

# CONTENTS

---

---

List of Tables and Illustrations	vii
About the Author	viii
Foreword	ix
Acknowledgments	xi

## PART ONE: WHY FIRMS MERGE

<b>1</b>	<b>INTRODUCTION</b>	<b>1</b>
<b>2</b>	<b>RECENT HISTORY OF M&amp;A WAVES</b>	<b>11</b>
	2.1 Introduction	11
	2.2 The five great American merger waves	13
	2.2.1 Horizontal consolidation: 1898-1902/4	13
	2.2.2 Capturing rents vertically: 1919/22-1929	14
	2.2.3 Regulatory impetus: 1940-1947	14
	2.2.4 Capturing profits through product diversification: the 1960s	14
	2.2.5 Core consolidation: 1975-1989	15
	2.3 Continental Europe takes front stage	25
	2.4 The new players: Japan and the emerging economies	29
	2.5 Summary	30
<b>3</b>	<b>THE M&amp;A PERSONAE</b>	<b>32</b>
	3.1 Benevolent and lethal buyers	32
	3.2 The cast: bankers, investors, arbs and attorneys	38
	3.3 Why sellers sell	42
	3.4 The unsung song of the employee	42
	3.5 Who benefits? Merging for returns	47
	3.6 Buyout management: a special case of enhanced returns	51
<b>4</b>	<b>CREATIVE FINANCING: THE NEW TECHNIQUES</b>	<b>55</b>
	4.1 Capital costs	55
	4.1.1 Paying for the acquisition	56
	4.1.2 Cash versus debt	56
	4.1.3 Sourcing acquisition finance	57
	4.2 A financial cycle: the debt-equity clock	59
	4.2.1 The hours of equity	61
	4.2.2 Rich man poorer man	68
	4.3 Stock market movements and merger waves	71
	4.3.1 The M&A barometer	71
	4.3.2 Recession mergers	72
	4.3.3 Boom mergers	73
	4.3.4 A time to buy, a time to sell	75

4.4	Tobin's q: the special case of asset acquisition through mergers	78
4.4.1	Undervaluation	80
4.4.2	Changes in accounting procedures affecting M&A: the case of brand valuation	81
4.5	Why more debt: the increase in debt financing	83
4.5.1	Banks pressure firms to increase debt	83
4.5.2	Bank consolidation	85
4.5.3	The role of leveraged buyouts, or banker as businessman	86
4.5.4	LBO risks and premiums	88
4.5.5	Reducing LBO risk	89
4.5.6	Outcomes of debt financing in the 1990s	89
4.5.7	Are junk bonds underpriced?	91
4.5.8	A new M Curve	93
4.6	Summary	94
<b>5</b>	<b>CORPORATE CONTROL AND EXPANSION VIA M&amp;A</b>	<b>97</b>
5.1	A strategy for corporate control: the basic questions	97
5.2.	The strategy of merger: data from the checklists	98
5.2.1	Why mergers succeed	101
5.2.2	Why mergers fail	102
5.3	The strategic style of M&A decision-making	103
5.3.1	Vertical, horizontal or conglomerate structure and the volatile fate of firms	105
5.4	Strategy mix	109
5.4.1	Factor shifts	109
5.4.2	Equilibration of the factors of production	111
5.4.3	Product and technology shifts	112
5.4.4	Sectoral shifts	112
5.4.5	Regional or location shifts	112
5.4.5	Corporate structural shifts	113
5.4.6	Summary	114
	<b>APPENDIX TO CHAPTER 5: THEORIES RELATED TO M&amp;A</b>	<b>117</b>
A1.	Growth and internalization through M&A: the lessons from FDI	117
A1.1	Internalization	118
A1.2	Location	119
A1.3	Ownership-specific advantages	120
A2.	Merger waves and the product cycle	121
A2.1	Foreign direct investment	122
A2.2	Start-up	123
A2.3	Maturation	123
A2.4	Cautious international diversification	125
A3.	Merger waves, technology cycles and long waves	126
A3.1	The long wave pioneers: 1920s and earlier	127
A3.2	Theories of economic fluctuations: Schumpeter and the 1930s	130
A3.3	Growth and capital models: 1950s - 1970s	130
A3.4	Accelerator and cyclical dynamic models:	

	1930s to present	131
	A3.5 Capital theories	132
	A3.6 Human factor theories	132
	A3.7 Business cycle theories and long waves	133
A4.	Appraisal of long wave and technology approaches	134
	A4.1 The myth of the innovator-turned entrepreneur	134
	A4.2 The myth of newness and one grand cycle	138
	A4.3 The myth of the independent cycle of relatively fixed duration	140
<b>6</b>	<b>TAXATION, DEREGULATION AND ANTITRUST LEGISLATION</b>	<b>143</b>
	6.1 Taxation as a cause of merger	144
	6.2. Deregulation as a cause of merger	145
	6.3. Antitrust legislation as a cause of merger	147
	6.4. Distinguishing fair return from malpractice	150
<b>7</b>	<b>MERGER WAVES—A CYCLICAL DYNAMIC APPROACH</b>	<b>152</b>
	7.1 Introduction: the evolutionary dynamics of product and merger cycles	152
	7.2 The phase dynamics of merger waves	160
	7.3 The merger wave: discussion	169
	7.3.1 Market focus and the sectoral cycle	169
	7.3.2 A merger wave equation	169
	7.3.3 Effects of governments on merger waves	172
	7.3.4 Conclusion: from single-factor to multifactor causation: asking not what causes merger waves but how	172
<b>APPENDIX TO CHAPTER 7: MODELLING THE EVOLUTIONARY DYNAMICS OF PRODUCT AND MERGER CYCLES: SOME BASIC PRINCIPLES</b>		
	A1. Merger waves: a cyclical dynamic approach	174
	A2. Evolution, phase-change, seek and spin: the cyclical trajectory	177
	A3. Acceleration	182
	A3.1 The inflation safety valve	184
	A3.2 The Von Mises principle	184
	A3.3 The roller coaster principle	185
	A4. Growth evolution via specialization: complexity and boundary determinancy	186
	A5. The central role of perturbations or anomalies	187
	A6. Vorticity dynamics and lagging through perturbations	189
	A7. Synchronization: the key to survival	190