also typically drives away 8% or more of the acquired customer base. The customers, who do stick around, can face service disruptions or lost policy or account information. One British insurance company that undertook a fast-paced consolidation effort found itself in an even worse position. The company not only saw its customers flee, its revenues decline, and its employees' morale suffer but also soon discovered that its established application and technology architectures could not support planned additional product features and functionality upgrades. The merged company quickly met its projected cost synergies, but the benefit was fleeting. Because of the additional costs, the merger didn't meet its targets.

Slower consolidation may impose less stress on customers and employees, but it can also be expensive and delay the capture of synergies indefinitely. Our calculations for one company found that every month the consolidation was delayed represented an opportunity cost of up to 7% of the targeted annual synergies. Even real costs are not always immediately apparent. One large US bank, for example, sought to protect its customers and to avoid the

| | Overcapacity Acquisition | Geographic roll-up Acquisition | Product and/or Market Extension Acquisition | Acquisition as R&D | Industry Convergence Acquisition |
|---|---|---|---|---|---|
| Example | Daimler-Benz acquire Chrysler | Royal Bank of Scotland buys Charter One Financial | Quaker Oats buys Snapple | Cisco acquires 60+ companies | SBC buys AT&T; Sprint buys Nextel |
| Strategic Objectives | The acquiring company will eliminate capacity, gain market-share, and create a more efficient operation | A successful company expands geographically; operating units remain local | Acquisition extend a company's product line or market-share, or its international coverage | Acquisition is used in lieu of in-house R&D to build a market position quickly | A company bets that a new industry is emerging and tries to establish a position by culling resources from existing industries whose boundaries are eroding |
| Major Management Challenges | You cannot run a merged company until you have rationalised it, so decide what to eliminate quickly.<br>If the acquired company is as large as the acquiring company and its processes, culture and values differ greatly, expect trouble. Nothing will be easy.<br>If it is a merger of equals, expect both companies' management groups to fight for control.<br>These tend to be one-off events, so they're especially hard to pull off. | Members of the acquired group may welcome your streamlined processes. If they don't, you can afford to ease them in slowly.<br>If a strong culture is in place, introduce new values with extreme care. Use carrots, not sticks.<br>These are win-win cases, and they often go smoothly. | Know what you are buying: the further you get from home, the harder it is to be sure.<br>Expect cultural and governmental differences to interfere with consolidation.<br>The bigger you are relative to the acquired company, the better your chances for success.<br>Less overlap in product lines, better opportunities for cross-selling<br>The more practice you have, the better your chances for success. | Build industrial strength evaluation processes so that you buy first class business.<br>This category allows no time for slow assimilation, so cultural due diligence is a must.<br>Put first rate, well-connected executives in charge of consolidation. Make it a high visibility assignment.<br>Above all else, hold on to the talent if you can. | Give the acquired company a wide berth. Consolidation should be driven by specific opportunities to create value, not by a perceived need to create a symmetrical organisation.<br>As a top manager, be prepared to make the call about what to integrate and what to leave alone. Also, be ready to change that decision. |

**Figure 5:** *Distinct acquisitions mean different management challenges*

costs of consolidation by keeping its own system separate from those of its numerous acquisitions. Yet it discovered that it was actually spending more on technology - to maintain and upgrade so many different systems - than its competitors were and was also inconveniencing the customers whose service it had sought to protect. With various branches still running on different systems, the bank's acquisitions generated neither significant customer benefits nor the optimal synergies. To manage the trade-offs, companies must manage consolidation with one eye on the synergies they want to realise from it. In other words, they must quickly identify target products, technology and systems platforms, product gaps, transition processes, and specific customer sets - and then create a detailed and comprehensive road map for the consolidation team to follow meticulously. The result should be a complete overview of the way a company plans to get from today's environment to the future one. The best road map will explain in detail how the company will realise every anticipated source of synergy.

## Leadership matters

Acquisitions come in several distinct flavours, and each type present CEOs with a different set of challenges. Most corporate acquisitions represent different strategic objectives and, based on our work, occur for five reasons:-

1. To deal with overcapacity through consolidation in mature industries;
2. To roll-up competitors in geographically fragmented industries;
3. To extend into new products and markets;
4. To use the acquired entity for research and development (R&D);
5. To exploit eroding industry boundaries by investing in an industry.

It is necessary to link the strategic objectives to the result. For example, if a CEO acquires a company because his industry has excess capacity, he has to figure out quickly which plants to close and which people to lay off. On the other hand, if a CEO acquires a company because it is developing an attractive product, the CEO's challenge is to hold on to the acquisition's best people. These two scenarios require the acquiring company to engage in nearly opposite management behaviours. Figure 5 shows the acquisition strategies, distinct activities, which in turn mean differing management challenges.

As difficult as it is to get the timing right, sorting out the needs of separate and powerful interest groups of both companies can be even tougher. In retailing, for example, such groups include the merchants who create promotions, the information technology staff, and the operations employees who manage the customer interface - with all of them jockeying to manage or influence the consolidation process. In banks, these groups include business units, product specialists, and IT. But most banks simply relinquish control to the technology specialists in IT. Not surprisingly, technology specialists tend to push for the best solutions from an IT perspective; indeed, important business decisions about the combined entity's product offerings may be based on how easy or difficult they are to implement technologically. In contrast, a business unit that takes the lead may become overly protective of its customers by limiting any changes that might affect them or its business practices—and not worrying about the enormous technology costs it may be incurring.

At financial services companies, we have found that product specialists, despite their inherent biases, are best suited to play a balancing role in this triangle of players - not business units or the technology staff. In most financial services organisations, such as a bank, the product units are responsible - during business-as-usual situations - for maintaining and developing a profitable portfolio of products in line with the needs of customers. These units therefore serve as the focal point for balancing those needs (defined by the business units) with the cost of meeting them (dictated by the technology side). As concerns about the cost of consolidating systems yield to the benefits of customer retention and revenues, the leadership of the product units will be all the more beneficial for companies.

When the technology side claims that upgrading the IT systems will be too complex a task, for example, the product side can ask: "Exactly how complex will it be?" "What resources are required?" "What are the implications for other IT projects?" and similar questions. When the business units worry about the revenue implications of failing to cross-sell a given product, the product specialists can demand to know its true revenue impact and profitability, get information about other, similar products that are available, and so on. Ideally, the product side mediates by taking the group, product by product, through the portfolio rather than allowing the discussion to progress only on a project-by-project basis or to become focused solely on customers.

## Talent due diligence – a must

Most companies do a good job of financial due diligence when they acquire other companies. But all too frequently, deal makers ignore or underestimate the significance of people issues in mergers and acquisitions. Obviously, the implications are severe. Most importantly, there's a high degree of talent loss after a deal's announcement. To make matters worse, differences in decision-making styles lead to infighting; integration stalls; and productivity declines.

The good news is that talent due diligence can help companies avoid these problems. Done early enough, it helps acquirers decide whether to embrace or kill a deal and determine the price they are willing to pay. It also lays the groundwork for smooth integration. When acquirers have done their homework, they can uncover capability gaps, points of friction, and differences in decision making. Even more important, they can make the critical "people" decisions - who stays, who goes, who runs the combined business, what to do with the rest - at the time the deal is announced or shortly thereafter. Making such decisions within the first four weeks is critical to the success of a deal. Hostile situations clearly make things more difficult, but companies can and must do a thorough talent due diligence to reduce the fallout from the acquisition process and smooth the integration[3].

## What does all this mean for the new CEOs?

Most companies make acquisitions to grow, because the core business is not growing enough, while the CEO is under pressure to reinvest cash from operations. Therefore, is M&A the best answer? Consider what these companies have in common: BP, Tesco, Goggle, Johnson & Johnson, UBS, Starbucks and Wal-Mart. These companies have been exceptional performers and they maintained P/E multiple consistently higher than the market and their competitors. That is an extraordinary achievement, but one cannot help noticing two other common traits. First, these companies have been preeminent growth companies generating nearly double the revenue growth of FTSE 100 and S&P 500, succeeding at what all those corporate acquirers are trying to do. Secondly, most of these companies do not make many acquisitions, and the few they make tend to be small. Our analysis indicates that the success of these companies is due to their understanding of customers' needs and exceptional services – often better than companies that have grown mostly by acquisitions.

So, are acquisitions a bad idea to grow a company? Not at all. What it means is that consolidating two companies' *business*, *products* and *services* and *technology* is complex and time-consuming. Companies come together for many reasons - to achieve economies of scale, to increase profitability, to capture new markets. Yet, while there may be total clarity of intent in the design of mergers and acquisitions, the outcomes are often unpredictable. That is because strategies are ideas – pure with clear lines. But, companies are living things – complex and cumbersome. Senior executives structuring the deals forget they are integrating cultures and people. Those people see their lives changing. They become stressed and anxious. Star players often leave. Some good people under-perform. Some behave badly. By actively involving representatives of all the key interest groups in mapping out a consolidation strategy, senior executives can better meet the needs and expectations of customers while at the same time vigorously pursuing the anticipated synergies of the acquisition.

**NOTES**

1. "Bumper deals related to M&A help push borrowing to record", by Jennifer Hughes and Paul J. Davies, Financial Times, 31 March 2006.
2. *"Many managements apparently were overexposed in impressionable childhood years to the story in which the imprisoned handsome prince is released from a toad's body by a kiss from a beautiful princess. Consequently, they are certain their managerial kiss will do wonders for the profitability of Company T(Target). Such optimism is essential. Absent that rosy view, why else should the shareholders of Company A(Acquisitor) want to own an interest in T at the 2X takeover cost rather than at the X market price they would pay if they made direct purchases on their own? In other words, investors can always buy toads at the going price for toads. If investors instead bankroll princesses who wish to pay double for the right to kiss the toad, those kisses had better pack some real dynamite. We've observed many kisses but very few miracles. Nevertheless, many managerial princesses remain serenely confident about the future potency of their kisses - even after their corporate backyards are knee-deep in unresponsive toads."* by Warren Buffett (1981).
3. "Human Due Diligence", by David Harding and Ted Rouse, Harvard Business review, March 2007.

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