Cass Business School
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M&A: It pays to pay for PR, study finds

Companies can boost their chances of closing M&A deals by paying more attention to communications

M&A deals are more likely to succeed if companies invest in good quality PR, according to a new study.

Companies can boost their chances of closing deals by ensuring a ‘properly resourced’ communications team is established early in the deal process.

The study by Cass Business School’s M&A Research Centre found a clear link between good quality announcements and deal consummation.

Titled ‘Selling the story’, the research examined communications activity around 198 public-to-public M&A deals in the UK between 1997 and 2010, worth at least $100 million. It found:

- **Proactive announcements count**: 84 per cent of deals announced as actual offers are completed, compared with around half of those which were announced in response to a leak
- **PR firms earn their fees**: deals involving PR firms have a higher chance of completion than those without
- **Leadership matters**: announcements with statements from both companies’ chair/CEO are associated with significantly higher levels of success than those without
- **Markets reward uncertainty – in the short-run**: leaked M&A deals, or announcements lacking information about the underlying strategic rationale, are actually rewarded by the markets in the very short term

“The research clearly shows the importance of properly resourcing deal teams’ communication efforts,” said Professor Scott Moeller, director of Cass’s M&A Research Centre. “This is especially the case given the proliferation of social media, and the need to be responsive to a much wider range of stakeholders.

“But it also throws up some surprising findings around the immediate market response to deal announcements,” he adds. “For instance, it appears that equity markets can – in the very short term at least – reward a lack of public information about an M&A transaction.”

Proactive announcements count

As might be expected, transactions with ‘actual offer’ communications were successfully completed 84 per cent of the time, compared with just over 50 per cent for those deals where initial communication was in response to press or regulatory inquiry.

With half of deals involving reactive announcements failing to close, leaks remain serious threats to M&A deals.

PR firms earn their fees

According to the study, deals where both companies involved were represented by PR agencies had the highest completion rate. And deals in which just one company hired a PR agency had a better completion rate than those with no agency involved.

“Whether it’s from a PR agency, a strong in-house communications team, one of the bankers or the CEO, what’s important is someone who believes in the usefulness and power of good communications,” argues Chris Salt, a partner at Headland, a London-based financial and corporate communications consultancy. “If you start to think about communications when you’re crafting a press release or a regulatory news statement, you’re in trouble.”

Leadership matters

Deal announcements containing quotes from CEOs or chairmen of both the target and the acquirer companies had the highest rate of closure, at 91 per cent. Those with no leadership statements were successfully completed 67 per cent of the time.

By comparison, a leadership statement from just one side had the lowest completion rate of 57 per cent. “This might be because the absence of one side from the announcement indicates hesitancy or outright opposition to the deal,” said Professor Moeller.

Michel Driessen, head of operational transaction services at professional services firm EY, added: “It’s very important that leadership is visible – not only at the announcement, but throughout the whole deal.”

Time the market

The timing of deal announcements was also crucial. Deals revealed before the start of the trading day were far more likely to be completed than those unveiled after the market opened.

Deals announced between 07.15am and 09.00am had the highest success rate – posting an 87 per cent completion rate. This fell to 64 per cent for those announced after 09.00am.

Markets reward uncertainty – in the short-run

Intriguingly, markets failed to reward deals that were proactively announced in the short-term compared with those where the initial announcement was outside management’s control.

‘Actual offer’ deal showed an abnormal return of 2 per cent over the five-day period studied, compared with 6 per cent for ‘response to speculation’ announcements.

Jeetesh Singh, co-author of the report, and a recent Cass MBA student, said: “It may be that this sort of speculation causes a stir in the market, leading to the target company being bid up.”

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