BCG

Weekly Brief

December 04, 2024

Three Myths and One Truth About M&A

Mergers and acquisitions often have a bad reputation developed decades ago when gut instincts more than business logic powered them. That time is long gone, but some common myths about M&A remain—myths worth busting as we navigate today's environment.

Myth #1: Megadeals destroy value. True in the 1980s and 1990s, this notion is outdated. Recent data shows megadeals (those valued at more than $10 billion) have delivered a 2.9% relative total shareholder return (TSR) since 2020, far surpassing the 0.5% TSR of deals valued at $1 billion to $10 billion. Companies skilled at dealmaking, execution, and integration now know how to turn these transactions into high-value ventures.

Myth #2: Megadeals are rare today. While the market has come off its peak in 2021-2022, megadeals remain a steady force. In the first three-quarters of 2024, 17 deals exceeding $10 billion were announced globally, only slightly below the post-2010 average. Companies still have an appetite for transformative acquisitions even in a cautious economic environment.

Myth #3: Megadeals are a high-stakes roll of the dice for poor performers. Data shows that companies embarking on megadeals outperformed their peers in the two years prior to the transaction. That makes sense. Strong performers are more likely to have the financial resources and higher stock multiples to finance a cash or stock deal. Interestingly, two-thirds of underperformers improved their total shareholder return post-deal, too. The right transaction can positively transform any company.

Dealmaking is more disciplined and rational than it once was, but that does not mean it is easy. Today, regulators are taking longer to review deals. Globally, the average $10 billion-plus deal announced in 2022 took 324 days to close, a 47% increase over the time frame spanning 2018 to 2020.

While a deregulation-focused incoming US administration may shorten M&A reviews, the national security and global competitiveness concerns that provoke lengthy delays around the globe are unlikely to disappear. The geopolitical angle on M&A is here to stay.

Which brings me to **one key observation**: smart companies are using that time wisely. Even before a deal is announced, they have identified potential sticking points and concessions they can offer to regulators to speed approval.

After a deal is announced, companies are using the extra time to start integration planning by, among other things, establishing "clean teams." These teams are physically and digitally separate from the two companies but have access to the data of both. They can analyze potential synergies, customer overlap, and other key integration issues without compromising confidentiality.

I recently sat down with Douglas Peterson, former CEO of S&P Global, who described how he used the 15 months it took to close his company's acquisition of IHS Markit. The $44 billion deal was the largest announced transaction in 2020.

"The day the deal closed, we had an executive team, we had the entire organization below them, and even a lot of the organization below them was already defined. So, we were able to move really fast after we closed," Peterson said.

The M&A field has grown up in the past 40 years. Deals are no longer sketched out on napkins late at night. They are becoming an integral part of what it takes to run—and to transform—many companies.

Until next time,

Christoph Schweizer
Chief Executive Officer

Further Insights

Mastering the Megadeal: The New Rules for CEOs

Every corporate merger is a leap into the unknown. But for leaders contemplating a megadeal, certain rules do apply. Here’s what CEOs need to know.

PREPARATION IS KEY

Deals Are Taking Longer to Close. How to Respond.

A BCG study finds that timelines for closing deals have lengthened, especially for larger transactions.

HOW TO USE THE TIME

S&P Global's Doug Peterson on How to Hit the Ground Running in M&A

S&P Global provides data to power global markets. Douglas Peterson, former CEO of S&P Global, spoke to BCG’s Christoph Schweizer about some of the defining moments of his career.

A REAL-LIFE EXAMPLE