Aspects Regarding Mergers and Acquisitions in the Pandemic Context

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Abstract

Mergers and acquisitions have affected and are affecting a large number of industries in all geographical areas, with the ability to transfer very quickly both positive and negative impulses from one economy to another, so that there can be no more areas. unaffected by economic booms or economic and health crises. The aim of this research is to analyze the impact of the pandemic on mergers and acquisitions in Europe, on country risk low and country risk very high.

Key words: M&A, COVID-19, GDP, Inflation, Public debt
J.E.L. classification: G34, E44,

1. Introduction

Experienced strategic and financial investors are no strangers to crises, they have sailed through several, from the collapse of the stock market in 1987 to the financial crisis in 2008.

When the Covid-19 pandemic hit, those with a long history in the mergers and acquisitions industry had the advantage of experience, but only to a certain extent, because this pandemic created a real sense of panic and there was no manual for it.

The pandemic has shut down many corporations and kept most of the people all over the globe in their homes for health and safety reasons.

The ability of companies to cope with the new business environment has been severely tested by compliance with new sanitation standards and government restrictions. The restructuring operations have become key in this new context for companies that want to align their strategic plans to compete better, and of course be able to rescue.

Nearly two years after the start of the pandemic, it has been observed that some companies have restructured and taken advantage of the health crisis (some companies have started making protective masks or producing disinfectants) while other companies have not been able to survive and was closed. Although the global M&A market has slowed, it has never reached zero volume.

Given that the economic crisis caused by the health crisis was a surprise that tested the resilience of companies in the context of the interconnected world, the study is based on research into the impact of Sars-cov2 on mergers and acquisitions demand at European level.

Understanding mergers in today's economy is very important due to the fact that many mergers and acquisitions are doomed to failure due to the lack of knowledge of the people involved in this restructuring strategy.

The paper is structured as follows: Section 2 includes a review of the literature, Section 3 is based on research methodology, research results are presented in Section 4 and finally, Section 5 contains the following research findings.

2. Literature review

Most studies investigating mergers and acquisitions focus on markets in micro economically developed countries. This study is relevant because it investigates the impact of the pandemic context on mergers, at the macroeconomic level, in both developed and underdeveloped countries.

The goal of carrying out these mega-transactions is as follows: to successfully conquer a giant market, such as the global market, giant companies are needed, as example of companies that have the power to supply products in a huge market. Even if an annual increase is obvious and the merger is a strategy preferred by companies, it is not invulnerable in times of economic crisis or health crises.

GDP rate is considered a standard macroeconomic measure for national wealth as well as a macroeconomic indicator of a country's economic development level.

The authors Uddin and Boateng investigated the impact of macroeconomic variables on M&A volumes in UK from the period 1987 to 2006. The article shows that a 1% increase in real GDP will decrease the volume of M&A by -2.9%. Also, Erel, Liao and Weisbach in 2012 investigated the determinants of mergers and acquisitions volumes with a sample covering 56978 deals from 48 countries between 1990 and 2007 and they found that GDP growth is statistically significant in a panel regression analysis. Other authors investigated the cross-country determinants of M&A an found that GDP has a positive influence (at 1% level) on the number of M&A deals (Rossi and Volpin, 2004). In addition, other authors that investigated the major factors that determine M&A activities in nine emerging countries between 2000 and 2012 found the coefficient is not statistically significant (Deng and Yang, 2014).

GDP rate is expected to have a considerable influence on the number of M&A transactions because larger economic markets with more opportunities and are more capable of absorbing foreign direct investment.

Inflation rate is considered one of the most relevant macroeconomic factors that could significantly affects the decision of investors when making an investment but a few existing studies have done research in investigating the relationship between inflation and mergers and acquisitions activities.

Other authors found a negative relationship between inflation variable and the evolution of M&A in UK entities (Boateng et. al. 2014). Black (2000) also investigated the link between inflation and M&A and found a negative link between the variables studied.

Inflation rate is expected to have a positive impact on the number of M&A deals. A high inflation rate does not only make the domestic targets more expensive, but also decreases the return on investments, therefore, investors will seek targets from foreign countries instead, which will increase the volume of mergers and acquisition operations.

Public debt is the amount owed by a country to creditors outside it. Governments often take on too much debt to give benefits to the population, making them popular with voters. To see a country's level of risk, investors compare public data with gross domestic product. Thus, the value of public debt can provide a perspective on a country's ability to meet its payments. When public debt reaches a critical level, no investment is attracted.

The study of Modigliani's (1961) show that fiscal policy uncertainty is an important mechanism through which increases in national debt depress mergers and acquisitions.

National debt dampens mergers and acquisitions operations because it increases policy uncertainty and the value of the option to delay acquisitions (Bloom 2010; Gulen, Ion 2016). Policy uncertainty can harm economy.

3. Research methodology

The aim of the research is to investigate the influence of the current economic and health crisis, on mergers and acquisitions. The data source is the COFACE Institute of Economic Studies and the Vienna Institute of Mergers and Acquisitions. The analyzed period is 2018-2020.

The analysis was performed on two groups according to the classification of the COFACE Institute, namely: high risk countries and low risk countries, so the analysis is carried out in 13 countries in Europe. The hypotheses are:

Hypothesis 1 (H1): There is an important relation among mergers and acquisitions and real GDP growth.

Hypothesis 2 (H2): There is an important connection among public debt rate and mergers.

Hypothesis 3 (H3): Among Inflation and mergers and acquisitions there is a considerable link. The equation of the statistical model is as follows: $M\&A\_n = \beta 0 + \beta 1 * GDP + \beta 2 * INF + \beta 3 * DEBT\_TO\_GDP + \sum \beta j * Controls + \varepsilon$

4. Results and Discussion

Figure 1 shows that ESG factors impact on evolution of mergers and acquisitions. For countries with low risk 89% of the variation of M&As number can be explained by the influence of macroeconomic variables. There is a smaller but significant link between independent variables and the activity of mergers and acquisitions in countries with extreme risk (85 %).

Figure no. 1. The relation between M&A and macroeconomic factors during COVID-19

Model Summary[b,c]

	R				Change Statistics				
Panel 1	Country risk low = 1 (Selected)	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
M&An	0,893[a]	0.86	0.82	161.39	0.84	34.54	3.00	20.00	0.00
	R				Change Statistics				
Panel 2	Country risk extrem = 1 (Selected)	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
M&An	0,852[a]	0.71	0.67	73.64	0.71	16.38	3.00	20.00	0.00

Source: processed by the author

Figure 2 shows the following ideas presented below.

For cases where country risk is low, between the dependent variable mergers and acquisitions activity and the independent variable public debt there is the most significant link, a strong indirect link because the value of the correlation coefficient is equal to - 0.904, with a Sig. value less than 0.05 and the same influence is found in cases where country risk is extreme only slightly smaller, namely 0.681.

Inflation consumer production index is an important influencing factor mostly in cases which country risk is extrem.

The countries where the public debt influences the numnber of mergers and acquisitions, are: Luxemburg, Olanda, Norvegia and Elvetia. The countries where the gdp rate influences the evolution of mergers and acquisitions, are: Bulgaria, Croatia, Cipru, Italia, Romania. In the cuntriea: Albania, Belarus, Bosnia and Turcia, public debt and inflation consumer production index are the most influencing factors.

Figure no. 2. Pearson Correlation during COVID-19

Pearson Correlation	a. Selecting only cases for which Country risk low = 1	c. Selecting only cases for which Country risk extrem = 1
M&An	1.000	1.000
GDP	.109	.108
INF	-.097	-.674
PD	-.904	-.681
N	39	39
Sig.<0.05		

Source: processed by the author

The equations of the regression model according to the data presented in figure 7 are the following:

M&An – Country risk low = - 460,77 + 61,87*GDP – 34,18*INF – 27,49*DEBT_TO GDP + ε (1.1),
M&An – Country risk extreme = 119,43 + 17,17*GDP – 14,29*INF – 3,3*DEBT_TO_GDP + ε (1.2),

Figure no. 3. Regression coefficients

Regression coefficients	a. Selecting only cases for which Country risk low = 1	c. Selecting only cases for which Country risk extrem = 1
M&An - Constant	-460.77	119.43
GDP	61.87	17.77
INF	-34.18	-14.29
PD	-27.49	-3.33
N	39.00	39.00
Sig.<0.05		

Source: processed by the author

Based on the regression equations, the following ideas are drawn:

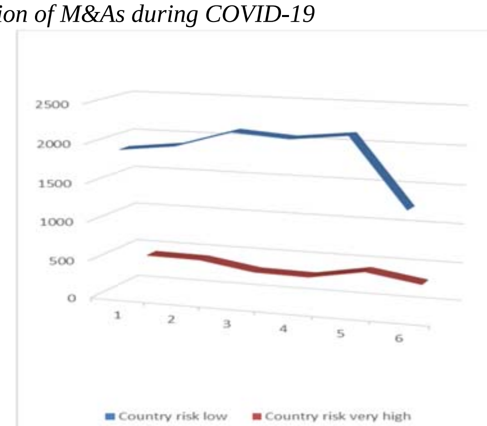
At Country risk low level

- a percentage increase in gross domestic product rate generate an increase in the mergers and acquisitions number rate by 61% and with 11% the mergers and acquisitions value rate;
- a percentage increase in inflation consumer production index generate a decrease in the mergers and acquisitions number rate by 34% and with 14 % the mergers and acquisitions value rate;
- a percentage increase in public debt generate a decrease in the mergers and acquisitions number rate by 27% and with 4% the mergers and acquisitions value rate.

At Country risk extreme level

- a percentage increase in gross domestic product rate generate an increase in the mergers and acquisitions number rate by 17 % and with 1 % the mergers and acquisitions value rate;
- a percentage increase in inflation consumer production index generate a decrease in the mergers and acquisitions number rate by 14% and with 0,29 % the mergers and acquisitions value rate;
- a percentage increase in public debt generate a decrease in the mergers and acquisitions number rate by 3% and with 0,15% the mergers and acquisitions value rate.

Figure no. 4. Evolution of M&As during COVID-19



Source: processed by the author

Based on figure 4 it can be seen how on high risk markets, characterized by low economic growth (2.66), high inflation (5.45) and above average public debt (72.92), companies are reserved to enter and to expand in these markets (the number of mergers and acquisitions is very small - 86 - and the trading value is minimal - 3.27).

Stable markets, with low risk characterized by above average economic growth, low inflation and below average public debt, cause an expansion of companies in these markets.

5. Conclusions

The current economic and health crisis is also likely to continue to have a huge global impact on mergers and conditions.

On a large scale and in a very short period of time, many companies have closed or significantly reduced their operations, many workers have been laid off or laid off, supply chains have been disrupted, and oil demand has low.

Mergers and conditions have withstood and recovered from economic crises every time, but this time the uncertainties of the current health crisis have led to a drastic reduction in these operations.

The number of mergers and acquisitions in the unpredictable business environment in high-risk countries was very small.

And yet the current pandemic has its advantages. This has caused many companies to go through a digital transformation that would otherwise have taken about 10 years.

Companies also had to adapt their business models to comply with the new social distancing measures, and this situation gave companies an insight into their current weaknesses and gaps should fill in for a successful future.

6. Acknowledgement

This work was supported by a grant of the "Alexandru Ioan Cuza" University of Iasi, within the Research Grants program, Grant UAIC, code GI-UAIC-2018-05.

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