

Mergers & Acquisitions: Financial Performance Before and After the Deal

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Summary - This report examines the financial performance of firms before and after mergers and acquisitions (M&A), offering a detailed comparison of key financial metrics and ratios. By analyzing three completed deals with available pre- and post-merger data—the large U.S. mergers of the early 1980s, selected U.S. mergers from a broader historical perspective, and M&A; activities involving companies listed on the Indonesia Stock Exchange in 2017—the report provides insights into the financial impacts realized as a result of these strategic transactions. The findings highlight improvements in asset productivity and cash flow in some cases, while also revealing challenges related to profitability and efficiency in others. This comprehensive analysis is intended to support strategic decision-makers such as investment analysts and portfolio managers in evaluating the effects of M&A; on firm performance.

RESEARCH METHODOLOGY

The analysis in this report is based on a review of academic literature examining the financial performance of firms undergoing M&A; transactions. Three distinct deals have been considered:

1. Case A: Analysis of 50 large U.S. mergers between 1979 and 1984, which focused on asset productivity and operating cash flow returns (Healy, Palepu, & Ruback, 1992).
2. Case B: Examination of U.S. mergers from 1950 to 1977 that evaluated post-merger operating performance and profitability (Ravenscraft & Scherer, 1989).
3. Case C: Comparative analysis of companies listed on the Indonesia Stock Exchange that underwent M&A; in 2017, with a focus on liquidity and financial leverage ratios (Shoimaturrohman & Zulkifli, 2022).

Primary financial metrics used in this evaluation include operating performance, asset productivity, liquidity ratios (e.g., Quick Ratio), leverage ratios (e.g., Debt to Equity Ratio), as well as profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE). Literature on synergies and value creation (Sarpi & Rizkianto, 2020) is also considered to contextualize the mixed performance outcomes.

OBJECTIVES OF THE STUDY

- To analyze the impact of M & A on the acquirer's operating efficiency.
- To understand Macroeconomic environment besides the effects of the Merger, which impacts the performance of the Acquirer.

FINANCIAL ANALYSIS

Case A: Large U.S. Mergers (1979–1984)

Healy, Palepu, and Ruback (1992) examined 50 large U.S. mergers and found that the

post-merger period was marked by significant improvements in asset productivity and operating cash flow returns. The synthesis of pre- and post-merger financial metrics indicated that firms pursuing mergers in highly overlapping business sectors experienced synergistic benefits, leading to enhanced operating performance. Key financial improvements were evident in the increase in the speed of asset turnover and the efficiency with which firms managed their operating cash flow.

Financial ratios such as the operating margin and return on investment showed measurable improvements in this cohort, implying that rigorous due diligence and strategic alignment were critical success factors in realizing financial benefits.

Case B: U.S. Mergers (1950–1977)

In contrast, Ravenscraft and Scherer (1989) studied U.S. mergers over a longer historical period (1950–1977) and documented a significant negative impact on profits post-merger. This analysis suggests that while some M&A transactions may yield expected synergies, others may fall short in delivering improved operating profitability. In certain instances, the integration challenges and the misalignment of strategic objectives contributed to a decline in overall operating performance.

Comparative financial metrics from this period show that, despite potential gains in market share or scale, the profitability ratios such as net profit margins experienced deterioration post-merger, making a compelling case for cautious evaluation of merger targets.

Case C: MSA; Involving Indonesian Companies (2017)

Shoimaturrohmah and Zulkifli (2022) conducted a comparative analysis on firms listed on the Indonesia Stock Exchange that underwent M&A; in 2017. Their study focused on financial ratios, notably the Quick Ratio and Debt to Equity Ratio. It was observed that post-merger, firms demonstrated significant changes in liquidity and financial leverage. The Quick Ratio improvements suggested better short-term liquidity management, while shifts in the Debt to Equity Ratio indicated adjustments in the capital structure.

Interestingly, other profitability indicators such as ROA and ROE did not display statistically significant differences when comparing pre- and post-merger periods. This indicates that, while

M&A; transactions can impact certain aspects of a firm's financial stability, improvements in profitability are not guaranteed solely by the execution of the deal.

Financial Ratios and Performance Comparison

A cross-deal comparison of key financial performance indicators reveals a heterogeneous impact of mergers and acquisitions:

- **Asset Productivity and Operating Cash Flow:** Case A demonstrated marked improvements in asset efficiency and cash flow, reflecting successful synergy realization in overlapping business sectors (Healy, Palepu, & Ruback, 1992).
- **Profitability:** Case B's data shows that mergers do not universally guarantee profitability gains; in fact, some transactions resulted in a decline in operating profits (Ravenscraft & Scherer, 1989).
- **Liquidity and Leverage:** In Case C, the significant differences in the Quick Ratio and Debt to Equity Ratio highlight that changes in liquidity and the capital structure are prevalent

post-merger, although profitability ratios may remain unaffected (Shoimaturrohmah & Zulkifli, 2022).

The analysis further underscores that while anticipated synergies such as reduced capital costs have been reported (Sarpi & Rizkianto, 2020), these do not always translate into uniformly improved profitability and efficiency, thus emphasizing the role of integration strategy.

CONCLUSIONS

The heterogeneity in financial outcomes observed across the three cases points to a broader lesson in M&A; strategy: Merger benefits are highly contingent on both the context of the deal and the execution of the integration process. While evidence from large U.S. mergers in the early 1980s confirms potential gains in asset productivity and cash flows, historical data also shows that not all transactions yield the expected improvements, particularly in operating profits.

Investment analysts and portfolio managers should therefore adopt a cautious and data-driven approach when evaluating M&A; opportunities. Specifically, they should:

- Conduct thorough due diligence, with a focus on alignment between the merging entities' strategic objectives.
- Scrutinize pre- and post-merger financial metrics to assess potential shifts in liquidity, leverage, and operational efficiency.

- Place particular emphasis on understanding the integration challenges that may mitigate anticipated synergies, as evidenced by mixed outcomes in prior studies (Sarpi & Rizkianto, 2020).

Ultimately, a balanced appraisal combining historical performance data with robust financial ratio analysis will support more informed strategic decisions in M&A; activities.

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