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M&A IN DOWNTURNS: COVID-19 IMPACT ON THE ITALIAN DEAL ACTIVITY

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Abstract

Companies find themselves operating into a dynamic and highly competitive environment. As a consequence, maintaining or gaining market position requires constant effort. In this context, growth becomes an imperative. In this regard, M&A transactions represent strategic tools that are in the business agenda also during periods of recession and uncertainty, despite their embedded complexity and risk.

This work explores the M&A activity during downturns and considers the economic scenario set by Covid-19 to analyze the short-term effects of the crisis on the Italian M&A activity, focusing on a sample of Italian listed companies. The main goal is increasing the understanding of M&A role and the related value creation implications during downturns.

The analysis results show how M&A announcements have a value conserving effect for the acquiring company, rather than value creating or destroying. On average small positive shareholders abnormal returns have been registered but not statistically significant.

Companies that have seen their revenues less affected by the crisis have been among the more active in the M&A Italian market. Widening the lens, the sectors that have registered more activity have been those that have led the change determined by the pandemic (e.g. Healthcare and Pharmaceutical) and those whose demand has been less affected by the economic conditions (e.g. Public Services). The motivations that have prevailed are those related to growth but a connection to the core business has been noticed, stressing how companies in the sample tend to move from the core to adjacent spaces (Zook and Allen, 2003).

Introduction

M&A have been part of business for a long time. In recent times, they have been increasingly used as strategic tools for growth that enable companies to move forward in the firms' life cycle. The high number and consistent value of deals registered annually are some of the factors that make M&A a topic that needs to be further explored both theoretically and empirically. Only in 2019, 36.836 deals have been completed worldwide, for a total value of USA$ 3.112 bn (KPMG, 2020). The relevance of the M&A activity is mirrored by the broad literature and research that try to explain the various dimensions of those deals, embedded with risks and complexities. M&A results not only in a new business but also in new cultural and social environments each characterized by issues of different nature. As a consequence, a variety of business fields and expertises are involved in getting more insights about these transactions. Despite literature and empirics are trying to increase the understanding around M&A, there is not a universal framework that explains these deals. The complexity that characterizes the process is reflected in the lack of a more holistic perspective about this activity.
Among the most discussed topics, the profitability of M&A transactions and their potential value creation effect have attracted great attention. Combining the evidence, it is clear how transactions are value creating events for targets that most often record positive average abnormal returns. Whereas ambiguous results are registered for the acquiring companies. Both positive and negative abnormal returns are recorded, not always confirmed by statistical significance. The studies that explore value creation have also yielded several insights about the determinants of M&A profitability that contribute to explain what influences the transaction success. A series of critical success factors can help acquirers to better plan, negotiate and conclude transactions. Most often, literature and research have focused on value creation and success determinants despite the external conditions in which the deal is performed, particularly few researches have been done considering M&A during critical times.

This work wants to try to fill this gap by focusing on M&A activity and its success during the Covid-19 pandemic. The objective is to understand how M&A activity is impacted by downturns, both considering M&A as business processes and macroeconomic events, with a particular focus on value creation. The study takes the acquiring companies' point of view, as M&A success for bidders is still under debate for the contrasting results that dominate empirical studies, whereas target company positive value creation is a fact.

To fulfil this purpose the work has been organized into four chapters.
The first chapter lays down the foundation for the work. It presents an overview of the M&A activity as a tool in the hands of companies to pursue their strategic objectives. M&A is a general term used to identify different forms of financial transactions; the different types of business combinations that can take place are discussed. The chapter goes on defining the transaction process from the buyer perspective, the complexity embedded in those deals is reflected in the steps required to close the transaction. The process is presented distinguishing it into the pre-purchase and post-purchase phases (DePamphilis, 2017). Finally, the section points out the main motives for mergers and acquisitions taking both a more practical perspective and a theoretical explanatory approach. This chapter will enable a deeper understanding of the matters treated along the work.

The second chapter explores the broad topic of value creation of M&A activity, considering transactions as business events. The M&A success measurement has interested different business fields that have treated the topic with the respective perspective. The M&A performance construct is defined within the main methods used to measure it. The chapter follows in stressing what are the main factors that affect the acquirer performance according to the broad literature and empirical studies. The success factors are categorized and presented according to three main areas that correspond to the business fields that are embodied in these transactions: strategic management, finance, organizational behavior (Weber et al.; 2013). The idea is releasing the set of factors that help explain M&A success with a holistic approach that combines the perspectives of the various business studies.

The third chapter enters in the core of the analysis. Firstly, the M&A activity is seen as a macroeconomic event, impacted by external environment conditions. The main drivers that explain the cyclical nature of M&A activity are discussed, making clear how transactions are boosted by periods of economic expansion, whereas they tend to be weaker during periods of recessions. Despite there is not a direct connection between M&A success and external environment, deal activity does not disappear during critical times even if embedded with risk and complexity. As a strategic tool in the hands of managers, an M&A transaction is the result of a decision-making process inevitably affected by external conditions. As a consequence, the section moves on to understand the role of M&A transactions during hard times and to explore how value creation is impacted by adverse economic conditions. The chapter ends considering the recent Covid-19 outbreak and its consequences on the economic dimension with a focus on the Italian situation. The business environment set by the crisis is analyzed within its impact on

the M&A activity. The description of the scenario in which firms have to operate and the implication on the deal market help to define the framework that characterizes the analysis included in the fourth chapter.

The fourth chapter explores the short-term effects of the pandemic on the Italian M&A activity. The analysis has been conducted on a sample of Italian listed companies that have engaged in an M&A transaction between February 2020 and August 2020. Different aspects of M&A activity performed during critical times are explored, to test empirically some conclusion taken in the previous chapters.
Firstly, the value creation implications of M&A activity are analyzed considering the acquiring company shareholders' abnormal returns as a proxy of M&A success. The transactions are expected to generate positive abnormal returns for shareholders. Moreover, value creating determinants are tested to understand the extent to which those explain success. A second analysis wants to test if the prerequisite of financial strength connected to acquiring companies that undertake M&A transactions during critical times is confirmed empirically in our sample. Both the mentioned analysis will be conducted utilizing a statistical approach.
The last part of the section moves on exploring two qualitative characteristics of the sample under study. The activity registered in the period under analysis is examined looking at the different sectors. M&A deals are expected to be on the agenda of the businesses less impacted by the crisis and those belonging to non-cyclical sectors. Finally, a brief analysis is made looking at the M&A motivations that have pushed companies in our sample to perform M&A transactions, exploring if a pattern can be found.

1. An Overview on M&A Transactions

1.1 Mergers and Acquisitions a Tool for Growth

Growth is fundamental for the survival of the business. Where being small can be an advantage working in niche markets, being bigger makes it easier for a company to acquire assets, attract talents, fund investments, gain market share and competitive advantage.
A company can opt for multiple value creating growing paths, ranging from internal growth possibilities, called also organic growth, to external opportunities. The growth opportunities spectrum sees on one side development obtained when companies rely only on internal resources to expand their business, for example by investing in R&D and training. On the opposite side of the spectrum, mergers and acquisitions take place. These transactions lead to overcoming the company borders, expanding the business by bringing together assets, competencies, human capital of two or more companies. Given the difficulties managers have traditionally faced in the pursuit of internal growth (e.g., inadequate innovation management processes, 'new stream-to-mainstream' business integration difficulties), external growth through M&A activity may seem like an easy and obvious solution (King et al., 2004).
Merger and acquisition is a general term used to identify financial transactions that lead to the consolidation of companies or assets. These include mergers, acquisitions, tender offers, asset purchases and management acquisitions.
A merger identifies a combination of two or more companies that generate a new legal entity, usually those are of similar size and power, in this case, a merger of equals occurs.
With acquisitions, a company takes over another business. In this scenario, often a dominating company buys a target that ceases to exist and is incorporated by the acquirer. The acquisition is partial when only part of the shares or assets are transferred to the acquiring firm.
A tender offer is a formal proposal to buy shares in another firm made directly to its shareholders, usually it results from friendly negotiations between the board of the acquirer and the target firm (DePamphilis, 2017).
When a firm is interested in a particular asset of the target company, an asset purchase may be the best solution, when possible. The acquirer selects the target's assets, avoiding involvement in contingent liabilities.
Finally, management acquisitions occur when a management group acquires a company. If the management is internal a management buyout happens, thus former managers become owners of the company, whereas a management buy in takes place with the involvement of external managers seeking to be the new owners of the target company.

Despite the slight difference in meaning attributed to the general M&A term, the ending result of the transaction is often the same: two companies that had separate ownership are now operating under the same roof, to obtain some strategic or financial objective (Sherman and Hart, 2006).

Although some companies consider those transactions as strategies, M&A are enablers of strategies and long-term value (Mckinsey, 2020), thus vehicles for reaching objectives rather than the objective itself. As a consequence, a well-defined strategy should always be the starting point for undertaking an M&A transaction, which is a complex process that involves a multiple set of skills and academic tools (strategy, finance/valuation, marketing, accounting, negotiation, etc.) and the joint effort of key professionals (company's owners, CEO, CFO, management, advisor, investment banks, etc.).

1.2 The M&A Process

The M&A process is complex and challenging, involving multiple professionals and requiring a wide array of skills. The process can be analyzed from the buyer or seller perspective, this work focuses on the acquirer point of view, as a consequence the bidder perspective is taken into consideration. Moreover, acquisition steps slightly differ in connection to the buyers' nature for their different goals. Strategic buyers are companies in the same or different industry of the target whose primary interest is increasing shareholders value by realizing long-term synergies. These differ from financial buyers that are more focused on realizing short to medium term financial returns and often finance the acquisition through large amounts of debt. The latter category includes private equity firms, venture capital firms, hedge funds, ultra-high net worth individuals.

Here the focus will be on the strategic buyer acquisition process. It has to be stressed that the complexity and length of the process depend on the characteristics of the deal, here the traditional steps are presented as the state of the art, but discrepancies with real case scenarios are possible in connection to the particular needs of the case. Moreover, this work deals with the M&A process in a simplified and synthesized way, leaving apart the technicalities that are over the scope of the work.

The M&A process does not simply define the steps toward the closing of the deal, but it is important as how it is performed affects the outcome of the transaction (Jemison and Sitkin, 1986). The pre-purchase decision-making process includes a set of activities that have significant consequences for the post-acquisition integration phase and for the deal success (Angwin et al., 2004).

According to DePamphilis (2017), the process can be distinguished in pre-purchase decision activities and post-purchase decision activities. The M&A process is summarized in figure 1.

The first element to consider in the pre-purchase phase is the correspondence between the corporate strategy and the transaction objectives. The M&A deal should always support the corporate strategy and contribute to achieving the related goals (Uhlaner and West, 2008). Hence, the strategic rationale of the deal should relate to the strategic direction of the other activities performed by the company. Therefore, to be successful M&A has to be based on an analysis of where the company is and where it wants to be in the future, understanding if effectively the M&A transaction is the right growing path to follow. In this regard, the strategic planning phase should be the common denominator of every new growing path's decision-making process made by a company.

In the strategic planning phase of the deal, a business plan should be constituted within all the elements that characterize it, such as business vision, mission, strategy, and connected goals and objectives. An internal and external analysis should be performed to fully understand the starting point of the business and what it is missing to achieve its goals; in this way enabling the company to choose the right option for implementing the business strategy. If an acquisition is the chosen vehicle, an acquisition plan that clearly defines the buyer objectives should be developed. One of the key goals of the acquisition plan is to determine the characteristics of an ideal target and set the criteria used to evaluate multiple potential counterparties (DePamphilis, 2017). The benefits of having a well-prepared acquisition plan are diverse, it provides a roadmap to follow, it informs shareholders of key company objectives, it is useful to keep monitoring the process and to better define long term objectives. A well-prepared acquisition plan can be a valuable negotiation tool also when dealing with sellers concerned with the value and continued growth of the target after the acquisition (Sherman and Hart, 2006).

Once a deep analysis has been performed and M&A have been chosen as a tool for implementing the business plan and deploying the corporate strategy the M&A process begins.

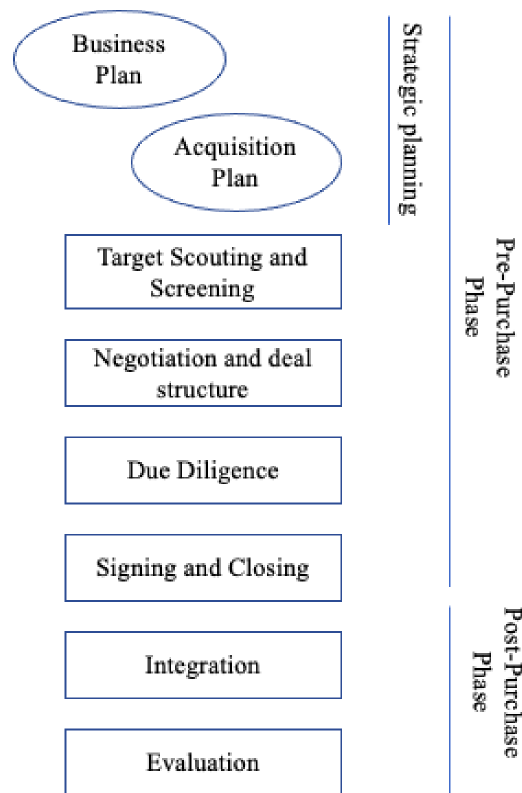


Figure 1: The M&A Process. Own Elaboration based on DePamphilis (2017)

1.2.1 Pre-Purchase Phase

Overcoming the strategic planning stage, the first activity to be performed is the target scouting and screening. Starting from a broad list of potential targets, selected based on general elements such as industry and size, the acquiring company uses the more stringent set of criteria (e.g. market segment, product line, profitability, market share, degree of leverage, cultural compatibility) defined in the acquisition plan to obtain a narrower a list. It will be composed of those candidates with the best strategic fit. Clearer is the starting point strategy, easier will be the target selection. This is true also in the approaching phase when a firm with a clear vision about the acquisition increases the chances to close a successful deal (DePamphilis, 2017). An approaching strategy is then defined to have the first contact with the target, it depends on the target size, whether the target is a private or public company, and the acquirer's timeframe to complete the transaction.

Once the buyer has approached the potential targets, the negotiation and deal structure phases start. At this stage different models are applied to understand the value of the companies' combination, a first purchase price is estimated, and the M&A teamwork is engaged in defining the structure of the deal and the potential sources of capital. These M&A initial phases are characterized by the signing of legal documents that regulate the relationship between the

parties, such as the Confidentiality Agreement, the Term Sheet, and the Letter of Intent (LOI). The Confidentiality Agreement protects the parties from disclosing sensitive information. Whereas, the term sheet and LOI are very similar documents, usually not binding that states the general terms of the deal. The main difference between these two documents is that the term sheet is less formal than the letter of intent. These documents are sent by the acquiring company after having performed a pre-due diligence phase, during which a first analysis of the overall business is performed, and a potential valuation is defined within an initial identification of the major sources of synergies.

The next step of the process is performing Due Diligence. It is a fundamental activity during the pre-purchase phase, approaching the completion of the deal. It is the investigation and review process regarding the target, to identify and assess possible risks and liabilities, other than exploring the expected acquisition synergies. It consists of three primary reviews: strategic and operational due diligence, financial review, and legal due diligence (DePamphilis, 2017). The analysis can also take additional perspective in connection to the specificity of the case such as environmental, real estate, human resources, tax due diligence. In performing this important task, the acquiring company relies on professionals in the various sectors that can be internal or external to the company. It is a delicate, costly, and time-consuming phase for the acquirer firm, that through the commitment of operating due diligence manifests the real intention of proceeding with the deal.

Research suggests that ignorance about potential problems that may arise within an acquisition is one of the most common sources of failure in M&A (e.g. Sirower, 1997; Millman and Gray, 2000). But the importance of due diligence relies not only on the potential identification of risks but also on the possibility to perform a thorough business and financial analysis. In fact, in this phase, the target company makes available all the information and data relevant to the transaction, not usually publicly available. Due Diligence is usually performed through a physical or on-line data room, set up to make sure that all financial, commercial, and legal information is disclosed in a way that enables the acquirer to make the final offer based on all relevant aspects of the target business. Due diligence enables the acquirer to fully assess the potential synergies and to detect useful information for the final valuation of the target and the definition of the final price. Moreover, the insights gathered during this process are fundamental to develop the acquisition business plan, integration plan, and final agreement. As a consequence, the failure to do an exhaustive due diligence can be disastrous (DePamphilis, 2017).

The signing and closing steps define the conclusion of the deal. The closing depends also on third parties: the transaction has to comply with securities, antitrust, and state government law.

As a consequence, signing and closing can occur at different times. In this phase a fundamental document is the Share Purchase Agreement, not mandatory for the effectiveness of the deal and the transfer of shares, but relevant for the protection of the acquirer in case of liabilities and discrepancies between the post-deal acquired business and what has been stated by the seller during the negotiation phase.

1.2.2. Post-Purchase Phase

The post-purchase phase is dominated by the post-merger integration. The deal closing is just the beginning of the transaction, a large part of the value creation potential is retained in this phase (Sthal and Vogit, 2008; Zollo and Singh, 2004). One major reason for unsuccessful M&A is connected to the treatment of post-merger integration as a mechanical process (BCG, 2019). As a consequence, this phase does not begin with the closing but should be based on a predefined plan elaborated during due diligence. The strategic and tactic choices taken in the previous phases should constitute the starting point on which to base the post-integration effort. This enables the identification and prioritization of critical actions needed to combine the two businesses. Only a plan can ensure process speed and efficiency, key elements for a successful transaction (Bauer and Matzler, 2013). A faster integration enables the company to minimize the time spent in a suboptimal phase and take advantage of the momentum in the early enthusiasm phase of the deal (Angwin, 2004). Moreover, protracting the integration process often reduces the ability of the acquirer to recover the premium paid for the target firm.
This step is challenging due to risks connected to employee retention and cultural fit but is fundamental for the realization of the planned synergies through resources redeployment and exploitation (King et al.,2004).
Finally, a post-closing evaluation is suggested to determine if the deal is meeting the expectations and take corrective actions otherwise. Evaluating the positive and negative aspects of a deal is also an exercise for future transactions, giving the chance to learn from mistakes.

1.3 The Rationale and Motives Behind M&A Transactions

M&A has a fundamental role in the business development and in the definition of an industry. These deals are pursued by companies for several reasons and the complexity of the deal is reflected in the rationale that characterizes a transaction. As a consequence, typically behind an M&A transaction there is a combined pattern of motives, one single approach unlike fully explains the reasons behind a deal (e.g. Steiner, 1975; Ravenscraft and Scherer, 1987). The strategic buyer perspective is again taken into consideration; thus the following motives focus on reasons behind the acquirer's rationale of the deal. Mergers and acquisitions decisions should be based on a thorough analysis of costs, benefits and risks behind these transactions and on what the most suitable solution is in relation to the company's needs and strategic objectives. Generally speaking, the decisions taken should contribute to the company and shareholders value creation.

1.3.1 The Fundamental Motives: Growth and Synergy Creation

Gaughan (2017) identifies growth and synergies as the two most fundamental motives for M&A, which should contribute to the acquirer's value creation.

Growing through M&A is a faster solution than organic growth, as it enables the company to quickly react to market changes and take advantage over competitors, exploiting opportunities that may rapidly disappear. Examples that fit this motive are the case in which a company needs to quickly get a new competence or technology, or when it wants to expand into a new geographic region both nationally and internationally. Despite growth might be the lifeblood of a business, it is not always the most suitable way to create value for shareholders (Cao, Jiang and Koller, 2006). Revenue growth does not create value if it does not create profits, and even if profits are generated, if it is less than the cost of capital there is a chance that such growth will actually destroy value, rather than create it. The combination of growth and return on invested capital (ROIC), relative to its cost, and their sustainability are the elements that drive value creation (Koller et al.; 2015). This consideration makes clear that the value creation is not directly proportional to growth, but other elements should be taken into consideration when seeking value creation through growth, such as ROIC and cost of capital.

The second most cited motive for mergers and acquisitions is the creation of synergies. Synergy value is created when, with the integration of the target company in the acquirer, the value of the combined enterprises exceeds the sum of the values of the two individual firms (DePamphilis, 2017).

The equation that expresses the synergistic potential value is:

$$\Delta V = V_{a+t} - (V_a + V_t)$$

Where V_a and V_t are respectively the acquirer and the target stand-alone values. The synergy value has to be higher than the premium paid for the acquisition and the expenses of the transaction to generate Net Acquisition Value (Gaughan, 2017). As a consequence, only when the sum of premium paid and the cost of the transaction is lower than the synergy value an acquisition is justified. Contrarily, when this does not occur the acquirer faces the risk of overpayment that undermines the value creation potential and the success of the transaction. Thus, the synergies' valuation is fundamental for the determination of the price.

Synergies in literature are often categorized into two groups (e.g. Gaughan, 2017; Damodaran, 2005; DePamphilis, 2017) operating synergies and financial synergies.

Operating synergies can come from revenues enhancements and/ or cost savings. Damodaran (2005) further categorizes this class into four types:

1. *Economies of Scale* that allow the combined firm to become more cost-efficient, thus profitable. This possibility is more common in the case of companies operating in the same business.
2. *Greater pricing power* in connection to the increased market share and the reduced competition after the M&A transaction. Whether this is achievable largely depends on the degree of competition in the market and the size of the merger partner (Gaugham, 2018).
3. *Combination of different functional strengths,* in this case diverse skills and knowledge can be quickly embodied in the acquiring company. Important is also considering the complementarity among those and the connected potential of having both under the same roof.
4. *Higher growth in new or existing markets*, as mentioned M&A transactions are vehicles to quickly enter new markets that may be characterized by a faster growth rate.

All the above-mentioned situations contribute to a potential cost reduction and/or incremental revenue in the newly combined firm.

The second macro category is constituted by financial synergies. Those are connected to the improved efficiency of financing activities, which refers mostly to the impact of the transaction on the cost of capital of the post-transaction firm. Other benefits included in this category are connected to the cash flow. The combination of the two companies' cash flow may reduce its variability when the two streams are not perfectly correlated. Moreover, the excess cash

generation of one company, coupled with new investment opportunities following the M&A transaction, can lead to greater value creation for the combined firm. Debt capacity increase is another benefit that may follow the transaction. This occurs because after the merger the companies' cash flows may become steadier and more predictable, as a consequence the company will be able to borrow more than the two separate entities could have borrowed before the transaction. Finally, also tax benefits are achievable by making better use of tax deductions and credits, or by taking advantage of tax laws to write up the target company assets (Damodaran, 2005).

It is clear that a company may benefit from different synergies after the transaction that contribute to value creation. As a consequence, it is fundamental for the acquiring firm to assess at best their value. The estimation should first consider the value of the companies as stand-alone and then that of the combined entity, focusing on the synergy potential that goes beyond and is distinct from the value of control. The latter is connected mostly to the improvements in running the business in relation to a better and more efficient management team.

1.3.2 Diversification

Diversification is another motive that explains M&A transactions. When a firm faces slower growth in its market or in connection to its product line, it may opt for expanding through a new product line or new target market with higher growth prospects. The firm primary diversification options involve approaching a new market or diversify its offer; opting in this way for a related diversification. When a company chooses to approach both a new market, offering a new product, unrelated diversification strategy occurs. M&A transactions can be means for pursuing diversification strategies that occur when the company grows outside its current business.

Companies that operate in several different unrelated businesses are called conglomerates. The motive of diversification has characterized the Conglomerate Era (1965-1969), however this period has been followed by deconglomeration that raised doubts about the value creation potential of diversifications (Gaugham, 2018).

The diversification strategy value creation potential has been a controversial topic in finance for the considerable evidence that acquisitions resulting in unrelated diversification fail to meet expectations, resulting in lower financial returns at announcement compared to non-diversifying acquisitions (Akbulut and Matsusaka, 2010). Moreover, often the conglomerate shares are traded at a discounted price than the shares of the more focused firms in the same industry, this markdown is called conglomerate or diversification discount (Khorana et al.,

2011; Ammann et al., 2011). Despite the market seems to not positively react to this strategy, this discount is not always true. In countries with limited capital market access, diversified companies may outperform as they can use the cash flow obtained in the more mature business to fund those with higher growth potential (Fauver et al., 2003).

1.3.3 A More Theoretical Standpoint

In practice, the above-mentioned motives wrap up the main rationales that unfold the decision of performing an M&A transaction. However, with a more theoretical perspective, the motivation behind the transaction can fall under multiple theories. Trautwein (1990) distinguishes seven different theories of merger motives that shift from those that see the merger consequences as the moving cause of the transaction itself and those that do not and have a more macroeconomic perspective (Figure 2). Despite this work is not current, most of the proposed theories are still cited as effective acquisitions' motives. Thus, the classification proposed by the author is taken into consideration to discuss the main theories behind the M&A activity.

<table>
<tr><td rowspan="5">M&A as rational choice</td><td rowspan="4">M&A that benefit bidder shareholders</td><td>Net gains through synergies</td><td>Efficiency theory</td></tr>
<tr><td>Market power</td><td>Monopoly theory</td></tr>
<tr><td>Wealth transfer from target's shareholders</td><td>Raider theory</td></tr>
<tr><td>Net gains through private information</td><td>Valuation theory</td></tr>
<tr><td colspan="2">M&A that benefit managers</td><td>Empire-building theory</td></tr>
<tr><td colspan="3">M&A as process outcome</td><td>Process theory</td></tr>
<tr><td colspan="3">M&A as macroeconomic phenomenon</td><td>Disturbance theory</td></tr>
</table>

Figure 2: Modelled based on Trautwein (1990)

According to the author, M&A can be seen first of all as a rational choice aimed to benefit either acquirer's shareholders or the management. In this first group, five theories are distinguishable according to the motive that underlines the transaction.

The achievement of synergies to obtain gains leads to the *Efficiency theory*. Efficiency-oriented explanations assume that managers are motivated by the desire to increase efficiency. Efficiency gains through the exploitation of synergies lead to value creation. This theory is strongly related to what has been discussed in the previous paragraph, it is one of the most used explanations for corporate M&A (e.g. Porter, 1987; Trautwein, 1990; Gaughan, 2017; Demoderan, 2005). Scholars often emphasize the potential value increase in connection to the synergy's realization.

According to the *Monopoly theory* the motive that drives M&A is gaining market power. The idea at the basis of this theory is that having fewer firms in an industry increases the firms' pricing power (Haleblian et al., 2009). This possibility occurs most often in horizontal acquisitions, where companies operate in the same industry. However, also in conglomerate acquisition market power is achievable through cross-subsidization of products, by simultaneously limiting competition in more than one market and deterring potential entrants from the market (Trautwein, 1990). There is evidence that increased industry concentration forces suppliers to lower their selling price (Bhattacharyya and Nain, 2011). The advantages connected to the achievement of market power have been pointed out also as collusive synergies (Chatterjee, 1986) or competitor interrelationships (Porter, 1985). The effects of those synergies are beneficial as those commented in the previous theory, but they do not represent efficiency gains but rather a transfer of wealth from customers.

If wealth is transferred from the shareholders of the company *Raider theory* takes place. According to Holderness and Sheehan (1985) a raider is a person who causes wealth transfer from shareholders of the target company while bidding on the company's stock. These wealth transfers include greenmailing or excessive compensation after a successful takeover (Trautwein, 1990). Greenmailing refers to the payment of a premium share price by a takeover target to a hostile buyer for the buyer‘s accumulated share in the target (Bruner, 2004). However, this theory has been criticized to be illogical (e.g Trautwein, 1990; Jensen, 1984). Research finds that the rest of the shareholders are poorer after greenmail as usually this practice leads to a significant transfer of wealth from public shareholders to a more powerful raider (Bruner, 2004). Thus, the question to ask in case of greenmailing is why the board made the payment in the first place, there is no reason why the management would be justified in paying greenmail. By the way, this theory is not widely supported by evidence as a major motive that leads to M&A transactions (e.g. Holderness and Sheehan, 1985).

The *Valuation theory* is based on the fact that benefits are obtainable by having extra information about the target company, thus the management of the acquiring company can develop a better valuation of the target than the market. This situation can occur in cases of well

assessing the advantages that the companies together can exploit. Another source of gain is target undervaluation; in this scenario the acquirer has been able to buy-cheap for then fully exploit the company potential. This may occur in management acquisitions, where the acquirers are the firm's managers who have bases for developing their target valuation. The target undervaluation may also occur in absence of full information when investors incorrectly value a firm (Edmans et al., 2012). This situation leads to opportunities of buying targets for prices below their actual value or buying using overvalued equity, as long as the target is less overvalued than the bidding firm stocks (Ang and Cheng, 2006; Dong et al., 2006).
The traditional motives connected to M&A relates to value creation, however a substantial amount of studies suggest how acquisitions may destroy value when managers act to maximize their own utility in planning and executing a deal. This situation is reflected in the *Empire-building theory*. The conflict of goals between managers and shareholders is explored in the literature by the agency theory. An agency relationship is defined as one in which one or more persons (principal) engages another person (the agent) to perform some services on their behalf, which involves delegating some decision-making authority to the agent (Hill and Jones, 1992). In the shareholder-management relationship, the management (agent) is supposed to act on the interest of the shareholders (principal) also through an appropriate compensation plan. However, not always the interests of the parties are aligned. Focusing on M&A transactions managers may aim to increase the firm size when they are rewarded financially in connection to it (Masulis et al., 2007). Another management motivation may be connected to power and prestige connected to the increased company size (Yim, 2013), both drivers may undermine the shareholder value creation if the deal does not have a more fundamental rationale.
The last two theories step away from the traditional motives attributed to mergers; either those that are value creating pursuing efficiency or market power; and those more prone to destroy value when managers act for maximizing their own utility. The M&A activity is no longer considered a rational choice, but as the outcome of processes or as a consequence of external events and conditions that lead to those transactions.
Process theory has roots in the literature of strategic decision processes where strategic decisions are not rational choices but the outcome of processes (Trautwein, 1990).
Developing the process perspective, Jemison and Sitkin (1986) argue that the acquisition process itself has a crucial role in determining acquisition activities and outcomes. In line with this perspective better transaction outcomes have been connected to characteristics of the process used to make and implement acquisition decisions (Pablo et al.; 1996). This perspective has obtained great attention for the importance of post-acquisition integration for value creation (Hitt et al.,1998).

The last theory proposed considers M&A as a macroeconomic phenomenon. According to Gort's (1969) theory merger waves that have characterized the last century are caused by economic disturbances. These forces generate a change of expectations that leads to discrepancy in valuation; when asset value for a potential new owner is higher than that of the actual owner a merger possibility rises. According to this theory, discrepancies are decisive in determining variation in mergers rates over time and among industries. Discrepancies are economic shocks, such as changes in technology and movement in security prices that lead to a high degree of uncertainty (Gort, 1986). This theory has been explored also by more recent studies (e.g. Harford, 2005) that explain the clustering of M&A in waves as the result of technological, regulatory, economic shocks that generate an asset reallocation through mergers and acquisitions.

2. M&A Value Creation

Mergers and Acquisitions is a topic of study involving different business fields: from strategic management to corporate finance and organizational behavior. This broad literature enables to analyze and underline different important aspects but often lacks giving a comprehensive view of the topic.

Also concerning the value creation capacity of those deals and its measurement, the existent literature takes different perspectives-in connection to the field of study-, uses different methods, and often comes to inconsistent findings. This shows how the complexity of M&A is reflected in the attempt to construct a universal framework that defines value creation, its measurement and the factors that drive success. Often critics have been moved on existing researches for the need of a more integrative perspective (e.g. Cartwright S. et al., 2006; Zollo M. et al., 2008; Das A. et al., 2012).

After having understood the main characteristic of those deals, discussed in the previous part, this chapter focuses on M&A performance, thus value creation. Firstly, the performance construct is defined, and the main methods used to measure it are explored. Then the main factors that determine M&A success are analyzed, looking at the broad existent literature. In this part M&A are seen as business processes, thus the related success factors are connected to the way a transaction is performed and to the relationship among the bidder and the target during the entire process. The strategic acquirer point of view is taken into consideration to come to conclusions that integrate concepts and ideas elaborated by various business disciplines.

2.1 M&A Performance and its Measurement

Mergers and acquisitions are tools for implementing business strategies to grow and gain competitive advantage. The potential for value creation, in its various forms, seems the reason that moves companies to pursue this path instead of organic alternatives. However, empirical evidence demonstrates how often those transactions destroy value for acquirers rather than create it. While Target firms' shareholders enjoy positive and statistically significant results, acquirers' shareholders value creation measurement leads to conflicting results that shifts from negative to positive abnormal returns registered, not always confirmed by statistical significance (e.g. Bruner, 2004). How performance has been defined and measured among researchers contributes to explaining these inconsistent outcomes.

Value creation among studies has been often analyzed looking at a dependent variable that measures M&A performance, chosen depending on the objective of the specific study.

However, the variable that has been used to measure performance along decades of researches has had an important impact on the outcomes. As a consequence, the concept of organizational performance in general terms and its measurement have to be analyzed to understand the ambiguity around M&A performance.

2.1.1 Organizational Performance Construct

The performance construct has been central in the management research, as it is fundamental for the survival and success of a company. Organizational performance is a multifaceted construct that relates to different aspects of the business (e.g. profit, sales, market share, productivity, debt ratio). Its measurement is seen as a benchmark to gauge the effectiveness of managerial decisions and the purpose of the organization (Kapil, 2012). As a consequence, any area of management has been interested in measuring performance (Richard et al., 2009).

Many scholars in the various fields have tried to give a universal definition and a unique measure of this concept but failed in providing consensus among disciplines. Organizational performance is connected to the broader concept of organizational effectiveness that includes organizational performance but incorporates also other internal performance outcomes that go beyond economic valuation (Cameron and Whetten, 1983; Richard et al., 2009). The importance of these concepts is widely supported, but the treatment of the performance construct in research fails to provide an agreement about basic terminology and definition (Venkatraman et al., 1986). A way to look at this concept and measure it is using a classificatory scheme that sees the overall performance as the result of a combination of two dimensions: financial and operational (Cameron and Whetten; 1983, Venkatraman et al., 1986). This approach leads to taking into consideration both financial measures, such as accounting-based ratios (e.g. ROE, ROS, ROI) or stock-based measures (e.g. market-to-book, stock market returns) and operational measures like market share, customer satisfaction, employee satisfaction, technological efficiency. The performance construct triggers different interests, mirroring the different stakeholders involved in a business decision and concerned about its outcome. This multidimensionality of the performance construct is recognized among scholars but, empirically often one dimension is taken into consideration in light of the objective of the single study and of subjective rather than objective factors involved in the research. The financial area and the accomplishment of a company's economic goals are the most broadly studied field (Venkatraman et al., 1986; Barney, 2002).

Despite economic results have been the main focus, multidimensionality should be taken into consideration among researchers to overcome the issue of considering a single dimension in

the analysis (Venkatraman et al., 1986). However, among studies, this perspective is infrequently taken and when multidimensionality is considered, the actual dimension identified appears to depend on the analytical method (quantitative vs qualitative) (Combs et al., 2005). In light of these considerations, it is clear that the ambiguity that encompasses M&A performance has deeper roots in the concept of performance itself. As a consequence, the studies aimed to measure M&A performance mirror the difficulties in assessing performance in general terms.

2.1.2 M&A Performance Construct

M&A performance has been the topic of study of broad literature and research that have used different approaches to define and measure it. The difficulty in defining deal performance is connected to its multidimensionality. On one hand, a transaction triggers different interests from shareholders and management to employees, customers, and suppliers. On the other, different performance indicators should be used depending on the strategic objective the company aims to achieve. Performance goals are different among companies, shaped based on their resources and strategic options available (Richard et al., 2009).

Within the difficulty in treating the concept of performance in research, the methods used among scholars to measure it are various. As a consequence, methodological problems can be the reason for explaining the inability of empirical studies to evaluate the benefits of M&A (Lubaktin, 1983; Brouthers et al., 1998).

It can be noticed how empirical researches follow a typical design: a dependent variable is chosen as a measure of performance, and its variability is explained through the use of factors that among literature appear to widely affect it. The measures used as dependent variables in statistical models make a first limit clear in connection to the multidimensionality of the performance construct. The most used parameters are tight to the financial dimension of the organization. Those are either accounting measures or stock measures, leading to the main approaches used: accounting-based methods and stock-market based methods, further explored in the following paragraph. Therefore, the organizational dimension of performance seems to not catch the interest of researchers. The performance variable chosen unlikely reflects this perspective, even though several objectives achievable through M&A are directed to the organizational dimension. The consequence of having a unilateral perspective is that financial performance measures will tend to undervalue the achievement of other goals and may fail to provide an accurate picture of M&A success (Brouthers et al., 1998). Even if financial measure prevails among empirical studies, it is important to underline that non-financial measures (e.g.

synergy realization degree, integration effectiveness, strategic gap reduction) are present among researches and seem to gather more and more importance (Meglio and Risberg, 2011).

In light of the problems connected to M&A performance measurement, critics about the different interpretations of the performance construct among researchers and how it is measured are conspicuous. Complexity and uniqueness of each M&A transaction may explain the conflicting results obtained by scholars, as comparison among different studies would be at this point meaningless (Lubatkin, 1987; Bower, 2001). Moreover, the ambiguity in performance measurement may reflect the difficulty in finding a single variable able to reflect the different ways that have been used to proxy M&A performance (Zollo et al., 2008).

In conclusion, one of the main gaps of empirical evidence, broadly underlined by literature, is the lack of a universal definition of performance in connection to the multidimensionality of the construct. This problem leads to difficulties in the measurement of M&A success.

Richard et al. (2009) have identified three sources of multidimensionality in the research context (a) Who are the stakeholders for whom a performance measure is relevant? (b) What is the landscape over which performance is being determined? and (c) What timeframe is relevant in measuring performance?

The authors suggest that performance measurement should take into consideration these dimensions. This perspective would guarantee the overcoming of critics often moved when performance is measured. In light of these recommendations, the M&A performance construct in our empirical study will be defined, specifying the parties to which the construct is relevant, the study framework, and the utilized time frame.

2.1.3. Accounting Based Approach vs Stock-Market Based Approach

After exploring the problems connected to the performance construct and its measurement, this section aims to further analyze the approaches that dominate the empirical evidence: the accounting-based approach and the stock-based approach. As the financial dimension of performance dominates studies both approaches identify performance in financial terms, but the nature of the variable is different. Moreover, those are similar in the method used that often involves statistical models.

Starting with accounting-based measures those can be classified into three major categories (Thanos et al., 2012):

a) Ratios
b) Growth measures (sales and profit, assets)
c) Operating Cash Flow

The first category includes some of the main profitability ratios used as a tool to summarize the financial statement and the health of a company. The most used ratios in research are return on assets (ROA), return on sales (ROS), return on investment (ROI), return on capital employed (ROCE), return on equity (ROE). Ratios are used as measures of performance as their improvement in comparison to the industry level, competitors, or in relation to the same ratio from previous years indicates if the company is resilient.

Each ratio presents some peculiarities in representing performance, among those ROA appears to be the most widely used accounting ratio (Thanos et al., 2011). It depicts how a company is efficient in deploying assets to generate sales and eventually profits. ROA is used by comparing the ratio of the acquiring firm before the acquisition with the ROA of the bidder for a certain period after the conclusion of the deal, concluding for a successful transaction in case of a positive difference. This ratio has been criticized for the industry influence (Harrison et al., 1991), thus scholars often adjust the measure by subtracting the average industry ROA or correcting it according to the firm location (e.g. Zollo et al., 2008).

Other studies are conducted using growth measures as a proxy for performance. Most often these reflect the firm's financial performance and can be related to various aspects of the business such as sales, profits, assets.

Another recurring measure is operating cash flow (e.g. Haley et al., 1992) that represents the cash generated by the normal business operations, thus stands for the real economic benefit generated by the assets. It is defined as net operating profit plus non-cash expenses (e.g. amortization, depreciation) minus non-cash sales (e.g. receivables). A positive operating cash flow indicates that the firm can generate enough cash to finance its operations and boost further growth, otherwise the company requires external financing for capital expansion. This measure is often adjusted to make it comparable among different firms by dividing it by the market value of the assets. Moreover, industry cash flow is computed for taking into consideration events that are more industry related than firm related.

Before moving to the second approach, it is worth understanding what the main advantages and disadvantages of this method are. The accounting-based approach as the name suggests is based on measures of M&A performance that are available and published in the company's financial statement. As a consequence, the measured performance will not incorporate expectations of investors, overcoming the hypothesis that the market is efficient so that all available information is embedded in the market prices. The second advantage relates to the fact that it is possible to combine different ratios in a single study. This allows inferring at the same time different aspects of the company performance, for example by considering altogether profitability ratios (e.g. ROE), efficiency ratios (e.g. ROS), and growth in sales. Moreover,

those measures can reflect the realization of operational and financial synergies obtained in the long run, as the synergistic potential will be reflected in the accounting numbers.
Despite the mentioned advantages, this approach has been criticized by scholars for different reasons. Firstly, it fails in measuring the aspects of performance that are not reflected in numbers available in financial reports, intangible assets are an example. Therefore, only the objectives related to the economic performance are taken into consideration, whereas the motives that explain an M&A transaction are, as we have seen, of different nature. Secondly, accounting-based measures ignore the impact of changes in risk on changes in return, a shareholder may not benefit from an improved return if the risk of the company is much higher (Lubatkin, 1983). Finally, the availability of the data in the financial statement is also connected to the third limit of this method. By using information disclosed by companies the accuracy of results will also depend on the quality of the financial documents and it is affected by the potential numbers' manipulation of the management in choosing the accounting procedure. Moreover, the accounting standards may differ among different countries making cross-border comparison difficult.
The second frequent method utilized to measure M&A performance is the stock-market based approach that most often results in event-study methodology. Event studies are used to determine whether there is an "abnormal" stock price effect associated with an unanticipated event (McWilliams et al., 1997). This method has been widely used in accounting and finance to measure the impact of changes in corporate control. It moves from analyzing accounting-measures of profit to stock-based measures such as abnormal returns and cumulative abnormal returns. This methodology applied to M&A is usually operationalized by measuring the effect on shareholders returns around the announcement of the transaction, assuming that the abnormal return registered is the result of the market reacting to the new information. Usually, a short-time event window is taken into consideration because in longer event windows it is more likely that confounding events influence the stock price (Brown and Warner, 1980).
The main benefits of this method are related to the stock measures chosen. Market-based returns to shareholders are direct measures of value created for investors. Moreover, those are forward-looking measures, in theory stock prices represent the present value of future cash flows (Bruner, 2004; Richard et al., 2009). As a consequence, the main assumption of this model is market efficiency that implies that all available information at the announcement of the transaction is reflected in the stock price. Furthermore, investors are assumed to be rational.
A first limit connected to the stock-market approach is related to these assumptions that researches suggest being not reasonable for most stocks. The market reaction is affected by the investor's expectations that might turn out to be wrong, moreover it is questionable if investors

have all the necessary information available to predict the result of a transaction. Empirical research shows how price movements are also explained by financial market volatility (Shiller, 1989), momentum strategies implemented by investors (Chan et al. 1996), and the tendency in the market of "following the herd" (Graham, 1999). Zollo et al. (2008) consider the short-term variation of company stock price as the ex-ante expectation of the market, a collective bet on the outcome of the transaction rather than an indicator of the degree of success of a deal. A second limit is connected to the short-term perspective often taken in event studies. There is an ongoing debate whether the presence of abnormal stock returns around announcement reflects an improvement of performance in the long run (Zollo, 2008). Moreover, short-term market measures are not suitable when a deal is more focused on long-term strategic objectives (Das et al., 2016).

A possibility to overcome the limit connected to the short-term perspective of the deal is using total returns to shareholders (TRS) over the long run. It results from the combination of the increase of the share price over a given period and the dividends paid over the same period. In the case of a long-term perspective, a time frame of 10-15 years should be considered (Koller et al, 2015). This measure reflects the idea that a company should maximize the value to both current and future shareholders. As investors do not have complete information, in the sense that they cannot price information they do not have, it may be easy for companies to boost their short-term price, while indeed no long-term value creation is generated. In fact, TRS measured for short periods may not reflect the company and management performance. Moreover, it does not reflect the extent to which improvements in operating performance contribute to total shareholder return (Koller et al, 2015). Short-term TRS may also reflect a perverse incentive of the management of trying to increase short term return to meet the market expectations or to increase their compensation when it is linked to TRS. These situations are connected to manager's choices that may undermine, rather than reinforce long-term value creation. This scenario is in line with the Empire-building theory discussed in the first chapter.

In chapter four the event-study methodology will be used to assess the M&A activity value creation. The choice of this approach will be further explored.

The approaches seen to measure performance have been broadly used among empirical studies. The mixed approach, including both accounting and financial market measures, has been encouraged by scholars (Lubatkin, 1983). This allows, on one hand, to facilitate the comparability among different studies; on the other, to understand the differences among those measures (King et al., 2004).

2.2. Different Perspectives for Understanding M&A Success

Other than defining and measuring the value creation potential of M&A deals, another objective of the studies related to M&A performance has been detecting what the main factors that influence the post-acquisition success are. In this way, researches' conclusions help managers in their decision-making process when they find themselves in dealing with such complex transactions. As a consequence, researchers more often have taken the acquirer's perspective, in line with the choice of this work. This pattern is also explained by the fact that target's shareholders value creation through large positive economic returns has been unanimously demonstrated by scholars (e.g. Datta et al., 1992; Agrawal and Jaffe, 2000; Bruner, 2004). Whereas, as mentioned, broad empirical research that focus on the acquiring firm show how the average abnormal returns to the bidder are either negative or not statistically different from zero (e.g. Franks et al., 1991; Shleifer and Vishny, 1994; Agrawal and Jaffe, 2000; Tuch and O'Sullivan, 2007). Even if studies also show positive returns for bidders, empirics do not support the performance improvement for the acquirers suggested by organization theory and strategic management (Lubatkin, 1983). These mixing results have generated a debate around the value creation potential of M&A for acquirers, that is still not solved. The discussed inability of empirics to correctly measure M&A success contribute to explain the conflicting outcomes. On one hand, different results increase the ambiguity around M&A success, retaining form solving the debate around the acquirers' performance. On the other, discrepancies among researches' outcomes suggest that profitability depends on some success determinants that would explain the different level of performance registered among bidders.

This paragraph aims to stress what are the main factors that affect the acquirer performance according to the broad literature and empirical studies. The success factors will be categorized according to three main areas that correspond to the business fields that are embodied in these transactions: strategic management, finance, organizational behavior (Weber et al.; 2013). Those disciplines focus on different aspects of the deal, thus the idea of looking at the outcomes from different perspectives, seeks at releasing the set of factors that help explain M&A success. This allows taking into consideration the entire process, thus with a more holistic approach. The resulting performance determinants will be analyzed and some of them will be tested in the last section of the work to see the extent to which these explain the different levels of performance observable in our sample.

2.2.1. Strategic Management Factors

Strategic management relates to the management of an organization's resources to achieve its goals and objectives by evaluating and deploying a proper strategy.
The M&A studies conducted by the strategic management field have focused on the management of the organization itself and the long-term planning (Weber et al.; 2013). The themes related to acquisitions analyzed by this field are multiple. They move from the consistency of the M&A strategy with the business strategy to the analysis of the M&A process and its implications on the success. Furthermore, the most critical factors for making a deal successful have been explored by this field. Those scholars do not focus strictly on the measure of success in numerical terms but on those elements that encompass the process and have an impact on the deal.
In reflection to this perspective, the main factors that impact success are summarized in table 1.

Strategic Management Perspective
Strategy and Accumulated Experience
Due Diligence and Target Valuation
Strategic Fit and Synergies Potential
Size
Post-merger Planning and Integration
Communication

Table 1: Strategic Management Perspective Factors. Own elaboration.

2.2.1.1 Strategy and Accumulated Experience

The implementation of an M&A transaction should follow a planning phase. Planning is very important for the definition of a business plan and M&A plan, these elements will drive the subsequent phases of the process. The definition of a plan involves the elaboration of a mission, vision, and business strategy that will ensure to have a clear direction toward the implementation of the acquisition. Like any other action, a company takes during its life cycle the decision of an M&A should be well-founded and based on a clear definition of scope, objectives, and goals. As a consequence, the choice to acquire a firm or merge with another firm should result from a well-developed corporate strategy (Payne, 1987).
A considerable number of researches show that companies that define a clear overall strategy are more successful than those that merely react to M&A opportunities (Gomes et al.; 2013).

M&A have the potential of creating value in different ways (e.g. expanding into new markets, learning processes, increasing scale, differentiation), thus different specific strategies can be implemented. However, studies show how corporations that focus on a single strategy are more successful (Ambrosini et al., 2011) than those that pursue different strategies in parallel. This can be connected to the fact that different strategies require different capabilities and organizational structure. Moreover, the implementation of a single strategy enables a clearer focus on the final scope, leading to facilitate the post-acquisition implementation phase. Deloitte report concerning M&A deals trend (2020) reveals that among the reasons that explain the underperformance of M&A transactions there is the lack of definition of M&A strategy. The survey respondents have recognized poor strategy deployment as an important factor in explaining transactions' failure (26%).

Focusing on the capabilities of the acquirer, having experience in M&A deals seems to play a role in the transaction's success. Rehm et al. (2012) have analyzed the performance of companies segmenting them according to their M&A programs. They found that companies that had completed a lot of acquisitions, either accounting for a large or small part of their capitalization, were able to outperform their peers in terms of total returns to shareholders. Companies that often engage in M&A transactions as means for growth have the opportunity to learn from the continuous and accumulated experience of acquisition activity. It appears clear that problems within the acquisition process can be reduced or avoided when the management has already experienced the complexity of such deals. However, it is necessary to recognize that each acquisition is highly specific and even if previous experience has a positive impact on performance, it is important to not rely too heavily on previous deals (Colombo et al.; 2007). Moller, Schlingemann and Stulz (2005) have found that serial acquirers with high valuation suffer losses from their acquisitions when the strategy of inorganic growth is no longer sustainable.

2.2.1.2 Due Diligence and Target Valuation

As stressed in the first chapter, Due Diligence is a fundamental process constituting the core of the transaction's pre-purchase phase. This process is expensive and exhausting for the acquiring firm and requires a lot of time and attention from the management, but the failure to do an exhaustive due diligence can be disastrous. During this phase the target is inspected: its commercial, financial, legal information are carefully investigated, reviewed, verified. The acquirer should fully understand what it is paying for before the deal is concluded. Both the value creation potential and the risks associated with the target should be clear after due diligence. This transaction process impacts value creation in different ways.

Firstly, effective due diligence should uncover issues (e.g pending litigation, inaccurate inventory assessment, weak cash flows) that the target may hide and that may undermine the value creation potential of the deal, or even resulting in the acquirer financial ruin (Angwin, 2001). Secondly, the failure to carefully review may result in concluding that the buyer was not reasonable in relying on the statements of the seller, thus the acquirer may be precluded from bringing an action against the seller if fraud is discovered after the sale is consummated (Devis, 2009). Furthermore, proper due diligence helps to plan the post-acquisition integration, allowing to define solutions to the identified problem rather than discovering them out of the blue once the transaction is concluded. Finally, the elements discovered in this phase are fundamental in setting the price for the binding offer, thus enabling to perform a better valuation and make a funded offer. Obtaining better quality information through the process of due diligence leads to improved identification and valuation of assets and liabilities intended to be acquired (Wangerin, 2010). As a consequence, the due diligence process has been considered a key success factor in M&A among scholars (e.g. Shuler and Jackson, 2001; Epstein, 2005). The importance of doing a comprehensive due diligence relates to the ability to go beyond simple financial or tax due diligence, being sophisticated, and having always in mind the value creation strategy the transaction is intended for (PWC, 2020).

Target valuation needs a particular focus in dealing with transaction success. It is another important factor strictly connected to the results obtained through the target investigation process. A proper valuation leads to an adequate offer by the acquirer, that should be well aware of the maximum amount the target is worth to avoid the overpayment risk. This is fundamental when competition among different bidders is faced. In this scenario, the acquirer should keep pursuing the acquisition setting a proper price cap, also considering its financial structure. This is important to avoid the target overpayment that may lead to financial distress due to the adverse effects on the capital structure of the transaction closing. Prioritizing due diligence and accurately valuing a target are some of the factors more cited by managers in defining a successful transaction (Deloitte, 2020).

2.2.1.3 Strategic Fit and Synergies Potential

Strategic fit is connected to value creation when the combination of bidder's and target's assets are used more effectively by the combined firm than by the two entities separately (Shelton, 1988). This concept is related to the creation of synergies between the acquirer and the target, a higher level of strategic fit increases the chances to benefit from synergies.

According to Lubatkin (1987) whether a firm gains or loses from an M&A is contingent on how the acquirer's competitive strengths and its market growth rate fit with the same

characteristics of the target firm. In this perspective, the more the two companies have common or complementary features the greater is the potential created. It is important to stress that the strategic fit assessment should be based on gaps that the acquirer needs to fill in its own strategy: the transaction should enrich the acquiring company with something that is missing.
According to what the acquirer looks for in the target, it is possible to distinguish talent-based mergers and cross-industry mergers (Epstein, 2005). With the former, the acquirer seeks a target focusing on filling the gap in terms of people, skills, and knowledge to the areas of need. On the other hand, cross-industry mergers create value by combining complementary products and services to better satisfy customer needs. As a consequence, the fit can be connected to different business areas and it should be embedded in the overall strategy. Moreover, the strategic fit seems also to affect the likelihood of forming the acquisition. According to Wang and Zajac (2007) research, factors such as resource similarity and complementarity, combined relational capabilities, and partner-specific knowledge between firms contribute to the successful conclusion of a deal.
Strategic fit is also connected to synergies value creation potential. As already mentioned, synergies lead to extra value when the combined companies operating together create value that would not be available if the companies had operated independently (2+2=5) (Damodaran, 2005). The synergies assessment is central for M&A value creation. Moreover, their quantification in real, measurable improvements in competitive advantage is fundamental (Sirower, 1997). Managers need to work having foreseeable synergies at closing and their quantification is fundamental in setting the price. Furthermore, proper identification increases the understanding of potential synergies. As a consequence, on one hand, a proper synergies' evaluation enables managers to better develop a strategy that raises the chances to capture the extra value post-acquisition. On the other, it increases the clarity in the market, ensuring a reaction that is in line with the company expectations.
Strategic fit is a necessary element to benefit from synergies (Lubatkin 1983; Weber et al., 2013) but should not be considered as a sufficient aspect for a successful transaction.

2.2.1.4 Size

As stated previously, a factor that influences M&A success is the similarity among the bidder and the target. Literature and research have given attention to the relative size of M&A partners (size of the target over bidder's size). A "size effect" is stressed, suggesting that it is important taking into consideration the dimension of the parties in performing a deal. Asquith, Bruner and Mullins (1983) have reported that when the target market value was equal to or over 10 percent of the acquirer's market value, the return to the buyer was 4,1 percent. Whereas, when the

market value was less than 10 percent the return of the buyer was only 1,7 percent. As a consequence, their results have been consistent with the size effect: a relatively larger target seems to generate more value.
Nonetheless, the thesis regarding the relative size moves on two fronts, on one hand, empirics show that if the target is relatively larger than the acquirer synergies potential is greater. On the other, it is hypothesized that the greater is the size of the acquirer in comparison to the acquired firm, the smoother will be the integration process.
In support of the first view, researchers sustain that the target company should be large enough to impact the acquiring firm performance (e.g. Asquith et al, 1983; Bruner, 2002; Tuch et al., 2007). Moreover, synergies may result more difficult to realize in connection to a size constraint when the acquirer is much larger than the target (Kusewitt ,1985; Seth, 1990). Lasson et al. (1999) have demonstrated how the relative size matters for the synergy realization, showing that the combination potential was higher when the target was larger than the bidder.
In line with the second front, empirics show how a smaller target relative size has positive implications on organizational integration (e.g. Hunt, 1990; Brouthers et al., 1998).
As a consequence, suboptimal results are achieved both when a large company buys a small company, and when targets are very large in comparison to the acquirer (Gomes et al. 2013).
Focusing on the size of the acquirers, Moeller et al. (2004) have demonstrated how smaller acquirers often realize higher returns than larger bidders. This may be explained by the overconfidence of managers in larger firms and by the fact that their incentive plan might be connected to the overall size of the company, rather to value creating purposes. Moreover, larger firms may tend to pursue riskier transactions than smaller firms.
The size impact on success seems to have discordant effects among empirics, however it seems to be connected to success in different ways.

2.2.1.5 Post-merger Planning and Integration

Post-merger integration is one of the most delicate and important phases for the success of the transaction and it is considered one of the main sources of value creation.
Having done the proper work until the closing of the deal is important, but the integration among the two companies and the implementation of the planned strategy is fundamental to unfold success. The integration phase requires bland together the management of human resources, customer relationships, and technical operations (Epstein, 2005).
Slow or ineffective integration is one of the commonly cited reasons for mergers and acquisitions failing to meet expectations (DePamphilis, 2017). Tough decisions should be made early in the process; critical issues have to be prioritized and resources should be concentrated

on the objectives that offer the greater payoff. The longer the company takes to act, the greater will be the negative effect on success. As a consequence, it is important to be rapid but operating having in mind a well-developed strategy and objectives, communicating a clear vision and set of values to all employees and other relevant stakeholders.

Relevant stakeholders should be involved in the integration phase, the firm has to inform them promptly about important changes that the company will face concerning the deal. Particular attention should be given to customer retention. After the transaction, customers should be of central interest to the company. According to Down (1995), a newly merged company will experience a loss of 5%- 10% of its existing customers as a direct result of the merger, and the loss may continue also after the closing. This loss is connected to the uncertainty about on-time delivery, product quality, and more competitive post-merger pricing by competitors (DePamphilis, 2017).

Strategic focus, speed, and communication will ensure to minimize the turnover and the possibility to lose key employees, but also suppliers and customers in the case of a protracted integration phase. Moreover, particular importance has the cultural integration of the two firms, both from an organizational perspective and from the strictly cultural point of view in case of cross- border acquisitions; those elements will be further analyzed.

According to Deloitte (2020), an effective integration process is the single most important factor that leads to successful transactions.

2.2.1.6 Communication

Managing communication in periods of organizational change if fundamental. As a consequence, during M&A transactions that often lead to important changes for firms, communication is essential throughout the process.

The communication stream should ensure the proper flow of information to both employees and other stakeholders. This contributes to limiting misunderstandings that may generate, not only higher turnover, but also loss of stakeholders' confidence. The way in which the acquiring company communicates its intentions to the target is also of great importance in managing the stakeholder's expectations (Gomes et al., 2013).

The increase of uncertainty that follows these transactions has an important impact on the human dimension. The decrease in satisfaction, commitment, intention to stay with an organization, and trust in the company are affected. These aspects will be further analyzed, but realistic and effective communication is a central tool to mitigate these situations and cope with the increased uncertainty that may have an adverse impact on the deal success (Shweiger et al., 1991). It is recommended by researchers to create early in the process a flexible and

comprehensive communication program. The impacts of the integration process should be communicated to the organizational members and relevant stakeholders as soon as possible (Papadakis, 2005).

Where poor communication can considerably undermine the M&A performance (Jemison & Sitkin, 1986; Inkpen et al., 2000; Angwin,2001), a transparent flow of information among the parties affected by the transaction can be considered an important component of M&A success (Gall, 1991; Smith and Hersman, 1999; Bryson, 2003).

2.2.2 Financial and Market Factors

Finance is a broad term that describes activities associated with banking, capital structure, capital markets, money and investments. Within a company, finance represents money management and the process of acquiring the needed funds (Kurt, 2019). It is strictly connected to econometrics, which is the quantitative application of statistical and mathematical models using data to develop theories or test existing hypotheses. However, econometrics is used by all fields of study to demonstrate hypotheses related to any business field.

Financial literature has focused on M&A with the "market for corporate control perspective", where those transactions have been viewed as contests between management teams for the control of corporate entities (Datta et al., 1991). Researchers with this perspective have mainly focused on the measurement of a transaction success by considering the change in the stock rates in the days around the announcement. As mentioned before, it is widely proved that acquiring company shareholders do not profit in the capital market at announcement and the main reasons given by those scholars is the overpayment of the target company (Weber et al., 2013). Also accounting-based measures have been widely used by those scholars to assess the success of M&A transactions.

The set of determinants that seem to mainly impact the performance of the deal, with a more financial perspective, are summarized in table 2 and mainly relates to the payment characteristics of the deal and the market condition at the moment of the transaction.

Financial perspective
Overpayment and Premium
Mode of Payment and Financing

Table 2: Finance Perspective Factors. Own elaboration.

2.2.2.1 Overpayment and Premium

The price paid for the transaction is strictly connected to the valuation process the acquirer operates to get to the binding offer. This price reflects the value of the company that has been assessed during due diligence, incorporating the value of expected synergies and a control premium. The latter occurs when the acquirer pays for a controlling interest to have complete control over the business. However, what is often called a "control premium" in the popular press is actually an acquisition premium that includes both a premium for synergies and a premium for control (Weber et al., 2013). The acquisition premium equals the difference between the price paid and the estimated real value of the target company pre-acquisition.

All the components that are embedded in the final price contribute to the risk of overpayment that results from paying significantly more than the economic value of the acquired company. The overpayment may prevent firms from recovering the premium paid for synergies, thus in the case the premium exceeds the benefits achievable through synergies the creation of a positive return is armed (Sirower, 1997).
Paying too much is connected to other reasons rather than synergies and control; these include agency factors, presence of other competing bidders, consolidation trends, and desire to acquire technology firms (Hitt et al., 2012). Management may engage in opportunistic behaviors when they are concerned more about company growth than the actual increase in shareholders' value. As already mentioned, the agency problem is more likely to arise when the management is incentivized by a compensation plan connected to the company growth. The alignment of managers' and shareholders' objectives can influence the amount of premium paid (Slusky and Caves, 1991). Another reason for overpayment is connected to a competitive factor, if more potential acquirers place bids for the same target, the price paid by the acquirer will be higher. It is identified by "the winner's curse" problem that occurs when multiple bidders made their own evaluation, but even if unbiased, the higher valuation will be above the true value leading the winner probably to overpay the target (Coff, 2002).
Sirower (1997) proposes other reasons that can lead to overpayment such as the unfamiliarity with fundamentals and acquisition strategy, the lack of adequate knowledge of the target and market conditions, and the unexpected problems that might occur during the integration process.
Studies also show a negative relationship between acquisition premium and post-acquisition organizational performance (Haunschild 1994, Beckman and Haunschild 2002; Krishnan et al. 2007), the pressure the management has to sustain not only for meeting the expectation of the market but also for covering the acquisition cost may explain this relationship.
The poor investment returns and the burden on the management contribute to the failure of the transaction, thus overpayment is considered one of the major causes of failure.

2.2.2.2 Mode of Payment and Financing

The mode of payment and mode of financing are other factors that seem to influence the acquisition success, as valuable information for investors. Those decisions have implications the one for the other, thus it is better to make the choice simultaneously.
A company in the acquisition context can choose either cash or stock financing, or a combination of the two. The result mode depends on the negotiation; however, it impacts the value creation potential in different ways (Datta et al., 1991).

Assuming rational management of the acquiring firm, it will seek to pay the transaction in the most profitable way. A stock payment will be chosen if the management thinks that its stocks are overvalued. As a consequence, a stock deal communicates to the market that the acquiring company is overpriced leading to a negative impact on the bidder stock value. On the other hand, paying with cash gives a positive message to the market. It signals that the acquiring company expects a particularly strong post-acquisition performance (King et al., 2004), as in a cash deal the acquiring firm will maintain the corporate identity and ownership structure without risk or reward sharing.

Moreover, the decision of how to pay is strictly connected to the choices about financing. In general, paying with stock generates financial flexibility, while paying with cash consumes it (Bruner, 2004). A stock deal is financed either with stock available in the treasury, already approved by shareholders, or by the issuing of new stocks. Whereas a cash deal may recur to extra cash available, may be financed issuing new debt or issuing new stocks. All the mentioned decisions impact in some extent the debt capacity of the firm, thus resulting in affecting the company debt rating and cost of debt that in turn may impact the post-acquisition success.

The decisions about the mode of payment and financing give insights about how the seller values the target, thus a company should carefully take into consideration the information that its choice transmits to the market.

Empirical evidence shows how the mode of payment impacts buyer value creation. Cash deals seem to generate on average greater returns for the acquirer than stock deals (e.g. Travolos, 1987; Antoniou et al., 2004; Faulkner et al., 2012). However, some researchers do not agree in the payment mode being a significant variable in determining the deal value creation (e.g. King et al., 2004).

This suggests that the mode of payment influence is complex and may depend upon other several factors such as the size of the premium paid, stock market cycle, M&A cycle (Hitt, 2012). Changes in interest rates and stock prices are strongly related to changes in M&A design over time (Bruner, 2004). For example, stock purchases prevail in periods of booms in the stock market. This is connected to the overvaluation theory, according to which acquirers buy with stocks when their shares are overestimated.

The choice between cash or equity provides insights on how the management values its share and on the acquirer ability to unlock value through an acquisition (Palmer, 2019), hence the management should carefully consider this information effect in the decision for a cash or stock deal and its impact on value creation.

2.2.3 Organizational Behaviors Factors

The importance of the human factor of a business is relevant along all its life cycle and it should be considered in every important business decision to make a firm operate more effectively. Organizational Behavior is the academic study of the ways people act within groups. In connection to M&A, researchers in this field have focused on the recurrent lack of attention of the human factor during the process of the planning and implementation of a deal (Weber et al., 2013).

Causes of failure are connected to managers and employees that do not adjust to the M&A for cultural or management style differences. As a consequence, not only the full exploitation of the synergy potential is limited, but also the acquirer may face considerable costs. This perspective is particularly relevant during the integration phase when the target and acquirer jointly form a new entity. The success determinants are summarized in table 3.

Organizational Behavior Perspective
Cultural Fit
Organizational Fit
The Human Dimension

Table 3: Organizational Behavior Perspective Factors. Own elaboration.

2.2.3.1 Cultural Fit

Corporate culture is a common set of values, traditions, and beliefs that influence management and employees' behavior within a firm (DePamphilis, 2017).

The role of culture in M&A has been a studied topic among scholars and researchers. They have considered culture at multiple levels of analysis including National, Regional, Industrial, Company, and Professional levels (Gomes, 2013).

What appears clear from the studies is that the relationship culture-performance is complex. On one hand, it is suggested that cultural differences can create an obstacle to achieve integration benefits. On the other, these dissimilarities, appear also as a source of value creation and learning (Stahl and Vogit, 2007). However, the implication that culture affects M&A performance is clear among researchers and literature often uses the term "cultural fit" to express the relationship that should be sought among the two companies' cultures during the screening and integration process.

The culture role may be connected to different phases of the transaction: it may affect the expectation of investors about the future performance of the firm, task integration may be

impacted, and also human integration relies profoundly on culture. All these elements contribute to drawing the relationship between culture and value creation. The cultural aspect matters especially dealing with cross-border transactions.

Investors' expectations are based on all available information, and culture matters in defining their beliefs. The market may interpret the announcement of such a deal as riskier in terms of post-acquisition administrative and consolidation costs.

The integration process as we have already mentioned is particularly relevant for the success of the deal, and it is widely impacted by culture, whose effect is twofold. According to Birkinshaw (2000), integration is an interactive process where both sociocultural and task integration efforts are required, this perspective is taken to analyze the culture's role in the integration phase.

Sociocultural integration can be defined as the creation of a positive attitude toward the newly formed organization and a sense of shared identity and trust among the organizational members (Stahl and Vogit, 2007). In this perspective the role of culture is fundamental and great effort is required to integrate properly different cultures to avoid conflicts between the amalgamating firms and thus adverse effects on performance (Gomes et al., 2013).

Task integration relates to how the operations of the two companies integrate together. Thus, in line with the resource-based view, cultural differences can be seen as an asset, a source of cross-learning among the two companies. The positive interaction may lead to innovation and a richer knowledge structure (Barkema, 2001), providing access to unique routines and capabilities in the acquired firm (Morosini et al., 2008). However, the benefits related to cultural differences are connected to the size of the difference and the successful management of the transfer of capabilities, resource sharing and learning (Björkman et al., 2007). Both socio-cultural and task integration affect the acquirer's ability to exploit and realize synergies, having an impact on the success and value creation of the transaction.

Sthal and Vogit (2007) tried to reconcile the conflicting perspective and findings related to the implication of culture in performance through a series of meta-analysis. The results have suggested that cultural differences affect sociocultural integration, synergy realization, and shareholder value in different and sometimes opposing ways. Culture impacts result to depend on aspects of the acquirer-target relationship such as the dimension of cultural differences and degree of relatedness.

According to a survey involving more than 7000 business executives, 82% of the participants viewed culture as a source of competitive advantage (Deloitte, 2016).

Cultural differences matter in M&A and management should be attentive on how those affect the integration process and on how to manage them more effectively. Culture is one of the most

unpredictable factors of the deal success that should be put at the center of the integration process (PWC, 2019). It takes collaboration and collective efforts to build a common corporate culture, consisting of new organizational values, standards, and beliefs shared by the employees of both the target and the buyer company.

2.2.3.2 Organizational Fit

Organizational fit is another dimension of the relatedness between the target and the acquirer that may impact the deal performance. Organizational fit can be defined considering various dimensions, but here the focus is on the difference of the management style among the acquiring and acquired company and the importance of the leadership role in the post-acquisition phase.
The management style has been proven to be a predictor of performance and the difference among different styles has been a factor considered particularly important in the post-acquisition phase (Datta, 1991). The management style can be defined as the set of principles, methods, techniques used by managers to handle situations and express leadership within an organization. It comprises different factors such as attitude to risk, decision-making approach and control, and communication patterns. As a consequence, the management style is unique among organizations and can take different forms. In the M&A setting this factor results to be particularly important. The creation of a unique organization leads two management groups to come together and the integration among different management styles may lead to problems that may undermine the acquisition performance. The acquiring firm tends to impose its style, especially when it thinks to be able to improve the target effectiveness, leading to potential tensions. Datta (1991) has shown how the management style is important for superior performance both in low and high levels of post-acquisition integration operations. One may think that the impact of the management style is lower when the interactions among management groups are low. However, the target management is often subject to scrutiny and control by the acquirer even if the post-merger interaction is limited (Datta, 1991). Differences in management style contribute to post-acquisition problems, undermining the peace of the integration process, thus increasing the difficulties of achieving operational synergies.
Another aspect to take into consideration is management leadership. The acquiring firm chooses also the type of executive in charge of managing the company after the acquisition, facing the decision to retain the existing management or replace it. Angwin and Meadows (2007) in their study consider the different styles of integration and distinguish insider and outsider managements. They found a positive relationship between the use of insiders and acquisition characterized by a high level of autonomy. On the other hand, they observed that when the interdependence among the two firms was high, thus a new perspective in the management was

required, outsiders were more prepared to make radical changes. Moreover, they were more objective and had lower emotional attachment than insiders. This suggests that hiring new executives to manage the integration process would be better when the acquiring company intends to make important changes in the target. Poor management during implementation is a cause of M&A failure (Prichett et al, 1997). It is important to select executives able to implement the right changes that allow a proper integration that meets the expectations of both organizations.

The acquiring company management should be conscious of the importance of the organizational dimension in making their decisions; the relevance of management style and leadership have been discussed. Open communication and mutual respect among management groups help to overcome these difficulties and achieve successful acquisitions.

2.2.3.3 The Human Dimension

Human Resource Management in M&A plays a key role as the human dimension is central for achieving business effectiveness, that cannot be reached without productive, motivated employees.

Acquisitions lead to complexity and uncertainty, a new organization is formed with potential changes in the structure, processes, systems. As a consequence, the workforce is highly impacted, making the management of the human capital fundamental for an efficient integration. Moreover, M&A provides a fertile ground for job insecurity, unfair treatment, procedural injustice. While the management wants to maximize efficiency, workforce instability is a risk for the acquisition success (Bryson, 2003).

The loss of key people and employee turnover are great risks that the company may face. To overcome these problems, the perception of job security and workforce stabilization play a major role during a merger (Schweiger et al., 1987). Moreover, targeting key staff for retention is important to ensure continuity in the business, considering not only executives but all relevant employees.

Researchers also show the importance of procedural fairness in determining the staff attitude toward the deal (Ashkenas et al., 1998; Brockner et al., 1994). In these terms, as already mentioned, communication plays a fundamental role. Management should promptly and frequently communicate changes. Open communication enables to strengthen the employees' trust and limits uncertainty and rumors.

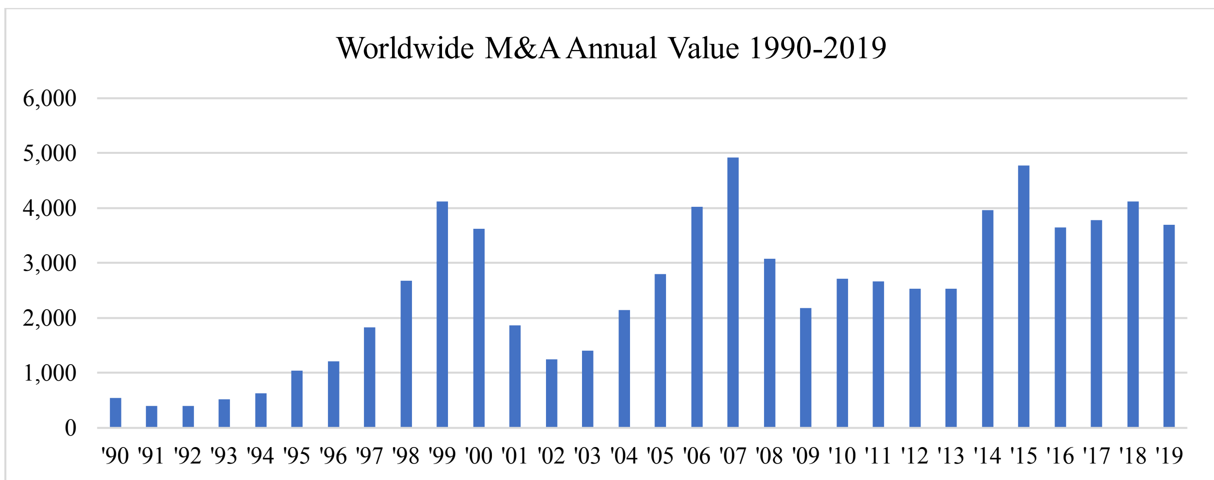
Poor human resource management may impact the synergy realization and the possibility of transferring skills and resources, thus influencing deal performance and its success.

3. M&A in Downturns

The previous chapter has focused on defining the debate around M&A value creation and on exploring the determinants that contribute to defining deal success. Various discipline perspectives have been taken into consideration and the resulting value creating factors are strictly connected to the firms, deal characteristics, and to the relationship between the bidder and the target company. However, M&A activity is also connected to external conditions that drive to a different extent the realization of those deals. There is not a direct relationship between the deal's success and external environment, but rather between favorable external conditions and the volume and value of activity registered. M&A activity does not disappear during difficult times, but the external environment inevitably influences the decision-making process of firms that have to deal with value creating growth strategies when reacting to critical times. Therefore, it is interesting to explore the role of M&A in case of unfavorable external conditions, and how the value creation implications are impacted by distressed scenarios.
In this chapter the external environment is firstly taken into consideration, trying to overcome the company borders and analyze the determinants of M&A having a broader picture in mind. After having explored the external factors that according to literature and empirics contribute to thriving deal activity, an analysis of what happens when those fail to occur is done. Good economic conditions boost deal activity, however there is still a question mark on what happens to M&A in bad economic times when companies are forced to work in a distressed scenario. This dissertation will analyze in particular the recent Covid-19 crisis, its economic impacts, and consequences on the M&A activity.

3.1 M&A Relation with the Environment

From the last century until today M&A have clustered in waves, enabling us to understand what the main drivers of the cyclical nature of those transactions are. Waves are defined by periods of time characterized by relatively a large number of mergers reported simultaneously in many industries where this activity intensifies at an increasing rate and then declines rapidly (Reid, 1968). This cyclical pattern can also be noticed taking into consideration the years 1990-2019 represented in graph 1.



Graph 1: Worldwide M&A volume in dollars. Source: Institute for Mergers, Acquisition, and Alliances (IMAA)

The cyclicality nature suggests that common factors contribute to define the M&A activity, leading to suppose that it is connected to more macroeconomic factors such as the business cycle, the stock market condition, aggregate demand, among others (Choi and Jeon, 2010).
In general terms, the cycle tends to shift upward in connection to economic expansion and booms in the stock market. For example, the wave that occurred between 1992 and 2000 took place in a decade characterized by great economic prospects, booming of the financial markets, and globalization (DePamphilis, 2017). On the other hand, M&A activity tends to be weaker in years of recession and recovery. Exemplary are the dot-com bubble (2000-2002) and the Great Recession (2007-2009) periods when a deal drop has been registered.
The main external factors connected to the deal environment that contribute to determining M&A volume and value are discussed. It will be clear how downturns define an unfertile ground for deal activity.

3.1.1 The External Environment

The external environment is defined as the totality of factors outside an organization that are taken into consideration in its decision making (Duncan, 1972). Thus, the environment in which a company operates is a fundamental element to consider for determining business decisions and their success. Outside the company's wall, the environment plays a major role in shaping a business and it can be analyzed taking different perspectives.
As mentioned, M&A have occurred in waves and numerous scholars have tried to explain the dynamics in merger activity, other than its success. The directions this problem has been addressed involve the stock market level, industry level, firm level, and macroeconomic level

(Choi and Jeon, 2010). Aspects of all these perspectives contribute in explaining what boost M&A activity.

A positive correlation has been found between the stock market and mergers activity (Gort, 1969; Guerard, 1989; Rhodes-Kropf and Viswanathan, 2004); booms in stock markets are proven drivers of M&A activity where overvaluation plays a major role (Shleifer and Vishny, 2003). Bidders with overvalued stocks buy assets of undervalued targets through stock acquisitions. The target managers when having a short-term perspective accept the overvalued counterparty equity, this situation leads to an increase in M&A activity. A similar perspective explains waves in relation to a rational acceptance by the target of the bidder overvalued equity. This is due to imperfect information of the management about the degree of synergies in periods of market valuation peeks, rather for too short-term management perspective.

Technology changes and regulatory shocks that incur in industries also contribute to defining the propensity of new deals (Gort, 1969; Mulherin, 1996). The Neoclassical explanation of M&A waves is based on the economic disturbance that leads to industry reorganization. When an industry oversees technological, regulatory, economic shocks the firms inside and outside the industry react by reallocating assets through mergers and partial acquisitions. This theory, already mentioned in the second chapter of the work, has been confirmed in more recent studies. Harford (2005) by studying the merger between 1981 and 2000 has supported the relevance of those elements but underlies that whether the shocks lead to a merge wave depends on the availability of capital liquidity. The macro-level liquidity component causes industry mergers waves to cluster in time even if industry shocks do not (Harford, 2005). The combination of economic motivations and relatively low transaction costs contribute to the deals' increase. Hence, the Neoclassical hypothesis is modified to take into consideration the available liquidity in the market.

Switching to the firm perspective, it looks at internal microeconomic factors. This dimension is taken into consideration dealing with the external environment, as a matter of completeness. All dimensions that contribute to pushing deal activity want to be mentioned. Jensen (1986, 2005) demonstrates that important business factors are the cash flow and cash reserves availability. The higher those elements are within a firm, the more the management will take aggressive decisions about M&A transactions. This has been confirmed by more recent studies (e.g. Choi and Jeon, 2010), thus company performance results to be a factor to take into consideration. A low level of financial constraints and high cash flow have been founded to support transactions activity (Shleifer and Vishny, 2003).

The micro level perspective and that involving the stock market are juxtaposed to the view of other researchers that found that most M&A activity has taken place almost simultaneously

across firms and industries, leading to the macroeconomics drivers. With this perspective, M&A waves are explained by common factors that influence the state of the aggregate economy. Choi and Jeon (2010), studying the M&A data in the US economy between 1980 and 2004, have demonstrated the important role that the macroeconomic environment plays in determining the trends of merger activity.

The macroeconomic factors that have been studied as important variables for explaining the deal frequency are the interest rate, GDP, aggregate demand, and the economic cycle. Melicher et al. (1983) study has demonstrated that M&A activity tends to reflect the expectations of a more receptive capital market condition characterized by higher stock prices and a lower interest rate. The correlation between merger activity and interest rates has been identified also by other studies (e.g. Becketti, 1986; Guerard 1989). The principal reason for this relationship is that a large part of mergers is financed wholly or partially by debt or debt issuing, thus as interest rate changes, the cost of funds used for acquiring firms changes. As a consequence, merger activity is expected to decline as interest rates rise (Becketti, 1986). Moreover, also the availability of credit influences the merger activity. More debt is available at a cheaper price, higher the volume of transactions is expected to be.

A relation has also been identified between mergers and GDP (Becketti 1986, Guerard, 1989, Choi and Jeon, 2010). Looking at the link between the real economy and the merger activity, it is discussed the impact of the economic dimension that concerns the production, purchase, and flow of goods on mergers. An increase in merger activity is expected with shifts in the aggregate demand (Becketti, 1986). If an acquisition is considered as a new investment, comparable to a new plant or the purchase of new equipment this becomes clear. However, an important difference relies on the fact that a firm's output is expected to expand more rapidly in the case of a merger than in the scenario of a new capital investment.

Furthermore, the rate at which M&A activity increase is expected is greater when the economy is producing near its capacity. As a consequence, merger activity is positively connected to an expected higher demand, and when the capacity utilization rate is high (Becketti, 1986). Moreover, the increase in production connected to the merger activity expansion, will itself contribute to the increase of the aggregate output.

Taking into consideration the business cycle, according to Choi and Jeon (2010) the ascending phase is the most favorable business environment for mergers. Thus, expansion phases characterized by economic prosperity both in the real and financial economy ensure a fertile ground for M&A transactions.

The environmental determinants of M&A are summarized in table 4.

Environmental Determinants of M&A Activity

Stock Market Level	Stock Price
	Stock market volatility
	Stock market behavior
Industry Level	Economic, Technological, Regulatory stocks
	Capital liquidity
Firm Level	Cash flow availability
	Reserves availability
	Company Performance
Macroeconomic Level	Interest rate
	GDP
	Aggregate demand
	Business/economic cycle

Table 4: Environmental Determinants of M&A. Own Elaboration.

The total environment in its dimensions and characteristics has been proven to influence the merger activity in terms of volume and value, nonetheless most researchers have focused on the firm related events and conditions. This probably is because a merger is a firm specific event. However, the waves that have characterized mergers' pattern, lead to think that empirics and literature should move to consider more external forces when dealing with M&A activity. Focusing on the present environment and the expected scenario in which companies have to operate, the external drivers couldn't be more important. Covid-19 pandemic has put pressure on society in different perspectives and the M&A market has not been immune to the disruptive changes.

3.2 M&A as a Growing and Changing Tool in Distressed Scenarios

The most favorable external factors that contribute to boosting deal activity have been discussed, but a question mark arises about what happens to M&A transactions when the main determinants that thrill deal activity fail to occur.
In a distressed economic scenario when a crisis hits the real and financial economy all the environmental dimensions are highly affected. The macroeconomic scenario shifts and new conditions define the playground. Employment, interest rate, supply, and demand are inevitably affected by the crisis and impacted by the monetary and fiscal policies defined in response to the situation. The stock market prices tend to fall and call for volatility, investors lose confidence in the market and risk aversion prevails over bold transactions; shifting towards the more secure assets. Industries are under pressure for action to respond to the crisis.
In such a scenario, companies have to develop and implement strategies that not only ensure the going concern status but also enable them to move forward in the business life cycle. Managers can opt for different paths to counteract difficult times, however growing is always an option.
M&A are complex and costly growing tools; therefore, it comes clear asking what the role of these transactions is in distressed situations and how value creation is affected.
The dot-com bubble in 2000-2002 and the Great Recession of 2007-2009 have demonstrated how in adverse economic scenarios M&A activity tends to decrease as companies revisit their acquisition plans. However, downturns are proven to be times where deal activity has the potential to unfold success. The main strategic approaches implemented during hard times are explored looking for M&A activity space in those periods. Then, the M&A role during distressed scenarios and the elements that businesses should take into consideration to unfold success, are explored.

3.2.1 Unfold Success in Hard Times

The cyclicality of the economic cycle teaches that downturns are expected to come as an inevitable part of the business life. Even if predicting a recession is hard a crisis can always occur and particularly refers to the contraction phase of the cycle. Despite the peculiar conditions that characterize critical periods, there are some recession-driven changes that characterize downturns and constitute the predictable side of those situations.
The decline of the economic activities leads customers to spend less, with the consequences of lower resources available for firms. Moreover, margins fall and productivity declines (Pearce

and Stevens, 2005). Recessions also make bank loans difficult to get, as banks are acting themselves to survive. As a consequence, credit institutions became particularly concerned about the loan portfolio quality, thus companies that may be more in need see their credit availability jeopardized. Businesses can leverage on these predictable aspects of crises to prepare for hard times and in this way be ready to counteract conditions that may threaten their survival. Preparation and planning help firms to face adverse economic scenarios and increase the chance to gain market share and pull ahead over competitors despite critical times. Managers should anticipate the available strategic options to counteract hard times, resiliency over different scenarios is more important than a good recovery plan (Guidara, 2019). A Bain and Company research found that companies that deploy well prepared strategies outperform their peers during and after a crisis (Holland and Katzin, 2019). In fact, opportunities for value creation do not cease to exist even during downturns. However, independently from the crisis characteristics and the work done, the higher the uncertainty is, the harder is managing a business.

Turning to action, the strategies that companies deploy are various, and little research has been done around those that help companies to survive in hard times (Gulati et al., 2010). What is clear is that firms do not follow the same strategy during downturns, a wide variety of possible strategic actions are possible. In general terms, companies have to make the hard decision between reducing expenses to retain resources with a more conservative approach or invest in new products and/or processes exploiting weaknesses that other companies may face (Kitching et al., 2009). The continuum of possibilities sees at its extremes on one hand retrenchment strategies, on the other investment strategies. Retrenchment strategies involve cutting operating costs and divesting in non-core assets to retain cash, thus more defensive tactics. On the other hand, investment strategies are put in place when firms see opportunities for new investments, expansion, and innovation as ways to overcome difficult times. These approaches are not mutually exclusive, and their action depends also on the environment in which a company operates. Nevertheless, a combination of both perspectives seems to create the greatest value. When companies, after retrenchment strategies, are able to redirect the remaining resources toward more promising product-market combinations a successful turnaround may be at the door (Robinson and Pearce, 1992). Introducing new products and trying to attract new customers are especially effective during a recession (Pearce and Stevens, 2005). Competitors are more "quiet" as busy to counteract the crisis. Moreover, customers seem to appreciate more innovation for the lack of new products and services that characterizes those periods. Customer focus should be a priority in downturns; retention and attraction of new clients are fundamental during critical times and have the potential to create extra value once the recovery starts. The

Great Recession has demonstrated that actions taken to survive and wait for the recovery were not enough to succeed in the long run (Salsberg, 2020). The potential of a proactive attitude toward difficult times goes over the survival through the crisis. Once the recovery begins and the economy starts to grow again, firms that have undertaken bolder strategic decisions will be prepared to face the demand increase and maintain or even improve their position in the marketplace.

The benefits connected to an offensive rather than defensive attitude are proven also empirically. An analysis conducted by Gulati et al. (2010) has focused on the study of companies' performance during three recessions, considering three years before the crisis, the recession period, and three years after it. They found that companies that succeed are those able to balance the need of cutting costs, survive and invest in growth. They conclude that the combination of defensive and offensive tactics has the highest probability to succeed (Gulati et al., 2010). The right mix to outperform focuses on operational efficiency, developing into new markets, and enlargement of the asset base.

In the context of companies able to pursue offensive strategies that include investing in R&D, expanding into new businesses, developing new products; managers have to decide possible paths and strategic options, taking into consideration multiple alternatives, among which M&A deals find a place.

3.2.2 M&A Role and Value Creation Implications

M&A, as growing tools and thanks to the multiple objectives achievable through them, can help companies to deploy their strategy and demonstrate resilience in hard times. Engaging in M&A transactions in downturns seems counterintuitive, one may think that a company should focus more on retaining liquidity and wait for the recovery, than investing money in external growth. In fact, despite the potential of undertaking new investments in uncertain times, it is not an easy decision to make. A survey of Hogan Lovell carried out among companies, shows how 9 out of 10 firms have identified uncertainty as a barrier for investments (Hogan Lovell, 2012). As a consequence, increasing uncertainty that characterizes downturns leads companies to focus more on internal growth and firm restructuring, probably perceived as less risky and more under control.

Even if making an M&A transaction is not an easy decision, investing in external growth is a sign of a proactive attitude toward an unfavorable environment that if properly done has a high potential to reward the firm: crisis and volatility also generate opportunities (Citi, 2012). A recent study conducted by the Boston Consulting Group demonstrates how the acquirer's total

shareholder return increased by 7% in operation closed during crisis periods considering two years after the deal (BCG, 2019). The market seems to reward bold acquirers that pursue M&A activities during hard times. This result is consistent with a PWC analysis, according to which companies that have made deals during a downturn benefit from higher shareholder returns than peers in the same industry (PWC, 2020).
Other than strategic tools in the hand of companies even under unfavorable conditions, M&A are a way to quickly adapt to the conditions set by the crisis. In line with the Neoclassical explanation of M&A, when an industry oversees technological, economic shocks the firms within the industry will react by reallocating assets through mergers and acquisitions. A recent example is the digitalization need that Covid-19 has reinforced that has led companies to adapt, recurring to M&A among other available tools.
M&A transactions, as mentioned before, have been broadly analyzed in literature but they have not been explored to the same extent during downturns. If opportunities and success could arise, a question mark is still present about which companies are able to exploit those opportunities and how this can be done.
After focusing on the business profile of companies able to ride the wave, the elements that contribute to the success of the transaction in adverse economic scenarios are explored, trying to understand the most critical steps when uncertainty increases.

3.2.2.1 Success Determinants During Critical Times

A downturn does not affect all companies equally, thus new potential buyers and sellers come into play in the M&A market. The acquirers' profile that has the most potential to create value through M&A in a downturn is characterized by companies with high liquidity, strong financials and the risk tolerance to move quickly (Salsberg, 2020). The firm dimension discussed in the first part of the chapter has already stressed how cash flow availability contributes to thriving M&A activity. Excess liquidity can be utilized to perform deals with a view over the long-term shareholder value creation, instead of using it for less value creating activities, such as dividend payment and share buybacks. Strong financials make the company able to exploit lower valuation multiples that characterize hard times. If a strategic deal is available, the company is strong enough to invest and gather the necessary resources to close the deal. Moreover, the low cost of capital that has characterized crises can be utilized by the companies that have still debt capacity to be exploited. It is clear that companies with a strong balance sheet and good recent economic performance are better positioned to perform inorganic growth options. On the other hand, firms with less favorable financial positions and those that

rely more on debt financing will have to take a step back, with the possibility of even becoming potential targets.

Bold decisions involving investing during a downturn instead of more conservative approaches require risk tolerance as the crisis implication consequences are not fully known until the recovery starts. Industry leaders are able to balance risks and capitalize on the best target opportunities (Ficery et al., 2009).

Another acquirer characteristic to consider is the previous deal experience. However, it plays a role but does not seem a major determinant of success. Deal experience contributes to facilitating the process as the company should already have the proper structure and tools to support the acquisition plan during downturns. Nevertheless, as mentioned before in the work, past successful history does not always lead to replicating the trend. Every downturn has proper characteristics, and nothing should be considered as given. A Boston Consulting Group study shows how both experienced (more than four deals concluded) and occasional buyers (less than four deals closed) create value for M&A in weak economic times generating positive total shareholders return. However, it is demonstrated that experienced buyers apply their knowledge and outperform occasional dealmakers. A positive two-years TRS of 7,3% has been registered for more active buyers versus a two-years TRS of 1,4% for occasional buyers (BCG, 2019).

Furthermore, to increase the value creation deal potential, the acquirers have to master the entire M&A process. The success determinants discussed in the previous chapter should be considered as a starting point. The best economic practices should be taken into consideration, focusing also on how those have changed in relation to the particular business environment defined by the crisis. Despite the opportunities that arise in hard times, M&A transactions are embedded with risks in relation to the entire process. As a consequence, a well-prepared acquisition strategy, good execution, and integration phase contribute to increasing the value creation potential.

The acquisition process is in line with the general steps included in the first chapter. The process previously discussed is recalled in its main steps to underline peculiarities that characterize uncertain periods and contribute to increasing the probability of success.

The strategic planning phase of the deal should be elaborated carefully; more than ever in a downturn scenario only a clear strategy enables the company to grow and survive through acquisitions. The proper structure and tool to support the M&A strategy should already be present and the acquisition plan should be revised in connection to the deal strategy set to react to the period of uncertainty.

Focusing on the pre-purchase phase, the target screening may generate opportunities for acquirers. They have the possibility to exploit the increased availability of firms connected to

those companies that become sellers for the bad consequences on their business generated by the critical time. Companies that were not available for sale become potential targets. As a consequence, the opportunity to select the best fit increases in downturns with the availability of a greater supply of targets.

The process goes on with the target screening, valuation, and due diligence. Not surprisingly, the higher difficulty of risk assessment makes those steps more complicated. The fair value and synergy potential of the seller become harder to assess when the crises have a major impact on the P&L, and when the uncertainty about the expected value of the target performance and cash-flow rises. This leads to difficulties in setting a proper premium, increasing the chances of offering a multiple not in line with the seller valuation. This misalignment between parties may generate longer negation phases. However, during a downturn the opportunity to buy at lower prices increases and valuation multiples tend to fall (Gatti and Chiarella, 2012). As a consequence, the investment is less risky when the buyer is able to buy at a lower price. Moreover, lower valuations for targets improve the chances for acquirers to see higher returns (PWC, 2019). In light of these considerations, due diligence and the target valuation, result to be again fundamental steps in order to unfold success.

The post-purchase phase is challenged by the uncertain situation. The more the future scenario is unclear the harder it will be proceeding with the integration phase. But when due diligence has been well performed this complex phase is facilitated. Among the most critical elements of the integration phase when uncertainty prevails, there are customer focus, employee retention, communication relevance, and process speed. It has proven that customers have not a good opinion about M&A, perceiving to not benefit from those transactions (Ficery et al., 2009). In crisis scenarios customer retention can be a real challenge. Customers themselves are facing difficulties connected to the recession, thus an active attitude toward customer retention should be an imperative. The focus should be on maintaining a high-quality customer experience and a deep understanding of customers' needs and preferences, anticipating changes in the buying patterns. Customer engagement should be maintained through well deployed communication.

Another dimension a company should focus on is the workforce. Employees are nervous, stressed and anxious for the situation and managers should focus on keeping them motivated. As a consequence, the human dimension increases in complexity when two firms are integrating into one reality. Moreover, cutting costs through employee reduction can jeopardize the recovery if it is not properly done (PWC, 2020). Revising workforce structure during hard times is necessary but the retention of talented and skilled employees is a key for value creation in the long run. In dealing with the workforce, timely and properly done communication results again to be fundamental. Good communication should be embedded during all the integration

process and its importance increases with the rise of uncertainty. Finally, the faster the integration process is done, the sooner synergies can be realized. Well execution and speed are the integration phase fundamental ingredients for value creation in downturns.

During difficult economic times both threats and opportunities arise. Those should be explored to unfold success. However, the window for maximizing value is relatively short considering what has been learned from past recessions (Salsberg, 2020). Valuations that decline during a downturn are likely to recover quickly when the situation starts to restore, the same occurs with the target availability and the potential to buy at lower prices, paying a lower premium. Thus, another variable always mentioned in business comes into play: time. Timing is really important in downturns when the tendency would be being conservative, action is called for assisting value creation with a perspective that goes over the short and medium terms (BCG,2019).

All phases of the M&A process are interconnected and performing a disciplined execution of the deal is fundamental for unfold success. Successful acquirers need to understand threats and opportunities connected to the external environment in which they operate and move quickly with a proactive attitude toward changes.

3.3 The Covid-19 Economic Scenario and its Impact on the M&A Market

The most recent spreading of coronavirus and its effects on the global economy have stressed more than ever the unpredictability of downturns and the difficulties of facing periods of high uncertainty. Companies have been challenged to face an unprecedented scenario that has threatened their going-concern status.

The rapid diffusion of Covid-19 has been a major global challenge. After the outbreak in China occurred at the end of December 2019, the virus has rapidly spread causing the declaration of a pandemic on March 11, 2020, by the World Health Organization. The virus has caused around 15 million infections and 600.000 deaths by the end of July (WHO, 2020). Covid-19 has firstly led to an unprecedented global health emergency where the national health systems capacity has been strained. Beyond the human suffering and deaths connected to the virus spreading, it has caused a heavy economic crisis. Governments and organizations have worked for limiting the spreading and avoiding the health system to collapse, however policies such as lockdowns and social distances had a major impact on the economy. The major economies have been hit with different timing and extent by the pandemic shocks, but all experienced a sharp contraction in their activity as containment measures were implemented (OECD, 2020). The main effects have been the enforced shutdown of companies, reduced working hours, job losses. These in turn had a major negative impact on countries' output, households' and companies' income, employment. However, without the promptly introduced policies, the negative effect would have been even larger.

Uncertainty about a recovery is still present, however, positive signs have been registered within the businesses reopening and the mitigation of physical distance prescriptions.

The growth prospect depends on the further outbreaks that may occur around the globe, the effectiveness of the measures imposed, and the timing needed for a vaccine or effective treatment to be deployed. Measures include both those connected to the public health, such as social distancing and masks utilization and fiscal and monetary support actions undertaken to assist the economy.

The analysis of Covid-19 implications would need a separate work, for the purpose of this study the economic scenario set by the crisis is explored, within its effects on the M&A market. In analyzing the playground set by the crisis, a particular focus will be given to the Italian situation in the first semester of 2020 that will be mirrored by an analysis made on a sample of Italian listed companies in the fourth chapter.

3.3.1 Italian Economic Scenario Post Covid-19 Outbreak

After China, Italy has been the first European country to be hit by the Covid-19 spreading since the end of February 2020. The daily new infection peak has been reached on March 21st, 2020, with around 6000 new cases reported, and the height of the outbreak has been in early April. The virus has first hit the northern regions, about the more productive Italian areas, then spreading nationwide.

Since then, the government has worked on contentive measures with the aim to limit the virus diffusion. The Italian response has been quick, first stopping the flight from China at the end of January, then imposing movement restrictions, closing schools and universities and non-essential businesses. In April, within the decreasing number of newly infected patients, those restrictive measures have started to be released gradually, maintaining some social distancing and public health restrictions. Within June, Italy has allowed the tourist flow from other European countries. Those contentive measures, undoubtedly necessary to contain the spreading, had an important effect on the Italian economy, influencing production, investment, and consumption. As a consequence, high uncertainty, weak confidence, and employment decline have characterized the economic scenario since the virus outbreak, leading both the real and financial economy to a deep contraction.

Starting from the macroeconomic impact, the Italian GDP fell by 5,3% in the first quarter of 2020 and according to the national statistical office, ISTAT, a strong contraction by -8.3% is forecasted for the end of 2020, followed by a recovery by +4.6% in 2021, in line with the main forecasts (e.g. Banca d'Italia). This trend is the result of multiple factors. First of all, the drop is due to the fall in domestic demand. The household and NPISH (Non-profit institutions serving households) consumption is expected to decrease by -8.7% in 2020 with investments drop by -12,5%. Also the suspension of economic activities and the consequent impact on jobs and households' and company's income have played a major role in output. Moreover, the global spreading has also disrupted the international trade, leading to a dramatic fall of the foreign demand for Italian goods. Banca d'Italia has estimated a foreign demand decrease by -13,5% (Banca d'Italia, 2020). Finally, the lockdown, social distancing measures, and travel restrictions have hit one of the most important Italian sectors: tourism, that in 2019 has accounted for 5% of the Italian GDP (Banca d'Italia, 2019).

The same downward trend has been registered for the employment rate, a sharp decrease by -9,3% is overseen with an expected recovery in 2021 (+4.1%).

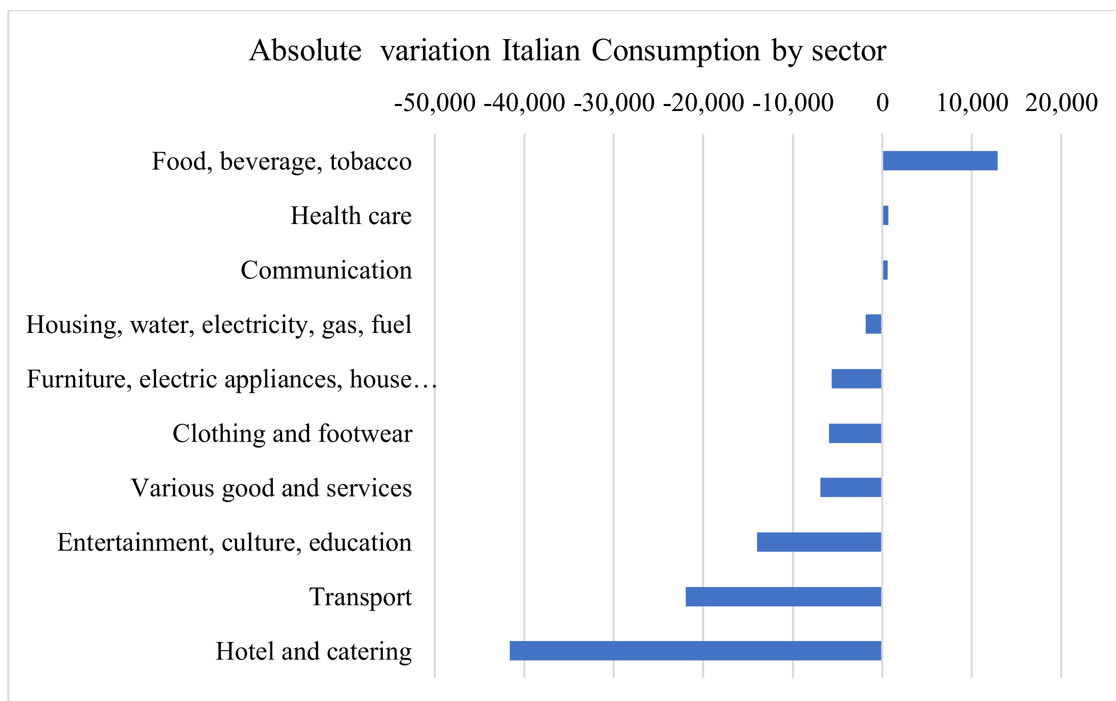
It has to be stressed that the uncertainty about the duration, strength, and geographical spreading of the pandemic makes projections difficult to be formulated. Those have been based on the

available statistical information and forecast models, assuming that the spread of the pandemic remains under control at a global and national level. Nonetheless, a revision is expected with the collection of more data. Moreover, if a new serious outbreak occurs forecasts would be more negative: the GDP could decrease by more than 13 % with a moderate recovery in 2021 and 2022 (Banca d'Italia, 2020).

Despite the overall GDP drop, a slow recovery has started in the second quarter of the year, from May onwards, in conjunction with the decrease of the infected new cases and the gradual release of the containment measures. However, the sharp fell in industrial and service activity in the first quarter still brings its negative effects.

Industrial production has declined in April by 19.1%, beginning to recover in May and June when it rose by around 40% compared to the previous month (Istat, 2020). However, despite the macroeconomic impact of the pandemic on the Italian scenario, the crisis has hit the industrial network in an inhomogeneous way. The closing of businesses following the government's contentive policies have hit more the micro and small enterprises, that are particularly important for the Italian economy both in terms of employment and contribution to the total output. The impact on revenues has been disastrous for all firms, however micro and small companies have reported the worst loss that overcomes 50% for micro firms and it has been reported around 48,5% for small companies. Among the medium and large companies, the impact has been important but milder, those firms have reported a loss that most frequently ranges from 10 to 50 percent (Istat, 2020).

The decrease in demand has been the most significant side effect of Covid-19 among all sectors, however some sectors have been hit more intensively. The graph below synthesized the estimated impact on consumption value by sector on the basis of Confcommercio data. The degree of intensity with which different sectors have been hit depends on the scenario defined by the crisis. Lockdown and social distancing have impacted less the essential businesses such as food, beverages and healthcare. Those sectors have been also less impacted by the customers' purchase power decrease connected to the negative impact on companies' and households' income. On the other hand, among the most impacted sectors hotel and catering, entertainment, culture and education have been most affected by the contentive measures such as lockdown, social distancing, and travel limitations. The different crisis impacts among the various sectors will be further explored in the fourth chapter in connection to the M&A activity.



Graph 2: Absolute variation Italian consumption by sector. Source: Confcommercio-Imprese per l'Italia

Another dimension impacted by the crisis has been the financial market. Share prices started to lose value in the most acute phases of the pandemic, with investors less risk prone. A recovery has started in April when investors' confidence has improved, encouraged by the expansionary measures introduced by the monetary and fiscal authorities (Banca d'Italia, 2020). As a consequence, share prices have started to rise both in Italy and in the Euro area. A market decline in equity risk premiums has benefited market valuations, leading also to a reduction of companies' funding costs. Secondly, market yields on bonds issued by non-financial corporations and banks have fallen respectively by 86 and 131 basis points (Banca d'Italia, 2020). Moreover, the bond issuance by non-financial corporations has been encouraged by the Eurosystem purchase of those instruments other than lower funding costs. Despite the recovery, the financial market remains highly sensitive to news about the virus spreading.

All the environmental dimensions have been impacted by the pandemic crisis, in such a situation, all companies have been called to act trying to react to the crisis. Nevertheless, every cloud has a silver lining, crises make emerging weaknesses, giving space for companies to improve and unlock hidden or new opportunities. Covid-19 has also brought and reinforced trends in the economic scenario, such as digitalization and sustainability. Firms have to develop strategies to retain or improve their position in the market, according to the playground defined by the crisis. Those are called to put on the table their strengths and exploit new opportunities as levers for reaction. Leading in a crisis is never easy, but hard times leave the most indelible imprints on a company's identity (Schaninger et al., 2020).

3.3.2 M&A Activity During the Pandemic

The scenario set by the pandemic crisis does not seem a fertile ground for mergers and acquisitions. All the environmental factors that contribute to boosting deal volume and value have been negatively impacted by the virus spreading. However, as we have seen, opportunities for successful and value creating deals are present also in situations where the main economic indicators are negatively impacted. The role of M&A and the success imperatives have been discussed, the following part explores some aspects related to how Covid-19 in particular has shaped the deal activity. In fact, the health and economic crisis has brought some peculiarities both at the macro and micro level, that is worth adding to the general prescriptions previously defined when dealing with downturns.

Output, employment, stock market, demand have been negatively impacted by the crisis generating effects also on the M&A activity. A decrease in M&A volume and value has been registered at the European level compared with the 2019 figures, as we would expect during downturns. However, the data show that enthusiasm has not been lost and deals have closed despite the situation. In the first semester of 2020 European M&A totaled €563 billion, keeping pace with 2019 figures when M&A yearly value was recorded around € 1.060 billion (Pitchbook, 2020). However, those data may be impacted by the deals announced or programmed before the pandemic outbreak. Even if the deal volume leads to good expectations for the M&A activity in the next quarters of 2020, the uncertainty connected to future serious Covid-19 outbreaks may revisit the more positive projections.

The pandemic seems to have been at the same time a breaker and accelerator of the deal activities. Deals are held back by the macroeconomic drivers negatively impacted by the crisis, such as the decrease of aggregate demand, the stock market lag, and the real economy slowdown. But at the same time M&A activity is pushed by low interest rates and trends reinforced by the crisis, such as the need of technological innovation and the stimulus toward a more sustainable innovation. Acquisitions in this context have the potential to drive the change needed, being the corporate means to quickly gain the required competencies and know-how to face the new and reinforced drivers. The need for a technological shift is embedded in the totality of the supply chain that requires to be fortified looking at flexibility: from the need of having a shorter and more flexible supply chain to the relationship with customers. As we have mentioned, customer focus is of fundamental importance during critical times, and when measures imply social distances that physically limit contacts, other means of virtual connections gain fundamental importance. In addition to mutated customer relationships, businesses have also to face the challenge related to the employees' safety. Other than working

remotely, workforce creative solutions have been fundamental to enable companies to continue their operations, also in this case digitalization has a fundamental role. Technological innovation helps companies to build more flexible organizations, whose pandemic has stressed the relevance. The needed shift has the potential to boost deal activity.

M&A activity in the Covid-19 context can be a lever for opportunities exploitations. Nevertheless, not all companies are able to turn a distressed scenario into an opportunity space: financial stability, proactive attitude and bold strategic decision making are required.

Some companies will not be able to include M&A deals in their strategic plan for the disastrous effects of the pandemic on their business. However, the inorganic growth opportunities are still on the strategic agenda of companies operating in sectors less impacted by Covid-19 and with a strong balance sheet. A study of the M&A leadership council, involving 50 C-level executives has explored the expectations about the deal activities of these professionals (Herndon and Bennder, 2020). The majority of respondents have indicated that a temporary pause of deal activity was contemplated, waiting to understand the nature and timing of the recovery (51%). A further 14% have declared the interruption of the ongoing deals. However, others have expressed their intention to pursue M&A deals (24%), responding that no changes in 2020 volume were expected. These percentages demonstrate how a large part of companies tends to stop external growth programs in hard times, working more on survival actions rather than proactive attitudes. This trend leads to a general M&A activity slowdown. Nonetheless, there is a substantial part ready to face the challenges of M&A transactions, exploiting the opportunity spaces that a distressed scenario brings to the market.

Other than leading to a general decrease in M&A volume and value, the negative impact on companies' revenues, uncertainty, and job losses have generated operating challenges for companies performing M&A deals. The deal structure has been inevitably shaped by the situation, generating new necessities, redefining the rules of the game, and requiring creative strategic thinking to overcome the difficulties.

With the outbreak of the Covid-19 crisis a focus has been given to valuation, one of the key steps of the M&A process for value creation. It has been stressed how uncertainty about future conditions and high volatility make valuation difficult to be done. In the coronavirus scenario the future recovery is still uncertain, the forecasts of the main economic indicators are not totally reliable. As a consequence, multiple scenarios are elaborated for macro-indicators projections as future sudden outbreaks could happen and worsen the more positive expectations. In this situation assessing the fair value of companies has raised concerns. Without a reliable forecast, business plan projection is difficult to assess, thus valuation both through multiples and discounted cash flow becomes challenging. Moreover, higher volatility leads on one hand

to higher discount rates, thus lower companies' valuations; on the other, to uncertainty about the risk and return of the acquirer. As valuation becomes more difficult to assess, buyers try to push down prices on the basis of the Covid-19 impact on the target business. Targets instead attempt to negotiate a higher valuation considering the crisis's negative impact as temporary or applicable to the entire sector rather than to their specific company. This mismatch among parties deletes the negotiation phase and the process timing. In order to avoid significant undervaluation or overvaluation, the companies should utilize valuation ranges, sensitivity analysis and scenario analysis, coupled with a continuous monitoring of macro-economic assumptions to ensure their relevance (KPMG, 2020). The uncertainty related to the target valuation has led the acquirers to utilize more earn-outs and deferred consideration/vendor loans, seeking a lower short-term impact on cash flow and to ensure the participation of the seller in the future business performance (Deloitte, 2020). These solutions have contributed to bridging the price gap between sellers and buyers, in this context consideration transferred creativity has been required to overcome this valuation mismatch.

Within the complex valuation process, also due diligence has been impacted. As we have seen, it includes the inspection of the target company to identify potential risks and liabilities, and it is based on the company's data and their projections. Available quantitative and qualitative information about the target company results less reliable in the scenario set by the crisis and subjectivity about the forecasts of the main financial indicators has increased. Buyers are expected to utilize a more diligent approach, increasing the dialogue with the seller; while targets should expect a higher level of scrutiny. In this context, due diligence is of critical importance, a deep analysis should be done at the financial, operational, and legal levels. Moreover, both buyers and sellers should include the impact of the crisis in the respective due diligence, considering also the effects of an eventual further spreading of the virus.

Due diligence traditionally also includes site inspections and management meetings. Those activities have been particularly affected by the social distancing, lockdown, and business closure measures, challenging companies to execute M&A remotely. Other than the already existent data room the counterparties had to rely more on digital instruments both in dealing with the advisors and with the target company. Virtual meetings and virtual visits to the seller facility have led the due diligence process during the lockdown. While the more traditional face to face approach has come back especially for domestic transactions with the release of contentive measures, cross-border deals are still highly based on those practices. The digitalization trend brought by the pandemic has also impacted the M&A process.

The deal risks intensification has strengthened the protection that acquirers seek within the purchase and share agreements. It is expected an increased use of clauses, warranties, and

closing conditions to protect buyers from Covid-19 related uncertainties and to ensure the content of what has been actually bought. As a consequence, deals in the negotiation phase during the pandemic outbreak have seen a delay in their closing dates for the necessity of conforming the transaction to the mutated circumstances. Some deals have also been canceled in connection to the inability of companies to come to a mutual agreement for the economic changes brought by Covid-19.

Despite the environment and new challenges, according to a McKinsey analysis, the companies that more likely will emerge stronger from the Covid-19 crisis are those able to quickly adapt to the situation and develop M&A activities before the next normal arrives (Giersberg et al., 2020). M&A are tools in the hands of resilient companies to keep up with times and outperform competitors even during critical economic conditions, as those delineated by Covid-19.

The fourth chapter follows with an analysis that aims to understand how Covid-19 has shaped the Italian M&A activity considering a sample of Italian listed companies.

4 Covid-19 Implications on the Italian Deal Activity

This chapter aims at exploring the short-term effects of the pandemic on the Italian M&A activity. The period under analysis starts with the Covid-19 outbreak in Italy in February 2020 and ends with August 2020 that has been elected as the closing date for the data collection. The analysis has been conducted on a sample of public Italian companies that have been selected according to a series of empirical and theoretical aspects as well as data availability. Four research questions have been developed to explore four different aspects of M&A deals undertaken during the seven months under study.

1. What have been the value creation implications for the acquirer companies?
   - 1.1 Has the transaction announcement generated positive abnormal returns for the acquiring company shareholders?
   - 1.2 How critical success factors have impacted value creation in our sample?

The first research question has been addressed in paragraph 4.2 and explores the value creation implications of M&A activity in our sample. The acquirer shareholders' abnormal returns will be used as a proxy for M&A profitability to understand if transactions conducted during the Covid-19 pandemic by Italian listed companies have generated value for the acquirers. Value creation is driven by some factors that contribute to explain the higher or lower level of profitability among acquirers, thus another aspect of value creation is explored. Four determinants of M&A success discussed in theory are tested on the sample of transactions undertaken during the Covid-19 crisis to explore if those apply to the deals under analysis and to what extent define the different levels of profitability registered among acquiring firms.

2. Have the more active companies in the M&A market been less impacted by the Covid-19 crisis, thus are they more financially strong than those that have not performed any deal?

The second research question has been addressed in paragraph 4.3. The relationship between company financials and the propensity of making a deal is examined. Literature and empirics often cite financial strength as a prerequisite for making M&A transactions during critical times. This section wants to test this condition for the sample under study.

The last two research questions shift to understand some qualitative characteristics of M&A transactions.

3. Which sectors have been more active in the M&A market between the timeframe of February 2020 and August 2020?

In paragraph 4.4 the M&A activity among different sectors is explored. The Covid-19 pandemic crisis has hit the economy with different intensity among sectors, M&A deals are expected to be on the agenda of the less impacted businesses and those belonging to non-cyclical sectors. The study aims to understand which sectors have been more active, performing deals despite critical times.

4. What have been the main motives that have pushed companies to start a negotiation?

Finally, section 4.5 explores the rationale behind the deals in our sample. Different motivations push companies to negotiate, we want to see if a common pattern can be noticed among the motives that move companies to perform a deal in a distressed environment.

After describing the main database, the research questions are analyzed and discussed.
The first two research questions addressed in sections 4.2 and 4.3 are explored with a statistical approach, thus each part includes subparagraphs that specify the sample, the methodology utilized, and results. Discussion and conclusions are also treated separately for the two research questions. The last two paragraphs instead are characterized by a simpler structure where sample, results, comments, and conclusions are included in the same paragraph.

4.1 Database Construction

We have included in the main database the listed Italian companies with market capitalization > 50 million €. Nano companies have been included in the database but for the poor availability of financial data have been excluded from the analysis. Each company has been categorized according to the super sector made by Borsa Italiana. Following this categorization firms under the super sector “Bank”, “Financial service” and “Insurance” have been excluded (Financial sector). This choice is connected to the fact that some theoretical aspects treated along the work not always specifically refer to the financial sector, moreover performance indicators used in the analysis do not apply to this sector (e.g., Revenues and EBITDA).
Following these criteria, the companies selected are 166.
The Database includes the following information for each company:

- Market capitalization (Borsa Italiana)
- Industry (Pitchbook)
- Super sector (Borsa Italiana)
- Number of companies in the group (AIDA Database)

Basic financial information when available has been included (86 companies). The focus has been on the economic results of the companies under analysis and in particular Revenues and Ebitda. If disclosed in the company website, the database covers:

- 1 semester 2019 Revenues
- 1 semester 2020 Revenues
- 1 semester 2019 Ebitda
- 1 semester 2020 Ebitda

A screening of the price sensitive information disclosed by the firms has been done to analyze their deal activity in the period under study. The following information has been included:

- Occurrence of M&A transactions (yes/no) between February 2020 and August 2020

when a transaction has occurred, more details have been added to the database (80 transactions):

- Announcement Period
- State of the deal (closed/announced)
- Target Name
- % acquisition stake
- Main acquisition motive

4.2 Value Creation Implications on M&A Deal Activity During Covid-19

The value creation potential of M&A transactions is still under debate. Different business fields have tried to explore this matter, using different methods but failing to come to a comprehensive conclusion. The difficulties in coming to a universal framework explaining M&A success have origins in what has been defined as performance and the methods used to measure it, other than the complexity surrounding those deals. In the second chapter, this aspect of M&A literature and research has been explored within the main methods used to analyze performance and the factors that seem to contribute the most to the deals' success.

The first research question seeks to explore the value creation implications on the M&A activity of the Covid-19 surge.

Firstly, the value creation potential connected to the transactions included in our sample wants to be measured and quantified. In light of what has been discussed in the second part of the work, when M&A value creation is measured, it is important to clearly set the time frame under analysis and define the performance construct to explore. The pandemic crisis and the related uncertainty are still affecting the market and its recent outbreak does not allow to consider a medium- or long-term spectrum. As a consequence, the short-term perspective is taken into consideration as the only possible path, also in connection to the data availability. For what concerns the definition of value creation, the analysis focuses on the gains of the acquirers' shareholders. Despite M&A transactions move different economic interests from those of managers, employees, suppliers and customers to governments and communities, reflecting the multidimensionality construct; it is assumed that shareholders' interests are the benchmark for the business activity, as they provide resources to the firm and share the risk of failure. The choice of considering the acquirer's shareholders return firstly confirms the approach taken in the entire work, based on the analysis of M&A transactions with the acquirer perspective. Secondly, this market measure enables us to explore the value creation implications of M&A activity in spite of the constraint of financial data availability related to the financial and economic performance of the firms included in the sample. Finally, considering returns to shareholders has also the twofold advantage of being a direct measure of investors' value creation and of being a forward-looking measure, as stock prices represent the expected value of future cash flow (Bruner, 2004).

In light of these considerations, the sample of companies is analyzed to understand the acquirers' shareholders value creation implication of M&A activity during the Covid-19 crisis. The research approach that combines a short-term perspective and the focus on the shareholders returns is the event study methodology. This methodology has been already described in general

terms in the second chapter and it will be utilized in our study to explore whether M&A transactions have impacted the financial performance (positively or negatively) of the acquiring companies. Thus, how those deals have influenced the investors' behavior when the M&A transaction was announced during the pandemic crisis.
Many researchers have examined the stock market response to M&A announcements and it appears clear how those transactions tend to generate positive average abnormal returns to the target shareholder, whereas small positive abnormal returns are registered for acquirers, sometimes even negative or not statistically significant (Agrawal and Jaffe; 1999, Bruner; 2004; Tuch and O'Sullivan, 2007). The particular scenario defined by the Covid-19 pandemic makes it interesting to understand the impact of those transactions on shareholders' wealth. A positive shareholder value creation, thus a positive market reaction is expected, as external growth is a demonstration of proactive attitude and resiliency during critical times. As a consequence, the fourth research question has been analyzed formulating a main hypothesis:

H1: The announcement of M&A transactions during the covid-19 crisis has generated positive abnormal returns to acquirers 'shareholders among the companies in our sample.

The empirical studies mentioned in the third chapter, demonstrate the potential of M&A activities to generate higher returns for acquirers during critical times (e.g. Gatti and Chiarella, 2012; PWC, 2019; BCG, 2019), the projection of a positive market effect rely also on those studies. Moreover, the opportunity spaces that generate in downturns for acquirers, such as increased availability of firms and lower valuation multiples, strengthen this belief.
Other than qualify and quantify M&A profitability, the work explores another aspect of value creation. As stressed, empirical evidence shows contrasting results about profitability among acquiring firms, those are explained by factors that drive success and define higher or lower levels of profitability. Some of the success determinants that have been described in the second chapter are tested in our sample, to understand if those have contributed to determining shareholder value creation differentials.
After describing the specific sample taken into consideration for the analysis and the methodology utilized, the results are discussed.

4.2.1 Sample

The original dataset composed by 166 companies and 80 M&A transactions has been the starting point for the sample construction. The database has been enriched for conducting the analysis with the use of the Eikon database.

The elements added include:

- announcement date
- the historical daily stock prices for one trading year before the announcement date
- the indexes in which each company is included
- the historical daily prices for the indexes

Those elements enable us to perform the event study. In order to further explore the value creation determinants other information has been included:

- Number of previous acquisitions performed by the acquiring company between 2018 and 2020
- Acquirers' 2019 Revenues
- Targets' 2019 Revenues
- The nature of the transaction in terms of regional focus: Cross Border vs Domestic Transactions.

The deals that have been included are those announced between February 2020 and August 2020, as a consequence from the 80 transactions covered in the main dataset, the final sample utilized in this analysis counts 51 deals. 25 deals have been announced prior to the period under study. Moreover, four deals have been excluded from the sample for the unavailability of the stock price performance. The related acquiring firms (N=4) became public less than one trading year before the transaction announcement, thus not enough data was available to conduct the analysis through the event study methodology.

4.2.2 Event Study Methodology

As previously stated, the method chosen to conduct this analysis is the event study methodology, originally introduced by Fama, Fisher and Roll in 1969. Event studies are designed to measure the impact of particular types of firm-specific events on the prices of the affected firms' securities (Brown and Warner, 1980). In our study the event considered is the announcement of an M&A transaction, thus the methodology enables to examine the abnormal returns to shareholders in the period surrounding the deal announcement. The abnormal return

is computed as the difference between the actual return observed on the stock market on the date around the event, and the anticipated return that would have been expected without the occurrence of the event (MacKinley, 1997). The basic idea under event studies is that when an M&A deal is announced the company price will change to reflect how much value the market believes the deal will create.

The first step of the event study method involves the identification of the event date and the definition of two-time frames necessary to conduct the study: the estimation window and the event window. The estimation window is set in order to determine the "normal" behavior of the stock price, in our study it is composed of 252 trading days (1 calendar year) prior to the event announcement. Previous researches use various time windows, there is not a standard length, however a minimum of 126 observations (half year) is suggested in order to obtain robust results (Benninga, 2014). Moreover, the estimation window should not overlap with the event window as the studied event should not influence the "normality" of the estimation window (MacKinlay, 1997). If the event window is included in the estimation of the normal model parameters, the event returns would have an influence on the normal measure. In practice the estimation window is selected to determine what the firm stock's returns would have been in the absence of the event.

The short-term perspective of our study is reflected in the choice of the event window, which corresponds to the period of time in which we are interested to explore the effect of the event. The main event window is set at 11 days; five days prior to the announcement and five days after the announcement have been considered, including the announcement day [-5,+5]. Additionally, the study has been conducted also considering the time window [-10,+10], thus including 21 trading days around the announcement, and the announcement day itself [0]. A benefit of choosing a short time horizon is the reduced risk that other events impact the analysis (Lubatkin, 1987). Confounding events makes the analysis and related conclusions less significant, as other phenomena may impact the results. Moreover, a relatively short-term event window makes test statistics more powerful (Brown and Warner, 1985).

By including some days prior to the acquisition announcement possible information leakage that may occur prior the event, or any anticipation of the deal is taken into consideration. Only if the event is unexpected does the stock's price fully reflects the information at the announcement. Whereas taking into consideration some days after the announcement allows to reflect the time that the market may need to digest the information and act consequently. In fact, if abnormal returns persist after the event date the results are inconsistent with the market efficiency theory (Kotari and Warner, 2006). In this sense, event studies are a way to test the market efficient hypothesis. The event period [-10, +10] has been included to better control for

these effects, covering 10 days prior and 10 days after the announcement period. As a consequence, the time frames [-5,-1], [+1,+5], [-10,-1] and [+1,+10] are taken into consideration to test the market efficiency assumption embedded in these kinds of studies.
For any transactions, the company' daily stock prices have been collected from the Eikon database for the estimation windows [-257, -6] and [-262, -11] (252 trading days). To compute the actual return of stock i at time t the following formula has been used:

$$R_{i,t} = (P_t / P_{t-1}) - 1$$

Where:

- P_t is the closing stock price at time t
- P_{t-1} is the closing stock price at time t-1

Then, the expected returns are obtained using the market model, those will be deducted from the observed actual returns to obtain the abnormal return. The market model relates the return of any given security to the return of the market portfolio, in practice a market index is used as a proxy for the market portfolio (MacKinley, 1997). In this study Borsa Italiana indexes have been used as a proxy of the market portfolio. The indexes taken into consideration have been FTSE MIB, FTSE AIM, FTSE small cap and FTSE mid cap. The choice to rely on more indexes has been done to better reflect the market expectation about the returns of the stocks taken into consideration. For any security i the expected return $E(\mathrm{R})$ at time t has been calculated as:

$$E(\mathrm{Ri,t}) = \alpha i + \beta i * Rm,t$$

Where:

- $R_{i,t}$ is the period t return of the security i
- $R_{m,t}$ is the period t return of the market index
- α_i and β_i are the parameters of the market model estimated running an OLS regression of the firm's daily returns during the estimation window (252 trading days). α incorporates the stock i general performance track record and it is the model intercept, while β represents the stock sensitivity to general market movements.

The abnormal return AR for security i at time t is then computed by taking the difference between the observed actual return and the expected return on a given day, for a given security.

$$ARi,t = Ri,t - E(Ri,t)$$

The abnormal return is a direct measure of the change in shareholder wealth after the event announcement (Kothari and Warner, 2006). It has been computed for all firms and events in the sample for every event window taken into consideration.
Then, the cumulative abnormal returns have been computed to better measure the total impact of the announcement of an M&A deal in our sample. Those are the sum of the abnormal returns within an event window that goes from t_1 to t_2, thus representing the return earned over and above what would be earned under ordinary market conditions. This measure allows to aggregate the abnormal returns obtained for each observation through the time dimension, enabling to express the value creation for a certain time window. In our study the main event window is of 11 days, thus for example the corresponding CAR relative to the observation i will be CAR_i (-5,+5).

$$CARi(\mathrm{t1}, \mathrm{t2}) = \sum_{t=t1}^{t2} AR\ i, t$$

To better reflect the general effect of M&A announcement on shareholders returns for the entire sample of transactions, the average abnormal return and the cumulative average abnormal return have been computed for the sample. Those measures enable to aggregate the computed AR and CAR both across securities (or firms) and time, in this way it is possible to draw overall inference for the M&A announcement event. Those measures are computed with the following formulas:

$$AARt = \frac{1}{\mathrm{N}} \sum_{i=1}^{N} AR\ i, t$$

$$CAAR(\mathrm{t1}, \mathrm{t2}) = \sum_{t=t1}^{t2} AAR\ t$$

After the calculation of the above mentioned measures, the main hypothesis is constructed. As mentioned, the research question is answered through a main hypothesis:

H1: The announcement of M&A transactions during the Covid-19 crisis has generated positive abnormal returns to acquirers' shareholders among the companies in our sample.

This will be empirically tested through the determination of a null hypothesis:

H0: The computed CARs for the time windows under analysis are statistically different from 0.

In order to test the statistical significance of the computed measures both a parametric standard t-test and a non-parametric Wilcoxon signed rank test (see Wilcoxon, 1945) have been conducted (Brown and Warner; 1985). The latter, in comparison with the t-test, does not assume the normality of the abnormal returns' distributions.

The mentioned analysis has been also performed dividing the overall sample into two subsamples according to some factors connected to those discussed in chapter two as elements influencing M&A success:

- Relative size
- Previous deal experience
- Regional focus: cross border vs domestic transactions
- Control triggering acquisition vs minority interest acquisitions

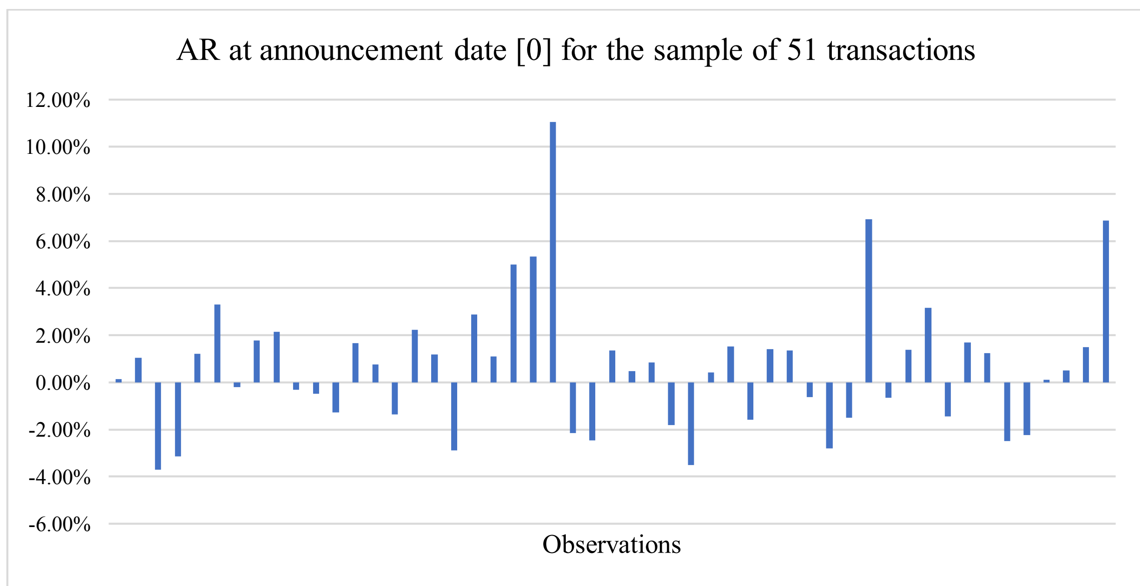
This has been done to test the extent to which those success factors impact the acquirer shareholders value creation. It has to be stressed that a Wilcoxon rank sum test (as known as Mann Whitney U test) has been performed to test whether the differences of the average CAR between the various subsamples are statistically different from zero.

4.2.3 Empirical Analysis Results

In this part of the work the main results obtained are described and discussed. Firstly, the main sample is under study then the focus moves to the subsamples.

4.2.3.1 Main Sample Results

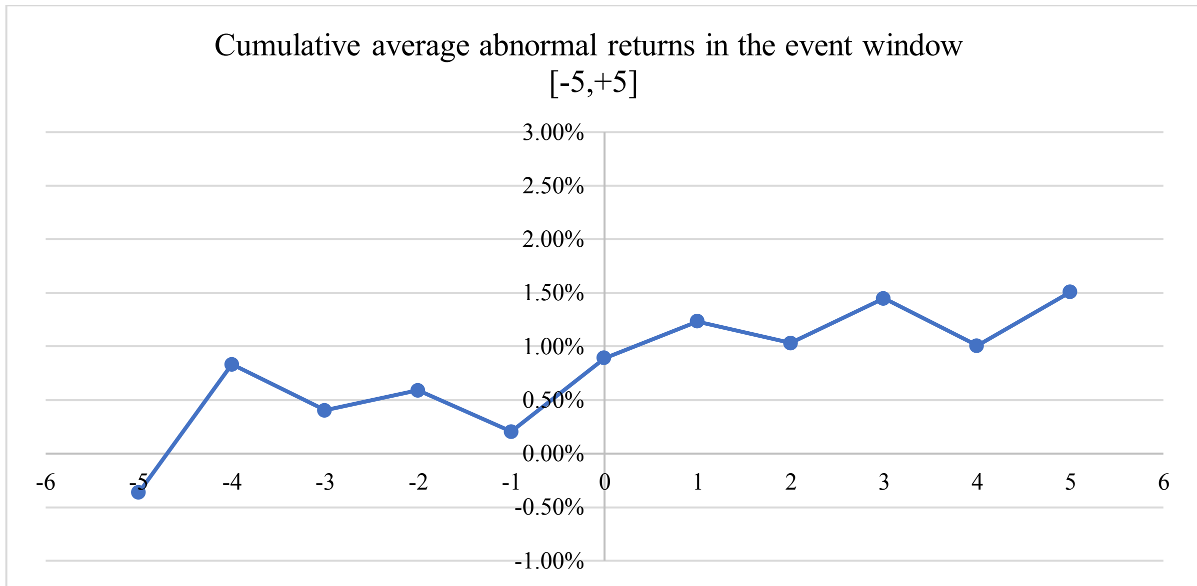
Starting with an individual approach, the abnormal returns related to the M&A transactions announced between February 2020 and August 2020 have been computed for each observation in the sample (N=51), for every day in the main estimation window [-5,+5], and for the event period [-10,+10]. When companies had performed more than one deal, those have been screened in order to make sure that the events were not overlapping in a single event window. This problem has not occurred for any firm announcing more than one M&A deal.
Focusing on the effect at the announcement date, the market had both positive and negative reactions, this appears clear in the corresponding graph (graph 3).



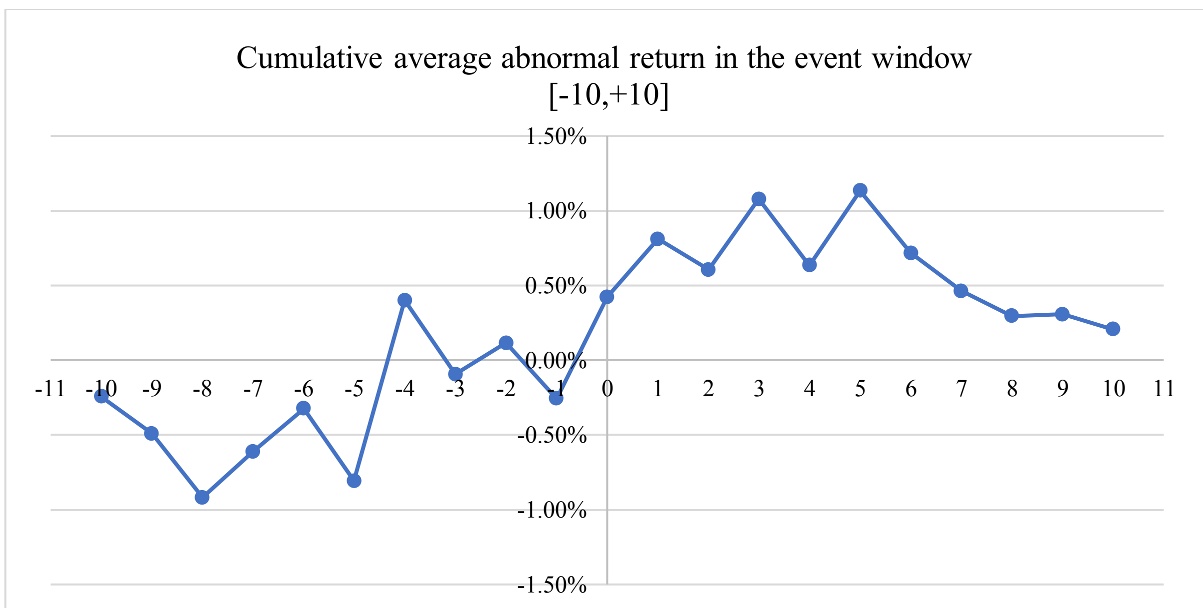
Graph 3: AR at announcement date [0]

A mixed market reaction has occurred. Among the sample, 61,8% (N=31) of deals have generated a positive effect at announcement date with a maximum of 11,04% abnormal return recorded and a minimum of 0,15%. Whereas 39,2% (N=20) of transactions had a negative market impact, with the lowest abnormal return recorded at -3,70%.
However, to better represent the overall results in our analysis, a time and securities aggregate approach that considers both CAR and CAAR has to be taken into consideration.

The Cumulative average abnormal returns for the time windows [-5,+5] and [-10,+10] are represented respectively in graphs 4 and 5.



Graph 4: CAAR event window [-5,+5]



Graph 5: CAAR event window [-10,+10]

The market results to have reacted prior the announcement date. By considering both event windows a variation in abnormal returns can be observed with a swinging pattern already from 10 days prior the event. However, important movements are observed starting from day -5. Moreover, from one day before the announcement, the investors seem to have rapidly reacted to the event until the announcement day. After it, no important additional response can be noticed, but within day +5 a declining pattern can be observed.

The observed CAARs show how on average the market reaction has been positive around the announcement date but some information leakage and late reaction may have occurred in our sample, with the main market movements registered in the event window [-5,+5]. This makes even more important including pre event and post event windows in our analysis.
Cumulative abnormal returns for every event window analyzed is represented in table 5 within some descriptive statistics and the corresponding level of statistical significance, obtained with a parametric t-test and the non-parametric Wilcoxon signed rank test.

All transactions N=51	CAR Mean	Min	Max	**T-test**	**Wilcoxon signed rank test p-value**
[-5,+5]	**1,31%**	-19,00%	26,00%	1,070	0,339
[-10,+10]	**0,21%**	-33,87%	23,96%	0,128	0,779
[0]	**0,90%**	-14,00%	17,00%	1,727*	0,234
[-5,-1]	0,21%	-4,00%	11,00%	0,267	0,771
[+1,+5]	0,61%	-14,00%	13,00%	0,802	0,245
[-10,-1]	-0,26%	-21,95%	-18,91%	-0,332	0,756
[+1,+10]	-0,22%	-19,87%	12,49%	-0,267	,814

*Statistically significant at 10% level
**Statistically significant at 5% level
***Statistically significant at 1% level

Table 5: Event study results for the overall sample.

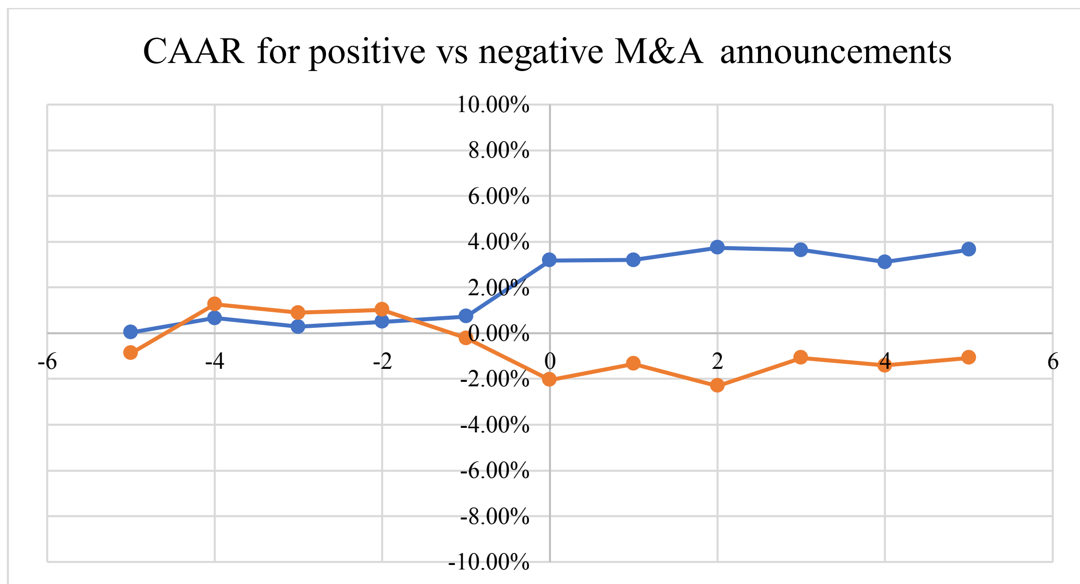
The event appears to have caused on average a positive market reaction both in the [-5,+5] and [-10,+10] event windows and at the event day [0], with the generation of 1,31%, 0,21%, and 0,9% cumulative abnormal returns respectively.
Despite the announcement of M&A transactions appears to generate positive additional wealth for shareholders, the results are not statistically significant for any event windows, except for the event day [0]. Focusing on the announcement day, the CAR result statistically significant according to the parametric t-test at a 10% level (t-statistics=1,727 > 1,68; when df=50, where df=N-1). This result would mean that on average the companies at announcement gain a statistically significant abnormal return of 0,90%, thus generating value creation for the firm shareholders. However, the significance is not confirmed by the Wilcoxon signed rank test (p-value > 0,1).
In light of these outcomes, the results do not support the null hypothesis. As a consequence, the cumulative average abnormal returns are not statistically significant different from zero. Hence, the announcement of M&A transactions does not generate statistically significant abnormal returns for the acquiring firm shareholders in the sample under analysis.

Despite our expectations, the data confirm the result of a conspicuous part of event studies conducted in the M&A field. Small positive abnormal returns not statistically significant are often recorded for the acquirers' shareholders. Already in 1986, Roll in a review article concludes that the null hypothesis of zero abnormal performance to acquirers should not be rejected (Roll, 1986). The outcome obtained in our study is also confirmed by more recent event study reviews (Campa and Hernando, 2004; Bruner, 2004). For example, Bruner (2004), reviewing 54 event studies, has stressed how 31% of them showed insignificantly positive abnormal returns to acquirers' shareholders (Bruner, 2004).

Nevertheless, the study outcome reveals an important consideration: M&A are value conserving transactions, rather than value creating or destroying deals. Despite the not significant results, positive returns have been recorded. Thus, statistically our hypothesis is rejected but with the awareness that the results should not be considered as evidence of negative impact of M&A transactions on the shareholders' acquirers value creation.

In relation to the test of the market efficient hypothesis embedded in the event study methodology, the cumulative abnormal returns registered for the event windows [-5,-1] (0,21%) and [+1,+5] (0,51%) are on average small and positive, suggesting a possible degree of information leakage and late market response effect. Whereas the CAR registered for the periods [-10, -1] (-0,26%) and [+1,+10] (-0,22), thus considering more days before and after the announcement day, are small and negative. Despite the contrasting results obtained, from graphs 4 and 5 it appears that the market reaction to the transaction announcements is more clustered in a time frame of 5 days before and 5 days after the announcement day. This would suggest that this period better reflects the transactions' effect on value creation. Nevertheless, no CAR is statistically significant; thus, the market efficient hypothesis is not rejected.

To further understand the overall sample, it has been divided into two groups according to the effect at the announcement, positive (positive abnormal return on day 0) or negative (negative abnormal return on day 0). The CAAR has been then computed for the two groups separately. It is clear that some transactions have generated positive abnormal returns, that are reflected in a positive CAAR in the main event window under analysis [-5,+5] (see graph 6).



Graph 6: CAAR for positive vs negative M&A announcements.

This distinction moves away from making general conclusions about the M&A activity in the sample under study but demonstrates how some transactions do create value for shareholders. This makes it interesting to further analyze the main sample in order to understand if some factors discussed in the second chapter contribute to the value creation differential observable in our data.

Subsamples have been created on the basis of some success factors that previous literature and research describe as determinants of M&A value creation. The results of the analysis are discussed below for each factor considered.

4.2.3.2 Relative Size

As mentioned in the second chapter, the relative size of the target, from the acquirer point of view, is a variable that seems to impact the performance of the acquiring company (e.g. Burton et al., 1982; Seth et al., 2002; Gomes et al., 2013). However, the size effect has a twofold effect. On one hand, when the target is relatively larger than the acquirer the synergy potential results more exploitable (Asquith et al., 1983; Kusewitt, 1985; Seth, 1990; Bruner, 2002; Tuch et al., 2007). Moreover, only a certain target size may lead to tangible market reaction, thus the target should achieve enough size to have a measurable impact on the stock market. On the other, a smaller target seems to make the integration process smoother with reduced complexity and costs (Hunt, 1990; Brouthers et al., 1998).

The relative size of the target company in our sample has been computed by dividing the 2019 revenues of the target company by the acquiring firm 2019 revenues (Seth et al., 2002; Burton

et al., 1994). The sample has been then split into two groups according to whether the relative size was above or below the sample median. The total observations amount to 48 transactions, as the revenue data was not publicly available for three private targets.
The analysis results are reported in table 6.

	CAR			T-test	Wilcoxon signed rank test p-value
Small Relative size N=24	Mean	Min	Max		
[-5,+5]	**-0.11%**	-16.36%	13.22%	-0.083	0.775
[-10,+10]	**0.48%**	-14.25%	16.89%	0.308	0.961
[0]	**0.47%**	-3.70%	5.00%	1.129	0.230
[-5,-1]	-1.19%	-13.67%	5.51%	-1.406	0.209
[+1,+5]	1.03%	-10.61%	10.05%	1.085	0.199
[-10,-1]	-0.16%	-11.02%	9.12%	-0.240	0.855
[+1,+10]	0.17%	-7.01%	10.91%	-0.86	0.970
Large Relative size N=24					
[-5,+5]	**2.38%**	-16.36%	13.22%	1.069	0.391
[0]	**0.94%**	-3.70%	5.00%	1.290	0.530
[-10,+10]	**0.22%**	-33.87%	23.96%	0.067	0.767
[-5,-1]	1.39%	-13.67%	5.51%	1.067	0.549
[+1,+5]	0.04%	-10.61%	10.05%	0.034	0.819
[-10,-1]	0.01%	-21.95%	18.19%	0.000	0.793
[+1,+10]	-0.71%	-19.87%	12.49%	-0.462	0.657

*Statistically significant at 10% level
**Statistically significant at 5% level
***Statistically significant at 1% level

Table 6: Event study results for smaller and larger targets.

From the chart results that on average more positive CARs have been registered for the acquirers that bought a relatively larger target. However, the CARs are not statistically significant for any time window, suggesting that the capital market has not valued this information, not confirming the size effect in our sample. Moreover, the differences og the average CAR between the two groups is not statistically significant for any time window taken into consideration. We can conclude that the relative target size has not been a determinant factor in defining the acquirers' shareholders value creation in the transaction announced between February 2020 to August 2020 by Italian listed companies.

4.2.3.3 Previous Deal Experience

The previous deal experience is another factor that seems to impact to some extent the performance of the acquirers. Successfully negotiating and integrating a business combination

is a complex and difficult process. Thus, previous experience can help managers dealing with other similar transactions (Burton et al., 1994; Hayward, 2002; Colombo et al., 2007; Rehm et al., 2012). However, any acquisition is different from another, thus acquirers should not rely too much on experience. In previous studies related to M&A conducted in critical times, the experience results to play a marginal role in value creation. Both occasional and experienced acquirers have generated positive total returns in a two-year time frame (BCG, 2019).

To investigate for prior experience effect in the short-term value creation for the bidder shareholders, our main sample has been divided into two groups. The subsamples have been constructed according to the total number of acquisitions announced in the three years before the transaction under analysis. The mean of the number of transactions has been computed (mean=6 deals). Companies that have performed M&A deals that exceed the mean value have been considered as "experienced buyers", unless firms have been considered "occasional buyers". According to this classification 21, acquirers have been considered "experienced" announcing more than 6 transactions in the last three years, whereas 30 firms have undertaken less than 6 deals. Table 7 reports the CAR for the two subsamples.

Event window	**CAR**			**T-test**	**Wilcoxon signed rank test p-value**
	Mean	Min	Max		
Experienced buyers N=21					
[-5,+5]	**1.43%**	-19.38%	26.22%	0.606	0.476
[0]	**0.46%**	-3.70%	6.91%	0.727	0.794
[-10,+10]	**0.10%**	-33.87%	23.96%	0.017	0.985
[-5,-1]	0.39%	-13.67%	16.52%	0.803	0.848
[+1,+5]	1.06%	-14.02%	10.05%	0.292	0.224
[-10,-1]	-0.03%	-21.95%	18.91%	-0.025	0.984
[+1,+10]	-0.34%	-9.71%	10.91%	-0.319	0.694
Occasional buyers N=31					
[-5,+5]	**1.22%**	-14.17%	21.38%	1.639	0.530
[0]	**0.84%**	-3.51%	11.04%	0.325	0.116
[-10,+10]	**0.28%**	-16.85%	15.14%	0.191	0.736
[-5,-1]	0.08%	-6.75%	15.53%	0.081	0.750
[+1,+5]	0.30%	-13.84%	12.93%	0.939	0.798
[-10,-1]	-0,42%	-12.94%	11.98%	-0.531	0.602
[+1,+10]	-0.13%	-19.87%	12.49%	-0.106	0.980

*Statistically significant at 10% level
**Statistically significant at 5% level
***Statistically significant at 1% level

Table 7: Event study results for Experienced buyers and Occasional buyers.

According to literature and previous studies, the accumulated experience should be connected to higher shareholder value creation. However, in our sample the recorded CARs are positive

for all event windows and for both experienced and occasional acquirers, without important differences in values. In line with the BCG study both occasional and experienced acquirers create positive cumulative abnormal returns. However, also the different experience level is not connected to statistically significant results. Furthermore, no statistical difference has been found between the two groups. In our sample of transactions announced during the Covid-19 pandemic, the expertise in dealing with M&A transactions has not generated significant extra value.

4.2.3.4 Regional Focus

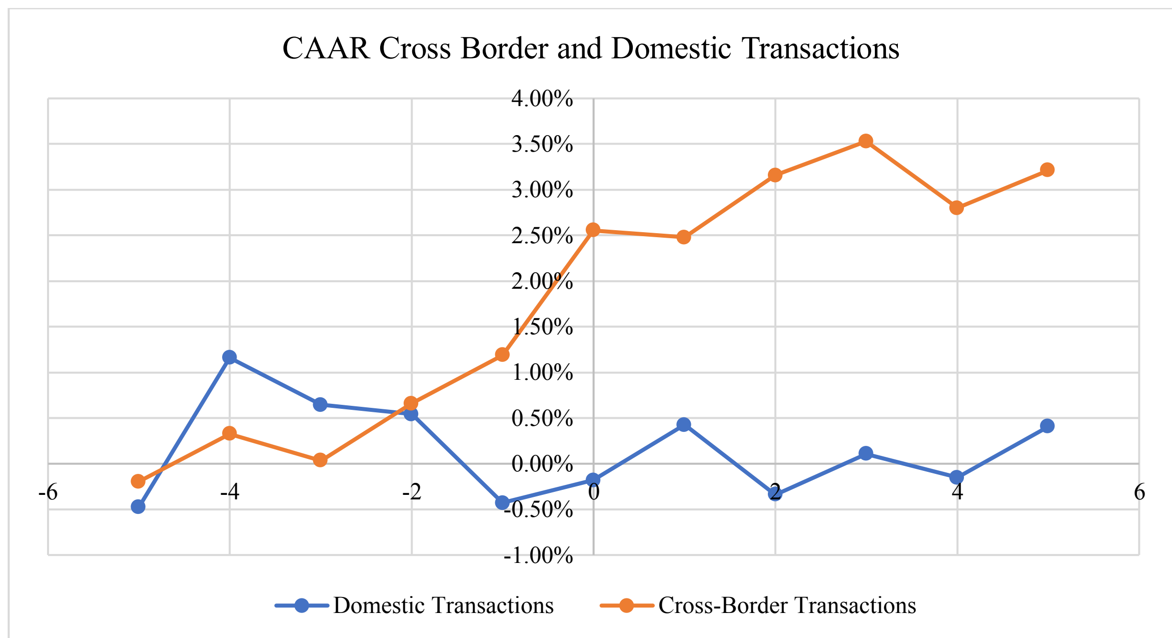
The regional focus of the transaction refers to cross-border versus domestic transactions. In the second chapter this factor has not been directly considered as an element explaining M&A success; nevertheless, it is connected to different value creating factors discussed.
Firstly, communication in cross-border situations may need to be handled more carefully since cultural differences add an extra degree of difficulty to the process (Schweiger et al., 1993). Effective communication and a transparent flow of information among the parties affected by the transaction are considered important components of M&A success (Bryson, 2003; Smith and Hersman, 1999; Gall, 1991). Moreover, the choice of negotiating in another country triggers all the matters related to cultural fit, organizational fit, and strategic fit previously discussed. On one hand, the integration process may be more complex when the target has different aa culture, different management style, and leadership approach. On the other, differences in those terms can also be assets when the different realities improve by learning one from the other, coming to best practices. As a consequence, a deal made in a foreign country may generate fewer returns to the extent the acquirer is less familiar with the target.
In our study cumulative abnormal returns have been computed for two subsamples distinguished based on the regional focus (cross-border vs domestic transactions). 31 acquirers have negotiated with domestic targets, while cross-border deals amounted to 20 transactions. The computed CARs are reported in table 8.

Domestic Transactions N=31	CAR Mean	Min	Max	T-test	Wilcoxon signed rank test p-value
[-5,+5]	**0.08%**	-19.38%	21.38%	0.050	0.852
[0]	**0.25%**	-3.70%	11.04%	0.480	0.969
[-10,+10]	**-0.93%**	-33.87%	16.89%	-0.532	0.737
[-5,-1]	-0.43%	-13.67%	15.53%	-0.421	0.433
[+1,+5]	0.59%	-14.02%	12.93%	0.551	0.439
[-10,-1]	-1.55%	-21.95%	11.98%	-1.365	0.213
[+1,+10]	0.37%	-9.71%	12.49%	0.319	0.902
Cross-Border Transactions N=20					
[-5,+5]	**3.21%**	-7.50%	26.22%	1.77*	0.147
[0]	**1.36%**	-2.45%	6.91%	2.364**	0.059*
[-10,+10]	**1.97%**	-16.85%	23.96%	0.865	0.266
[-5,-1]	1.19%	-6.59%	16.52%	1.061	0.494
[+1,+5]	0.66%	-13.84%	7.62%	0.552	0.398
[-10,-1]	1.74%	-12.94%	18.91%	1.1137	0.265
[+1,+10]	-1.13%	-19.18%	8.96%	-0.791	0.697

*Statistically significant at 10% level
**Statistically significant at 5% level
***Statistically significant at 1% level

Table 8: Event study results for domestic and cross-border transactions.

Acquirers' cumulative abnormal returns are higher in cross-border M&A in all event periods and significantly different from zero for the [-5,+5] and [0] event windows. The wealth generation for the main event window [-5,+5] is 3,21%, whereas it is 1,36% at announcement day. Furthermore, the difference between the two groups is statistically significant at the 10% level at announcement day [0] (p-value < 0.1= 0.073) and for the time window [-10,-1] (p-value < 0.1=0.062). The CAAR for the two groups during the main event window under study is also represented in graph 7 as the cross-border nature is proven to be an important determinant of value creation in our sample.



Graph 7: CAAR for cros- border and domestic transactions.

The results suggest that acquisitions pursued in a foreign country generate more value for the acquirer shareholders in the period under analysis. This outcome is particularly interesting considering the scenario in which those transactions have been undertaken. Cross borders deals have generated a positive investors reaction in a period where globalization has been undermined by all measures taken to counteract the pandemic such as social distances, lockdown, and travel restrictions. M&A deals negotiated overcoming not only the geographical borders but also restrictions, may have communicated to the market an even more intense proactive attitude and resiliency.

4.2.3.5 Control Triggering Acquisition and Minority Interest Acquisitions

The last factor discussed in the analysis is the stake acquired by the bidder company. Previous studies suggest that larger buyers' returns are connected to larger equity interests by managers and employees (Bruner, 2004). The acquisition stake can be connected to some of the success factors discussed in the second chapter. When the transaction triggers a controlling interest (>50%), the synergistic potential will be higher. The bidder can effectively manage the acquired company toward the combination of the respective operations to create the additional value that would have not been created if the companies had operated independently. On the other hand, the more is the commitment, the higher will be the investment needed, the risk and complexity involved within the process.

The main sample has been distinguished into two groups according to the sought percentage at announcement day. If the acquirer has announced the acquisition of a stake equal or above 50

percent the company is included in group 1 (N=39), otherwise the observation is considered in group 2 (N=12). The computed CARs are represented in table 9.

Acquisition stake >= 50% N=39	Mean	**CAR** Min	Max	**T-test**	**Wilcoxon signed rank test p-value**
[-5,+5]	**1.58%**	-19.38%	21.38%	1.203	0.143
[0]	**0.84%**	-3.70%	11.04%	1.811*	0.159
[-10,+10]	**0.66%**	-33.87%	19.33%	0.397	0.403
[-5,-1]	0.12%	-13.67%	15.53%	0.145	0.748
[+1,+5]	0.89%	-14.02%	12.93%	1.058	0.209
[-10,-1]	-0.11%	-21.95%	18.91%	-0.136	0.987
[+1,+10]	-0.08%	-12.88%	12.49%	-0.114	0.730
Acquisition stake <50% N=12					
[-5,+5]	**0.41%**	-14.17%	26.22%	0.139	0.583
[0]	**0.19%**	-2.90%	6.91%	0.234	0.875
[-10,+10]	**-1.26%**	-16.85%	23.96%	-0.411	0.410
[-5,-1]	0.49%	-6.75%	16.52%	0.249	0.754
[+1,+5]	-0.27%	-13.84%	12.46%	-0.149	0.875
[-10,-1]	-0.74%	-9.79%	13.08%	-0.498	0.405
[+1,+10]	-0.67%	-19.87%	11.97%	-0.274	0.964

*Statistically significant at 10% level
**Statistically significant at 5% level
***Statistically significant at 1% level

Table 9: Event study results for controlling acquisitions and non-controlling acquisitions.

Companies that have negotiated a controlling stake show higher average CARs for the event windows [-5,+5], [-10,+10] and for the event day [0]. The acquirers that sought to acquire a controlling stake, have generated a positive significant return of 0,84% at announcement day. However, the significance is not confirmed by the non-parametric test for the event day [0]. The abnormal returns generated are not significant for any of the other event periods under analysis. Furthermore, the comparison between the two subsamples does not reveal significant differences for any period under analysis.

Considering the obtained outcome, the announcement of buying an acquisition stake that triggers control results a factor to be further explored. The low number of transactions under analysis may have influenced the results. Specifically, the few observations included in the second group may have contributed to the unclear returns pattern. As a consequence, this factor should be considered in defining the determinants of value creation for the transactions in our sample.

4.2.4 Conclusions

The study has been conducted to explore whether the 51 M&A transactions in our sample, announced between February 2020 and August 2020 by Italian listed companies, have generated acquirers' shareholder value creation. The analysis has considered the period around the announcement day as the time frame (short-term perspective), and the cumulative abnormal returns as a proxy for transactions' profitability. Moreover, the success determinants have been explored.

Small positive not statistically significant CARs have been recorded, thus the companies announcing M&A transactions during the Covid-19 pandemic have not been able to significantly increase their market value. As a consequence, the main hypothesis is not confirmed by our results. However, the recording of small positive non-significant abnormal returns is a common outcome in event studies related to the acquirers' shareholders value creation around M&A announcement (e.g. Franks et al., 1991; Shleifer and Vishny, 1994; Schwert, 1996; Agrawal and Jaffe, 2000; Billett et al.; 2003). Moreover, in exploring M&A profitability, not only statistical significance should be proven but also materiality (Bruner, 2004). No negative CARs have been registered for the main event window considered [-5,+5] both for the overall sample and for most of the subsamples explored. The cumulative abnormal returns reported ranges from 1 to 3 percent, not really high but still positive. As the analysis considers a time frame of few days, even abnormal returns as low as 1 or 2 percent are enough to cause concerns (Bruner, 2004). In light of these considerations, the analysis has revealed that on average the companies in our sample that have announced a transaction during the Covid-19 pandemic crises have conserved value, rather than destroyed or created it. The value conservation conclusion implies that investors have obtained at least their required returns, thus they have been compensated for the additional risk taken within the transaction.

Moreover, among the sample higher and lower levels of value creation have been observed, suggesting that there are factors within the process that materially influence M&A profitability. The analysis made by dividing the main sample into subsamples has been conducted to explore the extent to which those factors contribute to determining success among the transactions under study. While the relative size of the target and the previous bidder experience have not generated significant greater value for the acquirers' shareholders, engaging in cross-border transactions and seeking to acquire a controlling stake have contributed to extra value generation for the acquirer investors. Especially undertaking transactions, overcoming the national borders has led to earning significant positive cumulative abnormal returns of 3,21% in the 11 days event window [-5,+5] and 1,36% at announcement day [0].

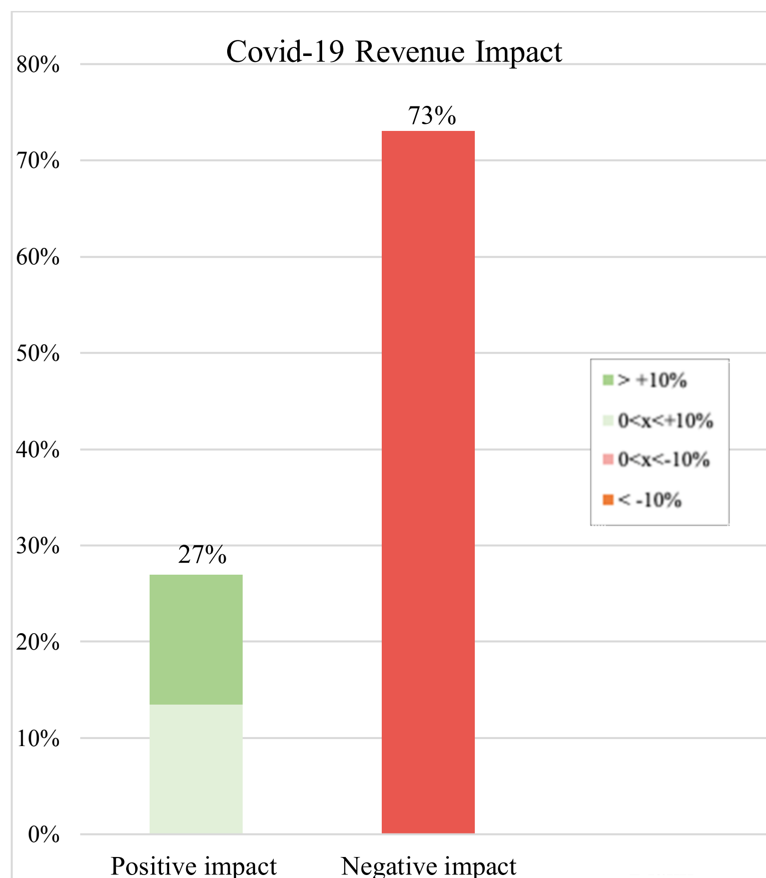
It has to be stressed that the results obtained through the event study contribute to give insights about the value creation implication of M&A activity during downturns. However, results apply specifically to the M&A activity on the Italian scenario during the first period characterized by the Covid-19 crisis. The pandemic has hit countries to a different extent, leading to distinct economic implications, thus diverse effects on the M&A market. As a consequence, universal conclusions cannot be drawn from the study in connection to the regional focus (Italy), the relatively low number of observations, and the short time frame.

Further analysis may be conducted including transactions negotiated by acquirers from different countries. Moreover, more observations would lead to more precise estimates. M&A performance could also be analyzed by combining stock-market and accounting based methods that are amply suggested by the critics (e.g. Lubatkin, 1983; King et al., 2004). Finally, a long-term perspective should be included to see if results obtained considering a short period around announcement are supported.

4.3 Covid-19 Impact on Financials and M&A Activity

The pandemic crisis has hit the entire economy with different intensity among the various industries but pushing every company to face an unprecedented scenario. The impact on the business activities has been tough. In Italy an Istat analysis on 90.000 companies has revealed that 4 out of 10 firms have registered a decrease in revenues by 50% between March and April 2020. Moreover, half of the companies under study have forecasted a liquidity shortage and 42,6% have required new loans (Istat, 2020).

In our sample the revenue change presents a high variation among the firms, the registered change shifts from a revenue increase by +80% to a decrease by -64%. 73% of the firms have reported a negative impact on revenues and for 71% of them it has overcome -10%. However, also a positive increase has been observed: 27% of the companies have registered a positive revenue change despite the situation (see graph 8). The data reflects how different companies in different sectors have been hit with a different intensity but show how the majority of them have overseen a negative impact.



Graph 8: Covid-19 Revenue Impact in the sample

The second research question wants to explore if companies more active in the M&A market are those less affected by the crisis, thus more financially strong. Revenues and Ebitda have been collected as performance indicators to operationalize the impact of the Covid-19 crisis on company financials. Revenues represent the income generated by the normal business without taking into consideration any cost. It is the top line of the P&L from which operative and non-operative expenses are deducted to determine net income. On the other hand, Ebitda indicates the company's ability to generate value from its core business, without taking into consideration amortization, depreciation and taxes but only operating costs. The interest in considering both measures is to see if results obtained focusing on one performance indicator are supported by the other.
A statistical approach is taken to answer the second research question. The analysis wants to assess whether there is a positive relationship between the Revenue % change (H1 2019- H1 2020) and the propensity of making a deal, measured by the number of transactions performed. The same study is done considering the Ebitda % change. A positive relationship is expected in both cases: companies less affected by Covid-19, thus more financially strong, are more prone to take the costs and risks of undertaking an M&A transaction.
Following this direction, the analysis has moved formulating two main hypotheses that have been further segmented (a and b) to reflect the two available information that stands for the companies' economic performance (Revenues and Ebitda):

H1a: Companies that have undertaken at least an M&A transaction in the period under analysis have been less financially impacted by Covid-19 crises, thus were more financially strong (measured as Revenues % change) than firms that have not performed any deal.
H1b: Companies that have undertaken at least an M&A transaction in the period under analysis have been less financially impacted by Covid-19 crises, thus were more financially strong (measured as Ebitda % change) than firms that have not performed any deal.

H2a: Among the companies that performed at least one transaction a positive correlation is expected between the Revenue % Change and the propensity of making a deal.
H2b: Among the companies that performed at least one transaction a positive correlation is expected between the Ebitda % Change and the propensity of making a deal.

In the following part, after the specification of the sample, the methodology used is described followed by the obtained results and the related discussion.

4.3.1 Sample

From the initial 166 companies, 80 have been excluded from the analysis as the financial statements for the first semester of 2020 were not available at the time of the database creation. Therefore, the final sample size totaled at 86 companies. Of these, 32 have performed at least one transaction (Min=1 Max=4) between February 2020 and August 2020, while the remaining 54 companies did not perform any M&A deal.

It has to be stressed that for testing the hypothesis connected to the Ebitda % change, the final sample amounted to 82 companies, four companies have been excluded. One of them has been taken out from the sample as an outlier. It has overseen an Ebitda % change of 4057%, a variation that has not significance treated as percentage and that would cause problems in our study. The other three companies have been excluded for the lack of Ebitda disclosure in the latest documents publicly available.

4.3.2 Methodology

The study has been conducted by exploring the relationship between three different variables**.** The first one is the *propensity of making a deal* which has been operationalized as the number of transactions performed between February 2020 and August 2020. A low number of transactions stands for a low propensity, while a high number of transactions stands for a high propensity of making a deal. Companies that have performed at least a deal have been considered active companies. The maximum number of transactions executed has been 4 and the minimum 1, thus this variable is intended as a scale from 1 to 4 that measures the degree of attitude toward M&A.

The second variable is the *Revenue % change* between H1 2019 and H1 2020. It operationalizes the Covid-19 impact on companies' financials. It has been calculated by computing the percent change variation between revenues in the first semester of 2019 and the same line in 2020 financial statements.

Formula:

Revenue % change= (Revenues H1 2020/Revenues H1 2019) -1

Finally, the *Ebitda % change* is taken into consideration as a second indicator of the pandemic crisis impact on companies' financials. The computation is in line with that performed for the second variable.

Formula:

Ebitda % Change= (Ebitda H1 2020/Ebitda H1 2019) -1

Propensity of making a deal		*Revenues % change*		*Ebitda % change*	
Mean	0,57	Mean	-12,37%	Mean	-25,91%
Median	0	Median	-15,3%	Median	-24,5%
Sample variance	0,79	Sample variance	0,07	Sample variance	0,19
Kurtosis	2,63	Kurtosis	3,30	Kurtosis	0,98
Skewness	1,69	Skewness	1,28	Skewness	-0,67
Range	4	Range	1,43	Range	2,29
Minimum	0	Minimum	-63,61%	Minimum	-168,69%
Maximum	4	Maximum	79,89%	Maximum	60,32%
Count	86	Count	86	Count	82

Table 10: Variables Descriptive Statistics

After the variable's definition, their distribution has been checked looking for normality to define if a parametric or non-parametric measure should have been applied.

The Z scores for skewness and kurtosis have been computed by dividing their raw score by its standard error for all variables.

Formulas:

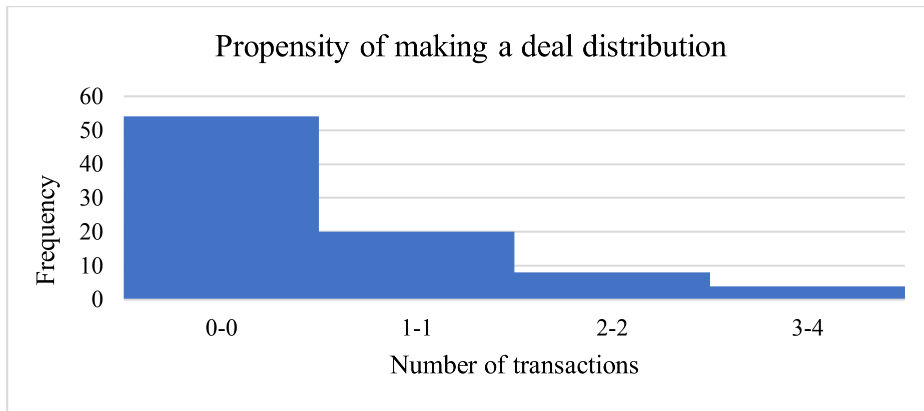
Zskewness= Skewness/ SE

Zkurtosis=Kurtosis/SE

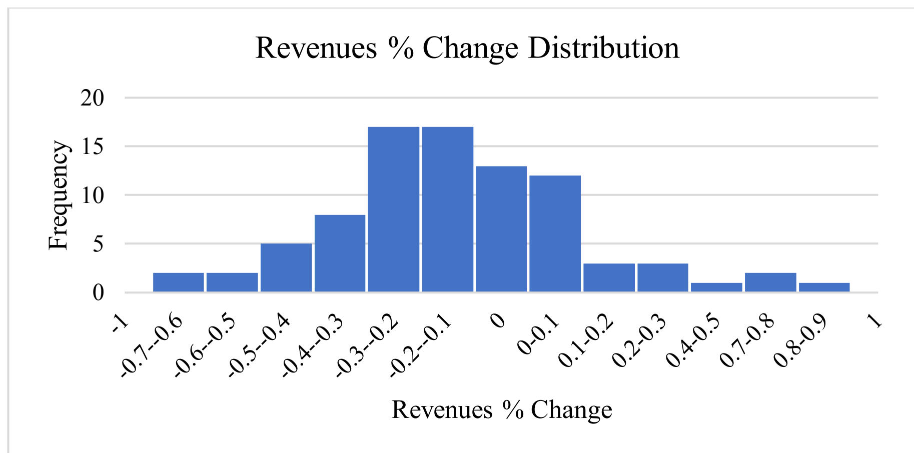
Variables	Zskewness	Zkurtosis
Propensity of making a deal	6,69	5,85
Revenues % Change	4,655	5,18
Ebitda % Change	-2,56	1,882

The variables are not normally distributed as their Z scores do not fall within the +/-1.96 range for a small sample <100 observations.

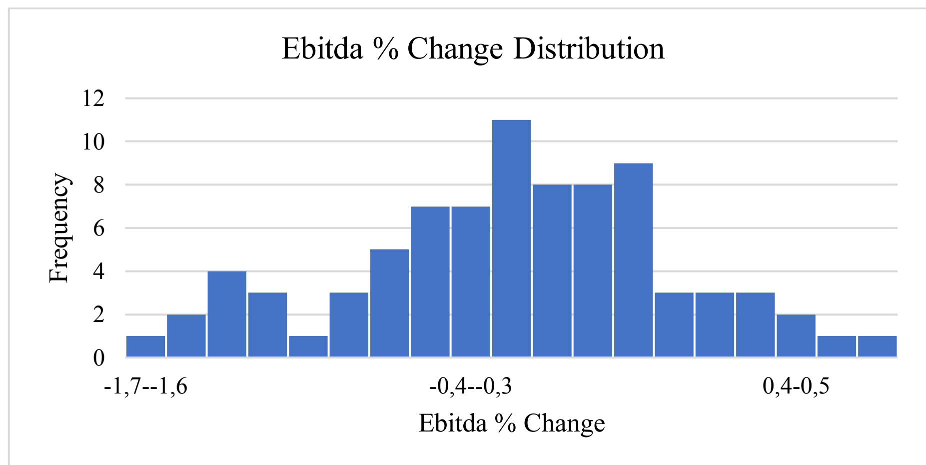
Propensity of making a deal and Revenue % change are leptokurtic and positively skewed, Ebitda % change is negatively skewed. As a consequence, non-parametric tests have to be performed. The variables distributions are represented in the graphs below.



Graph 9: Propensity of making a deal distribution



Graph 10: Revenues % change distribution



Graph 11: Ebitda % change distribution

Firstly, Spearman correlation, a non-parametric measure, has been computed to explore the relationship among the variables under analysis. A positive correlation is expected between the propensity of making a deal and the Revenues % change and Ebitda % change that operationalize the crisis impact on companies' financials.

Secondly, another test has been performed to further explore the relationship among the variables. The main sample has been divided in two subsamples. Group 1 is composed by firms that have not performed any deal, instead companies that have undertaken at least one

transaction have been coded as group 2. This classification has been maintained for both H1a and H1b. A nonparametric Mann Whitney U test has been performed to analyze if the difference in Revenues % change and Ebitda % change among the two groups was statistically significant, thus statistically different from 0. Finally, Spearman correlation has been computed also to test H2a and H2b focusing on the subsample of companies that have made at least one deal (Group 2).

4.3.3 Results

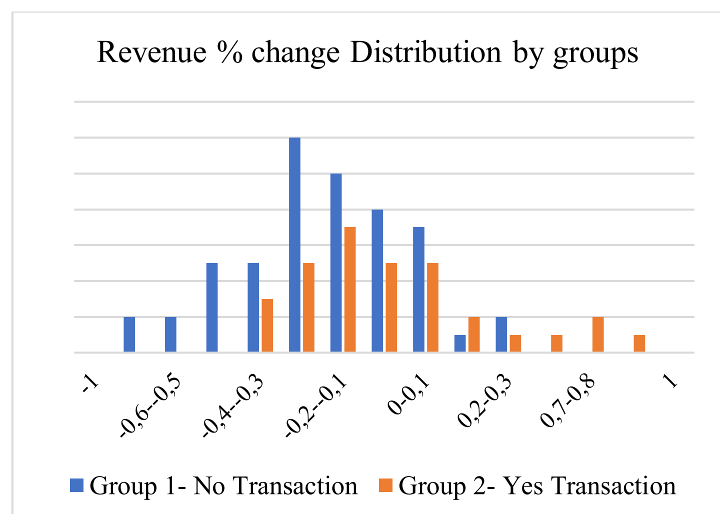
H1a: Spemann correlation has been measured to explore the relationship between the propensity of making a deal and the Revenues % change. As expected, we found a significant and positive correlation between the two variables R =.31, p< .005.

The obtained result supports our hypothesis, companies that have performed more transactions are those whose revenues have been less negatively impacted by the crisis.

However, to further explore the positive relationship, the two subsamples (yes transaction and no transactions) have been taken into consideration. Companies that performed transactions N= 32 (Mdn= -.08, IQR=.26) had a lower loss in revenues than companies that did not perform any deal N= 54 (Mdn= -.19, IQR=.24). In graph 12 the Revenues % change distribution is represented for each group. It can be noticed graphically how companies that have performed at least one transaction have recorded a milder revenues variation than group 1. A Mann Whiney U test has indicated that the difference in the revenue variable between the two groups was statistically significant. Companies that have performed at least one transaction had significantly lower losses in delta revenues than companies that did not perform any deal (U=1170,50, p=.006, z=2.74, r=.30).

H2a			
Group 1 No deal		*Group 2* Yes deal	
Revenues % change			
Mean	-119%	Mean	-0,10%
Median	-19,0%	Median	-8,00%
Min	-64,0%	Min	-36,0%
Max	25,0%	Max	80,0%
Range	0,89	Range	1,16
IQR	0,24	IQR	0,26
Obs	54	Obs	32

Table 11: Descriptive statistics H2a



Graph 12: Revenue % change distribution

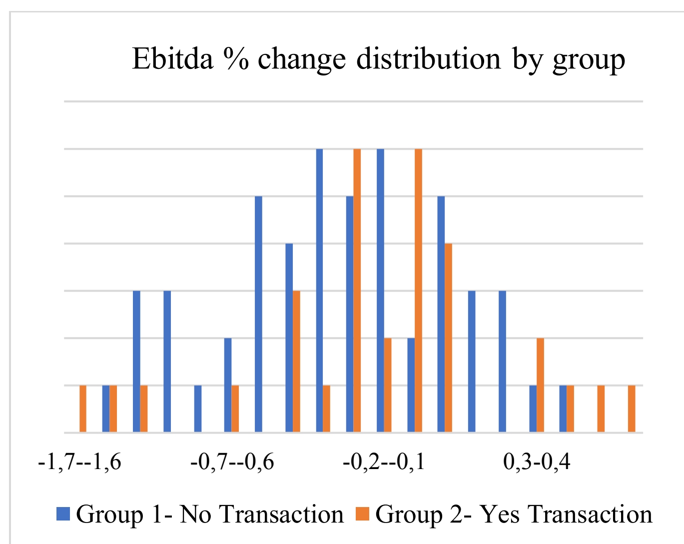
In light of the results obtained, H1a is accepted. It can be concluded that companies that have undertaken at least one M&A transaction in the period under analysis have been less financially impacted by the Covid-19 crises, thus were more financially strong than firms that have not performed any deal.

The same methodology is applied considering Ebitda as an indicator of the company performance, expecting the same conclusions.

H1b: Spearman correlation between the propensity of making a deal and Ebitda % change is positive but not statistically significant considering a confidence interval of 95%; R=.19, p >.05 (=.12). Thus, the outcome does not meet the expectations and does not support our hypothesis. Further analyzing the two subsamples (yes transaction and no transaction), the difference in the Ebitda variation among the groups in this case is not straightforward (see graph 13). Companies that have performed at least one transaction, have also reported a really negative change in Ebitda, observable on the left tail of the distribution. However, the outcome obtained testing the correlation among the propensity of making a deal and the Ebitda variable, already revised the expectation for the outcome connected to the subsamples. A Mann Whitney U test has been performed and among the two groups (yes deals N=31, mdn= -.12, IQR=.39; no deal N=51, mdn=-.29, IQR=.62) no statistically significant difference has been found (U=950,00, p> .05 =.127, z=1.53, r=.17).

H2b			
Group 1 No deal		*Group 2* Yes deal	
Ebitda % change			
Mean	-30,14%	Mean	-18,85%
Median	-29,00%	Median	-12,00%
Min	-135%	Min	-169%
Max	49,00%	Max	60%
Range	1,84	Range	2,29
IQR	0,62	IQR	0,39
Obs	51	Obs	31

Table 12: Descriptive statistics H2b



Graph 13: Ebitda % change distribution

Therefore, results do not support H2b. Considering Ebitda as a performance indicator, it cannot be concluded that companies that have undertaken at least one M&A transaction in the period

under analysis have been less financially impacted by Covid-19, thus were more financially strong than firms that have not performed any deal.

H2a: The correlation between the propensity of making a deal and the Revenue % change has been computed among companies that have performed at least one transaction (Group 2). The correlation is positive but not statistically significant R= 0.21, p> 0.05 (=0.14). Therefore, H2a is rejected.

H2b: In line with the results obtained for H2a, the Spearman correlation between the propensity of making a deal and Ebitda variation is positive but not statistically significant R=0.3, p>0,05 (=0.21). The results do not support H2b.

4.3.4 Discussion and Conclusions

Revenues and Ebitda % changes between H1 2019 and H1 2020 have been chosen as performance indicators to represent the Covid-19 crisis impact on the companies' financials. The relationships between those variables and the propensity of making an M&A transaction has been explored, with the expectation that companies undertaking more deals have been those less financially impacted by the crisis. The belief of obtaining the same results for both analyses lies in the strict connection that is present among the two variables. Both performance indicators are linked to the income statement and to the ability of a company to gain market share and sell its goods/services in the market. However, Ebitda by excluding operating costs is also impacted by how efficiently a company can produce its products/services. The more a company will be efficient, the lower will be its operating expenses and higher will be the Ebitda, all things being equal.

On one hand, the positive and significant correlation between the propensity of making a deal and Covid-19 impact on Revenues among the companies under study suggests that those that have undertaken M&A transactions have seen their financials less impacted by the crisis. As expected, the relationship between stronger financials and the engagement in a complex and costly transaction as M&A is positive. This relationship is confirmed also by looking at the Revenues % change among the companies that performed a transaction and firms that did not. This suggests that those that engaged in a transaction have suffered less the effect of the crisis, thus a stronger company is more prone to undertake an M&A deal. However, when we looked at the revenues variable among the companies that have performed at least one transaction the correlation is not confirmed. Among this group the revenue variable is not significatively

connected to the propensity of making a deal, thus companies have performed M&A transactions independently from the intensity of the crisis impact on revenues. Considering the second result together with that obtained testing H1a, it appears that among companies that performed and those that did not perform a deal a different impact of financials in the propensity of making a deal can be noticed, when considering revenues as a performance indicator. But if the focus moves only on companies that have undertaken at least one M&A transaction, it is not confirmed that firms that have performed more transactions have been less impacted by the Covid-19 crisis.

On the other hand, the discussed results are not supported by looking at the Ebitda % change. H1b is rejected as the positive correlation between the propensity of making a deal and the Ebitda variable is not statistically significant, in line with this result also H2b is not confirmed. This outcome may be explained by the fact that Ebitda is connected also to the costs a company faces concerning its core business, thus reflecting also the specific cost policy adopted and the level of efficiency, as mentioned. Moreover, the cost structure differs among companies also in relation to the belonging sector and our analysis takes into consideration firms independently from the sector in which they operate. As a consequence, comparing the Ebitda % change among different sectors may lose significance.

Despite the different results obtained, in our opinion revenues are a better indicator of Covid-19 impact on financials in our study and in connection to our database. It is the first line item of the P&L impacted and less affected by other elements under the company control than Ebitda. Ebitda is the result of a reclassification of the income statement performed by the company, thus more subject to potential misstatement, making revenues a raw and more transparent data. Moreover, one of the main effects of the Covid-19 pandemic has been the decrease in customer demand, having the crisis highly impacted firms' and households' income, directly connected to revenues rather than Ebitda.

As a consequence, we conclude that companies that have performed an M&A deal in the period under analysis (February 2020- August 2019) have seen their revenues less impacted by the pandemic crises. But, among the companies that performed at least one transaction (Min=1, Max=4 transaction performed) the lower degree of intensity of the Covid-19 impact on sales was not related to a higher propensity of making a deal. It cannot be said that among companies that performed at least one transaction, those that have seen their revenues less impacted have made more deals.

The results obtained in this study could be tested using a more sophisticated statistical regression that would enable to drown conclusions about the causal effect relationship between the three variables. However, the dataset should be enriched both in terms observations and

variables that explain the propensity of making an M&A deal. Moreover, it has to be stressed that both the Revenue % change and the Ebitda % change, here used to operationalize the effect of the pandemic crisis on financials, are impacted by other factors rather than the crisis itself, thus other variables should be included to control for these elements.

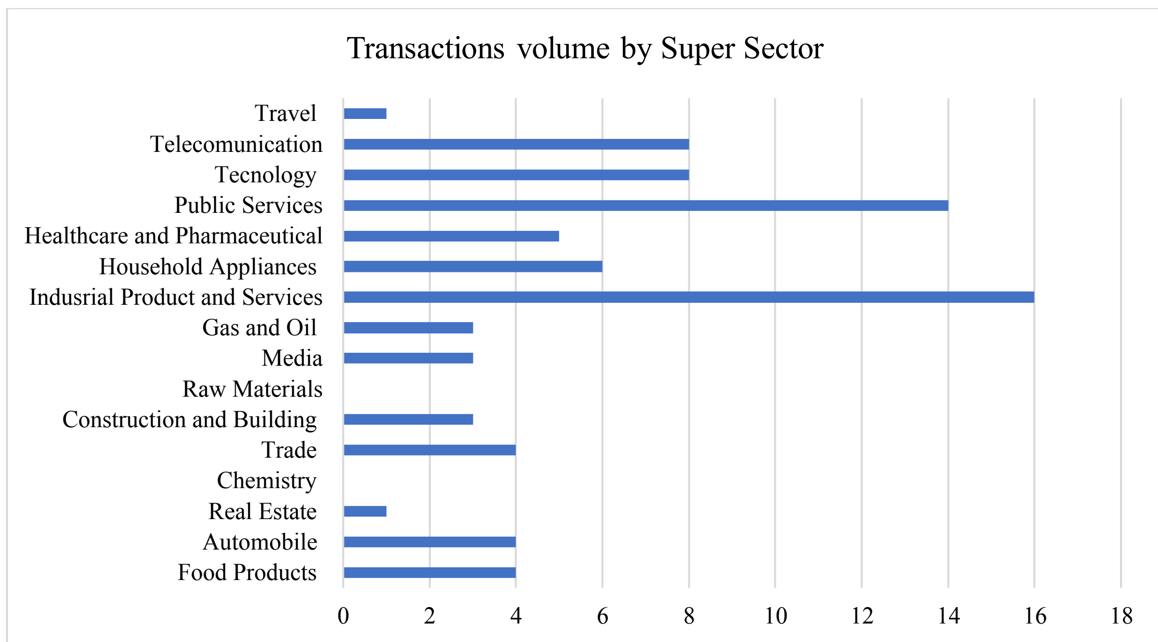
4.4 M&A Activity among Sectors During Covid-19

The third research question wants to explore in which sectors most transactions have occurred. This is interesting also in connection to the high variability of revenues percent change variations registered among the companies under study.

The main sample composed of 166 companies is utilized, and the research is done through a Pivot table that synthesizes the data among the sample. 51 companies (30,09% of the sample) have incurred at least one transaction, for a total of 80 transactions closed or announced. Borsa Italiana categorizes public companies into sixteen Super Sectors that are represented in graph 14 on the vertical axis. The companies' sectors help to understand how the crisis has affected businesses in a different way in connection to their cyclicality (Pearce and Steven, 2005). Expectations of a severe impact are overseen for more cyclical sectors whose business evolution is connected to macroeconomic or systematic changes of the economy. These sectors follow the economic cycle and include customer products that are bought more during good economic periods. Examples are the automotive, real estate, travel, household appliances sectors. Whereas, non-cyclical sectors are unrelated to the economic cycle. These continue to operate as customers are less sensitive to the product/service price they offer. As a consequence, in these sectors demand continues, and companies tend to outperform the market when economy growth slows. Healthcare, pharmaceutical, public services, food sectors are included in this group.

In connection to the positive and statistically significant relationship between the impact of Covid-19 on financials and the propensity of making a deal, the M&A activity is expected to be higher for sectors belonging to the non-cyclical group.

Coming back to our sample, the M&A activity registered in the most relevant sectors is discussed (see graph 14).



Graph 14: Transactions volume by Super Sector

Following Borsa Italiana categorization, the sector where more transactions have been performed between February 2020 and August 2020 has been Industrial Product and Services. The transactions account for 21,4% of the deal activity, taking into consideration the entire sample. This result is in line with the conclusion drawn by the Pitchbook analysis on European transactions in H1 2020. The analysis stresses how the deal volume and value in the B2B space showed resilience in the first half of the year (Pitchbook, 2020). The reason is that B2B companies' products and services allow other firms to maintain flexibility and face the challenges of expanding into new markets, improving R&D and promoting cost efficiency. Moreover, this kind of companies are less connected to a specific territory or brand, this constitutes a strength in the environment defined by the crisis. However, by looking at the company specific industry a defined acquisition pattern cannot be found.

Another sector characterized by great deal activity in the period under observation has been the Public Services, mainly constituted by the companies operating in the power and utility sectors. Challenges have been faced by these players in connection to the industrial power demand decrease and the rise of customer defaults, that impacted their financials (Booth et al., 2020). In Italy, the energy demand in March has been lower by 17% compared to the same month of 2019 (Bruegel Datasets, 2020). Despite the challenges that also this industry has faced, companies belonging to the power and utility sector are among those that have thought strategically in order to adapt to the new context. This trend is reflected in our analysis where 16,1% of the transactions have occurred among the companies operating in the power and utility sectors.

Telecommunication and Technology sectors follow with 8 deals each, accounting for 10,8% of the transactions. Focusing on the Technology sector another European trend is confirmed in the Italian scenario. Acquisitions in this class have occurred among companies operating in the software sector. Widening the lens at the European level, the B2B enterprise software space has registered in 2020 its second best-half deal value over the last decade (Pitchbook, 2020). On one hand, this is connected to the more and more frequent trend of investments in cloud systems, cybersecurity, e-commerce subsectors that has started before the pandemic outbreak. On the other, the new environment is undoubtedly pushing an acceleration toward automation and digitalization that makes companies in the software sector in a better position than others, having also less impact on their financials.
The Healthcare and Pharmaceutical sector had and is having a central role since the Covid-19 outbreak. Investments and revenues in this area haven't stopped and projections call for a revenues loss by around 4% that is sustained compared to the double-digit losses in other sectors (Unicredit, 2020). Despite the 2020 forecast, the sector is expected to grow by 4,7% in 2021 (Istat, 2020). This situation, coupled with investors' enthusiasm, has pushed companies to pursue their industrial plan and growth strategy. Moreover, the crisis has also shown the bottleneck and inefficiencies of this industry in the Italian scenario. Personnel shortages, lack of digitalization, and procedures complexities have pushed even more the need for strategic ways to grow, overcoming these problems. Between February and August 2020, the M&A activity in these sectors has not stopped, five transactions have been registered among the 8 companies in the sample representing this sector. At the European level, the M&A activity in the Healthcare and Pharmaceutical sector has registered its best performance in the first half of 2020 over decades.
Where sectors have been particularly active and resilient to the pandemic crisis, some for structural characteristics, others for being fundamental in this unprecedented scenario; some others have suffered more the challenges, and this is reflected also in the poor propensity for engaging in M&A transactions. Among the less-active super sectors in our analysis, we find Travel, Real Estate, Raw Materials, and Chemistry.
Real Estate and Travel have been the sectors among the most hit by the pandemic. The measures imposed by the national governments, among which lockdown, social distancing, and travel restrictions, had a major impact on their activity. The Real-Estate projection before the crisis was characterized by an expansionary phase with prices increase and great demand level, the situation has changed after Covid-19 in both residential and commercial sectors (PWC, 2020). The long-term expectation in the residential sector sees a contraction connected to the effect that the crisis will have on the families 'income. The commercial and industrial assets on the

other hand are expected to show less decline in connection to the need for more space, however the expansion of e-commerce will have an impact on the retail sector. The Travel sector other than being impacted by the limitations mentioned has been highly undermined by the consequences of the touristic flow drop. The tourism economy will oversee in 2020 a decrease of 60% internationally, according to the OECD estimation. Focusing on Italy the travel and tourism are central for the economy, accounting for 5% of the Italian GDP and related to over 6% of the Italian employment (Banca d'Italia, 2019).
The hard impact of the crisis on the Real Estate and Travel sectors reflects the poor deal activity among the listed Italian companies. Only 2 deals have been registered among the sample accounting for only 2% of all transactions.
For what concerns the Raw Material and Chemistry sectors, the companies in the sample were not sufficient to make relevant conclusions about their M&A activity.
The expectations related to the cyclicality of the sectors have been confirmed. In the scenario set by the Covid-19 crisis, the sectors where less deal activity has occurred have been those offering products/services whose demand falls within the economy. On the other hand, inorganic expansion has been registered among non-cyclical sectors and those that most fit in the scenario shaped by the crisis. Public services, Industrial products and services, Technology and Healthcare and Pharmaceutical have been the more active sectors. Nonetheless, it has to be stressed that the sample characteristics may have influenced the result, a more complete analysis should be performed including also private companies that would enable a more precise by sector analysis.

4.5 M&A Activity Motives During Covid-19 Pandemic

The fourth research question wants to explore the motives that have moved companies to perform M&A transactions and see whether a rational prevails among the sample. The study has been conducted considering the companies that have performed a deal (N=51) among the main database of 166 firms and the related 80 transactions closed or announced.

The main M&A motives have been discussed in the first chapter of the work. In the database construction the main strategic rationale of the deal has been included for each company performing a transaction. Those were present in the firms' websites in the documentation disclosed in the price sensitive communications section.

In order to operationalize the analysis, the motives disclosed by the companies have been categorized maintaining the rationale seen in the first chapter. As mentioned, the two main motives are growth and synergies, those have been further segmented to better reflect the rationale of the specific deal. The growth strategies related to a specific rationale and connected to an M&A deal have been distinguished using the Ansoff matrix as a starting point (Asnoff, 1957). This business tool has been used over the years to represent the growth possibilities as a 2 x 2 matrix, where the determinants of the resulting actions are the product (new/existing) and the market (new/ existing), giving rise to 4 different growth strategies (Figure 3). The author considers the strategies as a district path to follow toward future growth (Asnoff, 1957). However, in this context those possibilities are instrumental for representing in a systematic way the M&A activity rationale, thus the motivations are not mutually exclusive. This scheme has been applied to the M&A activity by considering the M&A transaction as the means to overcome a particular growth opportunity, so connected to the deal rationale.

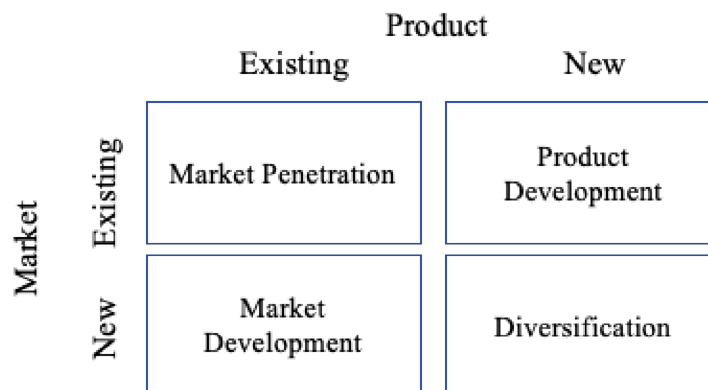


Figure 3: Ansoff Matrix

Following this scheme, the motives related to growth are:

- *Penetration in an existing market:* This motive broadly involves the penetration in both an existing geographical and product/service market. Companies that have stated that

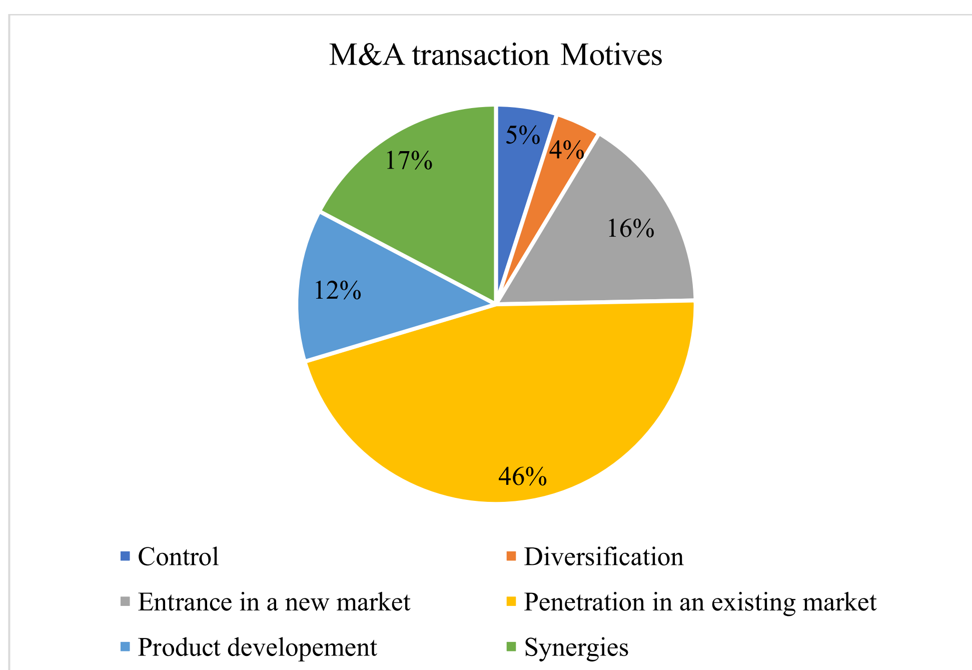
the rationale of the acquisition was driven by the need to strengthen their position in a market where they were already operating have been connected to this motivation.

- *Entrance in a new market:* The market includes both product/service and geographic market, also in this circumstance. The transactions aimed at geographic expansion, internationalization, or the entrance into a new business activity fall in this category.
- *Product Development:* This motive includes those rationales connected to the enhancement of the product characteristics that lead to an offer increase.
- *Diversification:* This motive has been used when present in the companies' documents as the acquisition strategic rationale.

The second motive discussed in chapter 1 relates to synergies. It is hard to fully understand the nature of the synergies from the information disclosed by the companies; hence the motive *synergies* includes both operative and financial synergies discussed previously in major details. The pursuit of this rationale has been connected to companies that have specifically stated in their documents to follow this motive.

The last motive included is the increase in the control share of the acquirer over the target, this situation reflects the cases in which an equity participation was already present and the bidder aimed at increasing its position (*Control).*

A transaction can be pushed by a combination of motives, hence the companies in our sample can be motivated by one or more of the above-mentioned rationales. These have been connected to a specific deal basing on the degree of disclosure contained in the available acquisition documentation.



Graph 15: M&A transactions' motives

The analysis, synthesized in graph 15, has shown how the most common motivations relate to growth. As stated in the literature review M&A deals can be seen as tools for implementing growth strategies and this is proven to move transactions' activity also empirically, taking into consideration our sample. The most cited rationale among the 54 companies that have accomplished an M&A transaction has been the penetration in existing markets (46%). According to this result, companies are more prone to grow by moving toward what is closer to the company dimensions. This is in line with the view that sees sustainable and profitable growth as the result of pushing out the boundaries of the core business into adjacent spaces (Zook and Allen, 2003). This trend may be also connected to the critical period in which the companies in the sample were operating while performing a deal. In a distressed situation like the pandemic crisis scenario, moving toward the company "comfort zone" is understandable. The environment is itself risky and forces companies to face challenges, undertaking riskier M&A transactions could undermine the deal's success and business resilience.

Moreover, also the exploration of new markets and product development have been a frequent motivation, accounting together for 28% of the registered motives. The strategies connected to these motives maintain again a connection with the core business. The possibility to gain from synergies concur to explain 17% of the deals, while diversification is the least motive registered. It has to be stressed that using disclosed information by public companies is a benefit for data availability, but the analysis is highly biased by the subjectivity and detail of the disclosed information. As a consequence, some motives discussed in the first chapter, such as those connected to the management self-interest, are not present.

The analysis conclusions give insights about deal rationale during downturns, but those have to be referred to the specific sample. Additional analysis should be performed using more objective data about the transactions' motive to see if the results obtained are supported.

Conclusions

Despite the broad literature on M&A, little attention has been directed to the external forces that contribute to defining deal activity. Specifically, scant research has treated how M&A activity is impacted by downturns. This work has been conducted with the aim of filling this gap, increasing the understanding around the role and the value creation implications of M&A negotiated in critical business environments, from the perspective of the acquiring company.
To do so, firstly an overview of M&A transactions has been given to set the work foundations. The process has been described, clarifying the embedded complexity that characterizes those transactions. Moreover, the main motivations that push acquirers to perform a deal have been explored. It has been shown how among different motivations growth and synergies exploitation prevail.
Then the focus has moved to the value creation potential of M&A transactions. Various business fields have contributed to give insights about M&A performance and what defines deals' success. The various perspectives and methods used to measure performance had the consequence of failing to provide an integrated framework. Combining studies outcomes connected to acquirers' value creation, it appears clear how performance exploration has led to ambiguous results. Bidders' abnormal returns range from positive to negative, not always confirmed by statistical significance. However, this results discrepancy suggests that some success determinants contribute to defining different levels of performance. The main success factors have been explored, combining the perspective of strategic management, finance, and organizational behavior fields.
Although the performance determinants have been delineated considering M&A as a business specific event, deal activity is also impacted by external environment conditions. As a consequence, the work has pursued exploring the relationship between M&A and the external environment. Deal activity is boosted by good economic conditions, whereas it tends to be weaker during recessions. When GDP, stock market, interest rate, aggregate demand are negatively impacted by a shock, the deal volume and value tend to decrease.
The effect that external factors have on deal activity has brought us to the core of the work, analyzing the general role of M&A and its value creation implication when the external conditions that thrive deal activity fail to occur.
The role of M&A in distressed scenarios is connected to the possible strategies a company can deploy to counteract hard times. Firms that see opportunities for investments, expansion, and innovation despite the critical external conditions can use M&A as a tool to implement their strategic objectives and demonstrate a proactive attitude toward adverse scenarios. Moreover,

acquisitions can be a company's means to implement the changes to quickly adapt to the scenario defended by a crisis. When economic or technology shocks occur, firms can reorganize leveraging on mergers and acquisitions. As a crisis does not affect all companies equally, firms that have the highest value creation potential are characterized by a strong balance sheet and good recent economic performance. Moreover, risk tolerance and previous deal experience contribute to deal success.

It has been discussed how value creation potential does not cease to exist as also new opportunities arise from downturns. Acquirers can benefit from lower valuation multiples and low cost of capital. Furthermore, the chance to select the best fit tends to increase as companies that were not available for sale may become potential targets, for the negative effect that the crisis has on their business. However, the M&A market is not immune to adverse external conditions. Uncertainty increases the complexity of some phases of the business process. Firstly, target valuation becomes harder when projections are difficult to forecast, with the ultimate effect on uncertainty about the proper premium to apply. Secondly, the post-acquisition phase is challenged by the uncertain situation. Customer focus, employee retention, communication, and integration speed have been described as the most critical elements to deal with in bringing together two businesses during downturns.

The recent Covid-19 outbreak and its effect on the global economy have stressed more than ever the unpredictability of downturns and the difficulties of facing periods of high uncertainty. So far, it has had a negative influence on production, investment, and consumption, with the ultimate negative effect on national GDP, customer demand, and employment. In such scenarios, the M&A activity and its value creation implications have been tested. A sample of Italian listed companies has been taken into consideration for our study, screening the deal activity occurred between February and August 2020. Four different aspects of M&A activity during the pandemic have been explored.

Firstly, the value creation effect of M&A announced during the Covid-19 crisis has been analyzed. Results showed no statistically significant small positive cumulative abnormal returns to acquiring shareholders. These results firstly appeared in contrast to our hypothesis, according to which transactions were expected to be value creating for the positive message of resiliency communicated to the market. However, this outcome has been often registered in empirical work. Moreover, other than statistical significance, materiality has to be considered in interpreting economic results. As a consequence, the registered positive CARs even if not statistically significant suggest that transactions announced during the pandemic have conserved value for the acquiring company shareholders, rather than created or destroyed it.

Beyond the overall sample results, analyzing data with a more individual approach showed how some companies have registered higher abnormal returns than others around the announcement. Among the success factors taken into consideration to test this differential, making a cross border deals and the acquisition of a controlling stake have been proven to be important value creation determinants.

The second analysis has demonstrated the relevance of financial strength as a determinant of deal activity during critical times. A positive significant correlation has been found between the propensity of making a deal and the revenues variation between the first semester of 2019 and the first semester of 2020. This result suggests that companies that have performed transactions during the pandemic crisis are those that have seen their revenues less impacted, thus were more financially strong.

The third analysis explored the M&A activity concentration, taking a wider perspective and focusing on the business sectors. As expected, the most resilient companies in the M&A market have been those belonging to the sectors less affected by the general economic conditions and those included in the non-cyclical sectors. Industrial products and services, public services, telecommunication and technology companies have negotiated more deals. Transactions have been registered also for those sectors that have led the change defined by the pandemic. Healthcare and pharmaceuticals had and are having a central role in the Covid-19 scenario; thus M&A deals have resulted to be important tools for implementing the growth strategy needed to face the present conditions. Whereas, sectors more impacted by the crisis and whose demand is more related to the economy have struggled to opt for inorganic growth options. Travel and real estate have been registered among the less active sectors mirroring the hard impact of the pandemic on their business.

The fourth and last study focused on the motivations that have pushed companies to pursue deals. Results show that firms that have engaged in transactions during these hard times have opted for inorganic growth but maintaining a relationship with the core business. Most transactions have been performed to either strengthen the market position or improve the existing product/service. These results support the view that companies seeking value creation through external growth should move from the core business through adjacencies.

Overall these results give a new insight into M&A activity during downturns adding to this literature the short-term effect of the Covid-19 pandemic on the deal market. Transactions have proven to be value conserving for the acquirer shareholders. However, cross-border negotiations and seeking a majority stake have generated on average greater value for the acquiring firm. The leading actors of the M&A activity have been companies more financially

strong and belonging to sectors less affected by the pandemic. Among the active firms, the main motivation for pursuing M&A deals during the pandemic has been growth, observing a pattern that sees acquirers pursuing transactions maintaining a connection with the core business.
To conclude, it is important to note that these results are specific to the scenario considered in the analysis. Covid-19 has hit countries to a different extent, and the specific economic scenario set by the crisis should be taken into consideration when the impact on the M&A activity is analyzed. As a consequence, conclusions might not be universally applicable to M&A activity during critical times. Nevertheless, future studies could be conducted considering data from different countries or geographical areas. This would allow us to explore deal activity dynamics in varied crisis scenarios, thus coming to more general conclusions. It would be also important to include more observations in the sample to increase the precision of the estimates. Moreover, the study has not considered private companies that constitute a great portion of the industrial network, especially in Italy, these should be included to obtain a more accurate picture of a country's M&A activity. Value creation could be explored combining different approaches, both stock and accounting methods, including also a long-term perspective other than a short-term view. This approach would enable us to integrate different methodologies and time perspectives as the literature suggests. Finally, future literature and empirics should consider more external determinants in understanding M&A activity and its value creation potential.

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