FACULTY OF ECONOMICS AND BUSINESS

DEFINITION OF SUCCESS OR FAILURE IN AN M&A FINANCIAL TRANSACTION

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Summary

Last year, global M&A deals were valued at 3.8 trillion dollars and this number is expected to continue rising. And yet, despite their popularity amongst management directors and financial investors mergers and acquisitions can be hard to evaluate in terms of how successful they have been. For this reason, this paper evaluates the performance of M&A activity based on quantitative and qualitative factors in order to define the success or failure of a transaction. These pillars have been selected because of their ability to consider the impact of transactions on both internal and external stakeholders as well as the long term success of organizations. To illustrate the available literature, I have selected a case study methodology related to the merger between Iberia and British Airways due to the abundant news coverage it received and its relevance to the topic at hand.

Key Words: Mergers and Acquisitions, Iberia, British Airways, IAG

Acronyms:

ACS	Actividades de Construcción y Servicios
B2B	Business to business
B2C	Business to consumer
BBC	British broadcast corporation
CFRO	Cash flow return on investment
COVID	Coronavirus disease
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
EPS	Earnings per share
ESG	Environmental, social and governance
EVA	Economic value added
GTE	General telephone and electronics corporation
IAG	International airline group
IT	Information technology
KPMG	Klynveld Peat Marwick Goerdeler
M&A	Mergers and Acquisitions
MVA	Market value added
NOPAT	Net operating profit after tax
NPV	Net present value
P&L	Profit and loss
PWC	PricewaterhouseCoopers
ROCE	Return on capital employed
ROE	Return on equity
SEPI	Sociedad estatal de participaciones industriales
TSR	Total shareholder return
US	United States
WACC	Weighted average cost of capital

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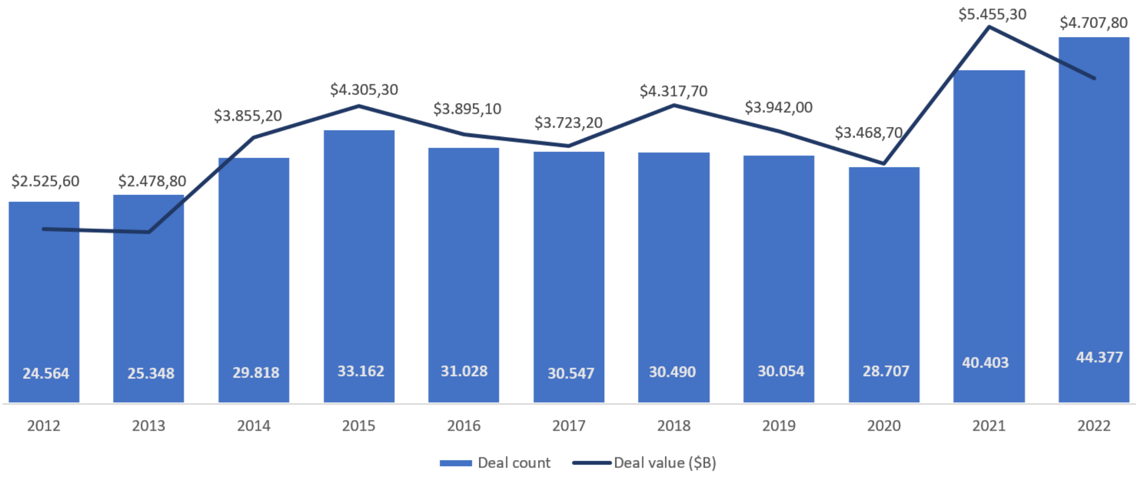
PART 1: INTRODUCTION:

1.1 Research justification

Mergers and acquisitions have become increasingly popular amongst management directors as a means to accelerate their global expansion strategies. There are several reasons why companies opt for these types of external corporate development strategies. In some instances, they could be based on a strategic outlook, allowing for potential benefits which would otherwise be too costly or risky to gain independently (Dess & Lumpkin, 2003). In other instances, deals could be opportunistic in nature by presenting an transaction that would be hard to reject due to the current state of the organization (Dess & Lumpkin, 2003). Lastly, a transaction could even be defensive in order to protect a firm's market share in a consolidated industry (Dess & Lumpkin, 2003).

As previously mentioned, M&A transactions have been on the rise in the last decade. However, the value of M&A activity in 2022 dropped by 13,7% to approximately $4.7 billion dollars (Clarke et al.). It is worth noting that despite complex macroeconomic events that occurred throughout the year, in 2022 international activity remained buoyant relative to historic levels and was considered the second best year (see figure 1). Some factors that have influenced M&A activity in the past year include staggering inflation rates as a result of increased demand, problems with the supply chain and global labor shortages which have resulted in central banks raising interest rates aggressively (Clarke et al.). In 2022, the US Federal Reserve saw seven interest rate increases, marking the federal fund rate to the highest level in 15 years (Clarke et al.). Consequently, valuations were lowered since cash flows were being discounted at higher rates (Clarke et al.) At the same time, the war in Ukraine created uncertainty and caused investors to mitigate risks and reduce their investments (Clarke et al.). All of these macroeconomic developments have taken their toll on M&A activity, but surprisingly its performance has surpassed market expectations.

Figure 1: Global M&A activity from 2012 to 2022



Source: self-elaborated

Although, M&A activity has prevailed during the past few years and has become a core competency for many business strategies, failure rates remain high. Every year companies spend around 2 trillion dollars on M&A activity and yet according to a study conducted by Harvard Business Review, between 70 and 90 percent of M&A transactions fail (Kenny, 2020). Other authors like Marks and Mirvis calculate M&A failure rate at 75 percent (Marks et all, 2001). Different studies give us different numbers, but the point is that the rates at which mergers fail are extraordinarily high. These statistics are incredibly alarming because they can have devastating consequences for companies. Considering the time, resources, investments and planning that mergers and acquisitions entail, a bad performance in an transaction can be severe. Some consequences include: staff layoffs, lower customer loyalty, decreased revenues, higher costs and in the most serious cases the permanent closure of a company (Dumont, 2022).

In addition, some of the main causes for failure are mostly linked to poor management. For example, one reason why deals fail is limited owner involvement. This occurs when management appoints an M&A advisor and leaves all of the work to this person instead of being directly involved in the process (Shobhit, 2021). Furthermore, many failures are attributed to poor integration strategies due to cultural and planning issues. Employees and corporate cultures can clash which in turn affects the viability of value creation, leading to a failed outcome. Also, negotiation errors and poor valuations can lead to failed M&A transactions. In some cases, overpaying for a target company and failing to negotiate appropriate conditions can cost a company important financial losses which would naturally affect the success of the transaction (Shobhit, 2021).

Companies spend a lot of time thinking about why transactions fail or succeed and the mitigation steps they should take to avoid a negative outcome, but not a lot of emphasis is placed on what exactly constitutes success. How do we know when an transaction has gone well? And on the contrary when do we know an transaction has gone badly? In doing research for this paper, I began by outlining some of the most relevant transactions in Spain over the past 20 years which I have detailed below in figure 2. It is worth mentioning that this list could vary depending on the criteria used to assess the M&A transactions or external factors such as inflation or the currencies used. Nonetheless, all of these transactions differ in size, industries and prices and yet they are considered "relevant". However, being relevant does not mean being successful, which leads me to the research question for this essay. I wanted to design a methodology to assess how successful an M&A transaction has been based on financial, human and ESG metrics. Furthermore, I wanted to put this methodology to practice through the application of the criteria to a real M&A transaction such as the merger of Iberia and British Airways. I have decided to focus on this case due to the abundant news coverage it received as well as its relevance.

Figure 2: Top 10 transactions in Spain from 2000-2022

Source: self-elaborated based on market research

I believe this issue is of significant importance from a social perspective since an M&A transaction can be an important event in society. A transaction has direct effects on the lives of any company's employees, suppliers, clients and of course shareholders. This is why it is essential that it can happen without any disturbance. Even though, if done properly, mergers and acquisitions present numerous benefits including growth, profitability and entrepreneurial success, if it is not handled properly it could be a catalyst for disaster. This is why outlining a series of key performance indicators in order to measure how successful an transaction has been is interesting and contributes to this field. Finally, from a personal standpoint, this research paper is very appealing to me due to my interest in the field and my career prospects after I have completed my university studies.

1.2 Objectives

Bearing in mind the context and relevance of the issue at hand, the main objective of this study is to propose a complete and cohesive methodology, considering both qualitative and quantitative factors, to define a successful M&A transaction. The goal is to develop a list of key performance indicators to facilitate management's evaluation of a transaction once it has taken place. Specifically, this objective entails:

- Defining an initial theoretical M&A context
- Explaining what constitutes success in an transaction
- Outline which are the main financial key performance indicators to evaluate how successful an transaction has been
- Outline which are the main human key performance indicators to evaluate how successful an transaction has been
- Outline which are the main ESG key performance indicators to evaluate how successful an transaction has been
- Apply the previously defined criteria to a practical case of Iberia and British Airways

1.3 Methodology

In order to achieve the previously detailed objectives in this research paper I have employed a combination of quantitative and qualitative techniques in order to devise a methodology to assess the success of M&A transactions. In this case the methodology is considered deductive since the paper progresses from general concepts and ideas into a more detailed and specific conclusion.

<u>Quantitative</u>:

To complete the research paper a variety of quantitative techniques have been used. Firstly, the paper develops instruments and methods for measurement in this case of success or failure during inorganic growth transactions. To do so empirical data has been collected from annual reports of several companies as well as research papers. These have been contrasted and numerically evaluated through real case studies. Also, this data has been analyzed and modeled according to a series of principles to reach substantial conclusions. Finally, numerical results have been evaluated, especially from a financial standpoint, in a quantitative analysis to define the performance of companies.

Qualitative

In addition, due to the nature of the paper, qualitative techniques have also been used to answer the research question at hand. This can be demonstrated through the generation of models and theories that have been employed in the theoretical and practical context of this paper. Secondly, there is also a descriptive component to the essay which makes use of theoretical papers and the available literature on the subject to justify some of the initial hypotheses made. Finally, the paper makes use of complex reasoning to combine both the quantitative and qualitative aspects and lead to relevant findings.

Practical case study

Lastly, to further enrich the quality of this essay I have opted for the application of the theory to a real life case study using the notorious example of Iberia and British Airways. This is especially useful since it allows me to prove the theoretical context I have laid out in a more tangible way for readers, thus proving its validity.

Sources of information

The first part of the paper which is centered around the theoretical view of M&A and defining the practices makes use of academic sources such as the book "Finance D'entreprise" by Pierre Vernimmen and other relevant published work on the subject. However, the following sections which are much more practical in nature make use of news articles and other digital content that narrated the events of 2011. However, in both sections I have also used academic journals published by Harvard Business School and studies by important consulting companies that are well known for their involvement in M&A such as Mckinsey & Co, KPMG and PWC. The combination of academic sources, news and industry findings provide a contrasted view of which factors are important to analyze the success of M&A transactions and provide an interesting framework for the paper.

PART 2: THEORETICAL CONTEXT OF M&A

It is estimated that every year companies spend more than $2 trillion on acquisitions (Christensen, 2011). Last year the annual value for M&A activity was $5 trillion with nearly 26,000 transactions announced on a global level (Clarke et al., 2023). And yet, despite these significant figures, the failure rate for M&A transactions is still between 70% and 90% (Kenny, 2020). This paper aims to explore what determines a successful transaction from a failed one through the exploration of different key performance indicators to measure value creation.

2.1 What are mergers and acquisitions?

In order to further define mergers and acquisitions we must begin by differentiating these concepts.

Firstly, a merger illustrates a situation where two companies are combined, resulting in the disappearance of at least one of them (De Abajo, 2023). In other words, a merger implies the combination of two entities. This can occur in two ways, through absorption or consolidation (De Abajo, 2023).

On one hand, an absorption involves two types of companies: the “absorbed company” and the "absorbing company” (Velasquez, 2022). In this scenario, the absorbed company transfers all its assets and liabilities to the absorbing company and hence no longer exists. Essentially, an absorption occurs when one company acquires another and only one survives. This involves a legal dissolution of all their business activities which are received by the absorbing company (*Merger Through Absorption: What Is It and How It Works? - NFI*, 2022). After the absorbing company receives all the absorbed assets the objective is to issue new securities to the shareholders of the absorbed business as a compensation for their contribution (*Merger Through Absorption: What Is It and How It Works? - NFI*, 2022). This transaction is irreversible making it of the utmost strategic importance. Absorptions should be well prepared beforehand through negotiations and research on both parts in order to ensure a successful outcome. For example, in 2004 the Global Trust Bank was absorbed into the Oriental Bank of Commerce due to their involvement in a stock market scam a few years’ prior which left them in a complex situation (Sridhar, 2004). After the absorption, the Oriental Bank of Commerce achieved an improved presence in the south of India where the Global Trust had opened branches resulting in positive synergies from the transaction (Sridhar, 2004).

Absorptions have several advantages and disadvantages. The main advantages of this method are dictated by the revenue and cost synergies that arise. Absorbing another company can have positive impacts such as higher efficiencies from economies of scale and an increase in capability. Furthermore, absorbing a company can increase market share within an industry, thus increasing the company's influence in the sector (Candra et al., 2021). These impacts can be translated into higher revenues and better relationships with suppliers for instance. Having said this, some of the main disadvantages associated with this transaction include culture clashes which may have a detrimental impact on staffing and working relationships within the combined organization (*Merger Through Absorption: What Is It and How It Works? - NFI*, 2022). Redundancies and resistance to change can cause a hostile working environment which is also a common disadvantage of absorptions, especially from the company who ceases to exist (*Merger Through Absorption: What Is It and How It Works? - NFI*, 2022). Thirdly, another important disadvantage is the difficulty to transfer significant financial resources since absorbing a company requires a hefty investment which comes with a significant level of risk(*Merger Through Absorption: What Is It and How It Works? - NFI*, 2022).

Conversely, consolidation refers to the combination of two different companies into a single organization (Kenton, 2021). Contrary to an absorption, in this case both companies cease to exist but are instead reborn as one (Kenton, 2021). This method is amongst the most transformative since a new corporate structure is created and it combines the best practices from both businesses. Both companies operate under a new name and therefore the previous companies disappear, instead they take a new form (*What Is Business Consolidation?* 2020). The way in which a consolidation transaction occurs depends on the laws of wherever it takes place. Nonetheless, as a general rule, the boards of directors of both companies are required to approve the plan proposed for the consolidation (*What Is Business Consolidation?*, 2020). Afterwards, the shareholders of the involved businesses must vote in favor or against the proposal at a shareholders meeting. Once all of the formalities have been established, the companies will be granted a certificate of consolidation (*What Is Business Consolidation?*, 2020). This process could be quite lengthy and take up to several months to finish (*What Is Business Consolidation?*, 2020). For example, Bell Atlasntic acquired GTE Corp in the year 2000 and the combined company is now known as Verizon. Bell Atlantic used to be a market leader in advanced wireline voice and other data services with transactions internationally while GTE was a well-known telephone company, especially popular in the United States. Through a consolidation process Verizon communications was born which is a product of the synergies of both parties (*About Bell Atlantic*, n.d.).

Some of the main benefits of a merger consolidation include transactional efficiencies since the new entity is able to create a higher income for the same or lower costs (Kenton, 2021). Appropriate exploitation of economies of scale and combination of “know-how” can be important to achieving transactional efficiency (Kenton, 2021). Another advantage of consolidation is the elimination of competition for customers and resources since multiple companies are now combining their efforts through shared transactions. Regardless of the advantages, a consolidation also presents some disadvantages such as the fact that it is time intensive and could incur notable costs, particularly if one of the parties involved must be liquidated (Kenton, 2021). Conflicts of interest and skepticism could also arise between both parties during the process, difficult the working relationships of the employees (Kenton, 2021). Thus, although there are several benefits to this process, one must take into consideration that it should only be pursued after an intensive evaluation process.

By contrast acquisitions take place when a company purchases the majority or all of another company’s shares in order to gain control of their business (Courage, 2022). Just like a merger the objective is to take over another business in order to create value through synergies. However, one of the key differences of this structure is that both companies continue to operate as separate legal entities, meaning no one disappears. One of the firms simply becomes “the parent company” of the other (Courage, 2022). In this case, being able to buy more than 50% of a target’s shares gives the acquirer the ability to make important decisions and influence the firm since they own the majority stake. Usually acquisitions involve an amicable transaction between two parties through negotiations between the board of directors who are looking for mutual benefit (Mnacommunity, 2022). Both businesses come up with plans and strategies to make sure that the acquiring company is able to purchase the appropriate assets and that any legal implications are taken care of. However, there is also a possibility of a hostile acquisition known as a takeover. Takeovers occur when a company forces an acquisition by purchasing the majority of another firm’s shares without their consent (Clarine, 2022). This situation usually implies that these companies are competitors or have a rivalry that threatens one another (Clarine, 2022). It can create several problems for the acquired company and their shareholders. Nonetheless, acquisitions are usually strategic agreements between two businesses (Clarine, 2022). There are several types of acquisitions.

Firstly, horizontal acquisitions refer to a situation in which a company acquires a competitor who offers a similar product (Kenton, 2021). Horizontal acquisitions are quite common since they allow for companies to exploit economies of scale and transfer “know-how” in an efficient way. For example, if a streaming network, such as Netflix, were to acquire another streaming network like Disney+, it would be considered a horizontal acquisition. This has several advantages such as rescuing competition and gaining market share. However, it is also worth noting that horizontal acquisitions can be complex due to conflicts of interests between players in the same industry and potential clashes in culture or working styles.

Secondly, vertical acquisitions occur when a company acquires one of their suppliers. In this case instead of purchasing a company that offers the same product the acquirer looks one step back in their supply chain (Kenton, 2022). If Netflix were to acquire a film production company such as Warner Bros, it could be categorized as a vertical acquisition. Some advantages of this process include cost synergies since the company no longer relies on external suppliers and gains control of the supplier’s transactions. Nonetheless, vertical acquisitions can be difficult since it can take time until synergies arise and in the meantime require a substantial investment.

Thirdly, congeneric acquisitions take place when a company acquires another company who has the same customer base but offers a different product (Feldman, 2022). In this case the clients of both companies are the same but their activities are completely different (Feldman, 2022). For example, if Netflix were to buy a television manufacturer it would be considered a congeneric acquisition. This type of transaction has advantages since appealing to the same customers makes marketing easier since the company is already familiar with the target, however, they are not familiar with the product which might require employee training and research in order to create synergies.

Finally, conglomerate acquisitions are those between two companies in two separate industries that are not related to each other (*5 Types of Company Mergers | Minority Business Development Agency*, n.d.). Following the previous example, if Netflix were to acquire a beer company such as Heineken who has nothing to do with entertainment, this could be considered a conglomerate acquisition. Some advantages of this method include product diversification and increased exposure to new markets. Regardless, finding common ground for the creation of synergies can be difficult since the companies operate in different environments which can cause clashes.

2.2 Why do mergers and acquisitions occur?

Mergers and acquisitions can occur for a variety of reasons. However, their objectives depend mostly on the nature of the companies involved. The type of companies involved in M&A activity are either strategic buyers, meaning other businesses in the industry, or financial buyers which are private equity firms, venture capital firms or even hedge funds. Strategic and financial buyers have different objectives.

Firstly, strategic buyers usually pursue ways to improve their transactions through M&A activity. Thus, strategic buyers aim to look for businesses who will provide them with synergies and will merge seamlessly into their business (De Abajo, 2023). In this case the primary objective is to maximize value creation for shareholders (De Abajo, 2023). Oftentimes this will result in higher margins, earnings per share or other metrics that will be further detailed in this paper. A key difference is that since strategic buyers are corporate businesses of a certain size which are usually backed up by capital they could pay in cash or in stock (De Abajo, 2023). There is also the possibility that they will combine both. But in this case the buyer has a more diversified payment option.

Secondly, financial buyers view M&A activities as investments. Therefore, just like any other investment opportunity, they are looking to put in a specific amount of money by purchasing a company and then expect a higher return once they sell it (De Abajo, 2023). Typically, financial buyers do not discriminate between industries unlike strategic buyers who usually go for targets within their sector to allow for an easier integration (De Abajo, 2023). They are open to invest in anything that will provide them with a profit. Unlike corporate buyers, financial buyers are not typically public and thus will have to pay in cash or with debt.

Having said this, in general terms mergers and acquisitions occur when two companies believe that by joining efforts their combined company will be worth more than the two companies individually (De Abajo, 2023). This type of inorganic growth is not something that companies should take lightly since it requires a great amount of time, resources and risk. For this reason, M&A activity only makes sense when the combination of both entities creates new value that would not happen in another way (De Abajo, 2023). In other words, mergers and acquisitions occur to allow for synergies.

Robert F. Bruner is a notorious author and academic who has contributed to the topic of mergers and acquisitions with his literature (Bruner, 2004). In one of his most famous books titled "Applied Mergers and Acquisitions" Bruner details a practical guide to the whole M&A process, starting from the strategy development to the post-merger integration process (Bruner, 2004). Some of his main findings include the importance of synergies as key drivers of M&As. He emphasizes the importance of identifying and quantifying synergies as well as calculating their potential value. The three main types of synergies discussed are cost, revenue and financial synergies.

On one hand, cost synergies refer to the reduction of costs as a result of increased efficiency after the combination of two companies (Khartit, 2021). These lowered expenses can arise from redundancies in physical locations, insurance or even equipment (Khartit, 2021). If two companies are combined there is no longer a need to keep all of these belongings, allowing for a reduction in costs. For example, many times mergers result in the layoffs of some workers who operate in the same regions and are no longer needed. This can be a controversial move but it reduces the company's labor cost. In addition, cost synergies may also arise from economies of scale since the increased production value of a combined company can result in lower costs per unit. Since the new company is able to produce more items at a more affordable cost, economies of scale bring about synergies. Furthermore, another kind of cost synergy can come about if the acquired company has proprietary technology that would benefit the other company. Technology can make the company more efficient that other players in the industry resulting in cost savings.

On the other hand, revenue synergies happen when a combined company is able to generate more revenues than the two individual companies would. There are several ways this could happen such as cross-selling. This involves selling supplementary or related products to clients based on their interest to purchase a specific item (*What Is Cross-Selling?*, n.d.). For example, if a TV company acquired a film production company they could cross-sell tv shows and films to their existing clients. This way they can increase their total revenues. Another way to maximize revenues is through increasing market share. If two companies operate in the same industry and are competitors, the combination of both entities will result in an increase in market share and thus in revenues. A more established presence in the market will give them higher leverage and bargaining power with suppliers and clients which could also minimize costs.

Finally, financial synergies happen when a combined company has access to financial advantages that would not be accessible to the individual companies (De Abajo, 2023). Usually these synergies are related to a reduction in the cost of capital (De Abajo, 2023). Mergers and acquisitions result in a larger company which has more negotiating power to achieve a lower cost of capital, which is an example of a financial synergy (De Abajo, 2023). Another important financial synergy is related to the taxation of a merger or an acquisition. For example, if a firm that is profitable acquired a company that has repeated losses, they could reduce their tax burden by using the net operating losses of the acquired company and reducing their tax spend.

All in all, mergers and acquisitions occur to create value and ameliorate a combined company's efficiency that would not have been possible with two individual companies.

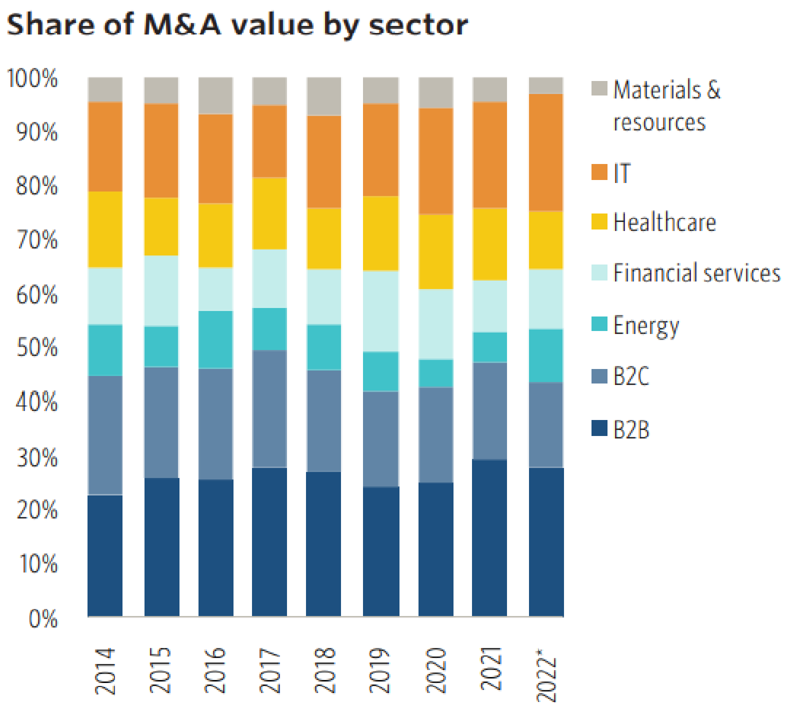
2.3 Current M&A context and trends

Deal values and volumes are largely influenced by the macroeconomic context in which they find themselves in (*Risk In Review 2022 1H*, 2022). Boards of directors and management will be more reluctant to carry out large investments during weaker economic periods. However, during uncertain times valuations for targets tend to be lowered, augmenting the appetite for buying (*Risk In Review 2022 1H*, 2022). Therefore, with attractive targets and a large offering M&A activity is expected to accelerate. Although, this momentum gradually slows down once companies start regaining their confidence and valuations rise once again. The impact of the pandemic, inflation and war have certainly taken a toll on recent M&A activity shifting trends in the industry (*Global M&A Industry Trends in Financial Services: 2023 Outlook*, 2023). This section will evaluate some of the key M&A trends that have been observed in recent years.

a. Digitalization

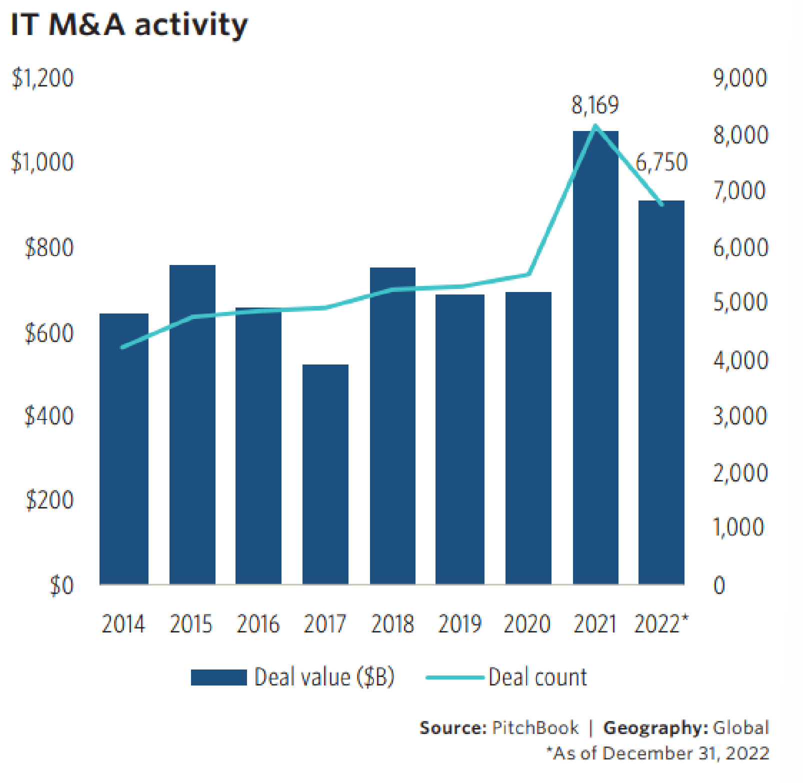
The COVID-19 pandemic caused a rise in digital transformation across several industries, which consequently, resulted in an increase in M&A activity of information technologies (Clarke et al., 2023). Technology has become an attractive target for several companies since an acquisition of this type could provide them with innovation or digital platforms to improve existing transactions (Clarke et al., 2023). Technology remained perseverant despite market volatility last year, with a registered 6,750 deals valued at $902.8 billion (Clarke et al., 2023). Some of the largest M&A deals in the information technology sector include Microsoft's acquisition of Linkedin for $26.2 billion or more recently, Nvidia' acquisition of Arm for $40 billion (Clarke et al., 2023). These deals reinforce the strategic importance of M&A in tech, as companies seek to acquire innovation, intellectual property and market share to stay competitive.

Figure 3: Share of M&A value by sector



Source: PitchBook Anual Global M&A report 2022

Figure 4: Global IT M&A activity



Source: PitchBook Anual Global M&A report 2022

b. Cross-border transactions

Another notable trend that has gained popularity recently is the amount of cross-border transactions in the market (*Global M&A Industry Trends in Financial Services: 2023 Outlook*, 2023). Companies aim to expand their reach and grow internationally to grow inorganically which has been reflected in the increase in cross-border transactions. There are explanations for the increase in international transactions. Firstly, globalization has made it easier for companies to conduct business in different regions, with improvements in technology and communications allowing for simple connections with customers and partners in different geographies (*Global M&A Industry Trends in Financial Services: 2023 Outlook*, 2023). As a result, the regulatory environment has also become more favorable to international M&A activity. Barriers to entry have been reduced and governments have taken steps to facilitate international trade which has incentivised companies to merge or acquire outside of their home country. Furthermore, economic conditions in specific regions have also incentivised cross-border transactions (*Global M&A Industry Trends in Financial Services: 2023 Outlook*, 2023). For instance, low interest rates can facilitate borrowing money for acquisitions or political instability in some countries could create opportunities to acquire assets at a discount. Overall, cross-border M&A activity is expected to grow in the upcoming years due to our global interdependence.

c. Private equity involvement

Recently there has also been an increased involvement of financial investors in M&A transactions (*Global M&A Industry Trends in Financial Services: 2023 Outlook*, 2023). There are several reasons why this trend continues to prevail. Private equity firms have access to financial resources to finance these types of transactions which could be inaccessible to corporate buyers. Furthemore, since private equities are constantly looking for investment opportunities they usually have higher transactional expertise which allows them to reduce costs and grow the business in a more productive way (*Global M&A Industry Trends in Financial Services: 2023 Outlook*, 2023). This can be a valuable asset for companies who are looking to sell which makes them attractive buyers. However, with private equity investors facing pressures to achieve higher returns due to the rising cost of capital, value creation has become an increasingly challenging prospect.

d. ESG consideration

According to PwC's Global Investor Survey 2022, investors have shifted and now view sustainability as a priority for companies. The report stated that "it is too important to be treated as a mere add-on (*Global M&A Industry Trends in Financial Services: 2023 Outlook*, 2023). Instead, sustainability should be embedded into business strategy and processes for making decisions about capital allocation, investment, and other activities involved in strategic execution" (*Global M&A Industry Trends in Financial Services: 2023 Outlook*, 2023). The growing consciousness surrounding the climate crisis and other environmental considerations have dictated recent investment decisions. Previously most companies focused on risk and return, whereas ESG is now a third dimension that companies consider in projects.

3. Defining Transaction Success

As previously mentioned, one of the main objectives of mergers and acquisitions is to maximize value creation. In the case of strategic buyers, value creation is focused on stakeholders while financial buyers are looking to create value in order to make a profit on their investment. Either way, both parties are interested in contributing to improving the target, making it an important issue. For this reason, it is essential to be able to measure how much value or if any is created at all. There are several ways to go about this, but for the purpose of this analysis the paper is focused on financial, management and other ESG indicators.

Through the consideration of several academic and professional sources we have narrowed down the definition of success to the evaluation of both quantitative and qualitative factors. The quantitative analysis is based on accounting, economic and market based indicators. In this case, the transaction can be deemed successful if there is an improvement in any of these key performance indicators for the acquiring company once the transaction has been finalized. If one can observe a higher the EPS, ROCE, NPV, EVA, MVA and a lower WACC, the transaction has gone in the right direction. However, a quantitative analysis is not enough to evaluate the full success of an transaction. In order to label a successful transaction, there must be a combination of improvements in both the quantitative and qualitative key performance indicators. If the transaction improves the human and ESG conditions for the acquiring company compared to its performance before the transaction, then the transaction can be deemed successful. To illustrate this method, I have devised an M&A checklist displayed below with all the relevant factors to consider. The argument here is that if the sum of the factors that have improved is higher than those who have deteriorated, the transaction can be considered successful.

Figure 5: M&A Checklist

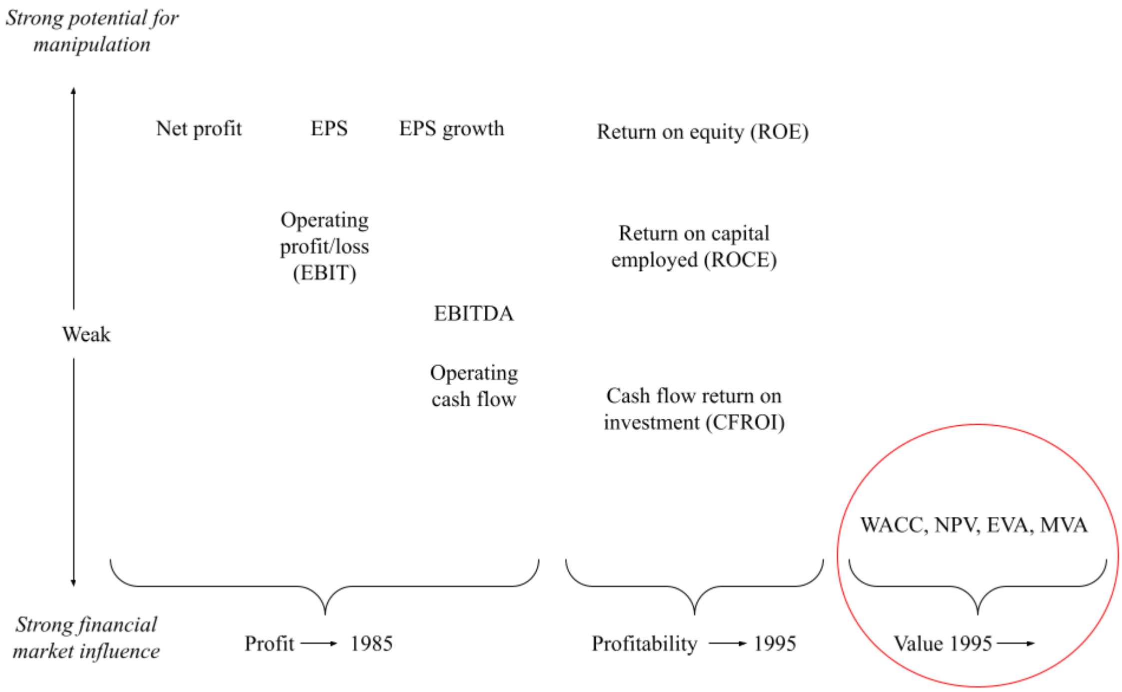
QUANTITATIVE		QUALITATIVE	
Financial		Human	ESG
Accounting based indicators	**Earnings per share** Improved / Deteriorated	**Culture Fit** Improved / Deteriorated	**Environmental** Improved / Deteriorated
	Return on capital employed Improved / Deteriorated	**Employee Satisfaction** Improved / Deteriorated	
Economic based indicators	**Weighted Average Cost of Capital** Improved / Deteriorated	**Customer Satisfaction** Improved / Deteriorated	**Social** Improved / Deteriorated
	Net Present Value Improved / Deteriorated		
	Economic Value Added Improved / Deteriorated	**Integration timeline** Improved / Deteriorated	**Governance** Improved / Deteriorated
Marked based indicator	**Market Value Added** Improved / Deteriorated		

Source: self-elaborated

3.1 Financial metrics

In his book “Finance d'Entreprise”, Pierre Vernimmen details how to measure value creation in corporate finance, more specifically in M&A (Vernimmen, 1989). He argues that there are several financial indicators to calculate value however not all are equally reliable. Mr. Vernimmen states that some indicators are more easy to manipulate than others which has caused investors to develop more robust measures to allow for a reliable decision making process (Vernimmen, 1989). He comes to the conclusion that experienced investors have gradually geared towards financial indicators with a diminished potential for manipulation by companies, while still maintaining a strong financial market influence (Vernimmen, 1989). This is important in order to avoid misinterpretations of data and to minimize the risk in the transaction. However, he also establishes that, generally speaking, financial indicators do not suffice to measure value creation appropriately since they can still be “manipulated” and do not take into consideration other relevant factors such as risks, the time value of money or the opportunity cost of capital (Vernimmen, 1989).

Figure 6: Evolution of financial indicators



Source: self-elaborated based on work by Pierre Vernimmen

Having said that that this section will focus on the three types of indicators that Mr. Vernimmen deems most reliable: accounting based indicators which include EPS and ROCE, economic based indicators which consider the WACC, NPV and EVA, and finally market based indicators which factor in MVA and TSR (Vernimmen, 1989).

Accounting indicators

Accounting based indicators are constructed using a companies' financial statements such as the P&L account, balance sheet and the cash flow statement (Arnaboldi et al., 2015). Accounting indicators are useful to measure value creation because they can be used to investigate the companies' profitability or financial performance since the merger or acquisition.

Earnings per share (EPS)

One of the indicators that shareholders are quick to look at is the variation in earnings per share. If after the transaction has taken place earnings per share have augmented this is known as an accretion, while a decrease in value is known as a dilution (Arnaboldi et al., 2015). After a successful transaction the combined company could benefit from revenue and cost synergies, outlined in the first part of the study, causing the net income to increase and thus boosting the earnings per share (Arnaboldi et al., 2015). However, earnings per share is not always a reliable indicator since companies can artificially raise them to simulate value creation. In order to make the EPS seem larger the company can reduce the number of outstanding shares it has in circulation (Arnaboldi et al., 2015). To do so, management could buy back its shares and thus augment the EPS without any significant growth in earnings (North, 2020). The same net income is simply divided amongst less shareholders making it seem like their value has gone up (North, 2020). For this reason, earnings per share should serve shareholders as a guide to whether or not the company is going in the right direction since it could be a good sign but it should not be used to measure value creation on its own since it can be easily manipulated.

- EPS = Net income /Outstanding shares
- EPS accretion / dilution = EPS after transaction - EPS before transaction

<u>Return on capital employed (ROCE)</u>

After getting a sense of the company's performance through the variation in earnings per share, investors can evaluate the creation of value through the return on capital employed. The ROCE is a profitability ratio used to examine a firm's performance (Maverick, 2022). It does this by looking at how efficiently a business employs their available capital, through the profit generated in relation to every dollar used by the company (Maverick, 2022). Essentially what they aim to find is whether or not the combined company is making profits from the capital invested in its activity (Maverick, 2022). This ratio is important since capital is inserted as a means of creating wealth through investments and can directly affect their performance (Vernimmen, 1989). It also gives investors a sense of how efficient the business is in generating returns. The general principle is that the higher the ROCE ratio the better. A ROCE of around 20% is typically a positive sign that the combined company is in a healthy financial position (Maverick, 2022). In order to measure how successful investors should compare between the company's previous ROCE and the combined one. A higher ROCE after an M&A transaction is an indicator that the company has effectively used the capital to generate profits.

- ROCE = EBIT* (1- tax rate) total assets - current liabilities = NOPAT * fixed assets + working capital
    - **EBIT**: Earnings before interest and taxation
    - **NOPAT**: Net operating profit after tax

Both of these metrics could be used to measure how successful an transaction has been when compared to both companies' objectives. However it is worth noting that they should not be used as sole indicators since they are focused on profitability and do not take into consideration other important factors such as risks.

Economic indicators

Seeing as though profitability or accounting indicators do not fully measure the success rate of an transaction because they have the ability to be manipulated one must also what Pierre Vernimmen categorizes as "economic indicators" (Vernimmen, 1989).

<u>Weighted Average Cost of Capital (WACC)</u>

The weighted average cost of capital, also known as the WACC, is the combined cost a company pays in order to finance its assets (Mauboussin & Callahin, 2022). This includes the cost of equity and the cost to carry debt (Mauboussin & Callahin, 2022). The WACC is important because it can be used by companies to estimate the expected costs for all their financing such as payments demanded by owners and those on debt obligations. It is commonly used to examine the attractiveness of a specific project because it provides insights into how likely it is for the entity to meet all of its financial obligations. A higher WACC is deemed less attractive to investors because the expected return on the investment will be lower (Hargrave, 2022). On the contrary a company with a low WACC will be more likely to earn a higher rate of return on their investment. In the case of M&A, if the WACC is higher than the return, this is a sign that the transaction is not profitable since the earnings from the transaction do not exceed the costs of sourcing funds to carry it out (Hargrave, 2022). This tool could be used to measure how much value has been created in an transaction by comparing any improvements made to the combined company's WACC in relation to the buyer's previous one.

- **WACC=** (EV*Re)+DV*Rd*(1-Tc)
    - **E**: market value of the firm's equity
    - **D**: market value of the firm's debt
    - **Tc**: corporate tax rate
    - **Re**: cost of equity
    - **Rd**: cost of debt
    - **V**: E+D

<u>Net Present Value (NPV)</u>

Without a doubt, one of the most common financial indicators used to evaluate investment opportunities by industry professionals is the net present value. This financial metric aims to capture the total value of an investment by projecting all of the future cash flows that it will generate to the present day (Fernando, 2022). The sum of these cash flows is known as the NPV. If this number is positive, it indicates that the rate of return will be above the discount rate meaning it is profitable. Essentially the NPV is used to calculate the value of a project (or cash flows of any sort) is worth (Schmidt, 2023). Many have described it as “an all-encompassing metric” since it not only considers revenues, expenses and capital costs related to the investment but also the risk and time value of money which the previous methods did not include (Schmidt, 2023).

Firstly, risk is an important factor in M&A transactions because it varies depending on the company, industry and management team. To take this variable into consideration, the discount rate used to calculate the NPV for riskier investments is higher and lower for more stable transactions (Chui & Ip, 2017) . For example, the US treasury is categorized as the risk free rate and all the rest of investments are measured by how much more risk they bear in comparison.

Secondly, this metric considers the time value of money which is very important due to external factors such as inflation, interest rates and opportunity costs which alter the value of currency. For this reason money is more valuable if it is received sooner rather than later (Chui & Ip, 2017). This is why all cash flows are discounted to the present day in order to compare them equally in the same context (Chui & Ip, 2017).

- NPV = Z11+r+Z2(1+r)2-X0
    - **Z1** = Cash flow in time 1
    - **Z2** = Cash flow in time 2
    - **r** = Discount rate
    - **X0** = Cash outflow in time 0 (i.e. the purchase price / initial investment)

Economic Value Added (EVA)

The economic value added was first created by Stern Value Management, a consulting firm known for its corporate finance activity. A measure of a company's financial performance known as economic value added (EVA) is based on the residual wealth that is determined by subtracting its cost of capital from its operating profit, accounted for by taxes on a cash basis (Chen, 2023). The EVA tries to reflect the real economic profit of a company from an investment by comparing the difference in the rate of return over a company's cost of capital (Chen, 2023). Therefore a negative EVA signifies a business is not creating value from the funds invested into the project. Meanwhile a positive EVA shows a company has been able to create value from the investment. Value creation can be measured by calculating the transaction's EVA and comparing it to the previous companies. The new EVA should be greater than both of the previous individual companies' in order to allow for value creation.

- EVA = NOPAT-(Invested Capital * WACC)
    - **NOPAT**: Net operating profit after taxes
    - **Invested Capital**: debt + capital leases + shareholders' equity
    - **WACC**: weighted average cost of capital

Market indicators

<u>Market Value added (MVA)</u>

Market value added is a formula that calculates the difference between a company's market value and the capital that shareholders and bondholders have each contributed (Chen, 2022). Essentially, it is the market worth of the company's debt and equity less any capital claims that have been made against it. An entity's MVA is an indicator of their capacity to increase shareholder value over time since it compares its market value and book value (Chen, 2022). This indicator is similar to the concepts reviewed previously through the economic value added (EVA), as it represents the net present value of a combination of EVA values. A high MVA indicates that management's investments and actions have a greater value than the capital shareholders have given, whereas a low MVA indicates the exact reverse (Chen, 2022). Some ways in which higher MVA can be achieved include an efficient management team and potent transactional capabilities, which are also key drivers for value creation.

- MVA= market capitalization + net debt-book value of capital employed

3.2 Human metrics

The success of mergers and acquisitions (M&A) transactions must take into account a wide range of variables. Apart from financial metrics like the NPV or WACC the transaction should also be evaluated through a series of qualitative factors that determine success or failure.

Culture fit

According to research done by Mckinsey & Co, one of the leading consulting companies in M&A activity, 95 percent of executives perceive cultural fit as an essential component to the success of any transaction (Brown & Kaetzler, 2020). And yet despite this, 25 percent blame "a lack of cultural cohesion and alignment as the primary reason integration efforts fail" (Engert et al., 2010). Additionally, Bruner warns that cultural clashes can derail M&A success if they are not handled appropriately (Bruner, 2004). This is why cultural fit is of such significance for value creation in the M&A process. Whether or not the companies are culturally compatible will directly affect the viability of the transaction. This section will explore how culture fit can lead to defining success and how it could damage an transaction.

Corporate culture describes the attitudes, practices, and behaviors that guide how management and the staff of a firm interact, carry out their duties, and do business (Tarver, 2023). Corporate culture frequently emerges naturally over time from the collective characteristics of the individuals the organization recruits, rather than being explicitly defined (Tarver, 2023). It is typically reflected in areas such as dress codes, treatment of workers, working hours and even office layout (Tarver, 2023). Corporate culture is very important to a firm's long term success since, if done appropriately, it can create a highly engaged, passionate and motivated team of workers. The degree to which both cultures align will affect how successful the transaction is. If an M&A is successful several cultural consequences will arise.

When two companies with compatible cultures merge there could be a rise in innovation. Through open communication and collaboration employees will eventually begin to share ideas and best practices which will lead to them developing improved products and services for the combined company. Consequently, revenues and profitability would also increase. Also, innovation could translate into improvements in the transactions and daily running of the business which could lead to cost synergies, once again improving the company's profit margins. If innovation has prospered as a result of a positive cultural integration, this could indicate success in an transaction.

Employee Satisfaction:

In relation to the cultural fit, M&A success can also be defined through employee satisfaction. Employees are of vital importance to any company since they carry out the daily transactions of the business and thus its success is directly affected by them (Conway, 2022). M&A transactions can be chaotic for employees since they require a great deal of adaptation and sometimes involve layoffs. This stressful environment can be too much for some to handle since they do not coincide with the direction the company is moving in causing satisfaction rates to decrease. This section will explore how success can be defined by measuring employee satisfaction.

Employee satisfaction is important for any company because it directly affects performance. Engaged staff tend to put more effort into activities since they feel a higher sense of responsibility and commitment which has positive consequences on the profitability and long term goals of an organization (Conway, 2022).

If workers feel fulfilled in their jobs they are more likely to remain in their positions. This idea leads us to the definition of labor turnover. Labor turnover defines the percentage of employees who leave a company, in comparison to the total employees in a designated period. It can be calculated using the following formula:

Labor turnover = Number of employees leaving during period/ Average number employed during period* 100

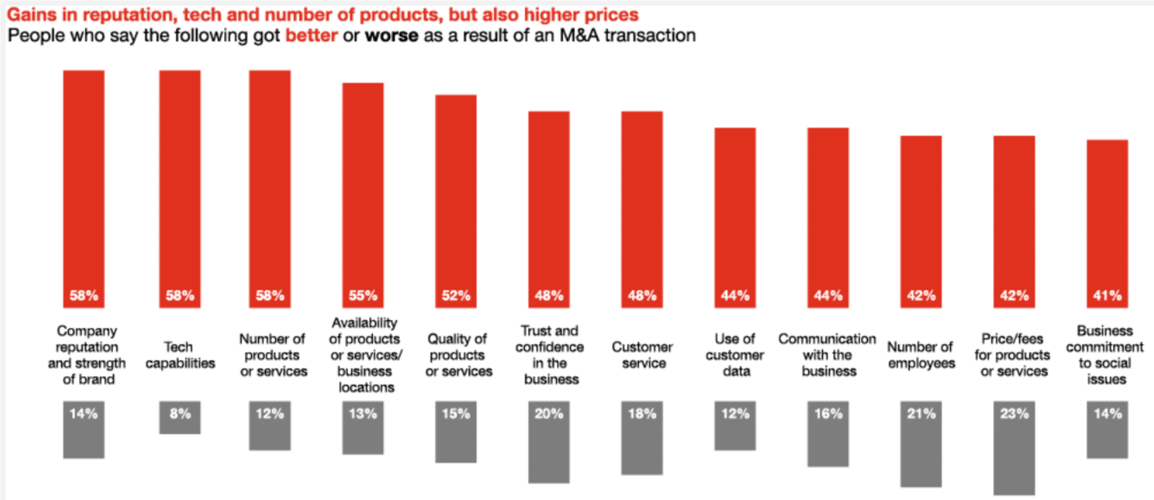
This metric gives a company an idea of employee satisfaction within the organization and its health. A higher turnover indicates that employees do not wish to remain in their positions and therefore look for opportunities elsewhere. There are several explanations for a high result such as poor working conditions, conflicts, demotivation and lack of growth opportunities. However, a high turnover is not always the company's fault, other unavoidable causes include retirements, illnesses and domestic or personal issues. Nonetheless, a high turnover can have negative consequences for a company since it indicates the staff's dissatisfaction and lack of engagement. This means that the company will have to constantly recruit new people and retrain them which could delay business plans and developments. It is in the company's best interest, especially during uncertain times, to retain talent. For this reason, a low turnover rate can indicate employee satisfaction and thus point to success.

Another way to measure employee satisfaction is to consider the level of staff stress. Poor engagement and high levels of stress can demotivate workers and generate an inability for them to connect with their work (Friedman, 2023). According to a study conducted by Mckinsey & Company, an alarming 49 percent of employees reported feeling burnout in 2021 (McKinsey 2021). It is not uncommon for stress levels to rise after a deal, however they should be mitigated over time to avoid long lasting consequences on the company's performance. In order to measure staff stress, management should think about questions like: are employees using more sick days? Is the human resources department noticing more internal complaints? What is the atmosphere at the office like? Is performance worse than usual? Decreased levels of stress could lead to more satisfied workers and thus a higher success rate in the transaction (Friedman, 2023).

Customer Satisfaction

Another key stakeholder during M&A transactions are the customers. Without them, the company would not be able to operate since its revenues depend on them. Customer satisfaction indicates if a company's customers are content with the company's products or services as well as capabilities. The success of an transaction depends on how well the customers adapt to the transition. Maintaining customer satisfaction is a key factor for a brand's survival and looking at how M&A activity will affect them increases the chances of a successful deal (Potter & Sutton, 2019). According to a report conducted by PwC, M&A has been more beneficial than detrimental for customers, with most of them remaining loyal to the company (Potter & Sutton, 2019). This is because customers are receptive to improved products or experiences as a result of the merger

Figure 7: Improvements and deterioration after M&A



Source: PWC Consumer Intelligence Series

There are several ways to define success through customer satisfaction. Firstly, the most obvious way to determine customer satisfaction is through the number of clients that a company has. In the case of a successful M&A deal, companies would expect an increase in the number of clients due to revenue synergies or what is known as the “halo effect” (Potter & Sutton, 2019). The phrase "halo effect" refers to a consumer's preference for a line of goods as a result of success with other goods produced by this manufacturer (Potter & Sutton, 2019). If somebody has a positive experience with a company’s product they will be receptive to trying other products from the same brand because of its association with quality. If the combined company notices an increase in clients this could be an indicator of success.

Furthermore, we live in a world where customers have a public voice to express their opinions and concerns and products on social media. This is an excellent way for companies to get a sense of customer satisfaction and get new ideas for improvements. Through reading or listening to client’s reviews companies can get a sense of how successful the transaction has been and the response it has invoked from clients.

Integration timeline:

Integration alludes to two companies coming together with the combined objective of maximizing synergies. Integration occurs after the deal has been done and it is time for both parties involved to actually get together and form a combined entity (Jonk & Ungerath, 2021). The time it takes management to carry out this process can be an indicator of how successful the transaction has been. A quick integration process allows for companies to see the benefits of the merger materialize sooner and maximize value (Jonk & Ungerath, 2021).

As a general rule, the faster the integration process, the more successful the transaction. According to PwC "successful deal makers manage to integrate at least two functions within the first six months and almost all remaining functions within one year after closing" (Fuhrer et al., 2017). However, integration can depend on the complexity of the transaction and the resources available to a company which is why a better benchmark would comprise the average rate at which companies in the industry usually begin to see integration benefits (Fuhrer et al., 2017). If the integration is proving to be longer than that of others in the industry, this could indicate a lack of proper planification and thus significantly increase the chances of failure. Most explanations for a slower integration timeline usually involve a lack of leadership from management (Fuhrer et al., 2017). For instance, one of the main explanations for slow integration could be errors made during planification and failures between both management teams to agree on specific issues. If there is conflict between both entities the integration is bound to be slower and thus less successful.

3.3 Environmental, Social and Governance (ESG) Considerations

ESG refers to a framework which focuses on environmental, social and governance considerations that affect businesses' decision making and activities (Bowdren, 2022). These three pillars encourage businesses to act in a responsible manner with their external stakeholders (Bowdren, 2022). The term "ESG" was first used by the UN in the early 2000s as a strategy to promote more moral investment practices (Marsh Commercial, 2023). The report "Who Cares Wins - Linking Financial Markets to a Changing World" was released in 2006 as a response from world leaders (Marsh Commercial, 2023). The first time the term "ESG" was used as a gauge of climate change mitigation, it offered instructions for businesses to adopt ESG into their transactions (Marsh Commercial, 2023). Recently, this term has been gaining popularity and has become part of companies' core strategies. ESG brings awareness to different global issues which society values and encourages companies to help make a positive contribution to solving them.

Environmental

The first pillar of ESG refers to the environment. Environmental factors allude to the potential impact that a company has on the environment and the contingency plans it has to combat the declining state of the planet. Some examples of environmental factors could include management's attitude to both direct and indirect greenhouse emissions, contamination and other harmful contaminants (Casey et al., 2021). According to the BBC the most influential environmental issues affecting the transactions of today's companies include: "climate change, pollution, sustainability and waste reduction"(BBC News,2023). The environmental aspect of ESG changes how brands package their products, choose their energy sources, transfer or deliver packages and how they deal with waste. Nowadays, if a company is compliant with the environment they could take advantage of certain benefits such as subsidies from local governments. Those who invest in environmentally friendly fabrication methods are eligible for government grants which could significantly reduce their costs (Casey et al., 2021). Furthermore, concerned customers who value environmentally safe practices could lead to higher sales since the brand's popularity would increase as a result of ethical behavior.

Social

The social aspect of ESG is related to the firm's ability to take care of its relationships with stakeholders, especially those who are most vulnerable. Social factors aim to improve conditions for those who are at disadvantaged positions and ensure fair treatment for everyone (Molnar, 2023). For example, social considerations have become increasingly important with the rise of feminist and racial equality movements. However this section can also include other factors such as ensuring fair wages for employees, minimizing the harmful impact on the communities that it is exposed to (Molnar, 2023). Some other relevant examples of social responsibility include participating in fair trade, community volunteering, improving working conditions and diversity.

There are several reasons why it is important for businesses to behave in a socially responsible manner. Firstly, it will grant them better brand recognition and a positive reputation which is important to ensure customer loyalty. Furthermore, those companies who have comprehensive social policies are more likely to attract talent to their firm and retain it. Taking care of the human capital within a firm is essential to maintaining an efficient workforce, which is why this consideration is of the utmost importance.

Governance

Finally, governance describes the direction and management of a company. In order to better understand how shareholder rights are perceived and upheld, how incentives for leadership are aligned with stakeholder expectations, and what kinds of internal controls are in place to encourage leadership accountability and transparency, investors will look for governance factors (Hall et all, 2023). Some examples of corporate governance structures include an organization's purpose, the role of their board of directors and how the company's performance is measured.

Having a clearly defined governance structure is essential for any functioning organization. According to a global study by S&P companies with a below average performance in terms of governance are more likely to experience poor management and losing business opportunities (Hall et all, 2023). Governance is probably the most established pillar in ESG since it directly affects business strategy and thus could have an impact on shareholder rights. Consequently, corporate governance is linked with increased returns for shareholders making it a priority for many investors.

<u>Using ESG to measure transaction success</u>

Over the past few years, investors have faced growing pressures to uphold a higher ESG standard during deals. ESG allows companies to create value, minimize risks and adapt to the changing needs of our society, which is why it has become somewhat of a "hot topic" during the past few years. According to a global survey conducted by Bain & Company, 65% of M&A executives predict their ESG strategies to augment during the next three years, with 11% reporting regular ESG assessments in their transaction process (Terry, John, et al. 2021). This is because failing to consider ESG can minimize how successful an transaction is and lead to failed business outcomes.

1. **Reputational benefits**

It is known that for many companies, ESG factors are used as direct reflections of their own culture and values (Terry, John, et al. 2021). This means that if they fail to address ESG issues during deals, severe reputational consequences could arise. After the pandemic, Accenture carried out a survey with more than 25,000 participants across 22 geographies where 50% of consumers stated that they would pay higher prices for brands that are coherent with their values (Accenture 2023). Nowadays consumers are increasingly socially conscious and want to support companies who will have a positive impact on their communities. For this reason, it is crucial that merged companies redefine and outline the ESG related synergies that will come about as a result from the merger to make the most of the reputational benefits associated.

For instance, in 2017 Danone acquired WhiteWave, an organic and plant based food company. Once the deal was made, Danone defined an ambitious ESG strategy for the combined company which focused on increasing the use of renewable energy in production, reducing greenhouse emissions and more effective water management. Not only did this result in cost synergies for Danone but in 2020 they were proclaimed one of the most sustainable organizations which attracted support from investors and new clients. Danone made a bold move by centering their acquisition around ESG and received significant reputational benefits as a result.

Therefore, it can be argued that M&A success can be determined by how much or how little the deal has contributed to ESG. The more conscious of ESG, the more reputational benefits can be acquired and thus the transaction could be defined as more successful.

2. Financing

Another reason why ESG considerations dictate how successful a transaction is considered is because of their influence on the deal's financing. M&A transactions are typically financed through equity or debt. It is worth noting that firms could also use their existing cash reserves, but since quantities tend to be substantial equity and debt are the most popular. Since the cost of debt is more affordable than the cost of equity, companies are also more drawn to this alternative.

Nonetheless, despite the company's financing choice, ESG ratings and performance have become important in terms of accessing funds and the cost of capital for companies. Recently deloitte stated that "Integrating environmental, social, and governance (ESG) considerations into private equity investment strategies has seemingly become "table stakes," as these values increasingly become a condition for accessing capital" (Deloitte, 2020). Another example of large institutional asset managers like BlackRock and State Street affirmed that their upcoming investments will be driven by ESG.

This wave of ESG in financial institutions has led to initiatives such as the Equator Principles. According to their webpage the equator principles "are intended to serve as a common baseline and risk management framework for financial institutions to identify, assess and manage environmental and social risks when financing Projects". Essentially, the equator principles are used to determine social and environmental risks associated with specific projects. In their latest version, the equator principles have stressed the importance of strengthening indigenous stakeholders and supporting biodiversity. As of today 114 financial institutions across 37 countries have adopted these principles and are choosing to finance transactions based on these criteria (Deloitte, 2020).

Furthermore, since more firms are implementing ESG standards to improve their impact on the environment, society and business, M&A transactions are being evaluated against these criteria. Companies have created ESG-centered codes of conduct and integrity guidelines, many of which reference the United Nations Guiding Principles on Business and Human Rights. Addressing ESG standards is a growing priority for businesses, and this is reflected in their executive compensation and corporate performance scorecards.

Consequently, since financing is such an important contributor to the viability of M&A transactions, and it largely depends on ESG consideration, one could argue that the success of a transaction is determined by ESG.

3. Regulatory compliance

M&A transactions must be compliant with the regulatory environment that they find themselves in. Without this legal aspect, deals could simply not take place. If they did, there would be disastrous legal consequences for the entities involved which would probably threaten their long term survival (Terry, John, et al. 2021). Legal bodies across different countries have expanded their efforts on regulating and improving guidance on ESG matters. Some of the most notorious examples include the Canadian Securities Administrators (CSA) have recently published a report informing the public that as part of their continuing continuous disclosure review procedure, it will monitor disclosure about ESG factors. Similarly, the US Securities and Exchange Commission has proposed altering disclosure practices of environmental risks in investments (Terry, John, et al. 2021). The idea is for entities to report information about any "climate-related risks that are reasonably likely to have a material impact on business, transactions, and financial condition, and certain climate-related financial statement metrics”.

This changing legal context will put more pressure on companies to be conscious of the type of acquisitions they want to make. Firms are having to inform investors and the public, who are increasingly ESG conscious, of the implications related to each transaction. For this reason, those that have a more robust ESG strategy will be better received. Furthermore, those transactions which could have harmful effects will be legally binded to assume the consequences and legal ramifications of their decisions (Terry, John, et al. 2021).

PART 3: CASE STUDY: IBERIA AND BRITISH AIRWAYS

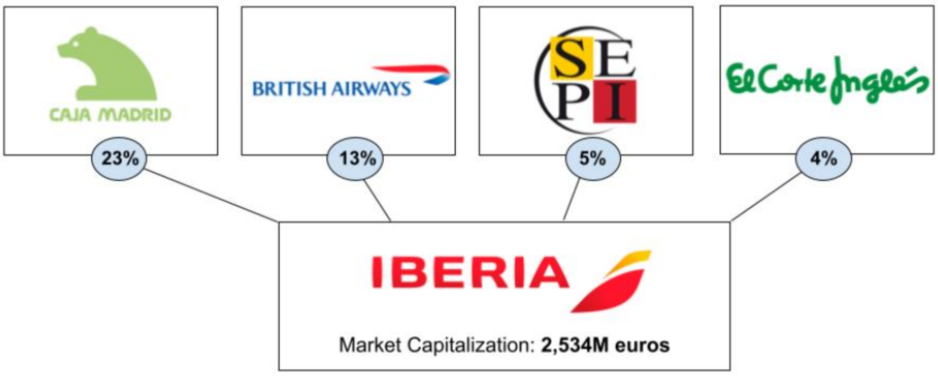
4. Justification:

In order to put the previously outlined methodology into practice, I have selected the merger between Iberia and British Airways to evaluate the overall success of the transaction. During the research process for this paper I compiled a list of some of the most relevant transactions that have taken place in Spain during the last 20 years. I decided to limit the research scope to this geographical location and timeframe due to the abundant information available for these specific characteristics. Out of these, I have decided to narrow my analysis to the transaction between Iberia and British Airways for a variety of reasons. Firstly, due to the scale and market presence of both companies involved. Through the combination of Iberia and British Airways, the competitiveness and market presence of both entities significantly increased. Secondly, due to the cultural implications of the merger between two well-known national carriers. Both companies operated in different countries which led to some difficulties during the transaction that I believe could add value to my qualitative analysis. And finally, due to the availability of information and coverage of the transaction. All in all, I believe the merger between Iberia and British Airways is an appropriate way to illustrate an example of a real life case using the criteria outlined in this paper.

The International Airlines Group, commonly known as IAG, is amongst the largest airline groups in the world. Today, they own a fleet of approximately 558 airplanes, working 256 destinations and carrying 94 million passengers annually (IAG, 2023). The company is registered as a Spanish company but it trades shares on both the Spanish and London stock exchanges. IAG acts as a parent company to British Airways, Iberia, Aer Lingus, Iberia Express, LEVEL and Vueling (IAG, 2023). However, the group also includes other related brands such as Avios, IAG Cargo and IAG Global Business Services (IAG, 2023). In their annual report the company states that they "actively engage and work collaboratively with their portfolio of operating companies, sharing best practices and talent, overseeing intra-Group coordination and managing central functions that drive synergies and value to the Group"(IAG, 2023). Their diverse portfolio has allowed IAG to enhance the customer experience in a variety of ways. However, despite their established position, IAG is less than 15 years old and began with the merger of British Airways and Iberia.

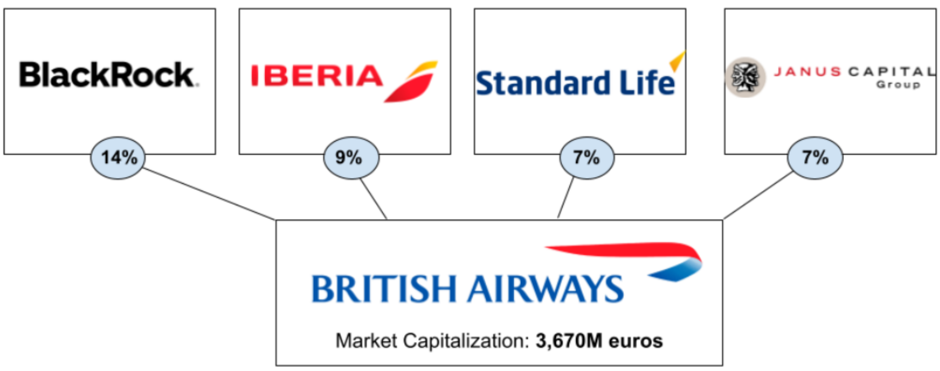
In 2008 Iberia and British Airways announced their intention to merge, thus creating one of the most notorious airline groups in the world, IAG. This deal was many years in the making since both companies had developed strong ties over time. In 1998 British Airways even bought a 13% state in Iberia making them the second largest shareholders in the company, and a few years later Iberia purchased a 9% stake in British Airways. The merger negotiations came about around 2009. Around this time airlines were struggling financially due to the global economic crisis which heavily impacted this sector by limiting demand for air travel and access to financing. Therefore, the objective of the merger was aimed at aiding two struggling airlines competing with other major carriers. The merged entity would be able to provide a larger network of destinations to customers and have more growth potential by combining Iberia's hub in Madrid and British airways' hub in London. The two companies were looking to consolidate their presence and offer an enhanced customer value proposition with two well-known and attractive brands.

Figure 8: Shareholder structure Iberia



Source: Self-elaborated based on presentation by Bank of America

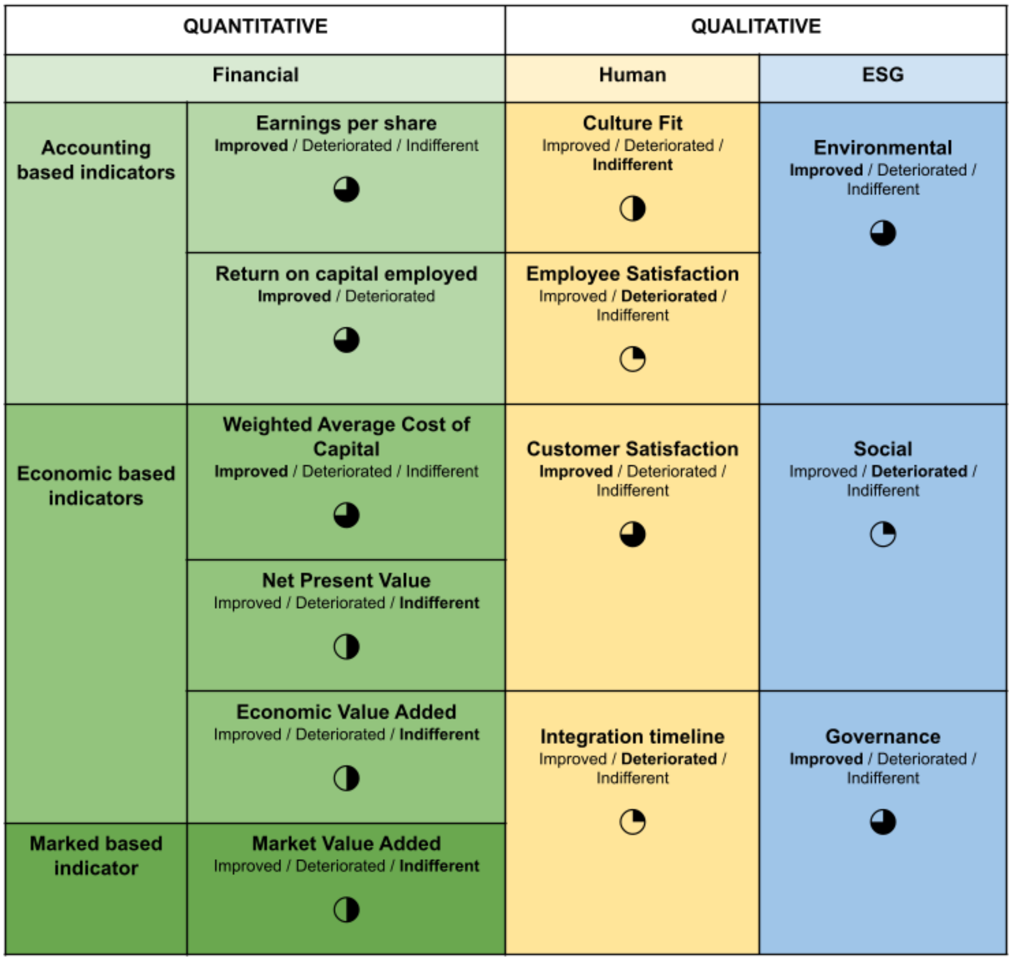
Figure 9: Shareholder structure British Airways



Source: Self-elaborated based on presentation by Bank of America

At this point we ask ourselves, was the transaction successful? And if so, how can we justify its success using the previously defined criteria? To do so, we have analyzed both the quantitative and qualitative factors in this transaction to get a sense of its success.

Figure 10: Evaluation of IAG



Source: self-elaborated

5. Transaction summary

Before getting into a deeper analysis of the merger between Iberia and British Airways this section offers a summary of the transactions' outcome. All in all, one could consider the merger a success. This is mostly due to the very positive impact it had on both companies' financial metrics, environmental and governance policies as well as customer satisfaction rates. In these cases, both Iberia and British Airways have been able to create long lasting synergies that are still functioning to this day. However, it is also worth noting that even though the transaction as a whole was mostly positive it came with a social cost.

Employee dissatisfaction was made very public and the merger's social policy was therefore damaged as a result. This aspect could have been improved by reducing layoffs and restructuring since many employees were left jobless or replaced during the transaction. Regardless, strict cuts were made to improve efficiency which was reflected in many of the other indicators. For this reason, the merger between Iberia and British Airways could be considered successful since it has proven to stand the test of time and created value for shareholders through the creation of synergies. This section aims to explore the impact of the transaction on each indicator to demonstrate its success.

Quantitative Methodology

For the first part of the analysis I have focused on the quantitative aspect of the transaction between Iberia and British Airways. Due to the timeframe and confidentiality of several aspects of the merger, gathering information was complex which is why I resorted to using Bloomberg. Bloomberg is a global financial services system used to provide financial information from a variety of markets and companies worldwide. In this case it has been especially useful due in calculating some of the financial ratios required due to its precision and available data. All of the relevant screenshots for the calculation of the financial ratios have been included in the Appendix.

Figure 11: Summary of Financial indicators for IAG

	EPS	ROCE	WACC	NPV	EVA	MVA
IBERIA	0.096€	4,22	10,35	N/A	-46,63	N/A
BRITISH AIRWAYS	0.155€	0	10,28	N/A	-845,51	N/A
IAG INTERNATIONAL AIRLINES GROUP	0.311€	8,06	7,57	N/A	-586,000	N/A

5.1 Earnings per share

One of the first variables investors are quick to look at after an M&A transaction are the earnings per share of the new company. Although, on its own it is not an absolute indicator of success, it certainly allows a company to see if the transaction is moving in the right direction. In this case, the earnings per share have indeed increased after both companies decided to merge. Iberia had the lowest earnings per share of approximately 9 cents per share. In comparison to British Airway's 15 cents per share, this figure can seem small but one must bear in mind the difference in size between both companies and revenues. Both of these figures have been obtained from the 2010 annual reports of the respective companies since it is the year prior to the transaction.

However, once IAG combined Iberia and British Airways in 2011, the earnings per share increased to approximately 30 cents per share which remains higher than the sum of both of the companies' earnings per share. There are several explanations for this improvement in performance. A common explanation for this increase in earnings per share can be attributed to the creation of cost and revenue synergies. In a report conducted by Bank of America it was estimated that the potential cost synergies of the transaction were 250 million euros, of which almost 50% could be due to savings in IT and maintenance (Bank of America, n.d). Additionally, that same report calculates that the potential revenue synergies were approximately 150 million euros, of which 78% came from passengers. This combination of more efficient costing and an increase in revenues has allowed for the combined earnings per share to increase, indicating the transaction could point in a successful direction.

5.2 ROCE

The return on capital employed is an important financial ratio because it allows for the assessment of an entity's profitability and capital efficiency. This refers to the company's ability to generate profits from the capital it utilizes. In this instance, the higher the ROCE, the better since it indicates a higher profitability and capital efficiency from the companies.

5.3 WACC

A company's weighted average cost of capital represents the average rate at which it finances its assets. Essentially, this refers to the cost of capital sources including stocks, bonds and other forms of debt. The objective here is to have a lower WACC since it proves that the company at hand is not paying high amounts for the equity and debt it needs to finance its growth. In the case of the merger between Iberia and British Airways the WACC for IAG was indeed lowered as a result of the merger. Both Iberia and British Airways were operating with WACCs around 10% and that percentage decreased to 7,57% once the merger was completed.

Although the company has not disclosed a lot of information about how they managed to reduce this number, there are a few explanations as to why this might have occurred. One way this could have happened is by optimizing IAG's capital structure since adjusting the percentage of debt and equity to a more efficient number can reduce the company's overall cost of capital. Additionally, other explanations include the previously mentioned cost and revenue synergies that have been previously discussed. Due to IAG's ability to increase revenues and cut costs that were overlapping, the merged entity can improve profitability and thus reduce the cost of capital. Finally, another way to minimize IAG's WACC would be through an improvement in the credit rating. If a company has a higher credit rating and is perceived as a safer investment, this can lead to lower interest rates on their debt and consequently reduce the cost of capital. To do so the merged company can take steps such as reducing debt-to-equity ratios, improving cash flows and proving financial stability. However, in this case British Airways' credit rating dropped from BB to BB- after the merger. Analysts blame the impact of severe strikes that affected the company's profitability as well as rising oil prices and the economic crisis. But many also speculated that this change in rating could be a downside of the merger with Iberia.

5.4 NPV

The net present value is a financial metric that can be used to evaluate the viability of a project since it values all of the future cash flows the project will bring and discounts them to present value. This way brands can compare how much they have invested into a project and how much return they will get out of it. However, unlike an acquisition where company purchases another, a merger cannot be evaluated like a business project since the investment is not as clear as the first scenario. For this reason, in this case we have decided not to proceed with this part of the analysis.

6. HUMAN

6.1 Culture fit

In this case, the cultural fit of both companies seemed to be successful. British Airways' corporate culture is focused on providing excellent service to its customers. The airline is also known for its emphasis on safety which has gained them a reputation of being reliable and efficient. Iberia very much shares these same values of excellence and safety in all of their activities. Both companies have similar objectives, price points and structures.

However, there is a regional bias to take into consideration. Iberia has a very Spanish identity as they clearly state in their website “Spanish culture is in our DNA, and you can sense it as soon as you come aboard” (Iberia 2023). Meanwhile British Airways is, for lack of a better word, British. Both companies have a strong sense of national identity because they are the leading airline in their respective geographies. This had some consequences in the beginning of the process since it was important that one company was not too overpowering. Negotiations on a name for the new company were long but finally they came to an agreement by adopting an international mindset rather than a national one. This aided in forming a new culture in IAG that was different from both Iberia and British Airways so staff could start over in a new place. Due to the similarities of both companies we could argue there was an adequate cultural fit which deemed the transaction successful. However, during the integration process, employee satisfaction suffered. This could be due to the already existing strikes by British airways employees however it could also be blamed on cultural fit. For this reason, although the companies were culturally compatible on paper, once the integration was finalized several doubts raised about their compatibility. This will be further explored in the following section.

6.2 Employee satisfaction

Employee dissatisfaction was highly publicized after the merger announcement in 2009. Following a rough 10 years for Iberia and British Airways after the terrorist attacks of 2001 and the economic crisis, demand for travel was at an all time low. This prompted both companies to prioritize cost cutting as part of their combined strategy. Both Iberia and British Airways took steps to change working practices like reducing the number of cabin crew on certain flights and suggested pay cuts for some of the remaining staff. Naturally, this did not go well with members of the trade union, also known as Unite. All of these events led to several strikes which were very disruptive to passengers because of the many flights that had to be canceled. The conditions of employees were sacrificed in order to prioritize financial benefits due to the desperate situation both companies found themselves in. In this scenario, employee satisfaction deteriorated as a result of the merger.

6.3 Client satisfaction

It can be difficult to state with certainty whether client satisfaction has increased as a result of the merger between these two companies since many factors have the potential to influence customer satisfaction in the airline industry. Nonetheless, several indicators point to a successful impact on customer satisfaction. For starters, as previously mentioned in the quantitative section, IAG reported strong financial results which could indicate an increase in passengers or higher transactional efficiencies which led to an improved customer experience. Furthermore, both Iberia and British Airways have received high ratings in customer satisfaction surveys since the merger. In 2021 British Airways placed 20th in the world's best airline ranking and Iberia placed 39 in that same study. They have also received excellent reviews for their cleanliness, entertainment options on board and gastronomic offerings. For this reason, one can deduce that client satisfaction was ensured as a result of the merger.

6.4 Integration timeline

The integration timeline for IAG was relatively smooth as both companies began operating together within a year of the negotiations. This is partly due to the fact that a merger, unlike an acquisition, can be simpler to conduct since both companies continue to operate. Therefore, the changes needed are not as drastic as they could be if one of the companies ceased to exist. This points to an appropriate and successful integration.

7. ESG

7.1 Environmental

Back in the early 2000's ESG considerations were not as relevant as they are today. Consumers were not as conscious or educated on the effects of climate change and did not require businesses to have robust environmental policies in place. For this reason it can be difficult to argue the extent to which the merger had a positive impact on IAG since it took place in 2011. Sustainability was not a strategic priority at this time because the companies were especially conscious about cutting costs. Having said this, it is true that once both airlines combined their activities they were able to unite their efforts to create a stronger research and development team and look into breakthrough green technology to ameliorate the airlines' carbon footprint. Today IAG states in their Vision and strategy statement that "IAG has a vision to be the world's leading airline group on sustainability. That means using its scale, influence and track record to not only transform the business, but drive the system-wide change required to create a truly sustainable aviation industry" (IAG, 2023). IAG has reported saving 30,332 tonnes of CO2 from sustainable aviation fuel in the past year (IAG, 2023). They continuously place above average in international corporate climate action rankings and are considered exemplary by many in the industry (IAG, 2023). Although these environmental efforts have come about due to mounting pressures from customers and changing legislation during the last 10 years, the merger allowed IAG to accelerate their transformation more effectively. For this reason, we could infer that the merger had a positive impact in improving the environmental footprint of the merger.

7.2 Social

As previously outlined, the social aspect of ESG is related to the firm's ability to take care of its relationships with stakeholders, especially those who are most vulnerable. In this case, both Iberia and British Airways had difficulties in balancing the interests and conditions of their stakeholders. One of the consequences of this merger was staff layoffs since airlines attempted to eliminate duplication and improve efficiencies. This had a significant impact on employees and unions who protested very publicly. In this sense, the social conditions of workers were not respected and the merger had negative consequences for this group. However, the company has made efforts to diversify their management team with 34% being composed of females in senior management. Inclusion is one of the company’s core values and they have made progress in allowing for visibility of otherwise marginalized groups within their recruitment process. Despite some efforts, their social strategy is quite limited. To this day, IAG does not include a strong social branch of ESG on their website or their annual reports. Even though they have been vocal about their environmental and governance efforts, the company seems to have forgotten about this third pillar of social responsibility which is equally important. For this reason, the merger has not made significant contributions to the brand’s social strategy and in some cases has even resulted in a detrimental outcome.

7.3 Governance

Lastly, IAG has a robust governance structure to ensure productive communication and decision-making within the organization. The company is hierarchical and has clearly defined goals and responsibilities for each managerial level. IAG has done a successful job in including both English and Spanish directors in its governance structure. This has been important in balancing the interests of both Iberia and British airways within the merger and making sure that both sides are heard. A culturally diverse leadership team has also allowed IAG to come up with different ideas and learn from all of the companies that it owns, ameliorating the customer and employee experience. In this case their governance has been positively impacted by the merger between Iberia and British Airways.

8. Conclusion and main findings

There are several management directors who believe the false pretense that once a company has selected "the perfect candidate" for a merger, whether this is due to their strategic compatibility, financial position or because of the potential synergies that both entities combined could produce, the transaction as a whole will be successful. Meaning, if the fit is correct, both teams will be able to create value for shareholders that are involved in the transaction. However, as we have examined throughout this paper this is not always the case. Undeniably, looking for a strong candidate is a necessary condition for a successful M&A transaction but it is rarely enough to determine success. Nonetheless, to this day there is little guidance for companies in regards to what constitutes success in a transaction. Authors such as Bruner and Vernimmen have contributed to the field but still companies lack guidelines on how to evaluate their previous M&A deals.

This prompt inspired me to write the following research paper. The aim and purpose is to define whether or not a transaction has been successful based on a list of previously defined criteria in order to achieve a holistic view of each transaction. The paper evaluates three main areas of analysis which include quantitative, qualitative and ESG factors that have the potential to affect the viability of any transaction. After any transaction, there will be a transformation in the combined entity's finances, human capital and ESG strategy regardless of the industry or type of company at hand. Although traditionally management has been more concerned with the financial implications of a deal one must not overlook the firm's human capital and ESG strategy since they too affect the company's performance. One of the most important assets a company has is its human capital since they are in charge of the daily running of the business and possess valuable information and know-how which is crucial for them to compete in a market. Furthermore, consumers are increasingly concerned with organizations' ESG strategies and the influence they have on the world around them.

In order to measure the impact on these variables, the research establishes a series of sub categories which are used as key performance indicators for the organization's health.
All of these categories take into consideration different stakeholders such as shareholders, clients, employees and even local communities. Considering the impact on several

shareholders is important since it allows one to further examine what the transaction has been like from a variety of perspectives not just the more traditional managerial view. Thus, to gage how successful, the transaction has been one must measure how many areas have deteriorated and how many have improved as a result of the transaction. If the sum of the improved areas is greater than the sum of deteriorated, the impact can be considered positive overall and thus the transaction can be considered successful.

The research paper makes use of a practical methodology and evaluates the notorious merger of Iberia and British Airways through the creation of IAG using the previously defined criteria. Overall, according to the principles used the transaction can be considered successful since the impact on quantitative, qualitative and ESG factors was mostly positive.

Firstly, after evaluating the financial indicators of the transaction we concluded that the impact was positive. The earnings per share (EPS) of the new company increased from 24 cents to 30 cents, indicating an improvement in performance. This was attributed to the creation of cost and revenue synergies, with potential cost synergies estimated at 250 million euros and revenue synergies at 150 million euros. Also, the return on capital employed (ROCE) was also analyzed, with a higher ROCE indicating higher profitability and capital efficiency. In addition, the WACC for the transaction was lowered from 10% to 7.57% due to a combination of factors including optimizing IAG's capital structure, cost and revenue synergies. Overall, the financial metrics analyzed indicate a successful merger.

Secondly the merger between British Airways and Iberia was successful in terms of cultural fit, as both companies share values of excellence and safety in their transactions, but have distinct national identities. However, employee satisfaction suffered due to cost-cutting measures and strikes, resulting in dissatisfaction among workers which were very public. Client satisfaction, on the other hand, appeared to have improved after the merger, as both airlines received high ratings in customer satisfaction surveys and reported strong financial results. The integration timeline was relatively smooth, as both airlines continued to operate and changes needed were not as drastic as they could have been if one company ceased to exist. Overall, while the merger was successful in some aspects, it also had negative consequences on employee satisfaction which should not be overlooked.

Lastly, the transaction has been analyzed based on the impact it had on environmental, social and governance factors. On the environmental front, the merger had a positive impact as it allowed the airlines to combine their efforts to create a stronger research and development team to develop breakthrough green technology to reduce their carbon footprint. Today, IAG is considered exemplary in the industry and is focused on transforming the business and driving system-wide change to create a sustainable aviation industry. On the social front, the merger had some negative consequences as staff layoffs had a significant impact on employees and unions. Although the company has made efforts to diversify its management team and promote inclusion, it does not have a strong social branch of ESG, which is equally important. Lastly, IAG has a robust governance structure, which has been positively impacted by the merger as it has allowed the company to balance the interests of both Iberia and British Airways and come up with different ideas and learn from all of the companies that it owns, ameliorating the customer and employee experience. Overall the merger between Iberia and British Airways had a positive impact on IAG due to the impact on environmental and governance factors.

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Appendix

WACC IBERIA 2010

< > | IBERIA LINEAS AE Equity ▾ | WACC ▾ | Related Functions Menu

<Back> to Return, 3<GO> to show chart, Click numbers for transparency

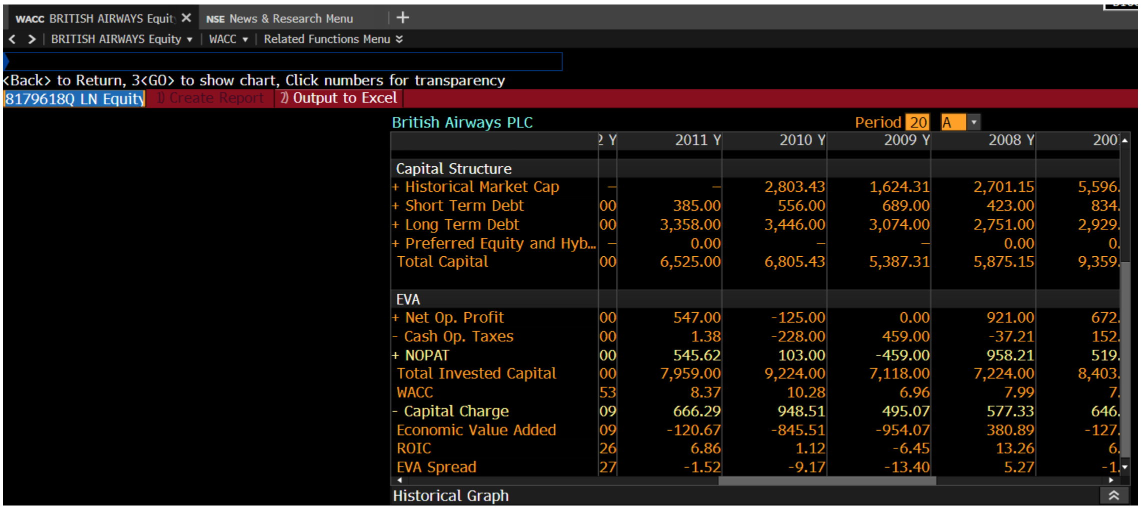
IBLA SM Equity | 1) Create Report | 2) Output to Excel

Iberia Lineas Aereas de Espana SA Operadora — Period 20 A

	2012 Y	2011 Y	2010 Y	2009 Y	2008 Y
Equity					
Cost of Equity	7.79	11.03	11.57	8.84	11.92
Weight of Equity	85.13	85.00	82.77	77.65	63.72
+ Debt					
Cost of Debt	5.20	4.92	4.49	2.70	1.85
Weight of Debt	14.87	15.00	17.23	22.35	36.28
+ Preferred Equity					
Cost of Pref. Equity	0.00	0.00	0.00	0.00	0.00
Weight of Pref. Equity	0.00	0.00	0.00	0.00	0.00
WACC	7.40	10.11	10.35	7.47	8.27
Capital Structure					
+ Historical Market Cap	–	–	3,045.16	1,809.94	1,831.91
+ Short Term Debt	107.00	139.00	233.00	268.00	640.00
+ Long Term Debt	265.00	320.00	401.00	253.00	403.00
+ Preferred Equity and Hyb...	–	–	0.00	0.00	0.00
Total Capital	2,501.00	3,059.00	3,679.16	2,330.94	2,874.91

Historical Graph

WACC British Airways 2010



WACC BRITISH AIRWAYS Equit ✕ | NSE News & Research Menu | +

< > | BRITISH AIRWAYS Equity ▾ | WACC ▾ | Related Functions Menu

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8179618Q LN Equity | 1) Create Report | 2) Output to Excel

British Airways PLC — Period 20 A

	2 Y	2011 Y	2010 Y	2009 Y	2008 Y	200
Capital Structure						
+ Historical Market Cap	–	–	2,803.43	1,624.31	2,701.15	5,596.
+ Short Term Debt	00	385.00	556.00	689.00	423.00	834.
+ Long Term Debt	00	3,358.00	3,446.00	3,074.00	2,751.00	2,929.
+ Preferred Equity and Hyb...	–	0.00	–	–	0.00	0.
Total Capital	00	6,525.00	6,805.43	5,387.31	5,875.15	9,359.
EVA						
+ Net Op. Profit	00	547.00	-125.00	0.00	921.00	672.
- Cash Op. Taxes	00	1.38	-228.00	459.00	-37.21	152.
+ NOPAT	00	545.62	103.00	-459.00	958.21	519.
Total Invested Capital	00	7,959.00	9,224.00	7,118.00	7,224.00	8,403.
WACC	53	8.37	10.28	6.96	7.99	7.
- Capital Charge	09	666.29	948.51	495.07	577.33	646.
Economic Value Added	09	-120.67	-845.51	-954.07	380.89	-127.
ROIC	26	6.86	1.12	-6.45	13.26	6.
EVA Spread	27	-1.52	-9.17	-13.40	5.27	-1.

Historical Graph

Iberia EVA 2010

< > | IBERIA LINEAS AE Equity | WACC | Related Functions Menu

<Back> to Return, 3<GO> to show chart, Click numbers for transparency

IBLA SM Equity | 1) Create Report | 2) Output to Excel

Iberia Lineas Aereas de Espana SA Operadora — Period 20 A

	2012 Y	2011 Y	2010 Y	2009 Y	2008 Y
Capital Structure					
+ Historical Market Cap	–	–	3,045.16	1,809.94	1,831.91
+ Short Term Debt	107.00	139.00	233.00	268.00	640.00
+ Long Term Debt	265.00	320.00	401.00	253.00	403.00
+ Preferred Equity and Hyb...	–	–	0.00	0.00	0.00
Total Capital	2,501.00	3,059.00	3,679.16	2,330.94	2,874.91
EVA					
+ Net Op. Profit	-560.00	-62.00	-26.00	-475.00	-20.00
- Cash Op. Taxes	-53.00	69.00	-223.64	-124.00	107.65
+ NOPAT	-507.00	-131.00	197.64	-351.00	-127.65
Total Invested Capital	2,064.00	2,561.00	2,360.00	1,444.00	2,017.00
WACC	7.40	10.11	10.35	7.47	8.27
- Capital Charge	152.76	258.89	244.27	107.90	166.74
Economic Value Added	-659.76	-389.89	-46.63	-458.90	-294.39
ROIC	-24.56	-5.12	8.37	-24.31	-6.33
EVA Spread	-31.97	-15.22	-1.98	-31.78	-14.60

Historical Graph

British Airways EVA 2010

WACC BRITISH AIRWAYS Equit | NSE News & Research Menu

< > | BRITISH AIRWAYS Equity | WACC | Related Functions Menu

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81796180Q LN Equity | 1) Create Report | 2) Output to Excel

British Airways PLC — Period 20 A

	2 Y	2011 Y	2010 Y	2009 Y	2008 Y	200
Capital Structure						
+ Historical Market Cap	–	–	2,803.43	1,624.31	2,701.15	5,596.
+ Short Term Debt	00	385.00	556.00	689.00	423.00	834.
+ Long Term Debt	00	3,358.00	3,446.00	3,074.00	2,751.00	2,929.
+ Preferred Equity and Hyb...	–	0.00	–	–	0.00	0.
Total Capital	00	6,525.00	6,805.43	5,387.31	5,875.15	9,359.
EVA						
+ Net Op. Profit	00	547.00	-125.00	0.00	921.00	672.
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Economic Value Added	09	-120.67	-845.51	-954.07	380.89	-127.
ROIC	26	6.86	1.12	-6.45	13.26	6.
EVA Spread	27	-1.52	-9.17	-13.40	5.27	-1.

Historical Graph

Iberia ROCE 2010

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39) ADJ British Airways PLC IFRS 16 ? Periods 10 Annuals Cur FRC (GBP)

1) Key Stats | 2) I/S | 3) B/S | 4) C/F | 5) Ratios | 6) Segments | 7) Addl | 8) ESG | 9) Custom

11) Profitability | 12) Growth | 13) Credit | 14) Credit Ex Operating Leases | 15) Liquidity | 16) Working Capital | 17) Yield Analysis | 18) DuPont Analysis

In Millions of GBP except Per Share	2006 Y	2007 Y	2008 Y	2009 Y	2010 Y	2011 Y	2012 Y	2013 Y	2014 Y	2015 Y
12 Months Ending	03/31/2006	03/31/2007	03/31/2008	03/31/2009	03/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Returns										
Return on Common Equity	29.61	14.24	25.93	-15.30	-23.88	29.10	3.94	16.91	33.02	79.17
Return on Assets	3.78	2.46	6.04	-3.31	-4.02	5.93	0.60	2.29	5.41	17.31
Return on Capital	9.96	6.61	13.23	–	–	13.15	3.80	8.11	12.62	33.60
Return on Invested Capital	7.23	6.64	10.01	–	–	7.63	5.63	11.19	12.95	16.35
Margins										
EBITDA Margin	16.95	17.57	17.98	7.44	7.31	12.07	9.50	12.31	16.06	18.55
Operating Margin	8.22	7.75	10.08	-0.28	-1.85	5.23	2.85	5.99	8.97	11.83
Incremental Operating Margin	13.15	–	85.82	–	-12.32	33.62	–	63.13	123.15	–
Pretax Margin	7.50	7.20	10.09	-4.46	-6.64	6.80	0.38	2.63	7.33	23.19
Income before XO Margin	5.65	5.16	7.95	-3.98	-5.32	6.73	1.05	2.49	5.99	22.13
Net Income Margin	5.49	3.41	7.77	-3.98	-5.32	6.55	0.63	2.31	5.85	22.00
Net Income to Common Margin	5.49	3.41	7.77	-3.98	-5.32	6.55	0.63	2.31	5.85	22.00
Additional										
Effective Tax Rate	24.68	28.31	21.18	–	–	1.03	–	5.33	18.28	4.57
Dvd Payout Ratio	0.00	0.00	8.50	–	–	0.00	0.00	0.00	0.00	10.43
Sustainable Growth Rate	29.61	14.24	23.73	–	–	29.10	3.94	16.91	33.02	70.91