The Effects of Mergers and Acquisitions on Investment Returns
– Cases of Massmart and SABMiller

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ABSTRACT

This study investigates the effects of M&A to investment returns in South Africa. The value of M&A executed in emerging economies (EM) is around $129 billion (The United Nations Conference on Trade and Development (UNCTAD), 2014) and this figure is projected to double in the next ten years bringing positive economic development in EM. In light of this perspective, there is renewed interest in understanding the economics of M&A in developing countries. Our aim was to assess the extent of mergers and acquisition on shareholder returns in South Africa using a case study approach. A case study approach was adopted in order to analyse the impact of specific events on shareholder value by date. Two prominent mergers involving acquiring companies from Developed Markets (DM) were selected namely AB Inbev (Belgium) and Walmart (US). As anticipated, the results show that each merger update announcement had an impact on the share price of the target based on the type of announcement. Positive news increased the share price and bad news adversely impacted the share price. Post the merger, Massmart's headcount increased and profitability decreased. The same could not be measured for SABMiller as the company has been delisted.

DECLARATION

I, Doreen Sefalwana Mohapi declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Management in Finance and Investment at the University of the Witwatersrand, Johannesburg.

It has not been submitted before for any degree or examination in this or any other university.

Doreen Sefalwana Mohapi

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Signed at ________________________ on the ________ day of _____________ 2017

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CHAPTER 1: INTRODUCTION

1.1 Introduction

This chapter presents the introduction to the thesis. Section 1.2 presents the context of the study; Section 1.3 the problem statement; Section 1.4 the objectives of the study; Section 1.5 explains the gaps in the literature; Section 1.6 outlines the benefits of the study and Section 1.7 concludes with the organization of the thesis.

1.2 Context of the Study

Developing countries have overtime increased their production output as evidenced by growth in total gross domestic product (GDP) amounting to US$21.2 trillion. Thus, the developing countries' GDP currently represents about 26.4% of global GDP compared to their 12% contribution two centuries ago (Gusarova, 2013). The South African economy faced challenges in 2016 and is facing the possibility of a rating downgrade, with investors and rating agencies still watching closely. One of these challenges continues to be the high unemployment rate among youth with an increase of 54.2% in unemployed youth between the ages of 15-24 in Q3 (The World Bank, 2017). According to this report, only 5,000 additional jobs were created (net) since Q3 2015. It is at this critical time that the government needs to ensure that the country is an attractive investment destination in order to attract foreign investors.

Foreign Direct Investment (FDI) is the investment into a country by a company from another country. Various investment channels are used to attract investment opportunities. A Greenfield investment is when a company starts up a new subsidiary in another country from the start without leveraging on any existing company or brand. A Brownfield investment occurs when a company invests in an existing company that already has production facilities in that country. FDI increases the net cash inflows into an economy resulting in an increase in GDP. A study by

Sumner (2005) that sought to find the role of FDI in developing economies in reducing poverty and increasing economic growth has found various outcomes per region. Asia benefits more from FDI than Africa and Latin America. FDI has been found to be good for general growth but not per capita as it benefits skilled workers more than the unskilled (poor) and therefore increases income inequalities.

Dailami, Kurlat and Lim (2012) argue that most companies from developed countries enter the African markets looking for opportunities to overcome trade barriers (e.g., tariffs and quotas). These companies also want to take advantage of trade openness (De Beule & Duanmu, 2012) as well as positioning themselves in these untapped markets (Sethi, 2009). Understanding the pre-post-merger impact is essential, especially when Rahahleh and Wei (2012) show that there is a decline in returns for firms undertaking frequent acquisitions in other emerging markets. King, Slotegraaf and Kesner (2008) report that firm's post-merger performance is reliant on certain complementary resources. Other factors surrounding emerging economies' mergers and acquisitions (M&A) deals have been found to influence performance. These factors include payment type (King, Dalton, Daily, & Covin, 2004), deal type (Loughran & Vijh, 1997) ownership structure (Wright, Kroll, Lado, & Ness, 2002), management characteristics (Krishnan, Miller, & Judge, 1997), previous performance (Heron & Lie, 2002), firm size (Moeller, Schlingemannb, & Stulzc, 2004), prior acquisition experience (Haleblian & Finkelstein, 1999) and environmental factors such as merger waves (McNamara, Haleblian , & Dykes , 2008).

In South Africa, mergers are monitored by the South African Competition Commission (Commission) and the Competition Tribunal (Tribunal). Mergers are to be reported to the Commission and the Tribunal's role is to adjudicate appeals from the Commission. The Commission reported 330 mergers that are either pending (50) or completed (280) in 2016. Of the M&A's that are completed, only 26% of them are classified as large and 14% of those have been approved with conditions. Globally, South Africa ranks number 49 out of 140 countries on the Competitiveness Index 2015-2016, performing better than advanced economies such as Slovak Republic (67th) and Greece (81st). This makes it the second highly ranked sub-Saharan African country second to Mauritius. The number of companies that have invested in SA has increased from only seven in 1990 to about 1610 in 2014 (United Nations Conference on Trade and Development (UNCTAD, 2016)). Similarly, mergers of South African companies out of SA have also increased since 1990. There is a large increase in M&A transactions post-1994 and a drop between 1998 and 2002. A positive net inflow into SA exists when considering the number of companies that have invested in the country (not by size). The world's cross-border mergers also follow a similar trend as the growth rate in cross-border M&A's has declined both in SA and internationally since 2008 (UNCTAD, 2016). A report by Delloite (2014) shows that M&A activity in Africa has been focused on South Africa and Nigeria, the top economies in Africa. Manufacturing and Financial Services are the top sectors while Health Care is the lowest.

South African companies remain favourites for acquiring companies. A report by Bureau van Dijk, (2016) ranked them 24th in Q1 2016. Among high profile mergers in 2015-2016, there was the acquisition of Mediclinic International by Al Noor Hospitals Group Plc. On the contrary, the acquisition of Pfizer by Allergan Plc was abandoned due to political reasons while the Commission prohibited the Italtile Limited and Ceramics Industries Proprietary Limited merger valued at $282million. Associated British Foods Plc, a British food processing company, increased their stake in Illovo Sugar Ltd from 51% to 100% in 2016. The year 2016 also saw the launch of the world-renowned Krispy Kreme entering Africa through KK Doughnuts SA. However, the acquisition of Massmart by Walmart in 2010 and the acquisition of SABMiller by

AB Inbev in 2016 remain the two most popular acquisitions to date in South Africa. Globally, the SABMiller takeover has been the biggest merger in the beer industry of all time (Forbes, 2016) combining the top two brands within the industry. The acquisition of Massmart by Walmart was the first of its kind in the retail space in South Africa. Both mergers are recent, the companies involved are listed and information relating to these mergers has been readily available in the media.

The aim of this study was to determine factors making the domestic firms attractive to these foreign firms. More importantly, the study sought to investigate the extent to which these cross-border mergers impact on shareholder wealth as measured by share price, operating profit and on macro-economic factors such as unemployment. The study used a case study methodology.

1.3 Problem Statement

According to the World Bank (2011), the massive growth in developing economies has been attributed to the increase in the attraction of global FDI resulting in more M&Q deals. With South Africa's GDP not showing much growth with the second and third quarter in 2016 growing at 3.3% and 0.2% after a decline of 1.2% in Q1, the attraction of FDI becomes critical.

The extant literature on M&As has found mixed results in terms of whether mergers add value to the shareholders (Tao, Liua, Gaoa, & Xiab, 2016). Some authors demonstrate specifically that cross-border M&As do not result in abnormal returns for the shareholders (Aybar & Ficici, 2009). Considering the biasness of the literature towards developed economies, the rise in M&A deals in South Africa prompts a need to investigate deals broadly. Currently, limited research has been done in South Africa despite operating one of the world's most reputable stock markets. The only literature that was found to contribute to this topic in the context of the South African market is a report by Barzeva and Grimbeek (2016). This report also uses the case study model as similar to what has been used in this report and profiles five mergers. However, the companies selected in this study belong to the food and agro-processing sector only and not all acquirers are foreign investors. Other scholars have conducted overall research on this topic such as Aybar and Ficici (2009) who focus on mergers in emerging markets in general.

Because of its infrastructural development, South Africa is viewed by most as the gateway to enter most African markets. This may be the reason why in the recent past, Walmart bought a big stake in Massmart and AB InBev has acquired 100% of SABMiller. As much as these transactions benefit South Africa through FDI, the actual mergers are supposed and expected to benefit the relevant (acquirers and target) companies' shareholders. The problem is, it is still not very clear whether there is a destruction or an enhancement of value in cross-border mergers and also what has been the impact on employment after these mergers.

1.4 Objectives of the Study

In this study, we seek:

- To establish what motivates a foreign company to acquire a domestic SA company.
- To determine whether the target company's shareholders benefit from the cross-border M&A transactions.
- To establish the short-and medium-term market reaction to M&A announcements in South Africa.
- To investigate the post-merger impact on firm operating performance and employment.

1.5 Gap in the Literature

Cross-border mergers remain relevant in South Africa and will continue to occur because Africa has been identified as the fastest growing continent with an immense amount of unexplored growth potential. The significance of this analysis stems from unknown effects of M&A deals in Africa and in BRIC countries (Sun, Peng, Ren, & Yan, 2012). Such enquiry is significant in helping emerging economies to uncover macro financial vulnerabilities that are associated with M&As. The current results are naturally expected to have not been documented before, especially the proposed firm size effect analysis. This makes it difficult to hypothesize the possible outcome of the study. For example, even Seth, Song and Pettit (2002) highlight that literature remains inconclusive in addressing this question of whether M&A deals give positive returns. Some studies have reported that M&As decrease shareholder value of the acquiring company while other studies reject the notion (Datta, Pinches, & Narayanan, 1992; Hansen & Lott, 1996). The reason for some of these discrepancies in the literature is driven by different methodology in executing the research question. Data availability also presents a major challenge that constrains the methodological options (Lin, Peng, Yang & Sun, 2009).

In our underlying analytic framework, we have followed recent studies and used abnormal and cumulative abnormal returns model as supported by Chari, Ouimet, and Tesar (2010); Peng and Beamish, (2014) and Song (2014). This procedure allows us to study the short-and long-term shifts in market share before, during and after the deal. The case study method of research has been adopted in this report. As noted by Reddy (2015), only 93 journals to date on M&As make use of this method of research. Furthermore, only 29% of these studies are conducted on M&As that occur in emerging economies. The advantage of using this method of research is that case studies examines data within its context and that real-life complexities are captured which is not the case in experimental research (Zainal, 2007). Few studies use case study as a matter analysis of how events unfold in the process of M&As. Additionally, most studies (Calandro, 2008; Erickson & Wang, 2007) concentrate on share performance from mergers announcements and do not look at macroeconomic factors such as unemployment. Therefore, by executing this analysis, we aim to fill this gap and assisting the investment community in emerging economies to uncover the true meaning of M&A in an African context.

1.6 Benefits of the study

With our analysis, we present the dynamic perspective about M&A transactions, especially post-2008 financial crisis where the global economy has been performing relatively poor with more firms holding back on investments. Indeed, the assessment of this magnitude is of benefit to various stakeholders, namely, policy makers, shareholders, companies, and the stock market.

Policy makers such as the Competition Commission will be able to use the results of this study to make decisions regarding M&As that involve developed economy companies and South African companies. Shareholders can use the results of the study to make an informed decision when voting in favour of a merger. The management of potential target and acquiring companies can use these two case studies as a learning for their future endeavours. Lastly, the stock market can better prepare itself when M&A announcements are made.

1.7 Organization of the Thesis

The rest of the thesis is organized as follows. Chapter 2 presents the literature review. Chapter 3 discusses the methodology used to test the market performance after the announcement of M&As. Chapter 4 discusses the results and Chapter 5 discusses and concludes the thesis.

Chapter Summary

South Africa has been a popular destination for companies to invest over the past years. However, very little research has been conducted to determine whether these mergers result in the creation of value to shareholders. The objectives of the study are to firstly determine if cross-border merger result in increased shareholder value; secondly, if there are any market reactions to determine if they are of a short-or a long-term nature, and thirdly, to evaluate the impact on accounting data before and after the announcement.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter reviews relevant literature on M&As. Section 2.2 gives the background of the two case studies under review. Section 2.3 presents the definition of M&As and other relevant terminologies. Section 2.4 covers the methods of acquisition and also expands on cross-border mergers in and out of emerging economies. Section 2.5 and Section 2.6 discusses cross border mergers and motives for cross-border M&As. Section 2.7 comprises of literature on the method of payment, Section 2.8 discusses hostile takeovers and defence tactics. Section 2.9 discusses the efficient market hypothesis and Section 2.10 discusses the post-acquisition returns. In conclusion, Section 2.11 closes with post-merger prescriptions, compliance thereof and impact to social welfare.

2.2 Background of AB Inbev and Walmart

Sam Walton founded Walmart in 1962. The retailer had been running its operations as a family-owned business until 1970 when it first went public. To date, Walmart has grown its business by a combination of opening new outlets and by acquiring existing retailers locally and internationally. In 2016, Walmart's revenue stream flows from three operating segments comprising Walmart US, which is the largest segment generating about 62% of total net sales. Walmart International encompasses 27 countries outside of the US and contributes 26% to total net sales and Sam's Club that contributes 12% (Walmart)

Walmart first entered the international market by opening a store in Mexico City in 1991.This then lead to a series of multinational store openings and acquisitions. Some of these investments have been successful and others not as successful. In 2006, Walmart sold its investment in South

Korea due to failing to meet the market requirements of customers in the country. In the same year, 85 of its stores in Germany were also sold due to failing to make profits. These failed investments are both due to lack of consumer "buy-in" to the American culture of retailing.

AB Inbev is built from a successful three-way merger between Interbrew (Belgium), Ambev (Brazil) and Anheuser-Busch (USA). The decision to invest in South Africa is not the company's first endeavour in operating in a developing economy as Ambev is based in Brazil. The most recent merger transaction was led by the sitting CEO, Carlos Brito. He was appointed as the CEO of Ambev in January 2004. He did not only participate in the Ambev-Interbrew merger but he was also part of the Inbev and Anheuser-Busch merger. Apart from his smooth negotiation skills and rich business acumen, this leader is known for his inordinate cost cutting measures. At the age of 55, Carlos has already led three successful international mergers during his tenure at AB Inbev. When Inbev was formed in 2008, about 1400 (6% of staff) employees in the US were laid off in addition to 1000 voluntary retrenchments in the same financial year (CNN Money, 2008). The company also laid-off an undisclosed number of workers across various functions in 2014.

AB Inbev has more than 200 brands with seven of those being ranked in the Global Top Ten most valuable beer brands. Lopes (2002) observes that brands play an important role in the strategies of companies that are in the Alcoholic Beverages industry. AB Inbev has a footprint in North America, Latin America North, Mexico, Latin America South, Asia Pacific, and Europe with North America being its highest EBITDA contributor and Latin America North is the highest volume contributor. The SABMiller merger will increase AB Inbev's market share not only in Africa but also in its existing territories. Some analysts have speculated that this gain in market share appears to be a greater driver for the current merger than cost savings.

This was not the only merger transaction that SABMiller has participated in over this period. In November 2014, SABMiller, the Gutsche Family and the Coca-Cola Company (TCCC) announced the intention to merge bottling operations in Africa to create Coca-Cola Beverages Africa (CCBA), the largest Coca-Cola bottling operation in Africa. SABMiller would have a controlling interest of 55.4% in this entity the Gutsche Family would have 31.7% and TCCC would own 11.3% of this entity. However, the merger transaction incorporated a change of ownership clause for all parties giving the other owners a right to buyout any existing shareholder that undertakes a change of ownership. The merger deal between these entities was approved in May 2016 and the first phase of forming CCBA was completed. The second phase entails incorporating Swaziland, Botswana and Zambia. The Competition Commission raised a concern as AB Inbev distributes Pepsi in other parts of the world and post the merger will also be a major shareholder in Africa's largest Coca-Cola bottler, Pepsi's biggest rival globally. A confidentiality agreement was signed between the affected parties restricting the exchange of information. Subsequent to the change of ownership of SABMiller to AB Inbev, TCCC announced in December 2016 the intention to buyout AB Inbev's stake in CCBA and refranchise to another Coca-Cola Bottler.

2.3 Definitions and type of mergers and acquisitions

According to South African Competition Amendment Act (1999), a merger happens when one or more firms directly or indirectly acquire or establish direct or indirect control over the whole or part of the business of another firm. In order to determine control, the portion of capital owned and voting rights are considered. If an entity owns more than half of the share capital, is entitled to major votes and has the capacity to appoint the majority of directors, then control is assumed. The Act further differentiates mergers into whether they are "small", "intermediate" or "large" based on threshold values. This differentiation is important as regulation requirements differ for each type. The acquisition of assets is also considered as a merger. However, for the purpose of this research, all mergers refers to the acquisition of stock and not singular assets.

Finance literature differentiates mergers into horizontal, vertical and conglomerate mergers (Correia, Flynn, Uliana, & Wormald, 2007). A horizontal merger occurs when firms that are in the same industry merge. These companies could even be competitors. An example of horizontal mergers in SA is the SABMiller and AB Inbev merger (complete) and the Massmart and Walmart merger (complete). A vertical merger occurs between two firms that are in the same industry but on different levels on the value chain. Vertical mergers pose no upfront competitive threat compared to horizontal mergers. However, the Act (South African Competition Amendment Act, 1999) has placed restrictions on any merger that will lessen competition in the market. A conglomerate is when two firms that are totally unrelated combine. The main reason for this type of merger is diversification. Mergers could also be classified as domestic or cross-border. In a domestic merger, local firms that operate in the same geographical space merge. Cross-border mergers refer to the acquisition of a firm that has a domicile that is different from it. A report by (UNCTAD, 2016) shows the increase in mergers globally from 1990 – 2002. Post- 2002, the merger wave remained flat and started to decline post 2008. These global trends are also a representation of cross-border mergers trends in and out of developing countries.

2.4 Methods of acquisition

Mergers are a mode of entry by multinationals into emerging economies (Yamakawa, Khavul, Peng, & Deeds, 2013). A firm can be acquired by either acquisition of its assets only or acquisition of shares. The acquisition of assets is more favourable if the acquirer is targeting specific assets and does not also want to inherit the firm's liabilities. Acquiring the shares of a firm would be favoured by an acquirer who wishes to buy the entire operating unit and continues with its operations in the same manner as prior to the acquisition. The latter seems to be more prevalent possibly since it is less expensive to transfer ownership of shares than the ownership of individual assets (Hiller, Ross, Westerfield, Jaffe, & Jordan, 2013).

In South Africa, there are tax benefits that accrue to an acquirer that has bought the assets of a company and not the shares. Thus, the South African Revenue Service (SARS) grants a S12C Capital Allowance to companies for manufacturing assets acquired at a rate of 20% each year (Handbook, 2016). If the target has an unused tax credit (assessed loss), then it will be to the of the acquirer's advantage to buy the shares and not the assets in order to utilize the assessed loss. Also, interest on a loan to acquire assets is tax deductible while interest on a loan to buy shares is not.

2.5 Cross-border mergers in and out of emerging economies

Cross-border mergers have grown over the last decade even though scholars have proven through the empirical studies that they are generally not very successful. Cultural differences in cross-border mergers play an important role and serve as a double-edged sword. On one hand, there could be a positive impact in the learning opportunities that arise from the integration and on the other hand, poor integration could result in adverse consequences for the merged entity

(Reus & Lamont, 2009). Aybar and Ficici (2009) examined whether cross-border emerging market mergers create value and found a 1.38% decline in announcement day returns. Additionally, they found that cross-border M&As into emerging markets destroys value for more than 50% of the analyzed transactions. On the other hand, an opposing view presented by Chari, Ouimet and Tesar,(2010) show that when a firm in a developed economy acquires a company in an emerging economy then the acquirer's returns show an abnormal return of 1.16% and no abnormal returns if the same firms acquire companies from developed markets. Also, the higher the asymmetry between these markets the higher the returns.

$H1_0$ –Cross-border acquisition deals where companies from developed countries acquire SA companies do not significantly reduce the post-acquisition returns of the target and the acquirers' shareholders.

Research on mergers and acquisitions has been conducted extensively. However, the literature on cross-border M&As in emerging market is scant. Lebedev et al.,(2015) noted the importance of isolating M&As in emerging market mergers from those occurring in developed markets as the institutional environments, corporate governance and the markets are not similar. It is also important to study emerging markets separately because the performance of the target firm is impacted by different factors. The extant literature found conflicting results on the performance of M&As in emerging markets. The origin of the acquirer also has an impact on the target's performance. Bednarczyk, Schiereck and Walter (2010) found that acquirers from Central and Eastern Europe will positively impact the target's short-term returns of related bids and negatively impact short-term returns of diversification bids. Chen (2011) conducted similar research based on US publicly traded firms. The results presented showed that acquisitions from developed markets lead to a higher labour productivity compared to domestic economies.

Luzina and Rogova (2015) reviewing mergers in BRICS (Brazil, Russia, India, China and South Africa) countries found that only 71 (19.4%) mergers out of a total of 366 sampled mergers do not create value. The country with the highest deals in that sample is China (35%) and the country with the least number is South Africa (5.2%). A report by UNCTAD on cross-border transactions from 1990-2015 also shows a similar hierarchy by country, with China (30.6%) being the most popular and South Africa (8.9%) being the least popular among the BRICS countries.

2.6 Motives for cross-border mergers and acquisitions

Unlike domestic mergers, cross-border mergers introduce various elements that can create a challenging environment for the two companies to merge and operate. Obstacles such as regulatory approval, language and cultural differences and the effects of foreign exchange need to be overcome in order to make the merger a success. The 25-year compound annual growth rate (CAGR) of international acquisitions of firms in South Africa is 19.71% from 1990 (UNCTAD, 2016). Among the reasons for this growth rate are synergies in the form of an increase in market share, cost reduction and tax advantages. Risk diversification and management self-interest are also drivers of these transactions.

2.6.1 Market Share

The valuation of the target's brands during a merger will be affected by various factors such as the acquiring firm's marketing capability and brand portfolio diversity (Bahadir, Bharadwaj, & Srivastava, 2008; Lopes, 2002). Brands play an important role in the strategies of companies in the alcoholic beverages industry and that while most industries rely on science and technologies, the alcoholic beverage industry uses its brands as part of its growth strategies in foreign markets. The existence of a strong reputable brand within the target will make it easier for the acquirer to launch new goods/services in that market and therefore increase market power. Kim and Singal (1993) found that acquisitions are driven by firms seeking to increase market power. A merger also makes it legal to align prices in order to be more competitive and capture more of the market share. Without a merger contract, companies that are found aligning prices will be found guilty of collusion (Erel, Liao, & Weisbach, 2012). Regulations can also put restrictions on the firm's growth aspects. When a firm has reached a certain point, it could be restricted from dominating the market any further (Brakman, Garretsen, Van Marrewijk, & Van Witteloostuijn, 2013). In certain instances, companies have already reached saturation in their current home country and yet still have an appetite to grow further. This would then entice the firm to acquire a firm in another country where the market is not as saturated. Some researchers (Wang, Hong, Kafouros, & Boateng, 2012) noted that firms will invest in a foreign market when the domestic market becomes too competitive. The increase in market share translates into revenue enhancement for the merged entity. This is a direct economic benefit to the shareholders of the company.

2.6.2 Cost Reduction

McGuckin and Nguyen (1995) argue that firms engage in M&A transactions to improve efficiency of their operations. In contrast, King, Slotegraaf and Kesner (2008) highlight operating costs as drivers for M&A. Synergies in terms of cost savings can be driven by, among others, economies of scale, standardization and reduction in product offerings, efficiency in warehouse costs and formation of centralized shared services (Correia, Flynn, Uliana, & Wormald, 2007). Economies of scale are driven by the increase in buying power of a larger entity versus when each entity had to buy separately. Suppliers also cannot partake in discrimination pricing as contract prices will be negotiated centrally. While this might be discriminatory to suppliers, an opportunity to supply products/services globally to the merged entity exclusively can assist in making the deal worthwhile for the supplier.

The standardization of product offerings comprises internal alignment to ensure that the merged entity runs as efficiently as possible. The duplication of similar product offerings should be kept at a minimal for a horizontal merger. An opportunity to save on warehouse costs can present itself as a synergy during mergers. The efficient planning and alignment of inventory systems and good management of lead times could decrease the warehouse costs. This cost reduction should be measured at the net of any forgone revenue of leasing the extra warehouse facilities.

Departments that are considered as “supporting functions” can be streamlined into a central point. This will reduce the staffing costs for the merged entity. However, this has adverse consequences on the community and the economy at large. Regulatory bodies are pressured by employee unions to enforce “no retrenchment” conditions on mergers in order to protect workers.

Do cross-border acquisition deals, where companies from developed countries acquire SA companies, result in increase in unemployment (Walmart)?

A subject of interest though, when addressing the reduction of costs, is the impact that this is expected to have on the final consumer. With a reduction of costs, firms are expected to compete on price levels with their competitors and should be able to offer lower price points (due to lower unit costs) to consumers. In order to analyze the effect of this, the merger needs to be classified into either horizontal or vertical as economies of scale would be the driver for the former and transfer price alignment the driver for the latter.

2.6.3 Tax Advantages

Due to different tax laws, some entities operate in jurisdictions that have more lenient tax laws than others. This could be a motive to acquire a company in that country. The incentive of other tax benefits can also be realized in the form of utilizing carry forward assessed losses and tax credits, capital allowances and tax deductions for the interest on the acquisition of assets (not shares). After an attempt to capture the drivers of synergies, Devos, Kadapakkam, and Krishnamurthy (2009) found that 1.64% of the 10.03% of synergies can be attributable to tax benefits. Davos et al., (2009) did not focus on cross-border mergers only though but rather on large mergers of publicly traded companies. An example of such a transaction is when Coca-Cola Enterprises (US) acquired Herb Coca-Cola (US) in 2001 for $1.07 billion. Incorporated in the expected synergies was an amount of $100 million attributable to tax benefits.

However, others have found that the decision to engage in a cross-border merger is not that sensitive to the tax environment. For example, Hebous, Ruf and Weichenrieder (2011) compared the sensitivity of tax between cross-border mergers and FDI Greenfield investments and found that Greenfield investments are more sensitive to the tax position more than mergers.

2.6.4 Risk Diversification

Diversification in mergers happens when a firm acquires another firm that is in a different operating geography or in a different industry. When a company diversifies by investing in a different country, the foreign exchange effects should be to the benefit of the merged entity. Expected adverse foreign exchange rates are some of the reasons why some firms do not invest internationally. Georgopoulos (2008) found that the probability of a cross-border merger increases with a depreciation of real currency in the host country. This was found true mainly in industries that are high in R&D. This is due to the fact that such industries require long-term investments and that the returns on investments are only realized after many years.

2.6.5 Knowledge Assets in the target

An acquirer could have a certain perception about a potential target's internal records and could be driven to acquire the target-based on those perceptions. However, a great dilemma arises when there is a need to value that information asset within the target (Mukherji, Mukherji, Dibrell, & Francis, 2013). Furthermore, once this knowledge has been acquired, then the transfer from the target to the acquirer might not be as smooth as expected (Coff, 1999).

2.6.6 Available Free Cash flows and Management Self Interest: The agency problem

Free Cash Flows (FCF) are those cash flows that remain after the company has accounted for its operating and its capital expenditure. These cash flows would be used either to invest in growth projects or to be distributed to shareholders. A self-interest threat will arise if a company has too much cash on hand, as managers are then faced with making decisions between various uses for the cash. The agency theory states that managers are the agents of shareholders and this inherently puts them in a self-interest conflict position.

Studies have found that drivers of mergers could be linked to managers' self-interests (Agrawal & Walkling, 1994; Sanders, 2001). When a firm has excess FCF, the pay-out policies are more contested between management and shareholders (Jensen, 1986). Among other factors, the management of a firm is evaluated by the growth of a firm from one period to the next. Murphy (1985) has found a positive relationship between sales and compensation. Upon successfully achieving certain growth targets, managers would be remunerated accordingly. This creates an incentive for management to acquire firms that appear to be profitable in order to increase their financial performance. As per the clientele effect principle, though management is required to match their clientele's dividend needs even though this might conflict with their own interests.

Levi, Li, and Zhang (2010) profiled CEO's based on their age, which is correlated to their testosterone levels in order to determine who will most likely initiate a bid. Young males initiate bids 4% higher than older CEO's and have a 2% more chance of resorting to a tender offer. This is explained by the dominance-seeking behaviour in these leaders. Other researchers have also reached similar conclusions in that CEO egos are the driving force of mergers in the US (Boucher, 1980).

Is the age and experience of the management team with previous mergers experience able to create post-acquisition value for the shareholders?

It is not only the acquirer's cash flow's position that drives mergers but also the target's cash flow. A target's high cash flow can attract firms that are looking to increase their liquidity position. Management in the target will pay-out more dividends when threats of takeover are high. Their self-interest is suppressed by the takeover threat (Oprea, 2008).

2.6.7 Past company experience and Managerial Skill

Management's past success could be a driving factor in management's overconfidence (Haleblian, Kim, & Rajagopalan, 2006; Heaton, 2002). Mergers that are driven by managements' egos are found to be value-destroying as management overestimates their capabilities (Roll, 1986). In deciding whether to continue with the deal, (Luo (2005) found that management does consider how the public reacts to the announcement if the companies announce the deal without a signed contract, if the acquirer is a small to medium cap company or if investors have a lot of information about the deal. If the public reacts positively to the news of the announcement, then the deal will most likely be sealed. However, if investors do not, then consummation will not occur. The management of the acquirer and the target rely on the efficiency of the market based on the information that investors have on the deal. A company's experience in a cross-border merger will positively impact the likelihood of a subsequent cross-border merger. Additionally, a second merger being in the same country as the first is even more likely (Collins, Holcomb, Certo, Hitt, & Lester, 2009).

Considering the diversity of these views, it is clear that more work remains to be done in emerging markets. The effects of cross-border acquisitions in the target's operating environment need to be further evaluated. Mergers usually come with a set of prescriptions from the competition regulators in order to protect the community in which the target operates. These come in the form of employment security for existing staff, community improvement social funds or long-term procurement contracts with local suppliers. While the competition commission does track these projects, more work needs to be done to measure the social impact that these projects have on various stakeholders. Also, it is worth knowing what acquiring companies do after the “commitment period” ends.

2.7 M&As Payment Methods and financing choices

The lack of internal financing is one of the key challenges in cross-border mergers. Chen, Huang and Chen (2009) argue that financing constraints present themselves more in cross-border mergers than in domestic mergers. The method of payment in a merger determines the value of a target. Acquiring firms that perceive their stock price to be currently overpriced in the market will offer a share swop as the method of payment. Di Giuli (2012) reports that the acquirers lead the method of payment discussion in order to take advantage of their mispriced stock or to avoid overpayment. However, a trade-off presents itself though when the management of the acquirer needs to decide on cash or equity. Equity financed transactions have a less likelihood of being consummated compared to cash bids. However, in cross-border mergers, the use of shares is more popular than a cash swop (Huang, Officer, & Powell, 2016).

The method of payment in cross-border mergers is informed by various factors in the operating environment. Factors such as shareholder protection, the level of a targets corporate governance standards, the stock market performance and the quality of reporting all play an important role (Huang et al., 2016). The target’s management only accepts the acquirer’s overpriced stock because they have overestimated the synergies that are expected to accrue due to the merger. Utilizing cash as a means of payment could be a signal to the acquirer’s shareholders. If an acquirer will issue shares when the firm's share price is overvalued, then the inverse is also true. If the acquirer has enough cash resources and has to make a choice between paying with cash or equity, then the former will be opted for if the current shares are undervalued to avoid dilution. Additionally, using cash eliminates any threats of control. A cash purchase also signals to shareholders that the acquirer has sufficient cash resources or has enough debt capacity to raise the required amount (Bruslerie, 2013). However, García-Feijóo, Madura, and Ngo, (2012) argue that the choice to use cash or equity is industry-specific. The level of free cash flow, financial leverage, equity mispricing, and the size of the bidder were identified as factors that influence this decision within each industry.

If a firm has opted for a cash purchase, then that transaction can be financed in either one or a combination of the three sources of finance. The firm can elect to use its internally generated funds such as cash reserves, or debt can be used to finance the transaction. If the company has no other options, then it will resort to issuing out its own equity to finance the transaction. The trade-off theory states that investors ought to use the optimal capital structure that leverages off the tax benefit of using debt (Modigliani & Miller, 1958). This encourages the use of debt as one will create value through the tax deductions on the interest expense. The pecking order theory presented by Myers (1984) states that a company would go through internally generated funds first then resort to issuing equity as the last option. The decision to use a certain type of financing over another is influenced by various factors at the time of the merger. For example, the acquiring firm's credit rating affects the firm's debt capacity and the available cash resources.

Martynova and Renneboog(2009) conceded that the decision to use internal or external financing is informed by the means of payment opted for and the sources of financing available. The financing decision also in turn affects the share premium, the company performance and the control of the company amongst other variables.

Various factors influence the method of financing M&A and these include credit rating and debt capacity and available cash resources.

2.7.1 Credit rating and debt capacity and control

Karampatsas, Petmezas and Travlos (2014) identified the role of credit ratings in the type of financing for mergers. They have found that the absence of a credit rating does not affect whether a company will use debt or not to finance their investment and two, if a company does have a credit rating then it is the credit level that will impact whether debt will be used or not. As expected, the higher the credit rating level, the more debt a firm utilizes in its financing. Firms with low credit ratings have high finance distress costs and will not use debt financing.

It is not easy for a firm that has a high level of leverage to raise debt in the market (Uysal, 2011). The level of leverage in the acquiring and target companies influences the decision to partake in a merger (Hu & Yang, 2016). Hu and Yang (2016) found that an acquirer that is highly levered is less likely to acquire a foreign target. Additionally, targets that are highly levered have a low chance of being acquired. Firms also take corrective measures post-merger to adjust their capital structure by either issuing equity to lower leverage or increase the level of leverage if it’s too high (Frank & Goyal, 2009; Hu & Yang, 2016; Leary & Roberts, 2005).

2.7.2 Available Cash Resources

The availability of excess free cash flow in an acquiring firm with no alternative projects or with projects that yield a higher return could be the reason why cash resources could be used to finance a cash purchase. Additionally, a firm could be a target because of its liquidity position (Correia, Flynn, Uliana, & Wormald, 2007).

Two main factors the literature identify as commonly affected by the method of financing are share premium and control.

Various factors have been identified to have an impact on the premium paid in a merger. The nature of shareholders and the manner in which cash bids are financed are just a few examples. A target that has a large group of stockholders will be able to negotiate higher premiums as that will assist to strengthen the bargaining power (Stulz, 1988). County level corruption as per an index has an impact on premiums. The higher the level of corruption in a host country, the lower the premiums to be paid for the target. However, domestic firms are less sensitive to corruption as they are familiar with the country (Weitzel & Berns, 2006).

Ciobanua (2015) found that the legal origin of the merger determines the turnover and the size of the control premium. Each country applies its own legal system and has its own M&A regulations which all contribute to the valuation and the share premium. Another perspective is regarding the manner in which cash bids are financed. An acquirer can either finance a cash bid in one of three ways. These methods are through internally generated funds such as cash reserves, debt or equity. All these financing and payment methods have an outcome on the amount of money that is paid as a premium on the merger (Betton, Eckbo & Thorburn, 2008). The premium on share purchases has been found to be higher on cash bids that are financed through debt compared to equity (Vladimirov, 2015). This is because firms that have debt capacity tend to overbid while those that do not need to use equity and underbid.

The manner in which a firm's cash offer is financed affects the debt equity ratio in the acquiring firm and the control. The use of debt is favoured as it retains decision making with the current shareholders. Covenants can be imposed with the introduction of debt. However, these would not usually address the operating decisions that management needs to make on a daily basis.

2.8 Hostile Takeover and Defence Tactics

A takeover is said to be hostile when the target's management resists the takeover attempts (Firer, Ross, Westerfield, & Jordan, 2012). The management of a target responds to the pressure of a takeover in various ways by using different defence tactics. Their action could have adverse consequences in the long-term though. Managers of firms facing high takeover pressure tend to be myopic in their decision making (Stein, 1988).

Literature does not provide much evidence about the correlation between the length period of the negotiations and the outcome of the negotiations. However, we can look at past examples to draw some conclusion about this. The biggest hostile takeover as reported by World Finance (2014) is that of American Online (AOL) and Time Warner. Negotiations lasted for 165 days until an agreement was reached. While this is not sufficient evidence to form a relationship between the time period of negotiations and the outcome of a deal, it is worth noting that the longer the negotiation period the more likely the outcome will be hostile.

A hostile takeover of firms can be conducted through a tender offer or a proxy contest. A tender offer occurs when offers are made directly to the shareholders while bypassing management. A proxy contest is when shareholders are persuaded to vote in a certain way. A firm's capital structure has been found to have an influence on whether a tender offer or a proxy contest will be the most likely method of hostile takeover in a merger, if any. According to Manne (1965), if a company has a block of shareholders then the likelihood of a tender offer is higher. In addition to this, Sridharan and Reinganum (1995) reports that the type of inefficiency in a firm determines the outcome of a takeover. If management is inefficient and is unable to yield a high return on assets or the firm's stock returns, then there is a high chance of a proxy contest. However, if management fails to invest in profitable projects then a proxy offer is more likely.

2.9 The Efficient Market Hypothesis

The efficient market hypothesis (EMH) stipulates that the price of a share is a correct reflection of the fundamentals of the company and therefore no investor can beat the market. Market efficiency exists in three forms in the market. The weak form suggests that shares follow a random walk and that it is impossible to predict the next price. Price changes are independent of one another and that technical analysis and charting would not assist in determining the future price. The price of the share reflects all the historical financial data about the company. There has been much debate on whether the Johannesburg Stock Exchange (JSE) operates in the weak form of efficiency or not. Some scholars found that the JSE operates in the weak form and prices follow a random walk (Bonga-Bonga, 2012; Chitenderu, Maredza, & Sibanda, 2014; Jefferis & Smith, 2005).

The semi-strong form of market efficiency suggests that a market correctly prices the shares and that only inside information can identify shares that have not been priced correctly. The strong form suggests that all information is reflected in the share price and that both public and non-public data is captured in the current share price. It is important to identify the form of efficiency in which a share trades in order to determine whether the shares are priced fairly or not.

2.10 M&As Post-Acquisition Returns

In our quest to determine the extent that shareholder's gain value post-merger, we borrow a few pieces from literature to help us understand what drives that.

2.10.1 Corporate Governance

Corporate Governance is the rules that a company needs to observe in order to give assurance to all its stakeholders regarding their interests. South African companies adhere to the King III Code and The Companies Act of 2008 as a measure of good corporate governance. However, the King III Code has opted to use the "comply or explain" framework instead of the "comply or else" framework that is required in the US on the Sarbanes Oxley Act. Martynova and Renneboog (2008) explain the impact that Corporate Governance has on post-merger returns. This study has found that if the acquirer's country of origin has better corporate governance standards, then the shareholders of the target should expect to gain value through the synergies as a result of more protection through corporate governance. Bris, Brisley and Cabolis (2008) did an extension of this and found similar results. Furthermore, they concluded that if a firm with lower corporate governance standards acquires the target, then the value of the target will not necessarily decrease.

2.10.2 Market Timing

The timing of the market should always be factored when evaluating a merger's success. During a boom, then returns will be positive while during a bust return could be negative. Defensive stocks are more resistant to adverse market fluctuations.

2.10.3 Winner's Curse

The estimation of costs while performing valuation calculation in M&A could pose as a threat to the valuation of as assets (Bloomfield & Luft, 2006). The winner of a bid has overpaid for that bid because they have paid more than the actual value of the asset. When this occurs, then premiums paid are higher due the overestimation of the values in a bid (Varaiya, 1988). This could have an adverse impact on the performance of the merged firm as there will be huge variances between the forecasted and the actual expenditures. For mergers that had cost saving as their main driver then these synergies will not be unlocked entirely. To avoid the "Winners Curse", bidders ought to bid higher than the estimated costs (Bloomfield & Luft, 2006).

2.10.4 Poor Due Diligence and breakdown during negotiations

The first stage of a merger is the due diligence. The act of due diligence has been described by various writers differently. Tsao (2009) explained that due diligence is a three step process, namely:

- searching for the potential candidates;
- evaluating the candidates, and
- assisting the after-transaction integration.

The process of searching for potential candidates involves considering many aspects like the industry, the financial and management strength and market share. An acquiring firm will target a firm that has a combination of complementary resources. King, et al (2008) potential acquirers ought to identify companies that have complementary resources as these types of mergers are associated with abnormal returns.

Once a target has been selected the next process would be to conduct a detailed analysis of the chosen company. This comprises of a quantitative and qualitative analysis of the target. Many firms base their decision to acquire on financial related synergies. However, Lodorfos and Boateng (2006) observed that when due diligence focuses exclusively on the financial makeup of potential M&A partners, analysts overestimate revenue gains and cost savings and underestimate the resource requirements and headaches involved in integrating businesses. To corroborate that finding, Ansiinger and Copeland (1996) found that acquirers that were successful are 40% more likely to conduct human and cultural due diligence. If this research is conducted extensively, then any differences can be dealt with during the negotiation phase. The negotiation phase sets the tone for how the merger will unfold.

Cross-border mergers bring about a new set of variables that will need to be considered during the due diligence and subsequently the negotiation phase. It has been found that one of the attributes to a successful merger is early cooperative negotiations (Saorı´n-Iborra, 2008). In the case of cross-border mergers, the culture of the acquirer and the target might be vastly different. However, the culture does influence the communication, the time and power (Ghauri & Usunier, 2003) during the negotiation phase. The precedence that is set during this phase sets the tone for the entire merger period. The cost of due diligence, negotiations and the integration attracts higher transaction costs in emerging market acquisitions compared to developed markets (Sun, Peng, Ren, & Yan, 2012).

2.10.5 Other challenges faced post-merger due to companies being in different domiciles

The challenges that the merging entities face due to being in different countries contribute to the post-merger performance of the firm. Some of these challenges could not be pre-empted during the negotiations phase or were merely overlooked or considered trivial. Examples of these are, inability to integrate systems timeously smoothly; change in targets operating environment and regulator's approval requirements too burdensome and not sustainable.

Cultural differences have been found to play a role in cross-border transactions. Whether it comes to FDI (Guiso, Sapienza, & Zingales, 2009), the investment into equity (Hwang, 2009) or the interest rates from one country to another (Giannetti & Yafeh, 2012), the impact of cultural differences plays a vital role. The volume of mergers between two countries that have a small cultural difference is high. Additionally, the combined returns are also higher if the companies have a smaller cultural difference (Ahern, Daminelli, & Fracassi, 2015).

2.11 Post-Merger Recommendations, compliance thereof and impact to social welfare

The approval of a merger by regulators is usually accompanied by a list of prescriptions for the merged entity. Examples of such in South Africa would be setting up a fund in order to create employment within the community in which the firm operates and retaining retrenchment levels below a certain threshold and/or maintaining certain conditions such as BEE scores. In arriving at the decision to approve a merger, regulators need to consider not only the current conditions but also the standard that will be set into the future for similar mergers in that industry (Nocke & Whinston, 2010). The compliance of these recommendations in South Africa and the impact on the society is a topic that has not been researched well by scholars to date. The Competition Commission of South Africa only conducts tracking of compliance.

Chapter Summary

Mergers are classified into various categories based on the function, location or motive of the companies involved. Literature on cross-border mergers involving South African companies is limited. Cross-border mergers are mainly driven by the need to increase market share and to take advantage of cost efficiencies. These mergers' success is determined by various factors within the merger such as corporate governance, market timing and over bidding which is informed by the due diligence performed.

CHAPTER 3: METHODOLOGY

3.1 Introduction

The purpose of this chapter is to outline the methodology used in the study. Section 3.2 lists the data and the data sources and Section 3.3 elaborates on the research design and limitations of the event study. Section 3.4 provides the formula for calculating returns and Section 3.5 expounds on the how the benchmark is calculated. Lastly, Section 3.6 explains how to calculate normal and Section 3.7 explains how to calculate abnormal returns respectively.

3.2 Data and data sources

The data needed for this research is daily company and index share prices, which is used to determine the abnormal returns pre-and post-acquisition. Accounting data, employment statistics and specific company information is also used.

Share price, accounting data and firm employment data are obtained from Bloomberg. Other firm specific data is obtained from newspapers, company websites and the internet. Because this is a case study of two prominent cross-border mergers, the research period for each spans two years before the announcement, one year for SABMiller after and six years after for Massmart.

3.3 Research design

The event study methodology is commonly used by researchers to quantify the impact of certain announcements/events on the price of an asset. Glenn and Henderson (1990) explain that event studies can be used to either determine a market's efficiency as in (Fama, Fisher , Jensen , & Roll , 1969) or as an information usefulness study. Ball and Brown (1968) used the information usefulness study to assess the extent to which a company's returns respond to an event/announcement. Despite the popularity of this method researchers (Glenn and Henderson, 1990; Peterson, 1989) have criticized the strength of its estimation, highlighting certain limitations which can however be remedied to ensure accurate results. Firstly, the index selected when estimating normal returns will have an impact on the calculated abnormal returns. An index will identify abnormal returns more if it is an equal weighted index instead of a value weighted index (Peterson, 1989). Secondly, when the market model is used to estimate returns on daily data evidence of statistically significant autocorrelation has been found. However, correcting for this does not enhance the results of the event study as evidenced by Theobald (1983). Thirdly, another known issue pertains to the estimation period. The market model estimates normal returns based on an estimation period before the event. However, Glenn and Henderson (1990) found that the alpha and beta could change significantly post the event and a new estimation period is to be used to estimate normal returns after the announcement if the event significantly changes these parameters. Lastly, event clustering is also common in event studies where too many events/announcements occur at the same time. Daily data is less prone to this as the abnormal returns are calculated at the close of each day as the announcements are made. Other recent studies (Lebedev et al., 2015; Yoo, Lee & Heo 2013; Matee & Andonov, 2016) nevertheless still continue to use this methodology and embrace this method to be reliable enough for estimations. The logic behind the continuity of this method is the fact that there is a lack of consensus in the literature regarding the best models to be adopted when investigating investment returns. However, event studies are reliable in the short-run (Khotari & Warner, 2006) when the events are known and daily data is used to accurately capture abnormal returns. In our case, we opted to use this method because it was the best fit to our objectives.

The event is the announcement of the M&A and the event date is the day on which it was announced. The period before the event date is defined in order to compute normal returns (NR). This period is called the estimation period. During this period, the observed returns are normally due as we have not found any leakage of information into the media regarding the announcements. Additionally, no M&A announcements were made regarding any other merger activity relating to the affected parties.

The event window is the period around which the announcement is made. It is important that this period is defined accurately as prior studies done by (Mandelker, 1974) shows that no significant evidence of shareholder return was found when the incorrect period was used.

3.4 Calculating Returns

The returns of a company can be calculated by the formula:

$$R_t = \frac{P_1 - P_0}{P_0} \tag{1}$$

Where R_t is the return of the stock, P_1 is the share price in time t, P_0 is the share price in time t_{-1}.

3.5 Calculating the benchmark

The market model is used to estimate abnormal returns. The model is chosen as it has been the standard model used by scholars to estimate returns and due to the ease of the computation of returns using this model.

The normal return using the single index market model is defined as:

$$R_{tj} = \alpha + \beta R_{mt} + \varepsilon_t \tag{2}$$

Where R_{tj} is the asset j return at time t, R_{mt} is the return on a market proxy (JSE Market Index) and ε_t is an error term. α and β are parameters to be estimated.

3.6 Calculating abnormal returns (AR)

The AR is defined as the difference between estimated returns and normal returns estimated using market model. These abnormal returns are calculated as follows:

$$AR_t = R_t - (\alpha + \beta R_{mt} + \varepsilon_t) \tag{3}$$

Where AR is the abnormal return at time t, R_{ti} is the asset i return at time t, R_{mt} is the return on a market proxy (JSE market index) and ε_t is an error term, α and β are parameters to be estimated. A normal return is the return estimated if the event did not occur.

3.7 Calculating Cumulative Abnormal Returns (CARs)

Cumulative Abnormal Returns (CARs) is the sum of the AR over the event window. The CAR are estimated as below:

$$CAR_t\,(t_1, t_2) = \sum (t_1\text{-}t_2)\ AR_{it} \tag{4}$$

Where CAR_t are the Cumulative AR that are observed over an event window, AR_{it} is the Abnormal Returns of asset I at time t.

The null hypothesis is to be defined as H_0: CAR = 0 for each of our case studies under review when estimating CAR under various event windows. The t-statistics are calculated as follows:

$$t = \frac{CAR\ (t1,t2)}{[var(CAR(t1,t2))]1/2} \tag{5}$$

The null hypothesis is to be defined as H_0: AR = 0 for each of our case studies under review when estimating AR when various announcements are made during the merger. The t-statistics are calculated as follows:

$$t = \frac{AR\ (t1,t2)}{\left[var\left(CAR(t1,t2)\right)\right]1/2} \qquad (6)$$

Chapter Summary

The market model is used to estimate abnormal returns under each event window. Three event windows have been adopted as similar to Yoo, Lee and Heo (2013) and are used to compare the CAR under each window. We estimate the regression from a 100-day estimation period before the announcement.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

In this chapter, we present the results of the impact on the value of the share price. Section 4.2 is the descriptive statistics. Section 4.3 shows the merger announcement effect on shareholders wealth by event window and by key event date. Section 4.4 shows the impact on employment post the announcement.

4.2 Descriptive Statistics

4.2.1 Accounting Data

Table 1: The financial status of SABMiller before and after the merger announcement

	Before		After
	2014	2015	2016
Operating Margin (Rmil)	42 913	48 528	47 602
Operating Margin (%)	25.40%	26.52%	23.19%
Operating Cashflows (Rmil)	46 120	56 775	64 305
Current Ratio	0.54	0.59	0.56
Gearing Ratio	28.13%	28.68%	24.60%
Payout Ratio	49.65%	54.99%	72.80%
Price per share	525.94	636.00	896.59
Return on Assets	6.14%	6.69%	6.10%
Return on Equity	12.83%	13.33%	11.72%

The decision to acquire a target involves a comprehensive due diligence exercise by the potential acquirer. This involves the evaluation of qualitative and quantitative information retrospectively and forecasts about the future. For SABMiller, the research period in the report is two years before the announcement and one after. SABMiller's year-end is in March and all annual financial data represented is obtained from Bloomberg in ZAR. The operating margin remained consistently high in the two years before the announcement but still relatively low compared to AB Inbev's 38.9% in 2015 (AB Inbev, 2015). The ability to convert profit into cash has however been exceptional throughout the years as evidenced by the ability to generate operating cash flows that are higher than the operating profit. Short-term liquidity in SABMiller remains consistently low. A low current ratio and gearing ratio (long-term debt) indicates that SABMiller is able to finance more of its activities with short-term debt than long-term debt. An increasing pay-out ratio signals an excess of cash on hand which is financed by the increase in cash from operating activities. It is one or a combination of these indicators that resulted in SABMiller being a favourable candidate for AB Inbev.

Table 2: Financial Status of Massmart before the announcement

	Before			After				
	2008	2009	2010	2011	2012	2013	2014	2015
Operating Margin (Rmil)	2 474.50	1 964.80	2 028.70	1 681.50	2 017.80	2 005.60	2 015.60	2 259.90
Operating Margin (%)	6.22%	4.56%	4.28%	3.18%	3.30%	2.78%	2.58%	2.67%
Operating Cashflows (Rmil)	1 639.40	888.60	1 253.60	1 137.80	312.80	1 914.50	745.60	1 770.40
Current Ratio	0.99	0.95	0.95	0.96	0.92	0.86	0.89	0.85
Gearing Ratio	22.73%	4.36%	8.98%	10.13%	12.91%	15.33%	23.51%	27.72%
Payout Ratio	59.10	63.74	68.82	98.39	73.29	71.23	84.65	81.93
Price per share	61.70	80.00	118.00	132.39	168.35	135.48	143.93	103.20
Return on Assets	11.55%	10.23%	8.77%	5.56%	6.47%	5.66%	3.92%	3.73%
Return on Equity	52.83%	41.82%	34.64%	22.56%	28.20%	26.93%	20.55%	20.29%

In the year of the announcement Walmart's operating margin for Walmart was 6.05% compared to Massmart's 4.28%. Due to larger scales, Walmart is able to obtain better efficiencies and therefore higher operating margins. Upon comparison of these margins to its competitor Pick and Pay that achieved an average of 1.2%, OI margin for the five-year period from 2012-2016 Massmart still outperformed Pick and Pay.

The ability to convert profit into cash each year is poor with almost half of the profit not converted into cash for each year before the merger. The working capital policy adopted by Massmart is moderate to conservative. The current ratio is low and so is financial gearing. The merger resulted in Massmart taking more debt than before. Despite a decline in operating cash flows, the pay-out ratio increased in 2009 and has not declined to a ratio of below 71% since the merger announcement. An increase in the asset base diminishes the ROA as the asset turnover is not high.

4.2.2 Other Measures

Type of shareholders

As per Table 3, SABMiller was owned by a total of 59,261 shareholders at the end of 2016 with the biggest percentage (39.40%) being owned by 22 other corporate entities. Banks held the least stake in the company with only a total of 9% investment held by them. In June 2009, the major shareholder in Massmart was Aberdeen Asset Management Group (12.4%), an asset management firm based in the US and the second largest shareholder was the Public Investment Corporation (9.4%). The ownership was spread across South Africa (42%), US (25%) and the UK and other (32%). In comparison to other retailers listed on the JSE, Massmart has consistently attracted a higher percentage of foreign investors (Massmart, 2009).

Share performance before acquisition

SABMiller's Jan du Plessis reported in the last Annual Financial Statements issued that the total shareholders return since listing in 1999 is about 1500%. The company has performed exceptionally well throughout the years with a 10 years Compounded Growth Rate (CAGR) of 20% since 2006. Operating margins have also improved over the past 10 years with an average of 22%. This outstanding financial performance increases the value of the company and also makes it a more attractive target. The share price of Massmart has been growing at an average of 0.20% for the financial year 2010 and only at 0.06% and 0.04% in 2011 and 2012 respectively. The 10 year CAGR is 32.62% until the announcement date.

Target and acquirers capital structure

SABMiller has maintained a constant level of leverage with the total debt averaging at 48.2% for the past 10 years ending 2015 with the highest being 53.5% and the lowest at 41.8%. The debt composition has changed over the years with a larger portion comprising long-term debt and a smaller portion of short-term debt. The average gearing levels in AB Inbev have been similar with the 10-year ending 2015 average being at 49.47%. Massmart had a low debt ratio of 2.7% in 2010 with 91% of its debt comprising of short-term debt. The debt ratio in Walmart in the same year was 24.25%, which shows a higher level of gearing.

Cash balances and FCF for target and acquirers firms

SABMiller's cash from operations in the 2016 financial statements showed a healthy $3,415million in comparison to a profit figure of $2,922 million. This resulted in a positive cash balance of 1,271 after accounting for investing and financing activities. AB Inbev had a cash balance of $6,923 million, cashflows from operations of $18,063 million and a profit figure of $9,867million. The free cashflow of SABMiller and AB Inbev was R25.78 per basic share and R71.59 respectively in 2015, indicating that AB Inbev had a more robust cash management process than SABMiller. Massmart has a strong cashflow with a balance of R1.3 billion in the year ending 30 June 2010. The average five-year growth rate in 2010 in cash and equivalents is 14%. As per Bloomberg the company's Free Cash Flow in years ending 2009 and 2010 is R194 million and R623.5 million respectively. The free cashflow per basic share in June 2010 was R3.11 compared to R25.17 in Walmart.

Market share strength

SABMiller was first or second in place in 94% of their markets in the year 2016 (SABMiller, 2016 Financial Report). AB Inbev has also had a high market share in all its territories with it occupying the first position in Brazil, Argentina, Belgium, and South Korea, among other territories (ABInbev, 2016). The only continent in which AB Inbev did not have a presence is in Africa, SABMiller's second largest market in revenue contribution led by Latin America. Massmart enjoyed increasing market shares in specific items such as Multimedia, Technology and Appliances in the year ending 2010. The introduction of Foodco, a fresh food section in Game Stores in 2011, ushered the group to new competitors and further increased market share. This raised a series of lawsuits between Massmart and its competitors Spar, Pick and Pay, and Shoprite, as Massmart's Game Stores started to sell fresh foods in the same malls where these competitors were based. These giant retailers have entered into lease contracts with the various landlords which restrict other retailers from selling any fresh food and therefore preventing any competition. This then prompted the Competition Commission to initiate an inquiry in the retail market. This inquiry commenced on 27 November 2015 and is expected to be completed in May 2017.

Credit rating

SABMiller's credit rating from Moody's Investors Service was lifted from Baa1 with a positive outlook to A3 with a stable outlook in June 2015. However, this was under review to downgrade in May 2016 to align to AB Inbev's credit rating. The credit rating from S&P Global Ratings remains at A- with a stable outlook (SABMiller, 2016).

Table 3: Other Measures in year of announcement

	SABMiller	**Massmart**
Industry	Fast Moving Consumer Goods	Retail
Type of shareholders	Banks : 0.09% Individual nominees and trusts : 5.51% Insurance Companies : 3.64% Investment Companies : 0.54% Medical Aid Schemes : 0.14 Mutual Funds : 21.45% Other Corporate Entities : 39.40% Pension Funds : 11.78% Other : 17.45%	Aberdeen Asset Management Group : 16.6% Public Investment Corporation : 13.8% JP Morgan Asset Management : 7.5% Lazard Asset Management LLC Group : 6.9% Baillie Gifford & Co Ltd : 5.4% Other (less than 5% each) : 49.8 %
Share performance before acquisition	10 year CAGR : 20.25%	10 year CAGR : 32.62 %
Target and acquirers capital structure	10 year total debt average : 48.2%	Debt ratio of 2.7% in 2010
Cash balances and FCF for target and acquirers firms	Cash from operations : $3,415m Profit: $2,922m Cash Balance after investing and financing activities : +$1,271m	Cash from operations: R1,254m Profit: R1,129m Cash Balance after financing and investing activities: R1,311.m
Market share strength	SABMiller was first or second in place in 94% of their markets in the year.	Massmart enjoyed increasing market shares in specific items such as Multimedia, Technology and Appliances in the year ending 2010.
Credit rating	Moody's Investors Service : A3 with a stable outlook in June 2015 S&P Global Ratings : A- with a stable outlook	

4.3 Effect of acquisition on the Shareholders Wealth

In order to assess the impact that the merger has had on the total wealth of shareholders, we have calculated AR and CAR abnormal returns of SABMiller and Massmart during the timeline of the merger announcements. The negotiations extended for a period of about nine months in the SABMiller merger and over eight months in the Massmart merger. We have then identified events that were announced and created a timeline showing the corresponding AR and CAR over a specific period.

Table 4: SABMiller and Massmart CAR per event Window

SABMiller CAR		**Massmart CAR**	
[-10;+15]	15.02%* (1.7)	**[-10;+15]**	1.51% (0.38)
[-5;+5]	16.81%** (2.28)	**[-5;+5]**	8.70%** (2.03)
[-1;+1]	18.22%** (2.31)	**[-1;+1]**	10.45%** (2.1)
[0]	15.85%** (2.16)	**[0]**	9.83%** (2.14)

T-statistics are in parenthesis.

*** Significant at the 1% level
** Significant at the 5% level
* Significant at the 10% level

4.3.1 Cumulative Abnormal Returns by event window

The CAR are the sum of the AR under each event window. The higher the CAR, the higher the accumulation of AR of the stock price since the start of the event window. Table 4 shows the results of the event study after using different event windows to estimate normal returns using an OLS Regression. After determining the AR of each event window, the CAR was calculated by adding all observed AR. The larger the CAR, the larger the shock to the accumulated price of the stock. To determine the significance of the results statistically significant positive CAR (+) indicate an increase in shareholder wealth and negative CAR (-) shows a decline in shareholder value. The results show all values are significant for the SABMiller merger and all CARs are positive. The most significant observation is at [-1;+1] showing a CAR of 18.22% . The CAR at [-10; +15] are smaller than that of [-1;+1] and less significant which indicates that the increase in shareholder wealth is short-lived due to declining CAR. There exists a pattern about the level of significance for each event window; the longer the event window the less significant the CAR.

The results under Massmart are not all significant and the positive relationship between M&A and shareholder wealth is not prevalent in all event windows used. As similar to the results shown by SABMiller, Massmart's CAR are short-lived as they decrease with the passing of time. Short event windows have high CAR and longer windows have lower CAR. This is an indication that information had not reached the market before the announcement with an overreaction on the share price showing CAR of 9.83% on the day of the announcement and only 1.51% 15 days after the announcement.

4.3.2 Abnormal returns by event announcement

As per Table 5, the highest observed AR is on the day of the announcement of the merger (t_0) with abnormal returns reaching a high of 15.73%. The second highest impact on a single day on the stock price is when both companies reached an agreement in principle about the M&A and the offered share price was now valued at 44 GBP, a 24% increase from the initial offered amount of 35.59 GBP.

On that day, SABMiller's closing price on the London Stock Exchange was 39.48 GBP. On the day that AB Inbev listed on the JSE, SABMiller's AR showed an increase in investor confidence in the company by a slight increase in the share price. The negative AR's observed in t_4 and t_{17} are an indication that investors' perception was that SABMiller's management was overstating the current value of the company. Management rejected both offers of 35.59 GBP and 43.50 GBP but investors did not share the same sentiment. The most significant event was the announcement to acquire SABMiller (t_0) followed by the day when both companies reached an agreement in principle for a 44 GBP cash offer. The announcement to increase the offer price to 43.50 GBP in t_{17} was not significant neither did it increase the shareholders' value.

A similar pattern of reactions by Massmart investors can be seen in the AR results in Table 6. The highest AR's were observed on the day of the announcement and the only significant return is on the day of the announcement. This overreaction of 9.8% had not yet captured the union's adverse reaction to the announcement. The main reason for the protest action by the union was job preservation as Massmart had already retrenched more than 500 workers in June that same year. Local retailers also supported the unions against the merger as they were facing competition threat. Though not significant, the offer made by Walmart positively affected shareholders returns and only when the unions raised their concern do returns decline.

Table 5: SABMiller AR per Significant Event Announcement

t	Date	AR%	
0	2015-09-16	15.73%*** (14.4836)	AB Inbev communicated the intention of acquiring SABMiller.
4	2015-09-22	-0.97% (-0.8944)	The full board rejects an offer of GBP 35.59 a share.
17	2015-10-12	-1.61% (-1.4781)	AB InBev has announced to the market today that it has put an improved proposal to SABMiller of GBP 43.50 in cash, with a partial cash and share alternative.
18	2015-10-13	9.46%*** (8.707)	SABMiller and AB InBev makes a joint statement to the London and Johannesburg stock exchanges, saying that they reached agreement in principle on the key terms of a possible recommended offer to be made by AB InBev for SABMiller. The SABMiller Board said that it would be prepared unanimously to recommend the all-cash offer of GBP 44 per SABMiller share.
29	2015-10-28	-0.61% (-0.5598)	The deadline for AB InBev to make a formal offer has been extended by a week. AB InBev stated that it had completed its confirmatory due diligence review of SABMiller and reconfirmed the financial and other terms that our Board is prepared to recommend. AB InBev has also confirmed that they have financing ready to fund the possible offer.
34	2015-11-04	-0.91% (-0.8396)	SABMiller and AB InBev release a joint statement stating that the Board has extended the deadline by a further week for AB InBev to make a formal offer to acquire SABMiller.
35	2015-11-05	-0.27% (-0.2516)	SABMiller and AB Inbev have reached agreement on the terms of an AB InBev offer to acquire SABMiller. The SABMiller Board has expressed their intention to recommend to shareholders to vote in favour of the transaction being at an offer price is £44 per share. Regulatory approval is still required in various countries. SABMiller and AB InBev have agreed a final deadline for completion in May 2017.
83	2016-01-15	2.28%** (2.099)	AB Inbev lists on the JSE

t=0: The day of the merger announcement. T-statistics are in parenthesis

*** Significant at the 1% level
** Significant at the 5% level
* Significant at the 10% level

Table 6: Massmart AR per Significant Event Announcement

t	Date	AR	
0	2010-09-27	9.8%*** (6.3379)	Walmart announces the intention to acquire Massmart for ZAR148 per share.
1	2010-09-28	-0.2% (-0.1188)	Management engages with shareholders regarding the announcement made which could result in the acquisition of Massmart for R148 per share.
45	2010-11-29	1.1% (0.7034)	Wal-Mart made a $2.3 billion formal bid for control of Massmart. This offer is a 19.2% premium and has been recommended by Massmart directors.
78	2011-01-17	0.6% (0.4182)	Massmart's shareholders have voted in favour of the acquisition.
79	2011-01-18	-1.0% (-0.6152)	An employees union, SACCAWU engages in a protest in opposition of the decision made the day before.
83	2011-01-24	1.0% (0.6119)	Due to representation requests from SACCAWU, the South African Competition Commission has applied to the Competition Tribunal for an extension.
100	2011-02-14	0.1% (0.0518)	The Competition Commission concludes its investigation and recommends that the Competition Tribunal approves the acquisition without conditions
128	2011-03-14	-1.0% (-0.6498)	Mark Lamberti has been asked to stay as the independent non-executive Chairman of the board of Massmart.
206	2011-05-31	1.2% (0.7956)	The acquisition of Massmart by Walmart has been approved with conditions by the authorities in South Africa. Unions have expressed their anger.

t=0: The day of the merger announcement. T-statistics are in parenthesis.

*** Significant at the 1% level
** Significant at the 5% level
*Significant at the 10% level

4.3.3 Value based on operating performance

Table 7: SABMiller Performance Benchmark

ROE	-2	-1	0	1
SABMiller	12.63%	12.83%	13.33%	11.72%
FTSE All-Share Index	12.28%	13.24%	5.56%	4.34%
Excess over market	0.36%	-0.41%	7.77%	7.38%

Operating Margin	-2	-1	0	1
SABMiller	24.11%	25.40%	26.52%	23.19%
FTSE All-Share Index	9.82%	6.85%	5.80%	5.24%
Excess over market	14.29%	18.55%	20.71%	17.94%

PE Ratio	-2	-1	0	1
SABMiller	16.52	24.42	25.70	27.32
FTSE All-Share Index	17.45	22.57	36.45	51.74
Excess over market	-0.93	1.84	-10.75	-24.42

The comparative analysis for SABMiller spans for two years before the announcement and one year after. The FTSE All Share Index is used as a benchmark on ROE, Operating Margin and the PE Ratio. During the year of the announcement and after SABMiller’s ROE has performed better than the market. Upon comparing the operating margin to the market’s margin SABMiller is able to extract healthier margins due to operational efficiencies. The average PE ratio for JSE companies’ ranges between 17-52 over the research period and SABMiller has underperformed after the announcement.

Table 8: Massmart Performance Benchmark

ROE	-2	-1	0	1	2	3	4	5
Massmart	52.83%	41.82%	34.64%	22.56%	28.20%	26.93%	20.55%	20.29%
FTSE All-Share Index	16.75%	11.86%	16.72%	18.51%	12.34%	11.67%	12.11%	2.92%
Excess over market	36.08%	29.96%	17.91%	4.05%	15.86%	15.25%	8.45%	17.37%

Operating Margin	-2	-1	0	1	2	3	4	5
Massmart	6.22%	4.56%	4.28%	3.18%	3.30%	2.78%	2.58%	2.67%
FTSE All-Share Index	18.80%	12.37%	16.94%	19.31%	12.76%	13.62%	14.60%	6.29%
Excess over market	-12.58%	-7.81%	-12.67%	-16.13%	-9.46%	-10.85%	-12.02%	-3.63%

PE Ratio	-2	-1	0	1	2	3	4	5
Massmart	14.02	11.58	15.55	24.30	37.21	30.86	21.39	27.13
FTSE All-Share Index	9.90	19.43	14.32	11.93	18.02	17.49	15.31	30.19
Excess over market	4.13	-7.85	1.23	12.37	19.19	13.37	6.08	-3.06

The comparative analysis for Massmart spans for two years before and five years after the announcement. Upon comparing the All Share Index performance to Massmart's results, we are able to capture any variances in financial performance. Massmart's ROE has declined below 30% in the year of the announcement and has remained low compared to the two years before. The group has four store chains each operating under a different banner. Massdiscounters consist of Game Stores and Makro. Masscash remains the highest revenue contributor, has the lowest operating margin and is composed of Rhino Cash and Carry, Cambridge and other retail brands which target a lower LSM. Massmart's operating margin declined in 2013 and remained at this lower level to date. This can be explained by a mix variance with a 2% shift in the operating margin contribution into Masswarehouse which declined profitability in 2013-2014. Compared to the benchmark index, Massmart's operating margin is way below the acceptable norm in all the years under review.

The PE ratio, which is a multiplier on earnings, is higher after the announcement compared to before in relation to the industry. Investors' future perceptions about Massmart remained positive for three years post the announcement with a negative variance in the most recent periods.

1.1 Impact on unemployment

In order to determine the impact that the merger announcement had on the employment we analysed the headcount by year of SABMiller and Massmart pre-and post the merger announcement.

Table 9: SABMiller Headcount by Year

	Before			After	
Year	**2014**	**2015**	**Average**	**2016**	**Average**
Headcount	69,947	68,808	69,378	70,089	70,089
% growth		-1.63%		1.03%	

With only one year post the announcement, the financial information of SABMiller does not give a medium term view of the headcount statistics in the company. Post the announcement it appears as if the headcount has increased yet is expected to decline significantly in the future. Included in these statistics are employees that form part of the soft drink division that is to be sold off to The Coca-Cola Company during 2017. A further reduction is expected as voluntary retrenchment letters have been issued to about 1000 management level staff in December 2016 by AB Inbev. However, management has assured the Commission that these retrenchments will not have an impact on the merger commitment.

Table 10: Massmart Headcount by Year

	Pre-Merger			
Year	**2008**	**2009**	**2010**	**Average**
Headcount	24,105	24,279	26,324	24,903
No. of Stores	242	256	288	262
Ave. Staff/Store	100	95	91	95
% growth		-4.79%	-3.62%	

	Post-Merger					
Year	**2011**	**2012**	**2013**	**2014**	**2015**	**Average**
Headcount	27,432	32,126	37,554	47,209	48,035	38,471
No. of Stores	313	357	374	392	403	368
Ave. Staff/Store	88	90	100	120	119	105
% growth	-4.11%	2.68%	11.58%	19.94%	-1.03%	

The average staff per store pre-merger announcement is 95 employees. After the merger announcement, the number increased to an average of 105 per store. Massmart employed a high number of employees in 2013 following the opening of a net of 39 new stores. This increased the average per store from 90 to 100 employees. The number of employees is positively correlated to the number of stores that are opened each year. The level of employment has been maintained to date proving that Walmart has not reduced the number of employees since the takeover. The increase in employees in 2013 corresponds with the decline in profitability experienced in the same year. A trade-off exists between profitability and the number of employees. The Competition Commission had restricted Massmart from retrenchments for two years post-merger yet even after this period has passed the headcount does not decline.

Chapter Summary

The results presented in this chapter indicate that a merger announcement and subsequent merger activities do have an effect on shareholders' returns in target companies. The effects are measured first by event windows to estimate at which level is the highest CAR. The highest CAR under both studies are on the day of the announcement and the longer the event window the lower the CAR. No information leakage has occurred as investors react the most on the day of the announcement with the highest level of significance. Event announcements also show the impact of significance each milestone during a merger will have on the Abnormal Returns for that day.

We have also found a relationship between the number of employees and profitability. Massmart's sharp decline in the operating margin can be attributed to an increase in operating costs driven by the headcount.

CHAPTER 5: DISCUSSION AND CONCLUSION

5.1 Introduction

Section 5.2 in the chapter discusses the results, and Section 5.3 discusses the conclusion of the thesis.

5.2 Discussion

The objective of the research is to determine if shareholders in Massmart and SABMiller derived any incremental value in their investments after the merger announcements. Additionally, accounting data and employment statistics were used to determine the impact that the announcement made on these performance indicators.

Motives

The acquisition of SABMiller and Massmart are both large cross-border horizontal mergers. As consistent with the literature, the main motives for acquiring SABMiller by AB Inbev and Massmart by Walmart were to increase market share (Kim et al., 1993) and to leverage on operating efficiencies for AB Inbev in order to reduce costs. South Africa is not considered as a tax haven for investors. Therefore, there are no tax advantages that are expected to accrue from the acquisitions. As both SABMiller and Massmart are listed on the JSE and all financial reports are publicly available, it can be said that the acquirers had an accurate estimations of the assets in the targets. Both companies under review have previous merger experience with a few failed transactions by Walmart while AB Inbev is a successful three-way merger between Ambev, InterBrew and Anhueser Busch. As consistent with the findings by Haleblian et al., (2006), management's past success has been a motivation to undertake in other merger transactions.

Bonds financed the acquisition of SABMiller. With a credit rating of A-, AB Inbev managed to raise debt which was rated by Moodys at A3 (Moodys, 2016). As consistent with Karamptsas et al., (2014) the company's credit rating was at a low risk and therefore debt was used to finance the acquisitions.

Value Creation: Shareholder Returns, Accounting Data and Employment

In determining whether the acquisition of South African companies' results in the creation of value, this study has found that that is not always the case. Upon analysing the share price of Massmart from the time of announcement to date, we conclude that value was in fact lost since the acquisition as consistent with a study by Aybar and Ficici (2009). Any increase in value was short-lived and offset by negative news emanating from disgruntled union members. In contrast, SABMiller's shareholders continued to enjoy growth in their investments after the merger announcement with slight adverse share price movements (t_{29}, t_{34} and t_{35}) in which markets correct for at later periods (t_{83}).

Upon analysing Massmart's accounting data, we noted a decline in the Return on Equity relative to the benchmark with an 8-year low of 20.29% in 2015. Operation margins have remained lower than the benchmark but have also declined since the merger announcement. The declining trend in turn affects the PE ratio which is a multiple to value a company based on the future expectations. SABMiller has outperformed the benchmark on both Return on Equity and Operating Margin after the merger announcement. The PE has increased after the merger announcement but not at the same rate as the benchmark.

Since the merger, the headcount in Massmart has increased by an average of 10 people per store. The study by Nowiński (2006) asserts that in cross-border mergers, retrenchments contribute to merger success more than integration depth or changing the management. This can explain the declining profitability since the announcement and the loss of shareholder value.

Corporate Governance, the timing of the transaction in relation to other market activates and overbidding have been identified as factors that could affect post-acquisition returns. Upon analysing these factors within the context of the case studies under review, it has been found that the corporate governance standards of both target companies are high as they are listed on the JSE. Walmart's corporate governance standards are higher than Massmart as it is listed on an exchange that is ranked higher. As per Bris et al. (2008), it does not appear as if any synergies accrued to Massmart through this increased shareholder protection. Both mergers occurred after the most recent global financial crisis to date with the Walmart merger occurring at a time when the markets were still recovering and the AB Inbev at a later date. Our model factors the market timing as abnormal returns are computed relative to the market's performance. Both CEO's have experience in international mergers. The due diligence performed informs the offer price per share to the shareholders and should be comprehensive to avoid overbidding. Walmart's management has overpaid for their 51% stake in Massmart with the share price being 30% lower than the offer price six years after the announcement as consistent with Varaiya (1998). SABMiller's closing share price was 44.95 GBP upon delisting in October 2016, which is equal to the offer price of 45 GBP. A more accurate valuation done by AB Inbev indicates that no value has been lost due to the acquisition.

5.3 Conclusion

- The main reasons behind the acquisition of Massmart and SABMiller were to increase the market share as both acquiring companies did not have a presence in Africa. AB Inbev also expects to extract cost synergies due to streamlining operations.
- SABMiller's shareholders have benefitted from the merger announcement due to an increase in the share price post announcement. As the company has been delisted, we could not measure the effect on returns post integration. Massmart's shareholders have lost their investment's value through price depreciation since the acquisition.
- The JSE is efficient in the semi strong form as the merger announcements were most significant on the merger day. The overreaction was short-lived in the Massmart case as other adverse news affected the share price negatively. SABMiller's shareholders enjoyed a higher shareholder return for longer.
- The medium-to long-term post- merger impact on SABMilller could not be measured due to the timing. Massmart's operating margins have declined and employment increased.

Despite the extensive literature of mergers and acquisitions globally, there exists very little case study research conducted on mergers into Africa and fewer on South African mergers. With this study, we sought to contribute to the literature in two ways; firstly, we report on the results of two case studies in South Africa and the impact that merger announcements have had on their returns. Secondly, we find that these reactions could be short-lived if adverse announcements follow the merger announcement such as protest actions by employee unions. There are limitations to the study as we have only isolated two case studies of mergers that have occurred in South Africa. The estimation of abnormal returns is subject to human error. Future research should aim to investigate the post-merger performance of a larger sample of firms. SABMiller's long-term post-merger announcement financial results have not been captured as the company has been delisted and operates as AB Inbev at the time of concluding the research. The measurement of AB Inbev profits in Africa could not be measured due to the timing as these results are not yet available.

APPENDIX

Table 11: Merger Background

	SABMiller	Massmart
Merger Background	On the 16th September 2015 AB Inbev communicated the intention of acquiring SABMiller. AB Inbev cited two fundamental reasons for the acquisition namely i) cost savings and ii) growth opportunities. The shareholders of SABMiller accepted the offer about 56 days after the offer price was revised about four times. Notably, one of the main shareholders called Public Investment Corporation (PIC) that owned 3.42% was highly concerned about the impact of the deal on the economy if it goes though. Job losses and the adverse impact thereof on the country was the main concern. Additionally, it was not clear initially if AB Inbev would still keep SABMiller listed on the JSE or not after the transaction. Nevertheless, after some shareholder activism the deal was successful with AB Inbev management committing to minimizing any possible job losses and to keep the new entity listed as AB Inbev on the JSE after delisting SABMiller.	The intention to acquire 100% of Massmart was communicated on 27 September 2010 by the management of Walmart, an American family owned retail business. The reason for the acquisition was the need to increase the company's presence and expand into unexplored markets. The initial offer price was not revised and 106 days later the offer was accepted by the shareholders of Massmart. The first price proposed was accepted by stakeholders with no public shareholder activism. Employees were concerned about job stability while management and shareholders saw this as an opportunity to have access to more scales of economies. Walmart had an intention of acquiring 100% of Massmart but scaled down to only 51% which is just enough to have control.

Length of negotiations and critical stages in the negotiation process	The merger between SAB and AB Inbev took longer to conclude due to the various stakeholders that were involved. Initially, the management team at SABMiller showed some resistance towards AB Inbev. The entire merger was approved by the competition commission in South Africa on 31 May 2016, less than a year after the announcement to acquire was made. This is a shorter period than the time it for the Competition Commission to decide on a local merger between Coca-Cola Bottling partners in South Africa to form Coca-Cola Beverages South Africa. This merger announcement was made on November 2014 and was only approved in May 2016, 18 months later. The experience of AB Inbev's leadership team in international mergers can be attributed to this speedy resolution.	The intent to acquire Massmart at a price of R148 per share was announced on 27 September 2010. On 14 February the Competition Commission referred the matter to the Competition Tribunal. This is after an extension application by the Competition Commission that was raised due to labour concerns initiated by SACCAWU. The intention to retain Mark Lamberti, the current CEO of Massmart was communicated by Walmart on 14 March prior to the approval by the Competition Tribunal. After 106 days of engaging with various stakeholders the Competition Tribunal approved the merger with conditions. The entire transaction took a total of 246 days from the day it was announced until the day approval was obtained by the competition tribunal.
Cost Synergies	Bloomberg (2016) further states that the cost saving from the deal is less than the previous savings synergies that AB Inbev obtained. The cost savings as a % of sales of the merger is just below 10% whilst the group's latest acquisition in 2012 of the remaining share in Mexican brewer Grupo Modelo yielded almost 16% of savings as a percentage of synergies. The new merged entity promises to bring efficiencies through procurement, distribution, productivity and by sharing best practice in the management of costs. These synergies are expected to compensate for the loss of revenue from the sale of these world-renowned brands. An estimated $1.4 billion per annum is expected in cost savings by the end of the fourth year	

	after the formation of Mega Brew (ABInbev, 2016).	
Financing	In order to finance the $110bn deal AB Inbev issued bonds over the negotiation period. In January 2016 AB Inbev issued out corporate bonds to the value of $46bn. In March 2016, a further $15bn (13.25 euros) in bonds was issued to provide the company with even more financing for the merger. The option of utilizing shares in order to finance the deal was only open to the main shareholders of the SABMiller being the Santa Domingo Family and the Altria Group who owned 15% and 27% respectively.	
Merger Conditions	The current SABMiller - AB Inbev deal in South Africa is structured under the following conditions set by the Competition Commission: A fund that will serve the purpose of empowering members of the community is required to be set up. This fund is to finance the agreed upon projects over a 5-year period. A secondary listing on the JSE is required in order to ensure that SABMiller is replaced once it has been delisted. A commitment of R50m was required in order to finance projects that aim to reduce the harmful use of alcohol.	The South African Authorities granted the deal in May 2011 under the following conditions There should be no retrenchments for a period of 2 years after the transaction has been completed. Before the merger was announced Massmart had retrenched 503 employees. These employees need to be considered first when opportunities are available. The status of SACCAWU as the largest representative union should not change for three years. A committee is to be set-up by the merged entity to administer a R100mil fund which is expected to serve the purpose of developing local suppliers for 3 years. A status report of the progress of the fund should be given to the Competition Tribunal of South Africa annually.

	In preparation for the merger, SABMiller's management disposed of some of its prominent brands namely Peroni, Grolsch and Meantime beers in order to smooth regulation approvals in Europe.	
Method of payment and premium paid	SABMiller has been acquired through a cash offer too and a share option for the two main shareholders being Altria Group and BevCo. These two main shareholders voted as a separate share class and were both given a share option too. The initial offer price of 44 GBP was increased to 45 GBP post the adverse currency fluctuations caused by Brexit, this increase in the offer price was put forward by AB Inbev to protect shareholders' interest.	Walmart paid in cash for the acquisition of Massmart and not through a share exchange. This is due to the high risk of entering into a developing market and the uncertainty of whether the endeavour will be profitable or not. Utilizing cash as means of payments gives Walmart an easier way out of the transaction of there is a need to disinvest. The price per share of R148 represents a 19.2% premium on the average share price of Massmart.
Corporate governance standard	SABMiller has complied with the UK Corporate Governance Code which also follows a "comply or explain" doctrine. Five counts of nonconformity to the code were listed in the 2015 Annual report and the reasons thereto. Both companies are listed on major exchanges and the requirement of good corporate governance standards is imperative to their eligibility to remain listed and not an option although this comes at a cost.	The King III Report is a standard of good corporate governance in South Africa. The King III Report requires a "comply or explain" doctrine as opposed to the Sarbarnes Oxley Act which has adopted a "comply or else" doctrine. In 2010 Massmart has declared their compliance to King III with eight exceptions and explanations, the major being that Mark Lamberti the Chairman of the board has not been considered to be independent as he used to serve as the CEO in prior years. However, all the other four board committees had independent directors.

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