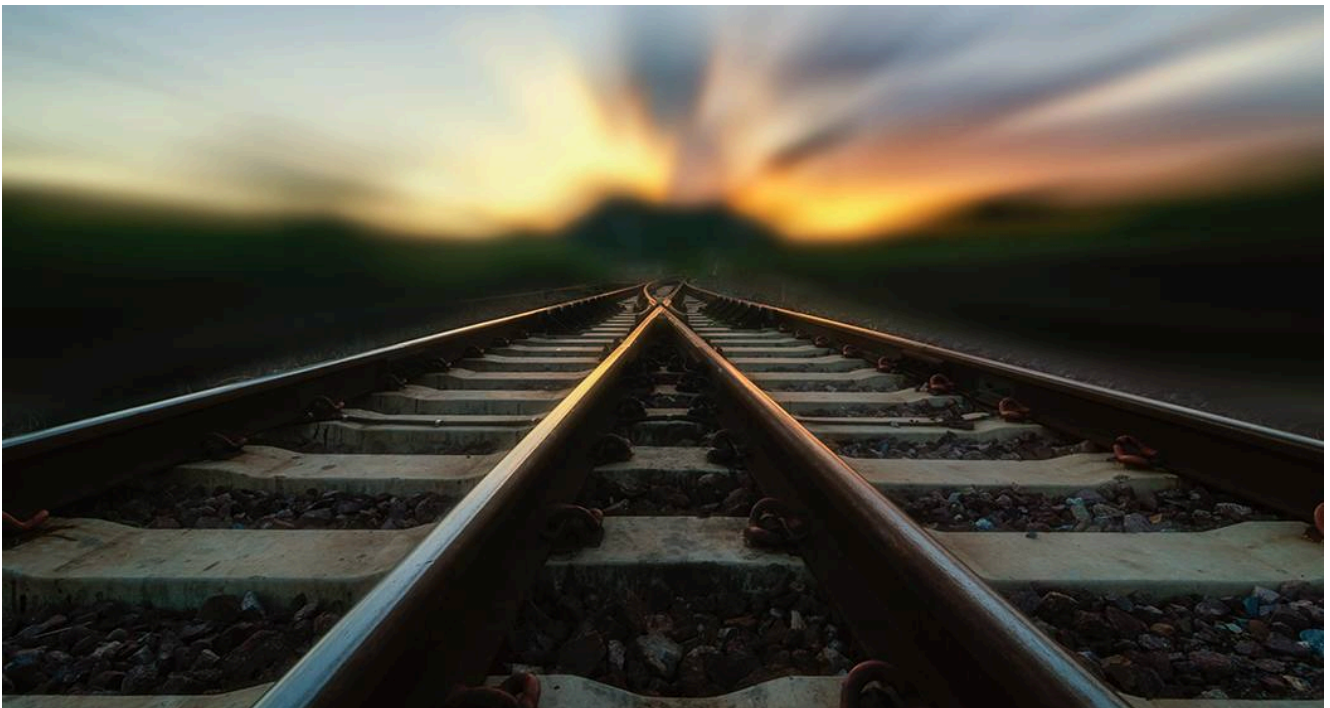


5 golden rules to avoid M&A disaster

Nuno Fernandes' new book, *The Value Killers: How Mergers and Acquisitions Cost Companies Billions--And How to Prevent It*, offers research-backed advice to save companies from M&A havoc.



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Thomas Cook collapsed spectacularly this September, after 178 years in the travel business. Many in the media were quick to point the finger at Brexit. But, digging a little deeper, there's Thomas Cook's 2007 merger with MyTravel, which the *Guardian* called "a disastrous merger" and the *Telegraph* said "sowed the seeds of the company's downfall."

Recent numbers paint a bleak picture: In May 2019, 12 years after the merger, Thomas Cook

announced it was writing off 1.1 billion pounds after revaluing MyTravel, at the same time it posted a 1.5 billion loss.

What is it about mergers that seem to pull the wool over management's eyes again and again? That is the multibillion-dollar question at the heart of [Nuno Fernandes'](#) latest book [*The Value Killers: How Mergers and Acquisitions Cost Companies Billions--And How to Prevent It.*](#)

Research has found that, for shareholders, most mergers destroy value. And the main reason? Because most acquisition targets are overvalued, as the book explains. The overvaluations come from deals' perverse incentives, CEO hubris, and poor preparation, among other things. Fernandes breaks these elements down and offers five golden rules to learn from:

"Golden Rule 1: Don't rely on investment bankers for valuation"

Company valuations are always part of investment banks' offerings, but you must think of the perverse incentives at play here. Fernandes sums it up succinctly: "Because investment banks receive much larger fees when the deals are closed, bankers are always on the side of the deal, not the company's side."

Whenever possible, "companies should develop valuations in-house" and/or "with help from unbiased third-party advisers," Fernandes advises. That holds even if your company is relying on an investment bank (or banks) for other key M&A-related services.

"Golden Rule 2: Avoid 'strategic' deals"

Too often "strategic" is an empty catch-all word to mask a deal that doesn't make financial sense, in the professor's view. Traditional companies acquiring money-losing startups may describe their deals as "strategic," as seen in Time Warner-AOL's fiasco, for example. Keep that historic, value-destroying merger in mind to stay skeptical.

To best avoid bad deals, Fernandes recommends turning to the board of directors, among others, to help answer three key questions, which are basically: Why merge? Why choose this company? And, Why now? The answers must make financial sense.

"Golden Rule 3: Link the before and after"

Too often, the people making promises about merger synergies are not the same ones in charge of putting those synergies into place. For example, MyTravel's CEO and other key players were out the door within months of the Thomas Cook deal.

Fernandes writes: "Ideally, companies should assign the same team members to every phase of the transaction, including the post-merger integration." And when that's not possible, due to resource constraints, he advises that it is still "critical that the 'owners of the synergies' be involved *before* the deal is closed." A continuous process, well managed, is key to integration success.

"Golden Rule 4: Think like a financial investor"

As an investor, would you buy shares of a company *at any price*? Have numbers that make sense in mind for an acquisition target. That means setting a "walk-away price" and sticking to it. Do not enter auctions or "fall in love with deals."

Overpaying is the single biggest predictor of a merger disaster. How to avoid it? A team composed of cross-functional

managers can help, in order to put a check on "confirmation biases, impulsiveness, and even hubris" at the very top of the corporate ladder. Another tactic is to compose a "think tank" of trusted outsiders, such as retired managers, to offer up challenging points of view that counter "group think."

"Golden Rule 5: Move fast and communicate transparently"

Mergers can take a terrible toll on employees, especially the most promising ones, and on customers, too. In short, "in the business world, uncertainty is nobody's ally." For that reason, Fernandes stresses that bad news is often better than no news. Get ready to answer questions even before the final answer is known.

Along with transparent communication, speed is key. Even while waiting for regulators' green light, start work on the upcoming integrating challenges without neglecting the day-to-day operations.

The five rules are based on case studies, scores of executive interviews and further research. The voices of investment bankers, consultants and other experts also enliven the M&A lessons through the book's six chapters. As Fernandes summarizes, the five golden rules aim "to maximize the odds of M&A success" by steering managers away from value-destroying deals.

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