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### **"M&A AS A LEVER FOR GROWTH AND VALUE CREATION"**

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Firma (signature) .....  .....

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## ABSTRACT

Questo elaborato analizza come le operazioni di fusione e acquisizione (M&A) possano costituire uno strumento strategico per la crescita aziendale e la creazione di valore per le imprese.

Dopo una prima parte introduttiva che definisce il fenomeno delle M&A, ne vengono descritte le principali caratteristiche e tipologie, al fine di comprendere i fondamenti teorici dell'argomento. La trattazione prosegue con l'analisi delle motivazioni strategiche, manageriali e finanziarie che spingono le imprese a intraprendere queste operazioni. Un'attenzione particolare è rivolta alla creazione di valore attraverso le M&A, i rischi associati e le modalità per valutarne il successo.

Al quadro teorico segue poi un caso concreto: l'acquisizione di Instagram da parte di Facebook (oggi Meta Platforms). L'operazione viene sinteticamente analizzata in termini di coerenza strategica, sinergie ottenute e performance nel lungo periodo. Viene inoltre confrontata brevemente con l'acquisizione di WhatsApp, caratterizzata da un minore successo.

L'obiettivo finale del lavoro è comprendere in quali condizioni le M&A possano realmente contribuire al miglioramento delle performance e del posizionamento strategico di un'impresa.

## INTRODUCTION

In today's fast-changing and highly competitive global economy, companies must constantly adapt and grow to maintain their market positions and to make profits. One of the most common features in the corporate world is the use of mergers and acquisitions, often seen as a shortcut to rapid expansion and improved performance to enhance firms' value.

Despite the potential benefits and initial motivations, M&As do not always deliver the expected results and, in some cases, they may even destroy value. This contradiction makes the topic challenging and relevant, highlighting the need for deeper analysis. When, how and why do M&As succeed or fail? What are the key factors to consider? Due to its complexity, the study of M&As has attracted great attention from academics and professionals.

In particular, this paper aims to explore M&As as a mean for growth and value creation. Starting from the general theoretical framework of M&As, it then focuses on the strategic reasons that lead companies to merge or acquire. Then, a dedicated chapter examines value creation along with its risks and limitations. The final part of the thesis presents a real case study in brief: Facebook's acquisition of Instagram.

## CHAPTER I: GENERAL FRAMEWORK

Mergers and Acquisitions (M&A) are strategic transactions that refer to the consolidation of two or more companies. They are widely regarded as powerful strategic tools to foster corporate growth, access new markets or technologies, achieve operational synergies and increase competitive advantage.

### *1.1 What are M&As?*

Although the two terms are often used interchangeably, there are key differences between them in terms of structure, control and legal implications.

A merger leads to a new entity typically with a redefined ownership and management structure. The merging entities share their resources to pursue common objectives in the new organization. This process can be represented as: *Company A + Company B = Company C*.

In contrast, an acquisition takes place when a company buys a (usually) smaller one. The acquired ceases to exist as a separate legal entity, with its assets integrated into the acquiring firm. It can be visualized as: *Company A + company B = enlarged Company A*.

### *1.2 Characteristics, basic forms and terms*

M&As are typically large-scale transactions, that impact every stakeholder and that can reshape the structure of a whole sector, altering competition and the industry's balance. As they beget economic and social consequences within and beyond the involved companies, M&A processes require careful planning and implementation. The preparation process implies strategic evaluation, financial analysis, valuation of the target firm and due diligence to assess potential risks and synergies.

Furthermore, M&As are influenced by multiple external factors such as market conditions, regulatory frameworks and corporate governance practices.

M&A operations vary widely in structure and execution, depending on strategic objectives, financial resources and market context. Beyond the basic distinction between merger and acquisition, there are several dimensions that help classify and analyze M&As such as the nature of the transaction, the method of payment and financing, the geographical scope and the type of integration.

An M&A deal can be described as friendly when the target company's board of directors and management approve the deal proposal and collaborate throughout the process. In contrast, nature is hostile when the bid<sup>1</sup> company bypasses the target's management and makes an offer directly to the shareholders.

Another relevant dimension is the method of payment. Payments can be made in cash, stock or a combination of both. In a cash deal, the acquirer pays the target's shareholders a fixed price per share in cash, while in a stock deal the shareholders of the target company receive shares of the acquiring company. Stock transactions may be advantageous when the acquiring firm's shares are overvalued, enabling it to purchase an undervalued target at a lower relative cost.

Furthermore, the method of financing varies. Acquirers may use internal cash reserves, take on debt (loans or bonds) or issue new equity. The choice depends on the acquirer's capital structure, market conditions and the size of the deal.

Lastly, transactions differ in their geographical scope. Domestic deals involve firms based in the same country, while cross-border transactions include firms operating in different states. Cross-border operations can add regulatory complexities, cultural integration challenges and foreign exchange risks. However, they also offer strategic opportunities to access new markets and diversify the profits.

### *1.3 Types of M&A*

There are three main types of M&A transactions: horizontal, vertical and conglomerate.

Horizontal transactions involve companies within the same industry and at the same stage of the production process. These deals typically aim to increase the market share by reducing competition, in fact one company acquires a direct competitor. Horizontal transactions are common in mature or declining markets, where growth opportunities are limited and the production capacity of companies exceeds the demand.

Meanwhile, vertical transactions take place between firms that operate in the same industry but at different stages of the same vertical chain<sup>2</sup>. This type of operation aims to enhance coordination and control over the production or distribution process. As part of the "buy or

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<sup>1</sup> Potential acquirers that are bidding, that means proposing a price. M&As can involve one or more bidders. The second situation benefits the selling company but presents higher risk for the buyer due to overvaluation as competitiveness increases the price of the target and accelerates decision-making.

<sup>2</sup> From raw material inputs to the final product sold to customers.

make” decision a firm may choose to integrate upstream or downstream activities rather than relying on external suppliers or distributors. Thus, vertical M&A can potentially reduce costs, increase efficiency and ensure supply chain reliability.

Finally, the combination with firms from another sector in conglomerate operations allows the acquiring company to stabilize cash flows by diversifying business risk, as well as to take advantage of financial synergies. However, conglomerate mergers can also introduce managerial complexities and may lead to a diversification discount, since markets often struggle to evaluate multi-industry firms effectively (DePamphilis 2019, p. 13).

## CHAPTER II: STRATEGIC REASONS FOR M&As

Mergers and acquisitions represent one of the most significant strategic decisions a firm can undertake. While the ultimate goal for M&As is usually to enhance firm value, companies pursue them for a variety of reasons, that can be grouped in three bigger categories: financial, strategic and managerial motives (Junni, P., & Teerikangas, S., 2019).

This chapter aims to explore the main motivations behind M&A transactions, providing an overview of the different pushing forces guiding decision-makers. Understanding these motives is essential to critically assess whether M&A deals are likely to result in long-term value creation, that will be further addressed in Chapter 4.

### *2.1 Financial motives*

A major reason for pursuing M&A operations is the potential to generate financial value. Expectations of synergies, tax benefits, increased market power and financial optimization are key drivers in such cases.

Large synergies are the most common motive given for the premium paid in M&As. Synergy is the additional value created by combining two firms, where the resulting entity is worth more than the sum of the firms individually. They are typically classified under two categories: cost-reduction synergies and revenue-enhancement synergies (Berk & DeMarzo, 2019; Junni, P., & Teerikangas, S. 2019).

Cost-reduction synergies are the most frequent and arise from economies of scale<sup>3</sup> and scope<sup>4</sup> or from eliminating overlapping operations and resources<sup>5</sup> to remove inefficiencies (Sudarsanam, 2010). For instance, large firms may negotiate better contracts or reduce the costs of production due to their increased bargaining power.

Revenue-enhancement synergies, instead, come from combining complementary assets, brands or technologies of the merging firms to reach new clients and markets or grow sales volumes (Junni, P., & Teerikangas, S. 2019). Thus, the merging firms generate higher sales

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<sup>3</sup> They refer to the reduction in average total costs for a firm producing a single product for a given scale of plant due to the decline in average fixed costs as the volume of production increases (DePamphilis 2019, p. 10).

<sup>4</sup> They refer to the reduction in average total costs for a firm producing two or more products, because it is cheaper to produce them in a single firm. They may reflect both declining average fixed and variable costs (DePamphilis 2019, p. 10).

<sup>5</sup> Redundant functions and operations, e.g. combining administrative departments, consolidating production facilities, streamlining distribution networks (Sudarsanam, 2010).

than the sum of the individual sales because of cross-selling, competition reduction and access to new markets.

However, the achievement of synergies demands a certain degree of post-merger integration, and they are often overestimated.

Tax considerations also influence M&A decisions. A profitable firm may acquire a company with accumulated tax losses to reduce its taxable income (Berk & DeMarzo, 2019), as firms must pay taxes on profits. However, tax authorities scrutinize such deals to prevent purely fiscal operations.

Another financial motive is the acquisition of undervalued assets. A company may choose to invest in new plants and equipment or to secure them by acquiring an undervalued company. In fact, according to the Q-ratio<sup>6</sup>, it is convenient to acquire a target whose Q-ratio is less than 1 (De Pamphilis, 2019). In this case, the acquiring firm expects to create value simply by recognizing and exploiting a pricing inefficiency. This is a common practice between private equity firms that restructure and resell at a profit acquired companies.

Lastly, some deals are structured to boost earnings per share (EPS) without creating any real economic value. By merging with a firm with a lower price-to-earnings ratio, an acquirer can increase its EPS, as the merger reduces the overall growth rate and therefore lowers the P/E multiple (Berk & DeMarzo, 2019). This motive, although superficially attractive, is often viewed with skepticism by investors as it doesn't add actual economic value.

## *2.2 Strategic motives*

Strategic motives are more oriented toward long-term competitive advantage, even if they do not necessarily result in short-term financial improvements. They include market expansion, portfolio optimization, capabilities and technology acquisition or vertical integration.

M&As allow firms to enter new geographic areas or customer segments. Acquirers can expand their presence across different regions and benefit from larger distribution network. Whereas product or market extension M&As aim to broaden the firm's portfolio. They represent also an instrument to acquire technological know-how and capabilities efficiently,

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<sup>6</sup> The ratio of the market value of a company's stock to the replacement cost of its assets. If Q-ratio<1, the firm is undervalued by the market.

especially in high-tech sectors where developing technology internally can be costly and time-consuming.

Then, vertical integration (see paragraph 2.3) can enhance the products thanks to the coordination and alignment of the production or distribution process. Vertical integration improves control over inputs and/or access to end users but, at the same time, managing integrated companies can be complex and expensive.

Diversification<sup>7</sup>, in particular through conglomerate mergers, helps reduce business risk and stabilize cash flow, especially when entering an industry with a different economic cycle. Moreover, it facilitates asset allocation<sup>8</sup> and increases debt capacity<sup>9</sup>. Nevertheless, it may introduce management and agency costs and dilute strategic focus.

Such strategic decisions are influenced by the firm's stage in the business cycle and by macroeconomic conditions. For instance, in declining markets firms may engage in M&As to consolidate and eliminate overcapacity, while in growing or emerging sectors, they are used to gain first-mover advantages or respond to industry convergence.

The following graphic shows the relationship between a company's lifecycle and M&A deals.



### 2.3 Managerial motives

While financial and strategic motives are generally viewed as rational and shareholder-oriented drivers, managerial behaviors and opportunism often influence M&A decisions.

<sup>7</sup> Buying firms beyond a company's current lines of business (DePamphilis 2019, p. 12).

<sup>8</sup> A diversified conglomerate may benefit by being able to quickly reallocate assets across industries (Berk & DeMarzo, 2019).

<sup>9</sup> Larger and diversified firms have lower probability of bankruptcy; they can increase leverage further and enjoy greater tax savings without incurring significant costs of financial distress (Berk & DeMarzo, 2019).

These motives don't always align with shareholders' interests and may lead to suboptimal outcomes.

One of the most cited behavioral explanations for M&A is the hubris hypothesis (Junni, P., & Teerikangas, S. 2019). It is related to overconfident managers who overestimate their ability to manage the target firm despite limited or no synergies. According to Berk & DeMarzo (2019), overconfidence can lead CEOs to pursue expensive or ill-timed deals, particularly when they lack experience.

Agency problems also play a role. According to the agency theory, managers may pursue M&As for personal return<sup>10</sup>. Since most CEOs hold only a small percentage of shares, they bear little of the cost of bad mergers while fully enjoying the benefits of expansion (Berk & DeMarzo, 2019).

In addition, some acquisitions are driven by organizational learning or indirect imitation. Firms may imitate successful acquisition strategies used by competitors, without evaluating whether the strategy fits their own context. This dynamic contributes to the creation of M&A waves<sup>11</sup> (Junni, P., & Teerikangas, S. 2019).

In conclusion, M&As are conducted for various motivations, some of which have been mentioned above. Historically, certain motives have dominated in different waves leading to unique outcomes. However, even when motives appear justified and clear, they do not guarantee real value creation. Therefore, it is relevant to examine the actual realization of value in post-merger scenarios: do M&A transactions truly create value and under what conditions?

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<sup>10</sup> To increase their personal power, prestige and compensation.

<sup>11</sup> Periods of intense deal activity often driven by herd behavior, macroeconomic optimism or deregulation.

## CHAPTER III: VALUE CREATION THROUGH M&A

While M&As are commonly pursued to enhance firm value, research has shown that the outcomes are mixed, with many deals failing to meet initial expectations. This chapter explores the concept of value creation in M&As with a particular focus on post-merger integration, limitations and risks and how to measure the success of such operations.

Value creation in M&A can originate from multiple sources and the assessment of value creation varies depending on the perspective adopted, whether that of managers, shareholders, employees or other stakeholders.

According to the value creation theory, value is the fundamental driver of company's success. It is therefore a central concern not only for shareholders but also for a broader range of stakeholders (Gupta, I., Mishra, N., Tripathy, N. 2021).

### *3.1 Value creation and post-merger integration*

Post-merger integration (PMI) is a critical factor in determining whether the forecasted value is actually realized. In fact, synergies, strategic benefits and their potential value creation are often outlined during the deal-making phase, but their realization depends on the effective management of the post-merger integration process (DePamphilis, 2019; Sudarsanam, 2010).

The integration phase includes aligning and integrating organizational structures, IT systems, operations and human resources, while addressing cultural differences and ensuring business continuity, too. According to DePamphilis, rapid but intelligent integration yields better financial outcomes, whereas delays result in higher costs, employee attrition and customer loss.

A critical challenge in post-merger integration is effective communication with stakeholders, in particular employees. As they often face uncertainty about roles, salary and restructuring challenges, top managers need to adopt transparent communication for mitigating anxiety and avoid productivity declines. Similarly, communication with customers and suppliers is crucial to retain existing business relationships.

Retaining key personnel is another essential factor, as they are responsible for daily execution of the integration plans and hold valuable knowledge about the target. Retention strategies include incentives, employment contracts and defined roles.

In addition, cultural integration is equally decisive for success, otherwise conflicts and non-collaboration could prevail. DePamphilis suggests that before integration firms should be culturally profiled to create a more cohesive new identity.

Moreover, managers should keep in mind that integration is not about imposing their own operational model. Successful PMI requires building a hybrid model maximizing efficiency and innovation by exploiting the strengths of the different entities.

Post-merger integration is a continuous process involving feedback, adaptation and evaluation. Periodic evaluations enable firms to supervise performance progress and readapt the strategy.

### *3.2 Limits and risks to value creation*

A considerable number of M&As fail to meet the initial expectations created as numerous risks can hinder successful deals' value creation.

Overestimation of synergies is one of the most common causes of failure. According to Sudarsanam (2010), managerial optimism often leads to unrealistic estimates during the pre-deal phase, finally resulting in value erosion.

The same result can come from the Winner's curse, where the winning bidder pays a price exceeding the value of the target because of overestimation or emotional decision-making, due to managerial hubris (see chapter 3). At the same time, misaligned incentives may encourage managers to pursue deals that enhance their own status or compensation rather than shareholder value. Agency problems and weak corporate governance only increase the likelihood of suboptimal decisions.

Another critical challenge is post-merger integration, as discussed in the previous paragraph. In particular, cultural mismatch can obstacle integration and reduce productivity even when operational integration is working. Differences in leadership styles, communication norms and organizational values affect the success of the merger.

Finally, organizational complexity and external factors contribute to failure. M&As give birth to large and diversified firms that are harder to manage and less focused. Meanwhile, unexpected changes in the external environment can turn valid strategies to obsolete.

### *3.3 Measuring the success of M&A transactions*

Evaluating the success of mergers and acquisitions is complex. As Sudarsanam (2010) highlights, the notion of "success" in M&A is multidimensional, rendering its encapsulation through a single metric insufficient. Shareholders, for instance, may prioritize stock performance and value creation, whereas managers might focus on strategic alignment or operational improvements.

A common method is the analysis of shareholder value creation through stock market reactions. The cumulative abnormal return (CAR) around the announcement date serves as an indicator for expected value creation. Assuming efficient markets, a positive CAR reflects optimistic investors regarding synergies realization. Nevertheless, this metric primarily captures expectations rather than actual outcomes and is influenced by external market dynamics.

It is essential to track post-merger performance over time using accounting measures such as return on assets (ROA), return on equity (ROE), earnings per share (EPS) and profit margins. These allow to capture actual value creation and control operational efficiency and profitability post-merger, but they can be affected by accounting adjustments.

A more comprehensive evaluation entails examining whether the acquisition achieves its intended objectives. DePamphilis (2019) stresses that performance benchmarks established during the acquisition planning phase should guide evaluation post-closing.

Moreover, the assessment must consider value creation from a broader stakeholder perspective. Although shareholders often remain the primary focus in assessing outcomes, M&As affect also employees, customers, suppliers and local communities. Therefore, non-financial metrics as employee retention, customer satisfaction and stakeholder trust can provide essential context and complement traditional financial indicators.

Another approach, aligned with long-term value creation, suggests employing models like economic value added (EVA) or residual income analysis to determine whether the return on invested capital exceeds the cost of capital.

It is to be noted that assessing M&A success requires a multidimensional framework approach that extends beyond traditional financial metrics alone.

## CHAPTER IV: CASE STUDY-Facebook Inc. acquires Instagram

After outlining the theoretical foundations of M&As, this chapter presents a real-world case study aimed at evaluating how these concepts unfold in practice. The acquisition of Instagram by Facebook offers an example of a deal driven by strategic foresight and market positioning.

Facebook was founded in February 2004 by Mark Zuckerberg with the mission of connecting people, allowing them to share and express what matters to them and to discover what is happening in the world. Just ten months after its launch, the platform had already reached 1 million users. Facebook, now known as Meta Platforms since 2021, rapidly became a dominant player in the social media landscape.

The target company, Instagram, was launched in October 2010 as a mobile photo-sharing app attracting 25,000 users only the first day. Over time, it evolved into a major social media platform and an essential business tool for many companies. Despite having only 13 employees, it was emerging as a direct competitive threat to Facebook, especially in the fast-growing mobile segment.

For this reason, in April 2012, just weeks before its initial public offering, Facebook announced the acquisition of Instagram for \$1 billion paid in cash and stock. It was a big move for Facebook, which until then had focused on smaller acquisitions. According to industry reports, the deal was closed in a few days. The transaction was friendly, with both companies agreeing on a structure that allowed Instagram to retain brand independence and autonomy.

Though \$1 billion was considered too high for such a small company, it was justified by strategic and financial considerations. First, Instagram gave access to younger users' base that Facebook was struggling to target. Second, the acquisition allowed to leverage synergies and eliminate a competitor. Most important, Instagram demonstrated high growth potential that was indeed realized after the acquisition.

The acquisition significantly accelerated Instagram's growth, increasing its active user base by approximately 66 times—from 30 million in 2012 to over 1 billion in 2018. This was also a consequence of Facebook's infrastructure and engineering support and its access to a vast advertising ecosystem.

In addition, Instagram became a significant revenue driver for Meta. Estimates suggest that it generated over \$20 billion in advertising revenue in 2019, accounting for more than 25% of

the company's total revenue. According to Bloomberg, Instagram is now valued at over \$100 billion reflecting its success and contribution to Meta's market value. Looking ahead, it is expected to continue the expansion in emerging markets and in new technological areas driving further value.

By contrast, Facebook's acquisition of WhatsApp in 2014 offers more ambiguous results. Despite WhatsApp's massive user base, the monetization strategy remains limited, with relatively low returns on the \$19 billion paid. Unlike Instagram, WhatsApp's privacy model and lack of advertising restricted potential revenue. While its user base grew from 450 million to 2 billion in six years, an irrelevant increase in comparison with Instagram's one, this growth did not translate into proportional financial returns. The contrast highlights the importance of strategic alignment and post-merger integration.

Although Instagram acquisition was approved by the Federal Trade commission in 2012, it was later reexamined. In 2020, the FTC filed an antitrust lawsuit against Meta, claiming that the acquisitions of Instagram and WhatsApp were part of a strategy to eliminate emerging competitors and preserve Facebook's monopoly in social networking.

During the 2025 trial, internal emails from Zuckerberg emerged and were as proof of anticompetitive behavior were found out as they described Instagram as a "rising threat" and suggesting the acquisition (BBC News, 2025). Meta has defended the deals as legal and beneficial to users, pointing to product improvements and innovation. However, Instagram now accounts for over half of Meta's U.S. ad revenue, raising concerns about the long-term impact on market competition (The Guardian, 2025).

## CONCLUSION

This thesis sets out to explore mergers and acquisitions as a tool for corporate growth and value creation. The analysis confirmed that M&As can represent a powerful strategy for market expansion, synergy creation and competitive repositioning. At the same time, such operations involve risks and complexities that can lead to disappointing outcomes. Value creation is not guaranteed as it depends on multiple factors, highlighting the importance of careful strategic evaluation and analysis prior to executing any deal.

The case study of Facebook's acquisition of Instagram offered a concrete example of a successful M&A. It showed how rapid execution and clear integration strategy can lead to remarkable value creation. By contrast, the acquisition of WhatsApp demonstrated that scale alone does not ensure profitability. Furthermore, the case of Instagram highlights also a broader concern, as shown by the antitrust scrutiny it later faced. This reflects the wider impact of M&As: they are not just corporate decisions, but actions that reshape markets, influence competition and affect users worldwide.

Overall, this thesis emphasizes the need for critical, case-by-case assessment of M&A initiatives. Future research needs to explore emerging forms of integration, especially in the rising tech and digital sectors where M&A activity is increasingly shaping the business landscape.

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