STOCKHOLM SCOOL OF ECONOMICS

Corporate Acquisitions and the Operating Performance of Swedish Companies

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Abstract

Mergers and acquisitions play today an important role for the expansion of firms and are the result of strategic plans developed by management. In marketing and rationalizing acquisitions, company leaders make use of operating synergies as one of the major motives for engaging in acquisitions. This thesis aims at studying the difference between corporate expectations and the realized operating synergies. In our study we have included eight mergers and acquisitions where Swedish companies have conducted a large acquisition of another listed company during the period 2000-2007. We seek to uncover the effects of an acquisition on operating performance and comparing it to corporate expectations prior to the takeover. Although operational improvements are observed, our findings are in-line with theory stating that managers are likely to overstate their expectations regarding the potential synergies that can be realized from an acquisition.

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1 Introduction

The merger and acquisition (M&A) flourishing activity of the last century shows very few signs of decline, as proven by the latest corporate transaction trend report published by Ernst &Young (Q3, 2011) revealing that M&A activity once again is increasing and getting very close to the pre-crisis levels of 2008. Specifically, it reports the highest number of completed transactions in Sweden since Q4 2007. And even if economic downturns and plummeting stock markets temporarily affect M&A growth and result in surges and downfalls in the number of deals observed, we can note that on average, M&A activity has never stopped increasing since the first wave started in the late 1890's, indicating that it is a preferred tool used by executives to create value and grow their companies.

The M&A market have the ability to continuously generate deals where acquirers are paying large premiums, with European premiums averaging 20.5% in the first three quarters of 2011, reaching their highest since 2008 (Mergermarket, Q3 2011). This shows one explicit pattern: managers are willing to make deals, and believe they will create value by realizing synergies. But what exactly does this term stand for, synergies? The word was first introduced in the context of M&A during the 1960's acquisition wave to designate gains from conglomerate mergers that could not be readily identified, but were supposed to be present to describe why the acquisitions took place (Mueller & Sirower, 2003). In technical terms, it means that the combined entities' competitive strengths and cash flows are superior to what the two companies can accomplish individually (Seth,1990).

Executives acquiring companies use synergies to rationalize deals and premiums. Consequently, if the word synergy is used without caution, acquirers are on the verge of great disappointments as they start out to capture and realize the benefits of the combined firm. What they are referring to are expected increases in cash flow, not real synergies. Those can only be realized after a deal is completed (Ficery, Herd, Pursche, 2007). This leads us to ask ourselves why executives use synergy as a motive when it is unclear they know what it stands for. And even further, how can they value these benefits beforehand? As we do not intend to answer what synergies are, or even how they should be captured, we aim at comparing what executives expect in terms of OCF's labeled under the term "synergy" and what they actually realize once the deal has been completed and the two firms have physically been combined.

If mergers and acquisitions take place because of the possibility for the combined entity to take advantage of synergies, then an important question arise. What do managers expect from them, and how successful are they to capture these synergistic benefits. There is a number of reasons given by firms willing to spend cash or stocks to why they acquire or merge with other firms. Among these reasons we find the possibility to enhance market power, exploit tax benefits or taking advantage of cheap stock prices (Ravenscraft & Scherer, 1988). But the main reason stated by one third of managers is the opportunity to take advantage of operating synergies (Bhide, 1993).

While M&A activity shows that management believe in value creation through this activity, this view is quite opposed to the one of many capital market actors, questioning whether M&As truly add value. In a recent study performed by the Rotterdam school of management and PwC in 2011, analysts and investors globally were asked what the reasons for failure in M&A were. Ranking first is the too optimistic synergy expectations upfront, making them then difficult to realize.

Executives also indicate the unfulfilled realization of synergies as a cause of poor M&A performance. Only half of the senior executives surveyed in a 2006 Accenture/Economist Intelligence Unit survey thought that their firms had attained the revenue synergies they had projected from their M&A activities, and just 45 percent stated that anticipated cost synergies had been captured. This shows us that although studies demonstrate that acquirers have improved at detecting and capturing synergies, numerous deals still cannot justify their acquisition premiums and others fail to achieve the long list of benefits advertised by management as the motivations for making the deals initially. Some of those failures being clearly the result of paying too much for what is acquired. But others are attributable to an erroneous understanding of what synergies exactly are and how one can fully capture them.

1.1 Purpose

Given our previous discussion, we aim at studying Swedish acquirers' expectations of operating synergies in M&A deals and how well they realize those synergy expectations. Because there is this supposed gap between the corporate expectations of firms executives and the realized synergies, we want to develop knowledge in this field of study and analyze the differences between operating performance pre- and post-M&A.

One of the main reason firms engage in such operations is the possibility for the combined entity to take advantage of synergies, which can take various forms, divided in two main categories: financial and operating synergies. Our study will focus on the latter to discover if operating performance does improve with M&A, and if so how that improvement, in terms of value, compares with the announced amount of synergies made by management at deal announcement date. This implies studying the returns and operating performance of firms both pre- and post-M&A. Although many studies have focused on stock returns to determine M&A performance, there is a shortage of studies focusing on the changes in operating performance. From our standpoint, this makes it even more interesting to analyze how well Swedish acquirers have succeeded in realizing the expected synergies.

1.2 Thesis layout

We will start our study by reviewing the literature relevant to the field of study. This implies taking a closer look at what has been researched about M&A in general and more specifically about the subject we focus on: operating performance post-M&A. Building on this theoretical knowledge, we will develop a research method based on a comparison between operating performance pre- and post-acquisition, enabling us to assess the level of success in transforming announced synergies into real economic gains. We will use this method when studying eight deals made by Swedish acquirers between the years 2000 and 2007. For each of these transactions, we make a detailed assessment of the deal, including an analysis of the strategic background and managerial motives, retrieving and analyzing accounting data from financial reports and finally comparing the operating performance of the combined firm with the "as if" performance of the two firms without any synergies. To mitigate macro-economic factors influencing the post-acquisition performance for the combined firm we will compare our results with an industry peer group operating in the same macro-economic landscape. Consequently we will get a result that will allow us to assess the deal and how it compares with the managerial expectations expressed at transaction announcement date. We will end the paper by analyzing and synthesizing our results to formulate concluding remarks and findings.

2 Previous research

This previous research review is divided into five parts starting with a broad introduction of research performed in the field of M&A. Next, we briefly discuss studies based on stock returns before covering previous research focusing on analyzing operating performance changes and synergy realization.

2.1 M&A in academic literature

The starting point of our study is to uncover the history of M&A and the different perspectives that have been utilized to tackle the problem of assessing performance in M&A's. To do so we need to know why M&A occur and when it occurs in order to get an understanding of the bigger picture. The first acknowledgement we can make is that M&A come about in waves (Martynova & Renneboog, 2008). As this activity follows cycles, there must be some setting that is more adequate for M&A to prosper: each wave tends to be launched by changes in the economic, political and regulatory environment (Martynova & Renneboog, 2008). We can also observe that there is an increasing number of deals of growing value (Andrade, Mitchell & Stafford, 2001). Consequently there has also been an increasing interest from academics to study consequences of M&A's on company performance and value. Many researchers have tempted to measure gains by analyzing stock returns around announcement date (Langetieg, 1978; Dennis & McConnell, 1985), suggesting that shareholders from the combined firm actually gain from acquisitions (Andrade et al., 2001). However, these studies cannot reveal if those stock returns transforms in real economic gains over time (Healy, Palepu & Ruback, 1992), which has sparked the interest of academics to study the corporate operating performance changes in the years following a merger or acquisition. Their intention is to verify whether the stock market reaction is due to real economic gains or to capital market inefficiencies, which implies challenging the view that stock markets reacting rapidly to new information because they are "efficient" (Fama, 1991). A number of academics do not believe in the latter and even perceive this lack of "efficiency" as the major drawback of studies based solely on stock market returns. Therefore there has been a growing, though limited, number of studies focusing on operating performance changes to assess M&A performance (Healy et al., 1992; Ghosh, 2001; Ravenscraft & Scherer,1988; Switzer, 1996; Dickerson,Gibson & Tsakalotos, 1997) and provide another perspective, different from merely looking at stock returns. As we aim at studying operating performance changes because of the better insight that it may provide, we will return to the subject in a later section.

Given the considerable number of M&A's around the globe and the large values involved, firms should be expecting benefits from their M&A activity. It is difficult to draw conclusions from academic research on why acquisitions and mergers have gained such popularity over time. It is often stated that target shareholders and bidder shareholders do not have the same fortune when it comes to economic gains arising from M&A, with most of the value going to the target company shareholders (Andrade et al., 2001), which is sometimes called the "Winners curse", showing that acquiring a firm is everything but a simple task. Jensen (1984) said that shareholders' capital increases in M&A's are resulting from improved operating performance and better efficiency. Recent research has delivered contradictory evidence on the existence of gains to bidding company shareholders and on the presence of net capital gains (Rahman & Limmack, 2004). A potential method of reconciling the contradictory results is to propose that acquisitions do improve operating efficiency on average, but acquirers just overpay the benefits. Researchers who have tried to tackle the question as to whether acquisitions really lead to an enhancement of operating performance have usually found restricted evidence to support this hypothesis. As we aim in this paper to determine how operating performance develops following an acquisition, and not to describe shareholder wealth effects, it is less important to determine which group of shareholder, if any, benefits from potential improvements in operating performance. We are rather concerned with detecting if acquisitions in Sweden have been able to set in motion operating performance improvements. We have therefore centered our analysis on the OCF performance of Swedish acquirers' involved in M&A's in the period 2000-2007. As we will compare the operating changes observed in the post-acquisition period to the initial expectations of management at announcement date, the next part will review the motivations of company leaders for making M&A deals.

2.2 Motives behind M&A

There is a number of reasons for which a company could contemplate taking part in an M&A deal. Therefore, and for a long period of time, there has been an ongoing debate around the motivations of acquirers in M&A. The grounds for this discussion is that empirical studies have shown that cumulative abnormal returns are most of the time around zero (Jensen &

Ruback, 1983), which ultimately urges us to ask ourselves why companies would embark on acquisitions if those are not value creating. Several arguments have been exposed in literature to explicate what appears to be an irrational behavior. Causes for acquisitions are various and include economies in scope and scale, the attempt of creating a monopoly or oligopoly, though this has been much regulated through anti-trust laws, to achieve tax reduction opportunities (Brown & Ryngaert, 1991), to take benefit from undervalued firms on the stock market (Ravenscraft & Scherer, 1988) or even other factors directly linked to managerial behavior which could to some extent clarify why cumulative abnormal returns have been close to zero in prior stock return studies.

One of the hypotheses explaining why corporate takeovers occur is in the center of our thesis: they create value through the realization of anticipated synergistic benefits rather than through the reassessment of formerly undervalued stocks (Bradley, Desai & Kim, 1983). If those synergistic benefits are indeed the source of value in corporate takeovers, then these improvements should be reflected in the operating performance post-acquisition (Switzer, 1996). Managers engaging in M&A should be focused on creating value through combining strengths, i.e. realizing the synergies they declare at announcement date. However, because synergies are often misused in advocating a deal, it is difficult to determine if synergies are the real motive for the M&A. This question is crucial and literature has shown that the motive has a major impact on M&A success. Therefore we will describe in the following section the three main motives behind M&A as extracted from literature: Synergy, managerialism or agency and hubris.

The first motive is the synergy motive. It suggests that such deals take place when the value of the combined firm is greater than the sum of the individual firms (Seth, Song & Pettit, 2000). This implies that executives only engage in M&A activities that result in benefits for shareholders, referred to as a shareholder value maximization behavior (Berkovitch & Narayanan, 1993). Denoting that managers are motivated by the idea of creating value for the shareholders but also have the ability and skills to accurately judge the potential value that can be extracted by combining the two entities. Hence, if the combined firm outperforms the combined individual firms, the synergy motive can be retained as the explanatory cause of increased performance, adjusted for outside economic context. The majority of gains in M&A can be explained by the synergy hypothesis (Seth et al., 2000), which strengthen our view that improved operating performance can be attributed to synergies. However, a large part of M&A fails to capture any value from the deal, indicating that managers do not always focus on shareholder value and do not necessarily have the ability to detect sufficient value potential.

The second motive and one tentative response to failure in M&A include the principal-agent relationship between management and the shareholders of the firm. Under the agency hypothesis, the manager is supposed to pursue his personal goals by growing the business without having a focus on shareholder value. This can be due to several factors such as the willingness to reach short term goals towards increasing own profits. Therefore, the growth of the firm trough M&A does not reflect a beneficial deal for the company and the price paid is not linked to the value of potential synergies. Hence, if there are no synergies involved, or other gains from combining the two firms, each monetary unit paid in excess of the market value, assuming the market has correctly priced the target firm, will be a loss for the acquiring firm shareholders (Mueller & Sirower, 2003). Such behavior is existent in unsuccessful M&A's showing that negative returns are correlated to agency issues (Berkovitch & Narayanan, 1993).

The third motive for engaging in M&A's is the Hubris hypothesis. Under this view, acquisitions are made on the basis of incorrect valuations and estimates made by management while there are no synergistic benefits. If the synergies are assumed to have a zero value, there is only a transfer of funds between bidder shareholders and target shareholders. As a result, the higher the target profit, the higher the bidder loss, and it is a zero-sum game (Berkovitch & Narayanan, 1993). Because takeover decisions can be viewed as individual decisions, overbearing presumptions of bidders that their valuation is correct can lead to poor M&A performance (Roll, 1986). In its strictest form, there should be no total gain in a Hubris driven deal. This does not exclude synergy realization to some extent, even if below corporate expectations due to a misevaluation or an overestimation of potential gains. This point is especially interesting for our study, since we can rationally anticipate expectations to differ from actual results. Hubris can be one path to take when explaining the differential between result and synergistic anticipations. However, contrasting with the Hubris hypothesis is the more recent management literature that suggests that managers learn from their past experiences (Hayward, 2002). Yet, empirical studies have shown that cumulative abnormal returns (CAR) tend to decline during successive deals (Atkas, De Bodt & Roll, 2009), which would give credit to the Hubris hypothesis of overestimation of synergies in acquisitions.

2.3 The Stock returns approach

There is near unanimous agreement among researchers that target stockholders benefit from mergers, as evidenced by the premium they receive for selling their shares. The stock price studies of takeovers also indicate that bidders generally break-even, and that the combined equity value of the bidding and target firms increase as a result of takeovers. Some papers have failed to provide significant proof of increased value due to limited samples (Jensen & Ruback, 1983). Other studies, in an attempt to escape from sample selection bias, have analyzed very large samples of over 10000 deals (Moeller & Schlingemann, 2004) showing that cumulative abnormal returns are on average positive and substantial (~1,5%). Other studies indicate the evidence that on average the combined dollar value of acquired and acquiring firm's increases by a statistically significant amount (Dennis & McConnel, 1985). These increases in equity values are typically attributed to some unmeasured source of real economic gains: synergies. There is a strong positive relation between post-merger increases in operating cash flow (OCF) and abnormal stock returns at merger announcements, indicating that expectations of economic improvements underlie the equity revaluations of the merging firms. However, for those synergies to be fully accounted for in the stock price, one must rely on the efficient markets hypothesis (Fama, 1991) which implies assuming that investors' expectations of these future synergistic benefits will be replicated in the participating company's stock prices at acquisition announcement date. However, this has not been verified (Caves, 1989) and Healy et al (1992) advocate that capital market studies have failed to provide evidence that equity gains arise from real economic gains and not from market inefficiencies. To fully understand if the equity gains are attributed to real economic gains, one must study the operating performance changes post-acquisition. Therefore we will review the literature focusing on the operating performance changes following an acquisition in the next section.

2.4 The Operating changes approach

As we discussed earlier, it has been common to study stock reaction and performance to assess M&A performance but much less has been written about the operating performance changes that could potentially result from an M&A deal. One of the most important studies analyzing changes in operating performance is the article by Healy et al. (1992). They examine the post-acquisition operating performance of merged firms using a sample of the 50 largest mergers between U.S. public industrial companies. The results indicate that merged firms display significant improvements in asset productivity relative to their industries after the merger, leading to higher post-merger OCF returns. The rationale behind why they use the largest acquisitions has several important advantages over a similarly sized random sample. First, if there are economic gains from a takeover, they are most likely to be detected when the target firm is large. Second, while the sample consists of a small fraction of the total number of acquisitions in the sample period, the total dollar value of the 50 firms selected accounts for a significant portion of the dollar value of takeover activity. Finally, it is less likely that the acquirers in the sample undertake equally large acquisitions prior or subsequent to the events, reducing the probability of including “noise” in their analysis.

Different methods are used for studying changes in operating performance and a certain number of elements render results difficult to appreciate. Ghosh, (2001) presents a study where his findings do not suggest any significant improvements in operational efficiency after an acquisition. Furthermore, he provides some criticism towards Healy’s et al (1992) study claiming that when he uses exactly the same research approach only adjusting the analysis for not including companies which have outperformed their industry peers prior to the research he does not find any evidence signifying operational improvements along merging firms following the acquisition. In particular post-acquisition operation cash flow does not improve.

Martynova et al. (2008), presents results along the same line as Gosh (2001) showing that out of 26 studies analyzing changes in operating performance following an M&A deal, 14 report a decline in operating performance, 7 cannot see any noteworthy changes and only 5 report evidence of significant positive effects on operating performance.

Our discussion illustrates how difficult it is to find a consensus around operating performance changes post M&A. This is due to a number of factors. For example, studies analyze different type of companies engaging in M&A activities. Whereas some studies focus solely on very large firms (Healy et al.,1992) others have a more diverse sample mixing both large and small firms. Studying related or unrelated acquisitions can also have a great effect on results observed in operating performance changes.

2.5 Synergies and Synergy valuation

One of the main reasons why firms acquire other firms is that they believe that the combination of the two firms will result in a better entity with improved efficiency with a better operational and financial profile. To arrive to this improved situation the company must achieve what is commonly called "synergies", which are realized when a company can improve its efficiency or its effectiveness by operating as a combined entity rather than as two distinct entities (Lubatkin, 1983).

Acquisitions and some large strategic investments are frequently justified using the argument that they will create synergies. Damodaran (2005) considers the various sources of synergy and categorizes them into operating and financial synergies. Operating synergies affect the operations of the combined firm and include economies of scale, increasing pricing power and higher growth potential. Normally operational synergies result in relatively higher OCF's, whereas financial synergies are more focused and include tax benefits, diversification, a higher debt capacity and uses for excess cash. Financial synergies result in either increased financial cash flows or sometimes take the form of lower discount rates. Damodaran's (2005) research conclude that synergy is so seldom delivered in acquisitions because it is incorrectly valued, inadequately planned for and much more difficult to create in practice than it is to compute on paper. Furthermore the type of deal also plays a role in how well synergies can be captured. It is less easy to detect synergy potential when the acquisition is unrelated, including different industries (Tuch & O'Sullivan, 2007). Takeovers in the same industry offer better possibilities for economies of scale and scope, whereas unrelated takeovers are rather expected to limit synergies to financial and administrative ones (Singh & Montgomery, 1987).

As we have discussed in this literature review, motives for acquisitions are of different natures and the methods to appraise gains in M&A are also heterogeneous, with stock return studies being far more common than studies focusing on operating improvements. One reason that can be given to explain such a gap can be the difficulty to gather sufficient data as well as the distortions that can come from other events apart from the acquisition in the years following the deal. Healy et al (1992) have suggested that research could be more focused and of a more clinical nature. By choosing a smaller sample, our study is able to have a more detailed focused approach using operating measures that are more thorough, for example accounting for changes in working capital accruals such as changes in accounts receivable, other current assets, accounts payable, income taxes payable, and other current liabilities, which some authors such as Gosh (2001) have intentionally disregarded for simplification issues. The next part of our thesis will focus on the methodology that we have used and how we have built our model to evaluate operating improvements in the post-acquisition period.

3 Method

In this section our research approach is presented. This entails the choice of perspective, method, and data collection. Also our analysis is discussed as well as the overall quality of the research.

3.1 Choice of method

In our research we have analyzed if Swedish acquirers have generated operational improvements in the post-acquisition period. We have also investigated if these, if any, improvements can justify the corporate expectations prior to the acquisition. To answer our research questions we have during our empirical investigation analyzed secondary data meaning that we have measured values to enable us to extract trends and indications regarding a specific M&A's development. In order to create a solid foundation from which we can draw trends and eventually conclusions we have analyzed each M&A in detail. Our research method implies a delicate stride where we have measured values from a world which is full of noise and incomplete data. To mitigate the risks we have carefully developed our research method which will be described in the coming sections.

3.1.1 Validity

Validity is interrelated with the integrity of the conclusions that we can generate from our research and is considered to be the most important criterion for appropriate research (Bryman & Bell, 2007; Yin, 2003; and Merriam, 1994). A discussion about the relevance of validity and how it should be reached in our research follows. The term validity is divided into *external validity and internal validity.*

3.1.1.1 Internal Validity

Merriam (1994) presents important strategies to consider when establishing internal validity. For fulfilling these aspects, we have used complementary methods and sources when finding data. In our research we have used multiple sources of material such as, books, journals, articles, annual reports, different analyses and internet. Another aspect calls for a postponed replication of the study or to observe the investigated phenomenon under a longer time span, in our study we strive to use four years of data prior to the M&A and the five years following the M&A if possible. Hence we could claim that we have been able to incorporate a longer time period for our analysis to study every specific event. One could expect that a postponed replication of our study is possible meaning that if a researcher would use the same definitions and use the same ratios they would end up with a similar result. However, it is important to point out that if future researcher would use other definitions or ratios they might end up with a different result when analyzing the same M&A's.

Other aspects calls for, horizontal examination and critique of the research, which means that other researchers, or in our case, master students, examine and scrutinize the study before it is published. Through participating in two different seminars where constructive feedback has been given from fellow master students and letting our supervisor during numerous occasions scrutinize our research we believe a solid foundation for establishing horizontal examination and critique of our thesis has been laid.

3.1.1.2 External Validity

External validity refers to whether or not the outcome of our research can apply to other contexts, meaning the degree to which the findings of our study can be generalized to the whole population (Yin, 2003). We acknowledge the difficulties in deriving generalizations from case studies and Alvesson & Sköldberg (2009) and Yin (2003) provides a solution for these complexities. They acknowledge that case studies cannot generalize to whole populations but are generalizable to theoretical propositions. Meaning that our findings should be able to generalize findings to theory with what Yin (2003) defines as analytical generalization. This means that our empirical results of the case studies are compared with previously developed theories that are used as a template. This type of generalization is then an appropriate method for gathering theory from case studies.

Following the reasoning of Alvesson & Sköldberg (2009) and Yin (2003), we believe that several of our findings are likely to hold true for similar cases and can provide important learning points when acquirers seek to prosper in the illusive M&A market. To increase the external validity even further one would need to increase the sample size. Due to the restrictions we have used when selecting our sample, suitable candidates were of a limited number.

3.1.2 Data Collection

When choosing our sample of investigated M&A's we have set up a number of criteria a transaction must meet:

- Swedish acquirer

- The acquirer has control and consolidates the targets assets and liabilities on their balance sheet.
- The transaction must be completed between 2000 and 2007
- The target should be a substantial acquisition in terms of assets or sales in proportion to the acquirers' assets or sales.

The reason for why we have chosen to only include Swedish acquirers in our research is because there have not been many studies focusing on the operational improvements in the Swedish M&A market. The vast majority of studies has focused on the US market and there is therefore very little known about operating performance changes following corporate takeovers in Western Europe (Martynova et al, 2008). To our best knowledge, there are only three studies focusing on operating performance in continental European firms (Mueller 1980; Gugler, Mueller & Yurtoglu, 2003; Martynova et al, 2007), which makes it very interesting to develop the knowledge around how European firms perform. Another reason is derived from the private equity market where historically Swedish private equity firms have managed to outperform their international peers which has led us into thinking that this could also be true for the Swedish M&A market. In order to include transactions which meet our other criteria we have not limited ourselves to only include domestic M&A's. Other criteria include: the transactions must be completed so that the targets financials are fully incorporated into the acquirer's financials and that the transaction is made prior to 2007 so that we will have a sufficient time period from which changes and trends can be analyzed and expected synergies can be realized.

Larger M&A's have been chosen since the impact from the transaction is more substantial on the acquirer's financials. When the impact is greater on the financials it will facilitate the analysis process as differences and trends will be easier to detect and can more reliably be derived from the actual transaction and not from general industry development (Healy et al., 1992). Another strength using relative large deals is derived from the fact that if the acquirer recently has conducted a large acquisition it will most likely be passive in the M&A market in the years after the acquisition (Healy et al., 1992). Adjusting our sample for relative large acquisitions is important as will minimize the risk that the acquirer will conduct an additional large M&A after our investigated M&A which would impact their financials and distort our analysis during the post-acquisition period. A table consisting of our eight analyzed M&A's follows:

Table 1

Acquirer Target	Nobia Magnet	Eniro Findexa	Saab Celcius	Assa Abloy Yale locks	Husqvarna Gardena	Telia Sonera	Boliden Outukupmu	Karlshamn Aarhus
Target firm percentage of Sales and Assets								
	Nobia	**Eniro**	**Saab**	**Assa Abloy**	**Husqvarna**	**Telia**	**Boliden**	**Karlshamn**
Sales	94%	37%	80%	51%	14%	40%	79%	55%
Assets	86%	78%	45%	57%	60%	37%	62%	127%

3.2 Method to assess operating performance

When assessing post-operating performance we will use a mix of measures that will enable us to make a tailored assessment. Although some researchers argue that OCF is the most pragmatic way in measuring performance after mergers or acquisitions (Barber & Lyon, 1996) to enable a comprehensible analysis we will not restrict ourselves to only measuring OCF. We want to specifically explore the performance changes in specific areas and compare results to corporate expectations at announcement date. Our intention has been to examine measures that reveal in detail if certain goals related to margin and sales increases or cost reductions have been reached.

The analysis will consider data 4 to 5 years prior to the acquisition and 4 to 5 years after the deal. In some occasions we are restricted to use an even more limited time period as the necessary data is unavailable. We acknowledge that a longer time period of analysis after the deal increase the risk of incorporating "noise" into the analysis which is resulting from other factors than the takeover. However, a longer time period of analysis enables us to better capture the full effect of the synergies. Further, because we use very large deals in relative terms it makes other deals during the same period relatively insignificant which reduces the risk of incorporating other perturbations. We have scrutinized each deal in detail so consequently our intention has not been to examine a large sample of M&A's.

In order to assess the operating performance of the firm post-acquisition, we need to compare it to the operating performance of the combined two entities prior to the deal (Healy et al., 1992; Gosh, 2001). To do so, we have gathered the data of both companies pre-acquisition and have merged the figures to create an "as if" company that would reflect a combined entity without the synergies. This pre-acquisition benchmark is then used to investigate the potential synergistic benefits post-acquisition. Combining the pre-acquisition cash flow and earnings data to obtain yearly aggregate operating performance measures follows the methodology used by Healy et al. (1992), Ghosh (2001) and Rahman & Limmack, (2004). It is also in line with the definition of synergies by Pursche (2006):

"Synergies are the present value of the net, additional cash flow that is generated by a combination of two companies that could not have been generated by either company on its own".

Using OCF measures also allows assessing the effect of the acquisition independent of the accounting methods employed to report the deal or changes in accounting methods in the post-acquisition period (Rahman & Limmack, 2004). Note that in some cases, due to limited data access, we have not been able to make the analysis on both companies prior to the acquisition. In these cases we have solely focused on the acquirers financials and created "As if" scenarios from their financials. Our intention is to make an as coherent analysis as possible, although tailored to every specific M&A. However, as every M&A is unique we have not been able to use the same format in every analyzed M&A. Important measures and definitions are the same throughout the whole thesis and to further increase the validity the hardcore data have been collected from the same extensive source, Capital IQ and the COMPUSTAT database.

The next section will include important definitions of ratios and other financials which are used throughout our analysis. The measure of OCF we use is defined as EBIT, to which we add back depreciation and amortization, and finally adjust for changes in working capital. Our design differs from the definitions used by Healy et al., (1992) and Ghosh (2002) as their OCF measures does not account for changes in working capital. Changes in working capital are derived from operating activities so we have chosen to include it in line with Manson et al. (2000), Sharma & Ho (2002), Ali & Pope (1995) and Rahman & Limmack, (2004). We have not included capital expenditures as it has remained constant throughout our analysis period hence, not being a driver of increases of sales. However, it is important to point out that we cannot not measure any synergies derived from increases in sales instead we focus on operating efficiency increases. Most financial analysts consider OCF to be superior to net income when it comes to measuring corporate financial performance because it is not as sensitive to distortions from different accounting practices (Dechow, 1994). Our definition of OCF follows:

$$OCF = EBIT + \ Depr \,\&\, Amort \ \pm \ \Delta \, in \, NWC$$

To appraise the operating performance, we have used the OCFs of the firm to calculate ratios of OCFs to assets and OCF to sales.

When determining the value of synergies in the long run we have used a continuing value formula which is denoted terminal value in our calculations. Terminal value stands for the total value of future cash flows derived from synergies. The cash flow used in terminal value calculations is derived from the first year the corporation has stated that expected synergies has reached full potential. The rationale is derived from the fact that when the expected synergies have reached their full potential, the synergies have reached steady state and could then more reliably be used as a measure on the long run. However, in some occasions companies have not been so clear in explicitly stating their expected synergies or during what time period the synergies will be realized. In those cases, we have chosen to use the mean value of realized synergies in the post-acquisition period. The chosen strategy is derived from the risk of using volatile values in a continuing value formula where quite small difference will have a significant impact on the final value.

In the formula we have chosen to use a terminal growth value for Swedish acquirers which are equal to the long run inflation rate in Sweden. Hence, we are assuming that the value will be exactly the same as Riksbankens long term goal of a stable inflation rate not increasing over 2%. Our chosen approach implies that future OCF is held constant in real terms and growing in nominal terms i.e. growing at the same pace as inflation. To enable a present value calculation of the related OCF, the sum of all OCF’s is discounted with the weighted average cost of capital (WACC) for the firm. The WACC measure is defined as follows:

$$WACC = \frac{E}{Total\ capital\ (E + D)} \times r_e + \frac{D}{Total\ capital\ (E + D)} \times r_d(1 - tax)$$

$$r_e = Rf + Equity\ beta * Risk\ premium$$

$$r_D = \frac{Financial\ expense}{Interest\ bearing\ debt}$$

$$Tax\ rate = Swedish\ corporate\ tax\ rate$$

The risk free rate (RF) is derived from using a 5 year old Treasury bond rate. The risk premium is on all occasions set to the level of 6%. The reason for using a constant risk premium is because every investor can differentiate their risk through diversifying their investment portfolio into different markets, companies or segments. Equity betas are extracted from the Capital IQ database and represent a historical 60 months beta value meaning that the values should represent the risk associated with respective company at acquisition date. Our continuing value formula is defined as follows:

$$\frac{OCF}{(WACC - Terminal\ growth)}.$$

In order to incorporate all values which are derived from the specific valuation our whole formula is presented below. The first section includes the generated OCF or synergies discounted with WACC whereas the second part of the formula is our previous mentioned continuing value formula.

$$Present\ Value = \sum_{t=1}^{T} \frac{OCF_t}{(1 + WACC)^t} + \frac{\left[\frac{OCF}{WACC - Terminal\ growth}\right]}{(1 + WACC)^T}$$

To complement our OCF analysis we have chosen to use Gross and EBIT margins. However, in cases where corporate expectations are stated in EBITDA we have chosen to conduct the analysis using EBITDA for facilitate a comparison. The reason for using earnings after depreciation and amortization is deliberate and is due to that we want to include costs related to maintaining the analyzed companies’ physical capacity i.e. maintain their capacity in their machine park and buildings. Having exposed our method to appraise operating performance changes, the table below summarizes important definitions:

Table 2

Important definitions	
Gross margin	(Sales - Cost of goods sold (COGS))/Sales
Ebitda margin	(Ebit + Depr & Amort)/Sales
Ebit margin	(Sales - COGS - Operating expenses)/Sales
Operating expenses	Selling General & Admin. exp. (SG&A) + R&D + Depr & Amort + Other exp. (Income)
Total Assets (TA)	Fixed assets + Current assets
Capital Exp. (CAPEX)	Long term Investments > 1 year
Short term investments (STI)	Investments in financial assets held for trading < 1 year
Interest cost (Int. exp)	Long term interest bearing debt * cost of debt (Rd)
Working Capital	± ? (Trade receivables + Prepayments + Inventories + Other receivables) ± ? (Trade creditors + Interest accrued + Provision for employee entitlements + Other creditors)

3.2.1 Industry Benchmark

Industry specific contexts and other macroeconomic events impact our OCF measures and results. As to increase the trustworthiness in our research, the post-merger operating performance will be compared to how a non-merging peer group has performed during the same time period. This gives us the opportunity to benchmark our results and take a step further in the analysis by not satisfying us of comparing the post-operating performance of the combined firm with the operating performance of the firm "as if" there were no synergies. We aim at confirming our results and, in case of positive results, find out if those are the consequence of operating synergies, or instead caused by industry-specific factors that have impacted firms across the industry. Meaning that if the analyzed company has significantly improved their operations in the post-acquisition time period we want to assure that these improvements are not consequent to a general industry development. Our method to accomplish the above stated goal consisted of three steps that will be developed in the following sections.

3.2.2 Our method for a reliable benchmark

Since an industry include firms that are different in terms of size, geographical spread or growth strategies, resulting in operating returns that can be very heterogeneous and thus not being a satisfying benchmark to test our results (Ghosh, 2001), we have used an industry definition which is ratter narrow. Thus we decided to build our own industry measure. The industry measure has been constructed through using the same kind of analysis used on our core companies: computing the operating performance return using OCF to sales. Meaning gathering data from our selected non-acquiring peer group for the post-acquisition period and calculate the OCF returns. In total this implies going through and analyzing OCF/Sales development for 40 companies during a five year time period, five peers for each investigated M&A. When adding the already chosen eight candidates we have analyzed and extracted OCF's in total from over 300 different annual reports in our research. The thorough analysis would eventually allow us to compare the results with how a peer group with similar measures calculated using the exact same formula would have performed. The chosen strategy yields an improved precision compared to if we had used sales growth for the whole industry or even weaker measures such as a general GDP growth (Sharma & Ho, 2002). When using an industry benchmark, we intend to test our results of operating synergies discovered in our analysis. Having chosen this path, the first step for us was to select a certain number of firms from which we then could extract the industry peer group operating performance.

3.2.3 Find the right candidates

Because of the amount of data that had to be gathered and then transformed into an OCF measure, we had to limit ourselves in terms of how many firms we intended to use in the industry metric. We have used a peer group of five companies to enable a comparison and also reflect the industry specific development during the time period. Consequently, we used the closest competitors selling the same products on the same markets, or companies with similar growth and cost drivers when close competitors were not available, due for example to the non-merging criterion. When finding our candidates we used 3-4 digit SIC codes to get a first list of candidates. The candidates had to be publicly listed so that we could without too much difficulty access their financial reports. During the next step we adjusted our sample for size, meaning that we only included companies which had a similar level of turnover. When doing so, we alienated ourselves from the critics other researchers have faced when they have compared the results to general industry development saying that if one only examines the largest deals, the chosen sample is very likely to have outperformed their respective industry prior to the acquisition and then probably in the post-acquisition period as well (Ghosh, 2001).

To enable us to derive where the operating performance arise from, it is important to compare the combined firm performance to the one of companies that have not benefited from synergies, or put simply have not been active in M&A activity. Once the list was complete, we gathered all the data necessary from the annual reports five years after the deal studied. We then computed for each company and each year the OCF and calculated the ratio of OCF to sales. In the next step we then created an average of the five companies, for each year, yielding a comparable industry benchmark against which we could compare the operating performance of the companies we have studied in the thesis. The result gives us an additional tool to test our results and add validity to our analysis by adjusting those for industry specific factors.

4 Analysis

The analysis section consists of eight acquisitions which have been conducted between 2000 and 2007. In these acquisitions corporate expectations have been compared to what the companies actually have managed to realize in terms of synergies during the post-acquisition period. To further strengthen our analysis results will be compared to an industry peer group and goodwill impairment development.

4.1 Saab AB - Celsius AB acquisition

Saab has managed to realize 49% of their expected synergies and outperformed their industry peers

The company in brief

Saab AB provides products, services, and solutions for military defense and civil security markets in Europe, South Africa, Australia, and the United States. The company operates in five segments: Aeronautics, Dynamics, Electronic Defense Systems, Security and Defense Solutions, and Support and Services. In 2010 sales amounted to SEK 24 billion and EBIT to SEK 2.8 billion. Saab AB was founded in 1937 and is headquartered in Stockholm, Sweden.

Background information

Saab acquired Celsius in 2000. At the time of the acquisition, the defense industry experienced a major recession and a consolidation process. An ongoing M&A wave could also be found among suppliers of defense companies. This resulted in suppliers that were often larger than the defense companies; leaving them with restricted supplier choice and increasing dependency. The M&A wave in the sector was a response to this and remained nationally based: Saab acquired Celsius in 2000, creating Sweden's largest defense company.

The Deal in Brief

On November 16th 1999, Saab AB made a SEK 5 bn cash offer to acquire all of the shares in Celsius AB. The offer represented a premium of about 40% over the average closing price of Celsius B shares in the 30 days prior to November 15th and a premium of approximately 38% over the closing price on November 12th 1999.

Corporate expectations and synergies

Saab estimated that yearly cost savings of approximately SEK 400 M per annum could be achieved within three years after the acquisition. The non-recurring costs of achieving these savings were expected to be SEK 600 M. Saab was expecting a positive effect on earnings per share in the first 12 months after the acquisition.

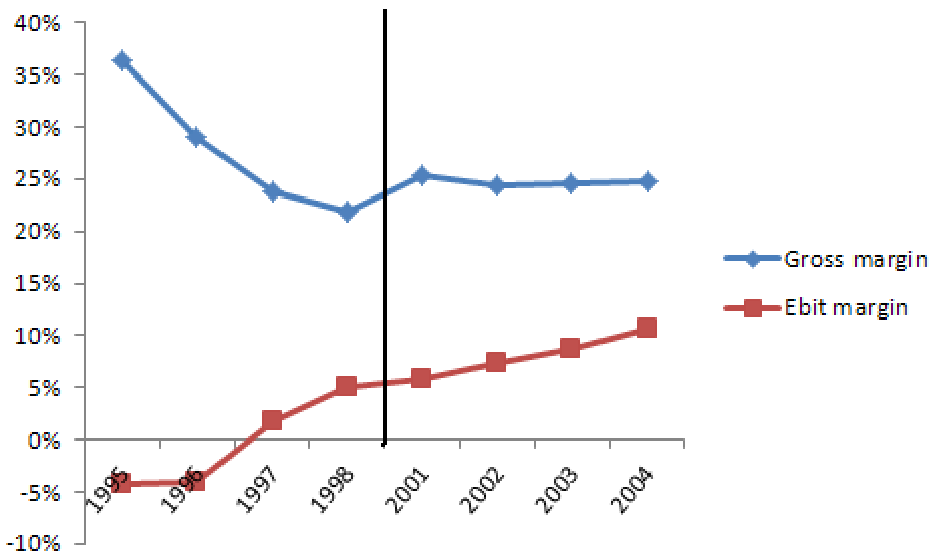
Table 3

Cost of capital	8,7%				
Steady state growth	2%				
Year	**2000**	**2001**	**2002**	**2003**	**Terminal Value**
Cost Synergies		100	200	400	
Costs	200	200	200		
Total synergies	-200	-100	0	400	5979
PVCE	4700				

The present value of Saab's expectations of synergies amount to approximately SEK 4.7bn. The next step in our analysis is to compare expectations with what we actually can observe from the financials in the post-acquisition period.

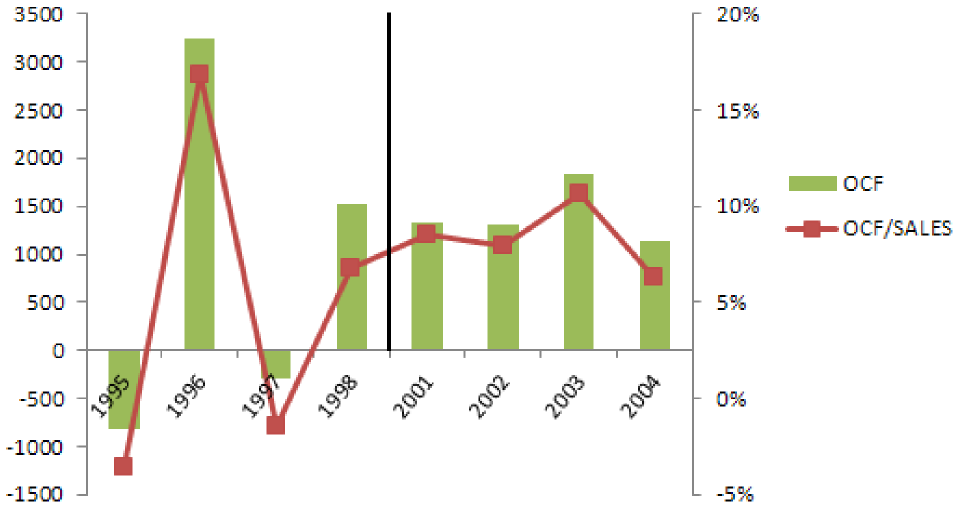
4.1.1 Operating Efficiency

Figure 1



The Figure above show the EBIT and Gross- margins development from 1995 until 2004. Note that 1999 and 2000 are excluded due to lack of data and acquisition year respectively. During the years prior to the deal the industry was suffering from difficult market conditions and Saab's competitors were also struggling in maintaining positive operating margins, thus partly explaining Saab's negative EBIT margins and declining Gross margin during the pre-acquisition period. The acquisition was a good move made by Saab for several reasons, but mainly because it gave the company the opportunity to increase the control over its costs which resulted in an improved EBIT margin and stabilized Gross margin, overall displaying an improvement in operating performance after the acquisition.

Figure 2



The OCFs have been volatile due to the cyclicality of the industry. However, there is a slight improvement in OCF/SALES which could indicate an improvement in operating performance. Notably, SAAB has through the acquisition of Celsius stabilized its business through more varied operations and less dependency on outside suppliers that impacted the cost structure of the company before the deal was completed.

4.1.2 Our assessment of post-acquisition operating performance vs. corporate expectation

A further analysis including an "As if" scenario where we have taken OCF prior to the M&A and assumed the same OCF/Sales ratio in the post M&A setting without synergies reveals that SAAB has not manage to fully realize their expected synergies. In the table below, we can see the actual development compared to our “As if” scenario. In year 2004, the “As If” combined firm without synergy would have realized higher OCFs, whereas in years 2001, 2002 and 2003, the merging firm outperforms the “As If” company. To calculate the terminal value we use, in order to take into consideration the cyclicality of the business, an average of the difference between realized OCF and “As If” OCF for the four years post-acquisition. We can then value the synergies achieved by the company. In the case of SAAB, we estimate those to SEK2.3 billion. This must be compared to the SEK 4.7 billion expected by management.

Table 4

Steady state growth	2%				
wacc	8,7%				
Year	**2001**	**2002**	**2003**	**2004**	**Terminal Value**
OCF "As If"	1154	1217	1269	1313	
OCF Actual	1332	1308	1830	1127	
Synergies	178	91	561	-186	2407
PV of realized synergies:	2269				

4.1.3 Industry Comparison

Figure 3

Saab has shown in the post-acquisition period a healthy development of its operating performance. Following the acquisition the operating performance has suffered from integration costs but recovered and outperformed the industry during the period 2002-2005 converting a 4.3% deficit in terms of OCF/SALES to a positive 3.8% difference in 2005. This supports our analysis showing that the motive of the acquisition is based on synergies and that those have been the main factor for improved operating performance.

4.1.4 Conclusion

- Pros
    - Outperforms the industry in the post-acquisition period
    - Improved operating Margins
    - No impairment linked to the Celsius acquisition
- Cons
    - Costs reductions as shown by the gross margin evolution has not been as good as expected
    - Compared to "As if" scenario SAAB has failed to realize the total expected synergies

4.2 Husqvarna AB - Gardena Gmbh acquisition

Husqvarna has managed to realize 75% of their expected synergies and have developed in-line with their industry peers.

The company in brief

Husqvarna group is a major corporation in the outdoor power products including chainsaws, trimmers, lawn mowers and garden tractors. The group is also operating in cutting equipment and diamond tools for the stone and construction industry. Husqvarna's products are distributed through retailers and dealers in more than 100 countries. In 2010 the group reached a turnover of SEK 32 bn and had 15000 employees. Through acquiring Gardena, the group got access to the consumer watering products segment in Europe.

Background information

Husqvarna is a significant player in many of their business segments, meaning they have anti-trust laws issues to deal with when acquiring companies, especially in the European market. Gardena is a German based company and as they mainly operate in the outdoor water and gardening products market, segments which Husqvarna were weak prior to the acquisition, the acquisition could go through with the legal authorities. Until 2004

Husqvarna AB was a subsidiary to Electrolux, consequently our financials will be related to the time period 2004-2010.

The Deal in Brief

Husqvarna acquired Gardena from Industri Kapital in 2006. The purchase price amounted to SEK 6.5 bn which includes the transfer of debt, shareholder credits and pensions amounting to SEK 3.7 bn. In total Husqvarna's assets increased with over 75% after the acquisition whereas over SEK 2.8 bn is derived from a recognized brand name (Gardena) and Goodwill. From 2007 Gardena's financials are included in Husqvarna's annual reports.

The corporate expectations and synergies

When the acquisition was announced the management of Husqvarna held a low profile when it comes to sharing any information regarding synergies. From the annual report and conference call from 2006 we can derive that Husqvarna is expecting to realize synergies reaching 200 MSEK annually. The synergies will mainly be derived from revenue synergies from; utilizing Gardena's brand name, an increased product offering to customers, and Gardena's distribution channels. The general opinion among analysts was that Husqvarna might have paid a too high price due to the fact that they probably will have a hard time finding any cost synergies of magnitude.

Husqvarna is expecting to realize revenue synergies amounting to 200 MSEK annually from the Gardena acquisition. If Husqvarna would succeed in the strategy of realizing these synergies the present value back in 2007 would approximately be 3,3bn SEK.

Table 5

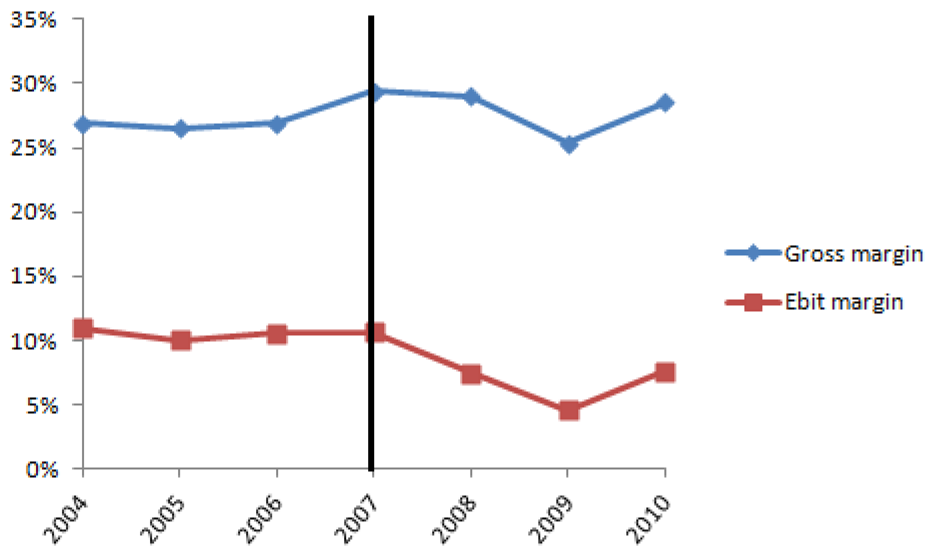
Steady state growth	2%			
Wacc	7,6%			
Year	**2007**	**2008**	**2009**	**Terminal Value**
Total Synergies	75	150	200	3598
PVCE	3251			

Now the next step in our analysis is to compare these expectations with what we actually observe from the financials in the post-acquisition period.

4.2.1 Operating Efficiency

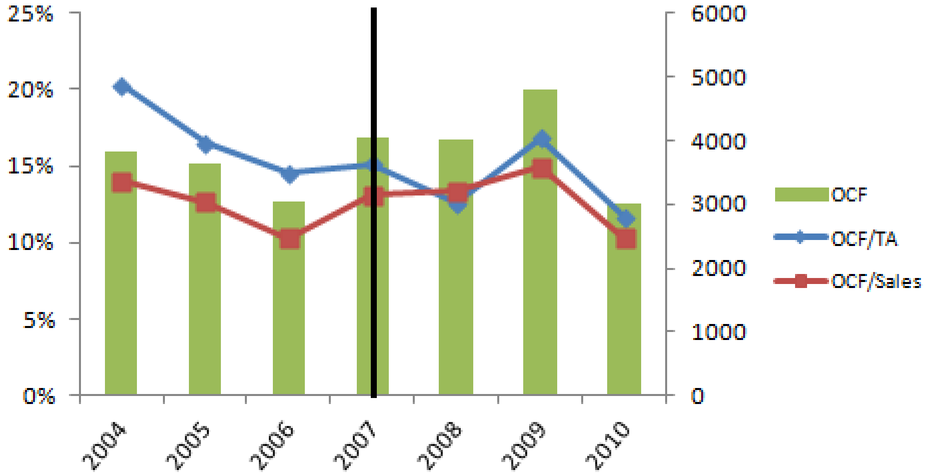
In figure 4 we can see the margin development from 2004 until 2010. Gross margin has fluctuated around 27% whereas Husqvarna's EBIT margin decreased from 11% down to 7.6% in 2010. After the Gardena acquisition Husqvarna has not managed reach the same EBIT level compared to pre-acquisition period. Gardena has historically had a mean EBIT of 5%, consequently lower than Husqvarna which could have had a negative impact on Husqvarna's mean EBIT in the post-acquisition period. The results do not give any indications that Husqvarna has managed to improve their operational efficiency.

Figure 4



Despite the moderate growth figures and the significant value increase of assets on the balance sheet, Husqvarna has managed to generate a stable development of OCF during the period. This is further illustrated by the OCF/total assets ratio included in figure 5. A sharper decline would have been expected as sales have not increased but total assets have.

Figure 5



In figure 5 we can also see the development of OCF from 2004 to 2010. Husqvarna has managed to generate a positive OCF development during the period. In the pre-acquisition period Husqvarna generated a mean OCF of SEK 3.7bn annually and in the post- acquisition period Husqvarna managed to increase their OCF now reaching SEK 4.3bn on average. In 2010 one can notice a sharp decrease down to the same levels as in 2006. The decrease is partly explained by the financial crisis which hit Husqvarna's most important market, US really hard and partly from an intense gearing of their net working capital in 2009 which boosted OCF in 2009 but had a negative effect in 2010.

4.2.2 Our assessment of post-acquisition operating performance vs. corporate expectation

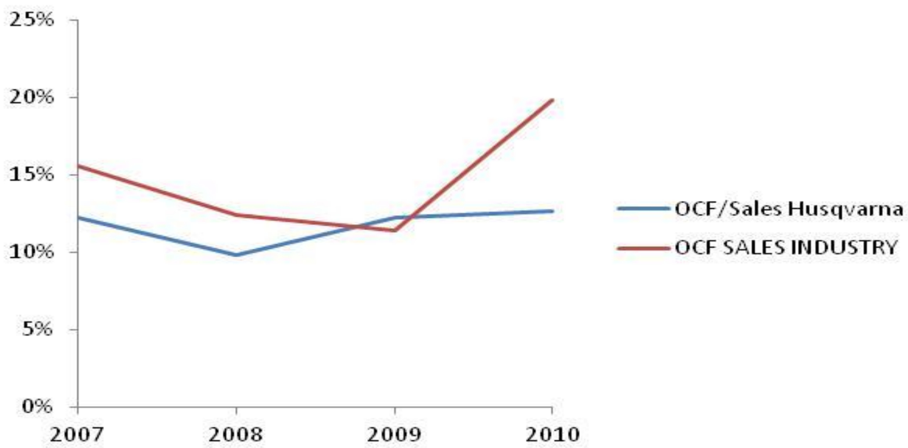
A further analysis including an "As if" scenario where we have taken OCF prior to the M&A and assumed the same OCF/Sales ratio in the post M&A setting reveals that Husqvarna has not managed to deliver the expected synergies. In table 6 we can see the actual development compared to our As if scenario. The analysis yields a PV of future synergies which does not fully reach the corporate expectations.

Table 6

Steady state growth	2%								
Wacc	7,6%								
Year		**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**Terminal Value**
Hva Sales		27202	28768	29402	33284	32342	34074	32240	
Hva OCF		2930	3632	3029	4050	4011	4785	3014	
Hva OCF/Sales		11%	13%	10%	12%	12%	14%	9%	
Mean pre Hva OCF/Sales	11%			As IF Hva	3628	3525	3714	3514	
Mean pre OCF Gardena*	221			AS IF Gardena	221	225	230	234	
*(Year, 1998-2003)					3849	3750	3944	3748	
				Synergies:	201	261	841	-734	2558
		PV 2007 of realized synergies:			2451				

4.2.3 Industry Comparison

Figure 6



When comparing Husqvarna's development to their industry peers we can denote that they have managed to close the gap to their peers from 2007-2009. However, in 2010 Husqvarna vastly underperformed their peers and a closer analysis revealed that the peer group improved their OCF's through gearing their inventory due to the aftermath of the financial crisis and not due to higher EBIT margins or increased efficiency.

4.2.4 Conclusion

- Pros
  - Stable OCF development in absolute numbers
  - Goodwill has withstand the impairment tests even with a new CEO
  - Stable development when comparing to industry peers
- Cons

- EBIT margin lower
- No significant operational improvements
- Compared to “As if” scenario Husqvarna has failed to realize the expected synergies

Most of Husqvarna’s sales are derived from the US market which has encountered a demand chock when it comes to consuming capital intensive products during the financial crisis. Despite the very demanding surroundings they managed to generate a positive development of OCF in absolute numbers, this is a signal of strength. However, if setting the numbers into a context reveals that Husqvarna has not been able to deliver the expected return level. Our “As if” scenario generated a positive SEK 2.5 bn whereas the expected level of realized synergies amounts to over SEK 3.3 bn.

4.3 Assa Abloy AB - Yale lock plc acquisition

Assa Abloy has managed to realize 44% of their expected synergies and has developed in-line with industry peers.

The company in brief

Assa Abloy is operating in the door opening market and is represented in both mature and emerging markets worldwide. Assa Abloy is has around 37000 employees. In 2010 Assa Abloy had a turnover of approximately SEK 37 bn.

Background information

In March 2000 Assa Abloy acquired the UK based Yale locks. After the complementary acquisition of Yale locks Assa Abloy‘s broaden themselves geographically into markets such as UK, the Netherlands, Spain, South Africa, Brazil and China and a in North America.

The Deal in Brief

Assa Abloy paid GBP 825 M including 619 M in cash and 206 M in equity to acquire Yale locks. The news of the deal sent Assa Abloy shares 25 % higher on the Swedish stock exchange. The transaction price is partly financed with new credit facilities of approximately SEK 8 bn.

The corporate expectations and synergies

Assa Abloy's CEO back in 2000 Carl-Henric Svanberg state that Yale Locks is expected to provides a great platform for continued growth and offer numerous opportunities for profitability improvements through increased efficiencies within the combined group. Assa Abloy said the deal would double its annual sales to over SEK 20 bn and increase operating margins by two percentage points in three to four years' time.

Assa Abloy expected synergies to improve their EBITDA level with up to 2% in the post-acquisition period. These synergies are expected to be realized annually from year 2003. For enable calculations and a comparison with the post-acquisition period we have assumed that the 2 % increase will gradually increase Assa Abloy's EBITDA margin with a positive 2% to reach the full potential in 2003. The reason why EBITDA is chosen is because we do not have access to any pre-acquisition data for Yale locks and that we have a clear statement from the CEO that the expected synergies. So through using the expected synergies and creating an "As if" scenario we can compare the "As if" scenario with the actual case using the financials where Yale locks are consolidated into Assa Abloy's financials in the pre-acquisition period.

Table 7

Steady state growth	2%										
Wacc	6,3%										
Year	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**Terminal Value**
Assa Abloy Sales	4959	6969	8582	10277	14394	22510	25397	24080	25526	27802	
						18,0%	18,6%	19,3%	19,3%	19,3%	
					Expected synergy:	0,7%	1,4%	2%	2%	2%	
					Value (Expected Ebitda*sales)	158	356	482	511	556	9648
					Mean Value						
				PVCE 2000	8792						

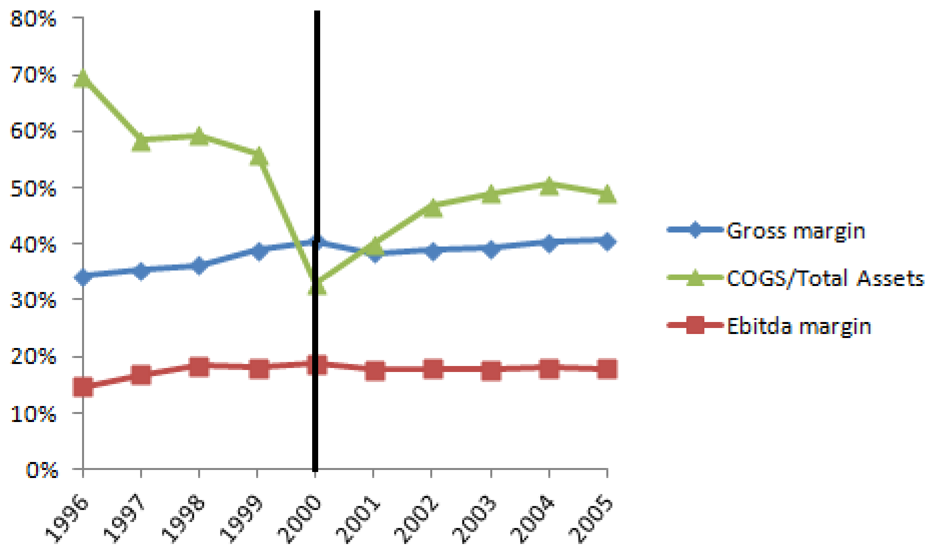
In the figure above we can see the value of expected synergies where we have used the expected improvement in EBITDA and then assumed that the improvement of 2% have been reached in 2003. PV of the expected synergies back in 2000 is approximately SEK 8.8 bn.

4.3.1 Operating efficiency

When analyzing Assa Abloy's development of profitability one can see in figure 7 that, five years prior to the acquisition of Yale locks they had mean gross margin of 36.2% and a mean

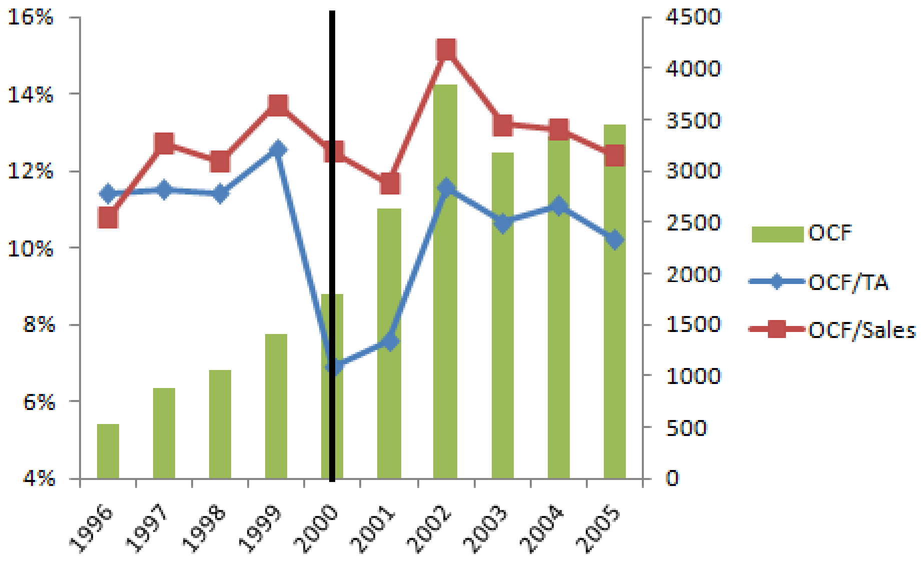
EBITDA margin of 17%. Comparing to the post-acquisition period Assa Abloy has improved their mean gross margin with 3.3% and their mean EBITDA margin with 0.8% indicating that Assa Abloy have managed to improve their profitability in the post-acquisition period. An increase in efficiency can also be detected when comparing the cost development to total assets.

Figure 7



In figure 8 the total OCF output illustrates quite explicitly the impact the acquisition of Yale Locks has had on Assa Abloy's ability to generate cash flow from the operations. In absolute numbers Assa Abloy in 2005 managed to deliver the same amount of OCF which took them four years prior to the acquisition (1996-1999). In the figure below we have included ratios consisting of comparing generated OCF to total assets (TA) and sales.

Figure 8



The mean OCF/TA and OCF/Sales in the pre-acquisition period are 10.8% and 12.4% respectively. OCF/TA has decreased down to a mean 10% after the acquisition. As total assets has increased significantly in the post-acquisition period, now including more intangible assets and goodwill, one could have expected a sharper decrease. One explanation for the development is that the OCF/Sales ratio has increased, meaning that Assa Abloy has managed to increase their generated OCF for every sold item or service. These findings indicate an improvement for Assa Abloy in utilizing their assets and managing to realize more cash flow from their operations.

As the acquisition of Yale locks is financed through new credit facilities it is of interest to see if Assa Abloy has managed to sustain their liquidity coverage in the post-acquisition period. The rapid growth in OCF has enabled Assa Abloy to strengthen their cash position and interest coverage ratio which can be seen in table 8.

Table 8

Assa Abloy										
Year	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Cash & STI	137	126	138	447	1752	1693	1492	1088	1061	977
Ebitda/Int. Exp	6,0	6,7	7,1	8,1	8,5	5,7	7,0	7,8	9,2	10,0

4.3.2 Our assessment of post-acquisition operating performance vs. corporate expectation

Table 9 demonstrates the development of OCF in relation to sales. To conduct the analysis we have taken the pre-acquisition mean OCF/Sales ratio and assumed that the mean ratio would hold in the post-acquisition time period. Then we have compared the "as if" scenario with the actual OCF outcome in to see whether we got a positive or negative number, and of what magnitude this number would be.

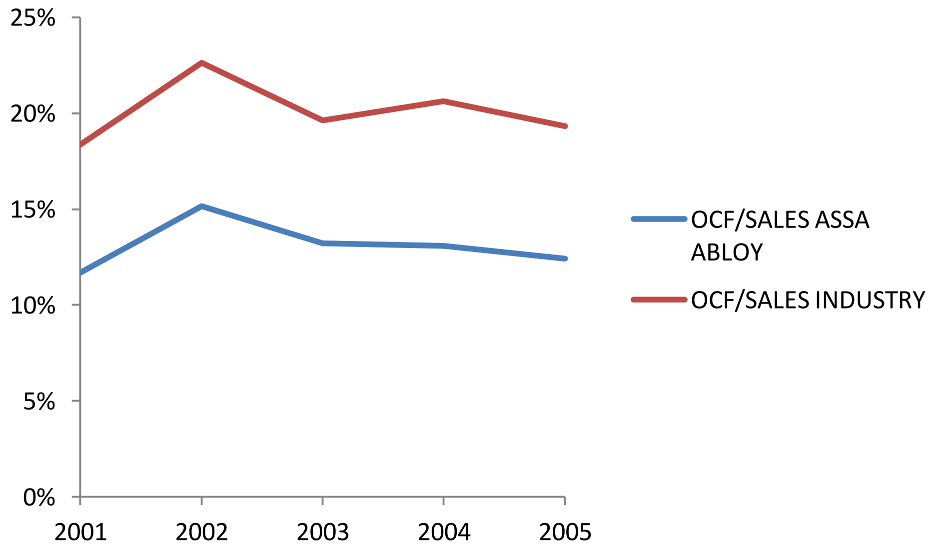
Table 9

Steady state growth	2%										
Wacc	6,3%										
Year	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**Terminal Value**
Sales	4959	6969	8582	10277	14394	22510	25397	24080	25526	27802	
OCF	535	887	1052	1411	1799	2631	3847	3180	3339	3450	
OCF/Sales	11%	13%	12%	14%	13%	12%	15%	13%	13%	12%	
Mean OCF/Sales	12,4%				**As iF**	2791	3149	2986	3165	3447	
					Actual	2631	3847	3180	3339	3450	
					Synergies	-160	698	194	174	3	4250
			PV realized synergies:		3 902						

When comparing OCF with sales we receive a positive SEK 3.9 bn. The analysis reveals that that Assa Abloy has managed to yield over SEK 3.9bn more in cash flow than they had done prior to the acquisition indicating a strong efficiency and utilization improvement from the pre-acquisition period to the post-acquisition period. However, as they expected synergies over SEK 8.8bn Assa Abloy has not managed to realize their expected synergies.

4.3.3 Industry Comparison

Figure 9



When comparing Assa Abloy's development to the industry one can see that they have practically developed in symbiosis with the industry. CEO Carl-Henric Svanberg expected that the synergies derived from Assa Abloy's acquisition of Yale lock were to increase sales above SEK 20bn and operational improvements of approximately 2%. The expected sales increase is reached and passed easily as in 2001 and 2002 Assa Abloy had a turnover of SEK 22.5bn and 25.4bn respectively. However, the expected operational improvements are not reached, although Assa Abloy's financials has stabilized on a higher level and their gross margin has significantly increased from the pre-acquisition years their EBITDA level has not increased with the expected 2%. Instead the increase is closer to 1% but when summing all the different parts together Assa Abloy's acquisition of Yale locks is considered to be favorable from a general standpoint. This conclusion is mainly drawn from the significant increase in ability to generate cash flows from their operations. However,, when comparing the results with corporate expectations where we got a present value of expected synergies of SEK 8.8bn in our "As if" scenario, with the actual outcome where the value of our OCF/Sales valuation reaching SEK 3.9bn one can conclude that despite the fact that the acquisition seems favorable from a pure economic perspective for Assa Abloy, the Yale lock acquisition only ticks in 1 out of 2 boxes meaning that the corporate expectations are not met in the post-acquisition period.

4.3.4 Conclusion

- Pros
  - Sales goal easily met
  - Improved OCF/Sales ratio
  - Goodwill has withstand the impairment tests
- Cons
  - Expected synergies not reached

4.4 Nobia AB – Magnet ltd acquisition

Nobia has managed to realize 167% of their expected synergies and outperformed their industry peers

The company in brief

Nobia AB engages in the development, manufacture, and sale of kitchens in Europe. The company sells its products through kitchen studios, franchised showrooms, construction companies, DIY stores, and retailers. As of December 31, 2009, Nobia operated approximately 704 stores. The company was founded in 1996 and has headquarters in Stockholm, Sweden.

Background information

The acquisition extends Nobia's geographic coverage and provides the Group with a strong position in the UK. The acquisition will further strengthen Nobia's leading position in the European kitchen interiors market.

The Deal in Brief

The purchase price for the Magnet, on a debt-free basis, amounts to GBP 123 M. For the financial year 1999/2000, Magnet's turnover amounted to GBP 276 M and operating profit amounted to GBP 25.3 M.

Corporate expectations and synergies.

The management for Nobia state that the potential for further growth is significant, and the restructuring of the industry provides vast opportunities to improve margins and profitability by utilizing synergies in production, purchasing, logistics and IT Magnet's market position. Furthermore, Magnet is expected to provide the company with valuable experience in the bathroom interiors industry. The acquisition of Magnet is expected to improve Nobia's EBIT margins with 2-3%. Historically between the years 1997 to 2000 Nobia has managed to yield a mean EBIT level of 3.4% meaning that EBIT margins are expected to increase to 6-7%.

For enable calculations and a comparison with the post-acquisition period we have assumed that the 2-3% increase will gradually increase Nobia's EBIT margin with a positive 2.5% to reach the full potential in 2004. The reason why we chose EBIT is due to the fact that we have a clear statement from the CEO that these are the expected synergies. So through using the expected synergies and creating an "As if" scenario one can compare the "As if" scenario with the actual case using the financials where Magnet are consolidated into Nobia's financials in the pre-acquisition period.

Table 10

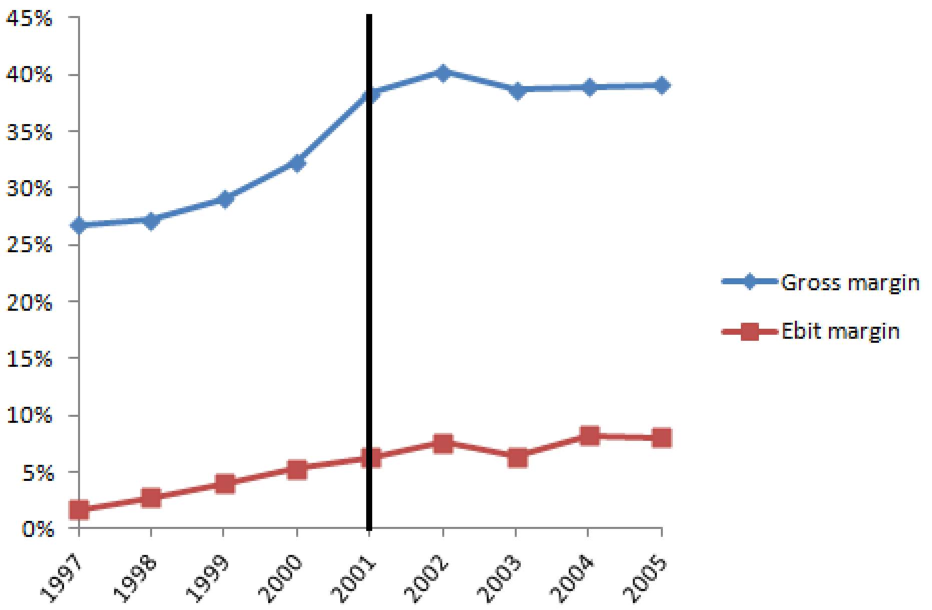
Steady state growth	2%							
WACC	8,4%							
Year	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**Terminal Value**
Sales	4049	4102	8283	9594	9273	11337	12442	
			Expected Synergy	0,8%	1,6%	2,5%	2,5%	
			Value (Exp. Ebit *sales)	77	148	283	311	3195
		PVCE	2957					

In table 10 one can see the value of expected synergies where we have used the stated expected improvement in EBIT and then assumed that the improvement of 2.5% have been reached in 2004. PVCE in 2001 is approximately SEK 3bn.

4.4.1 Operating Efficiency

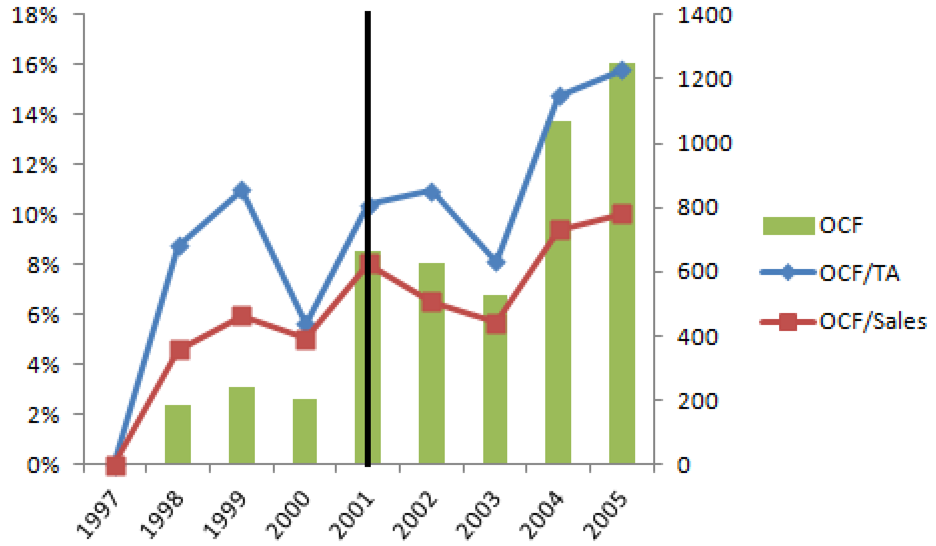
In figure 10 one can see the margin development from 1997 until 2005. Gross margins in the pre-acquisition period had mean value of 29%, after the acquisition the level has increased to stabilize around 40% in the post-acquisition period. EBIT margins have encountered a similar development where one can notice sharp increase from the pre-acquisition period to the post-acquisition period increasing from a mean value of 3.4% to a mean value of 7.5%.

Figure 10



The sharp increase in EBIT margin has had a positive impact on Nobia's ability du generate cash flow from their operations. This is further illustrated by the OCF/total assets ratio included in figure 11 which illustrate that the ratio has improved with over 5% from the year of the acquisition.

Figure 11



In figure 11 one can also notice a steady increase of the ratio OCF/Sales, which indicate that for every SEK of sales the combined entity is able to produce higher levels of operating cash. This is a clear evidence of synergistic benefit and a positive sign for the M&A. Further figure 11 show forth the development of OCF from 1997 to 2005. The strong development once again shows forth during our analysis period. In 2004 and 2005 one can notice a sharp increase in Nobia's ability to generate cash flow in absolute numbers from their operations.

4.4.2 Our assessment of post-acquisition operating performance vs. corporate expectation

When taking the mean difference between EBIT margin during the pre-acquisition period in relation to the post-acquisition development and multiplying it with Nobia's actual sales during the period 2001-2005 the difference indicate a present value of realized synergies in 2001 of approximately SEK 6bn.

Table 11

Steady state growth	2%									
Wacc	8,4%									
Year	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**Terminal Value**
Ebit margin	2%	3%	4%	5%	6%	8%	6%	8%	8%	
Sales					8283	9594	9273	11337	12442	
Mean Ebit margin pre	3,4%									
Mean Ebit margin post	7,5%									
Difference	4,1%			**Synergies:**	342	397	383	469	514	6564
				PV realized synergies:	6020					

The previous analysis is complemented with table 12 demonstrating the development of OCF in relation to sales during the analysis period. To conduct the analysis we have taken the pre-acquisition mean OCF/sales ratio and assumed that the mean ratio would hold in the post-acquisition time period. The “as if” scenario has been compared with the actual OCF outcome in the post-acquisition period to see if Nobia has managed to generate more positive development of OCF after the M&A or not. The final step includes calculating a present value of future synergies.

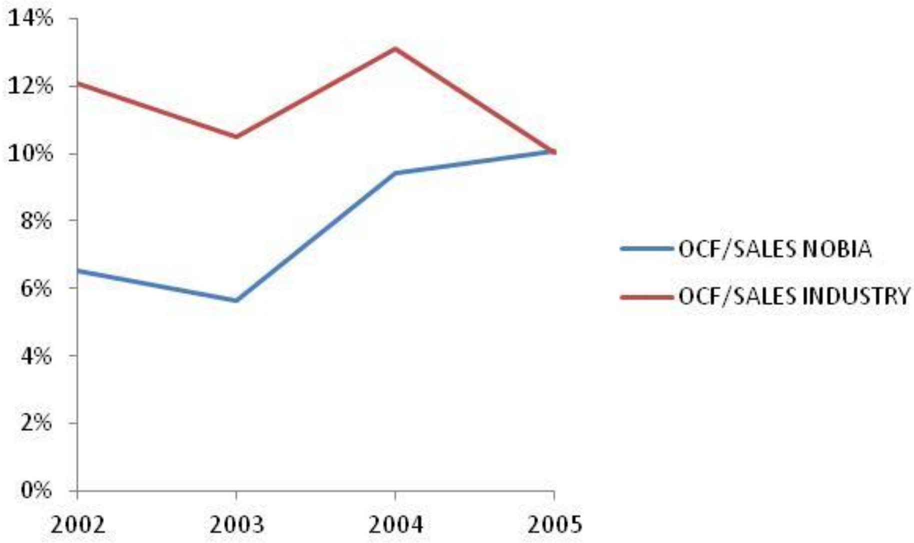
Table 12

Steady state growth	2%								
Wacc	8,4%								
Year	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**Terminal Value**
Sales	3977	4049	4102	8283	9594	9273	11337	12442	
OCF	184	241	206	667	627	525	1068	1252	
OCF/Sales	5%	6%	5%						
Mean OCF/Sales pre.	5%			As if:	498	482	589	646	
1998-2000				Actual:	627	525	1068	1252	
				Synergies:	129	44	479	605	4900
			PV realized synergies:	4517					

When comparing OCF with sales we receive a positive value of SEK 4.5 bn. The analysis reveals that Nobia has managed to deliver a higher percentage of OCF/Sales than they had done prior to the acquisition indicating a strong efficiency and utilization improvement from the pre-acquisition period to the post-acquisition period.

4.4.3 Industry Comparison

Figure 12



Nobia expected that the synergies derived from the acquisition of Magnet were to increase EBIT margins with 2% to 3%. Our analysis reveals that Nobia has managed to deliver a strong development during our analysis period including improvements in important financials such as gross margins, EBIT margins, and OCF. The development is further strengthening from our assessment where we analyze the PVCE to what they actually have achieved. Our two analyses generates a positive present value and if we are taking the mean value of these two we receive a value of approximately SEK 5bn. The corporate expectations from the acquisition of Magnet were in the region of SEK 3bn indicating that the synergies derived from the acquisition actually is higher than what they had anticipated.

4.4.4 Conclusion

- Pros
    - Gross margins has increased to stabilize around 40%
    - EBIT margin has increased with a mean value of 4% when comparing the pre- and post- EBIT levels.
    - Strong indications that Nobia has managed to increase their ability to generate OCF for every sold item.
    - PVCE is easily met in the post-acquisition period.
    - No impairment of the recognized goodwill has been conducted during our analysis period

- Cons
    - -

4.5 Eniro AB – Findexa AS acquisition

Eniro has managed to realize 0% of their expected synergies and underperformed their industry peers.

The company in brief

Eniro is active in the Nordic media market offer channels for buyers and sellers who want to find each other easily, thus bringing users closer to a transaction. Eniro, with the Nordic countries and Poland as core markets, has approximately 3900 employees. In 2010, Eniro's revenues were SEK 5.3 bn and EBIT amounted to SEK 703 M.

Background information

Through acquiring Findexa Eniro planned to further segment themselves as a market leader in the Nordic region and more specific the Norwegian market. Findexa will be consolidated in the Eniro Group as of 2006. The integration work is expected to be completed by the summer of 2007.

The Deal in Brief

Eniro AB acquired the Norwegian rival Findexa for SEK 7.9 billion in cash and shares. The terms of the Acquisition represent:

- A premium of approximately 10% compared to the closing price on 23 September 2005;
- A premium of approximately 29% compared to the initial public offer price in May 2004 of NOK25.

Corporate expectations and synergies.

The management of Eniro is expecting to realize cost synergies derived from integrating Findexa into their organization. More specific these expected cost synergies will come from a combination of sales forces in Norway and more cost-effective overhead and back-office functions. The assessment is that the acquisition in Norway will result in annual cost synergies of SEK 100 M and that these can be realized in an amount of SEK 50 M in 2006 and fully as of 2007.

Table 13

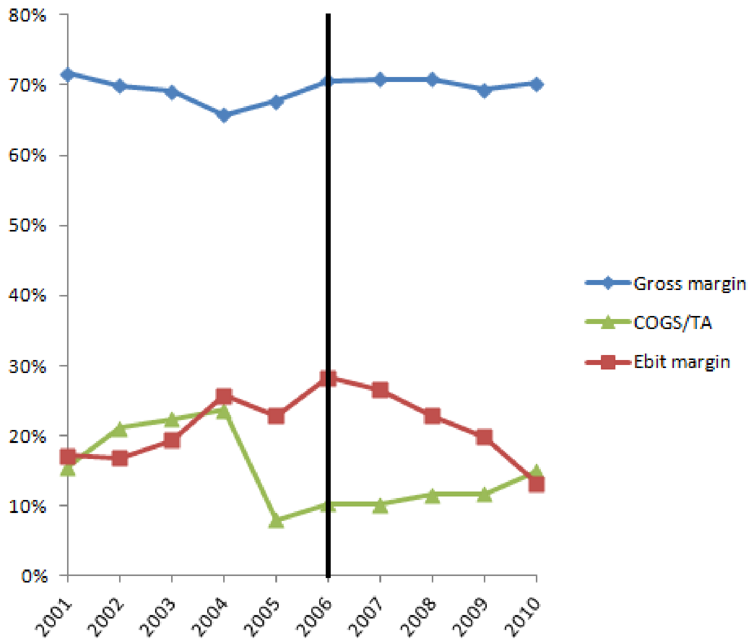
Steady state growth	2%			
Wacc	7,8%			
Year	**2006**	**2007**	**2008**	**Terminal Value**
Synergies	50	100	100	1730
PVCE	1594			

The present value of Eniro's expected synergies amount to approximately SEK 1.6bn. Now the next step in our analysis is to compare these expectations with what we actually can observe from the development in the post-acquisition period.

4.5.1 Operating Efficiency

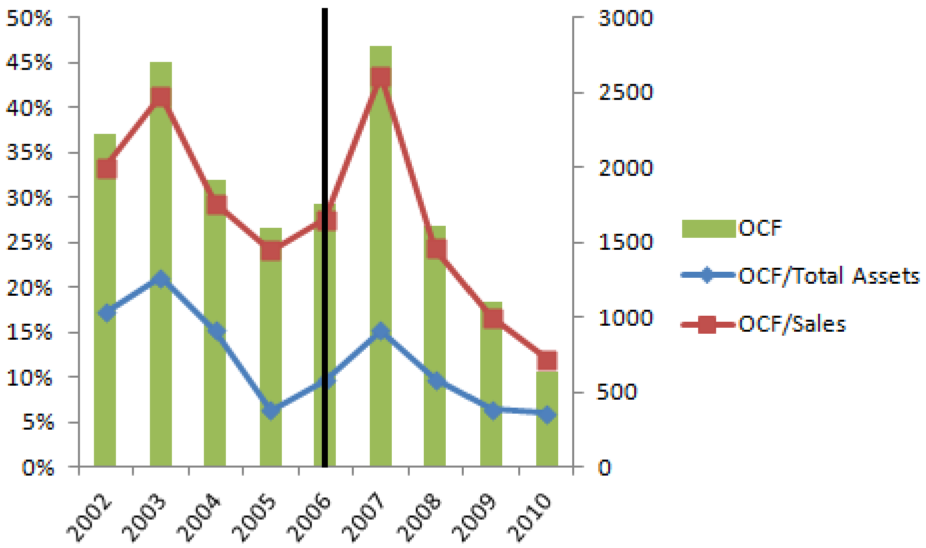
Figure 13 show forth the margin development from 2001 until 2010. Gross margin has fluctuated around 70% whereas Eniro's EBIT margin decreased from 17.1% down to 13.2% in 2010. During the acquisition year 2006 Eniro managed to yield an all time high EBIT margin of 28,3% and in the post-acquisition time period EBIT margins plummet down to reach 13.2% in 2010. Findexa has historically had a mean EBIT of 12.1%, consequently lower than Eniro which could have had a negative impact on the combined firm's financials in the post-acquisition period. In figure 13 one can also see a cost analysis including COGS/Total assets. One can see a significant decline in the ratio COGS/Total assets pointing in the direction that Eniro has managed to decrease their cost base however, these findings is not strengthened by the gross and EBIT margin development during the post-acquisition period. The results do not give any indications that Eniro has managed to improve their operational efficiency in the post-acquisition period. Instead Eniro has had a negative development in terms of EBIT levels and a stable development of gross margins.

Figure 13



The sharp decline in EBIT margin has had a negative impact on Eniro's ability du generate cash flow from their operations. This is further illustrated by the OCF/total assets ratio included in figure 14 which illustrate that OCF has been highly volatile with a peak in 2003 and 2007 and a historically low level in 2010.

Figure 14



In figure 14 we can see the development of OCF from 2002 -2010. The strong volatility once again shows forth during our analysis period. Moreover we can see a peak in 2007 and then a sharp negative development in the post-acquisition period. In the pre-acquisition period

Eniro and Findexa on standalone basis generated a mean OCF of SEK 2.1bn annually and in the post-acquisition period the combined firms managed to only yield a mean OCF of SEK 1.5 on average. Once again one notices a historically low level of OCF in 2010 and a steady negative trend from 2007 meaning that Eniro has not managed to generate a positive OCF development during the integration period.

4.5.2 Our assessment of post-acquisition operating performance vs. corporate expectation

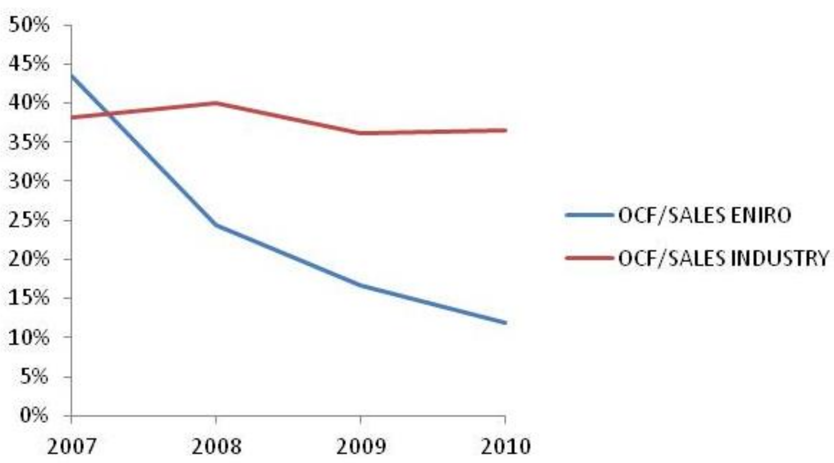
A further analysis including an "As if" scenario where we have taken OCF prior to the M&A and assumed the same OCF/Sales ratio in the post M&A setting reveals that Eniro has not manage to realize their expected synergies. In table 14 we can see the actual development compared to our As if scenario. The analysis yields a negative difference when comparing the actual generated OCF in relation to what the companies could have done on stand-alone basis. Consequently there is no need to calculate a continuing value formula for the future, or even a present value of realized synergies, as these figures would have been negative.

Table 14

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
				Eniro sales	6372	6443	6645	6581	5326
				Eniro OCF	1754	2806	1616	1098	638
Eniro + Findexa Sales	6657	6544	6508	6626					
Eniro + Findexa OCF	2220	2708	1912	1596					
Eniro + Findexa OCF/Sales	33%	41%	29%	24%					
Mean pre Eniro OCF/Sales	32%			As IF Eniro + Findexa	2042	2065	2130	2109	1707
				Synergies	-289	741	-514	-1011	-1069

4.5.3 Industry Comparison

Figure 15



When comparing Eniro's development with their industry peer group we can see that the negative development is company specific. Prior to the acquisition Eniro managed to generate a higher OCF/Sales ratio and after the acquisition a drastic development has occurred where Eniro's ratio has plummet. Our findings yield a strong indication that the acquisition of Findexa has not been successful. Further, one interesting notation from Eniro's acquisition of Findexa is that our post-acquisition operational efficiency analysis revealed a significant negative development in their key financials, especially EBIT margins, meaning that one could expect that the Findexa acquisition would have a hard time withstanding future goodwill impairment tests. Not surprisingly Eniro was forced to impair their goodwill with a total of SEK 3.4bn in 2010. In the annual report from 2010 Eniro explains that the goodwill impairment is derived from their development in the Norwegian market consequently highly correlated with the Findexa acquisition.

4.5.4 Conclusion

- Pros
  - Gross margins has stabilized around 70%
- Cons-
  - EBIT margin lower
  - No operational improvements
  - Compared to "As if" scenario Eniro has failed to realize the expected synergies
  - Eniro has been outperformed by their industry competitors
  - Goodwill did not withstand the impairment test 2010 and was impaired with over SEK 3,4bn

4.6 Boliden AB - Outokumpu Oyj (mining and smelting) acquisition

Boliden has managed to realize 61% of their expected synergies and outperformed their industry peers.

The company in brief

Boliden AB, a metal and mining company, engages in the exploration, mining, smelting, and recycling of metals. The company mines for zinc, copper, lead, gold, and silver metals and operates mines in Aitik, the Boliden Area, and Garpenberg in Sweden, and the Tara mine in Ireland. The company sells its products primarily to industrial customers, and base metal dealers and metal stocks in Sweden, the Nordic region, Germany, the United Kingdom, other European countries, and North America. Boliden's headquarter is located in Stockholm, Sweden. Boliden has approximately 4,400 employees and in 2010 Boliden's revenues were SEK 36.7 bn.

Background information

Analysts welcomed the deal as they believed that the acquisition allows both companies to focus on their core businesses, while also lightening Outokumpu's debt. Outokumpu shares were up 1.2% and Boliden stock reached a 13-month high as the stock was up 5.5% after the announcement. The industry in which Boliden is operating is expected to consolidate in the future so the acquisition comes at a time of other planned takeovers in the metals industry as producers seek to cut unit costs and reduce oversupply. Companies operating in the zinc smelters and mines market have been hit especially hard in the previous years due to descending prices.

The Deal in Brief

Boliden is buying Outokumpu's metal assets worth of 736 M Euros. Along with the share issue to Outokumpu, Boliden launches a 150 M Euros rights issue at a 25 percent premium to its closing level on Friday. Outokumpu will take part in the issue.

Corporate expectations and synergies.

The management of Boliden is expecting to realize synergies derived from integrating Outokumpu's mining and smelting operations into their organization. The expected synergies are derived from integrating their mining and smelting production and getting key knowledge in-house and a more focus on Boliden's core business. The assessment is that the acquisition will result in annual cost synergies of SEK 250-300 M annually and that these can be realized in full amount in 2006. The expected synergies are not including any cost synergies so Boliden believe that, if anything, that the expected synergies are set low.

Table 15

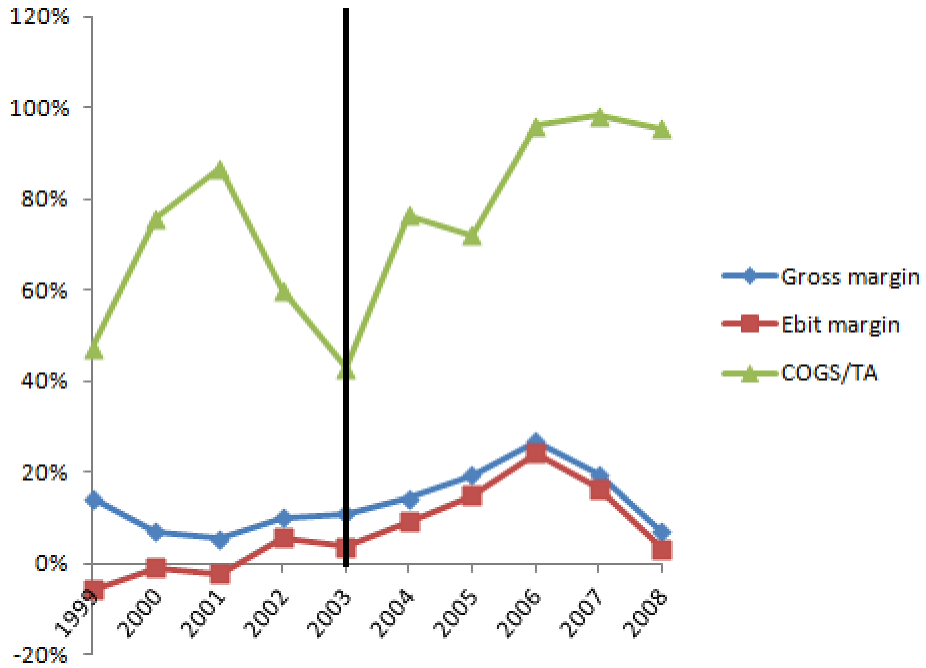
Steady state growth	2%			
Wacc	8,1%			
Year	**2004**	**2005**	**2006**	**Terminal value**
Synergies	100	220	280	4560
PVCE	4 108			

The present value of Boliden's expectations of future realized synergies amount to approximately SEK 4.1bn. Now the next step in our analysis is to compare these expectations with what we actually can observe from the financials in the post-acquisition period.

4.6.1 Operating Efficiency

Figure 16 show forth the margin development from 1999 until 2008. The analysis reveals that in three consecutive years after the acquisition between 2004 and 2006 Boliden has managed to increase both their gross margin and EBIT margin. The gross margin and EBIT margin increased with over 16% and 20% respectively during this period. After the peak in 2006 margins plummet down to be even lower than during the acquisition year, now delivering a gross margin of 3.2% and an EBIT margin of 7% in 2008. The vast decrease in margins is according to Boliden to raw material costs and price reductions. During the pre-acquisition period Boliden delivered on standalone basis a mean gross and EBIT margin of 9.5% and 0.1% respectively. These measures have increased in the post-acquisition period as the mean gross margin now is 17.3% and EBIT margin 13.5%. The findings yields an indication leaning towards that Boliden has managed to improve their operations after the acquisition however, a question mark should be raised related to the consistency in the improvements.

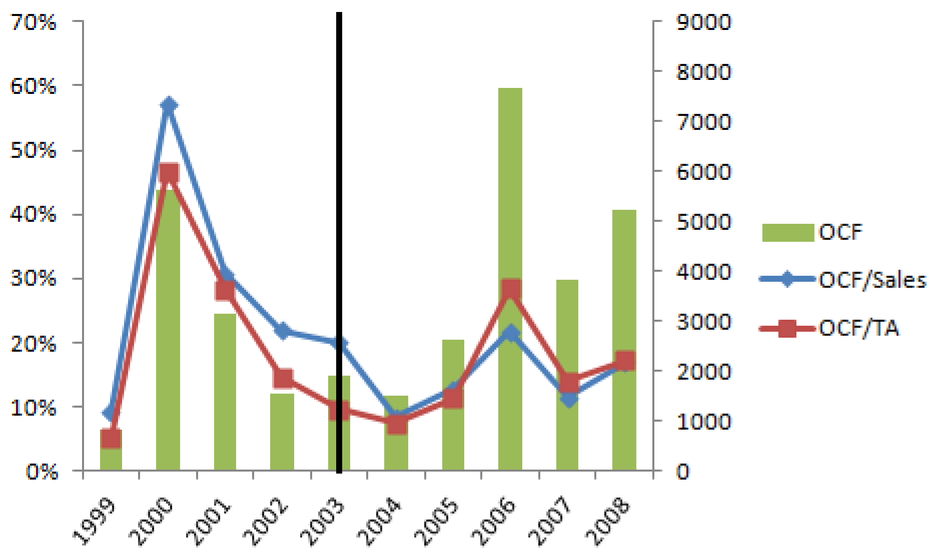
Figure 16



In figure 16 one can also see a cost analysis including COGS/Total assets. The graph shows forth a significant increase in the ratio COGS/Total assets after the acquisition indicating that costs has increased. Hence, partly explaining the previous analysis indicating that the decreasing margins is derived from an increased cost base.

The sharp decline in EBIT margin during 2007 and 2008 has a negative impact on Boliden's ability to generate cash flows from their operations, although one has to mention that the decrease is perhaps not as sharp as one might have expected. This is further illustrated by the OCF/total assets and OCF/Sales ratio included in figure 17 which illustrate that OCF has been highly volatile with a peak in 2000 and 2006.

Figure 17



In figure X we can see the development of OCF from 1999 to 2008. The strong volatility once again shows forth during our analysis period. Moreover we can see a peak in 2006 and then a sharp negative development in the post-acquisition period. In the pre-acquisition period one can notice a steady increase on Boliden's ability to generate cash flow from their operations.

4.6.2 Our assessment of post-acquisition operating performance vs. corporate expectation

Table 16 demonstrates the development of OCF in relation to sales during the analysis period. To conduct the analysis we have taken the pre-acquisition mean OCF/sales ratio and assumed that the mean ratio would be representative in the post-acquisition time period. The "as if" scenario has been compared with the actual OCF outcome in the post-acquisition period to see if Boliden has managed to generate more positive development of OCF after the M&A or not. The reason for why we have chosen a historical mean is due to the extreme outlier where OCF/Sales is 51% in 2000. Looking historically and in the future this number is not representative for Boliden's normal business. Hence in order to reduce the impact from the extreme value a historical mean value has been calculated from 1994 to 2003. The final step includes calculating a present value of future synergies.

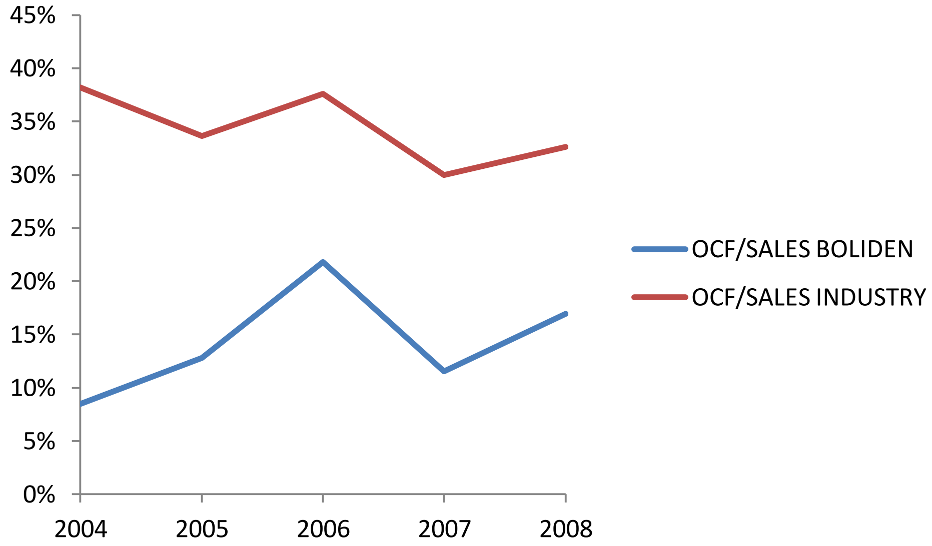
Table 16

Steady state growth	2%								
Wacc	8,1%								
			2003	**2004**	**2005**	**2006**	**2007**	**2008**	**Terminal Value**
Sales			9545	17928	20441	35213	33204	30987	
OCF			804	1516	2612	7680	3828	5242	
Mean historical pre OCF	14,5%	As IF:		2600	2964	5106	4815	4493	
		Actual:		1516	2612	7680	3828	5242	
		Difference:		-1083	-352	2574	-987	749	2933
PV realized synergies:			2 500						

When comparing OCF with sales we receive a positive present value in 2003 of approximately SEK 2.5 bn. The analysis reveals that Boliden has managed to deliver a higher percentage of OCF/Sales than they had done prior to the acquisition indicating an efficiency and utilization improvement from the pre-acquisition period to the post-acquisition period.

4.6.3 Industry Comparison

Figure 18



After Boliden's acquisition of Outokumpu they have managed to outperform their industry peer group. When the peer group has had a negative OCF/Sales development Boliden has improved their ratio with over 6%. The results yield an indication towards that the acquisition of Outokumpu has been successful and that they have managed to realize a substantial amount of synergies from the deal.

4.6.4 Conclusion

- Pros
  - Although volatile differences our analysis reveals improvements in key financials such as gross and EBIT margin
  - Boliden has managed to outperform their industry peers
  - The recognized goodwill of SEK 2.7bn in 2003 has withstand the impairment tests in the post-acquisition period
- Cons-
  - Worrying development related to declining margins from the peak 2006
  - Corporate expectations has not been met

4.7 Karlshamn AB - Aarhus United AB acquisition

Karlshamn has managed to realize 21% of their expected synergies and developed in-line with industry peers.

The company in brief

AarhusKarlshamn AB, through its subsidiaries, refines and sells vegetable oils for specialized products primarily in Europe and North America. It operates in three segments: Chocolate and Confectionery Fats, Food Ingredients, and Technical Products and Feed. The firm has approximately 2000 employees and had total sales of SEK 16 bn in 2010, realizing an EBITDA of SEK 1.4 bn. The company was formerly known as BNS Industrier AB and changed its name to AarhusKarlshamn AB in September 2005. AarhusKarlshamn AB is headquartered in Malmö, Sweden.

Background information

Karlshamn's acquisition of Aarhus was a step towards becoming the leader in vegetable specialty fats. By combining the two firms, there was an underlying motivation to reach critical mass and attain a stronger market position. It would also allow a stronger purchasing power and lower investments costs. So from a strategic point of view the acquisition seemed to be a good move, especially because the two firms complemented each other quite well, especially in terms of geographic spread.

The Deal in Brief

The deal was initiated by Bns Industrier AB that proposed to the shareholders of Aarhus United and Karlshamn AB to exchange their shares against shares in the newly formed entity AarhusKarlshamn AB. The total value for Karlshamn shares was SEK 2559 M and the offer represented a discount of 2.3%. Aarhus United shareholders were offered 5,27 shares in the new entity for each shares in Aarhus United, which represents a discount of 1.8% compared to the closing price of one Aarhus United share on 25th may 2005.

Corporate expectations and synergies.

The initial expectations were for the synergies to generate SEK 150 M, per annum, with full effect as from 2008. The total non-recurring cost for the program was appraised to 248 M (2005: SEK 91 M and 2006: SEK 157 M). Of the synergies, 50% were expected to be realized in production, 20% in sales, 20% in administration and 10% in trading.

Table 17

Steady state growth	2%				
Wacc	7,3%				
Year	**2006**	**2007**	**2008**	**2009**	**Terminal Value**
Synergies		25	75	150	
Recurring costs	91	157			
Synergies	-91	-132	75	150	2830
PVCE	2832				

The present value of Karlshamn AB expectations of realized synergies amount to approximately SEK 2.8bn. Now the next step in our analysis is to compare these expectations with what we actually can observe from the financials in the post-acquisition period.

4.7.1 Operating Efficiency

Figure 19

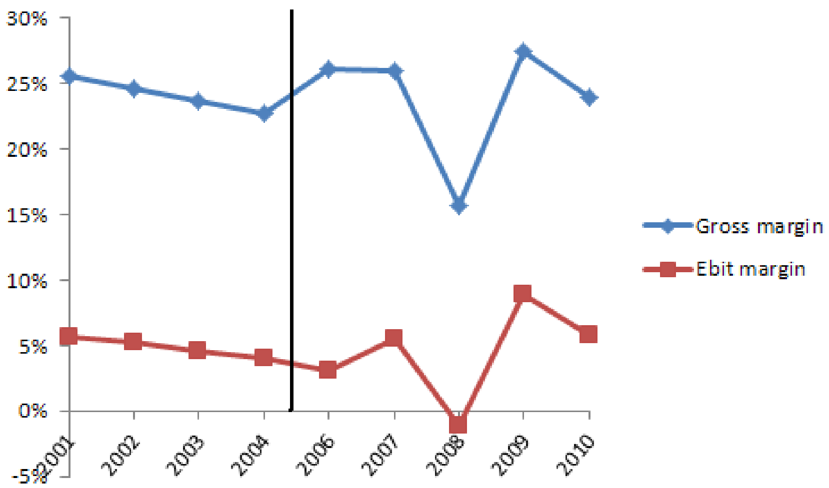
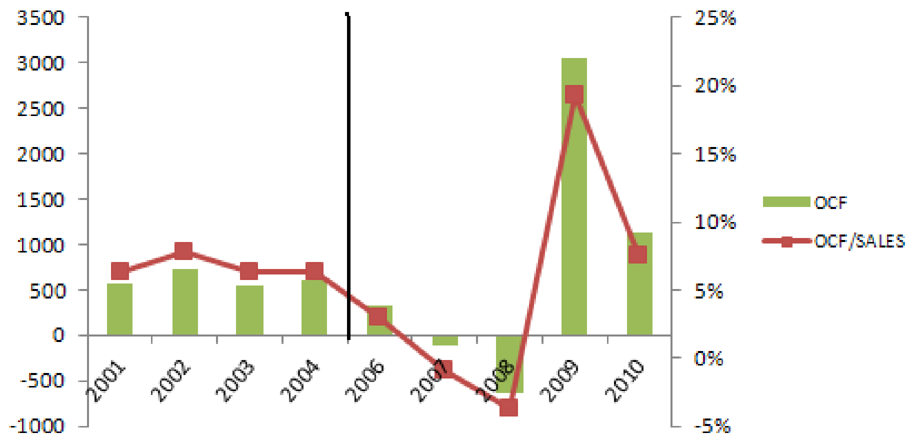


Figure 22 show the margin development from 2001 until 2010. The acquisition took place on September 30th 2005. We can clearly see that the combined entity pre-acquisition was facing declining EBIT and Gross margins. The acquisition in itself had a well-reasoned rationale and positive effects in terms of margins were expected. We can see that this was realized already in 2006 for the gross margins with cost reductions, while EBIT margins followed the trend of the preceding years. The drop in 2008 is due to the strong increase in raw material prices during the year which had a high impact on margins. However, the company was able to recover thanks to guaranteed supplies of key raw materials. All in all, since the acquisition, the firm has had the objective to grow organically and fully benefit from the combined strengths of the two companies. This has been relatively successful and on average operational performance has improved as can be seen from the EBIT margins.

Figure 20



In figure 23 we can see the development of OCF from 2001 to 2010. During this period the OCF's have followed a roller coaster type evolution with lows and highs. What we can notice is that prior to the acquisition there were quite stable cash flows and OCF/Sales of around 6%. Years following the acquisition show the difficulties of integrating the two firms into one and this has suffered. It has been particularly difficult to realize synergies in the production process which had an impact on production costs as processes for change are lengthy and difficult. In 2009 the company saw record high operating profit combined with large inventory and accounts receivables diminution, resulting in very high OCF. This was not possible to maintain in 2010, but the trend is still positive if the company successes at continuing taking advantage of the acquisition.

4.7.2 Our assessment of post-acquisition operating performance vs. corporate expectation

A further analysis including an "As if" scenario where we have taken OCF prior to the M&A and assumed the same OCF/Sales ratio in the post M&A setting without synergies reveals that AarhusKarlshamn has not manage to realize their expected synergies. In table 20 we can see the actual development compared to our As if scenario. In years 2006, 2007 and 2008, the non-merging firm would have realized higher OCF's, whereas in years 2009 and

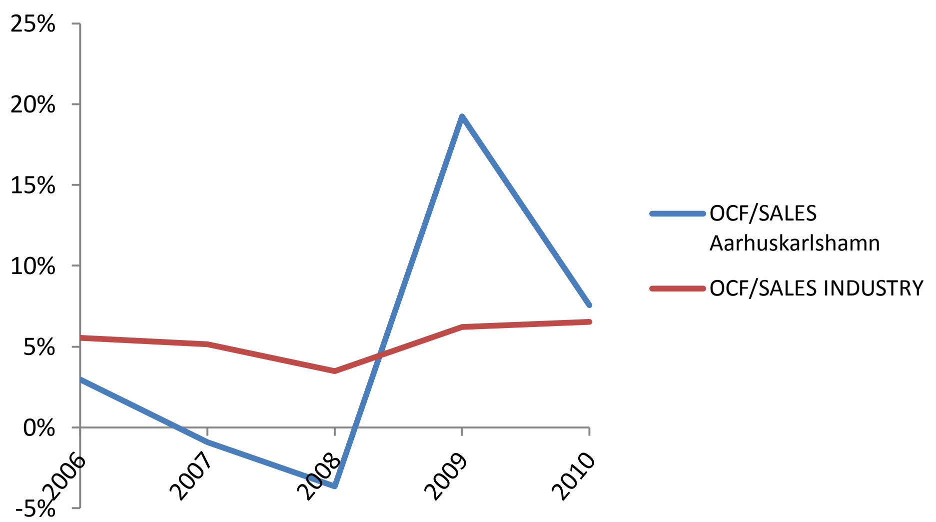
2010 the merging firm outperforms the non-merging, indicating a positive trend. We can then value the synergies achieved by the company. In the case of AarhusKarlshamn, we estimate those to be positive and amount to SEK 0.6 bn. This is not an as positive result as expected for management however, we must note that in this case and due to the production process, synergies could take longer time to be captured.

Table 18

Steady state growth	2%					
Wacc	7,3%					
Year	**2006**	**2007**	**2008**	**2009**	**2010**	**Terminal Value**
OCF "AS IF"	732	871	1153	1064	992	
OCF Actual	323	-117	-628	3058	1121	
Synergies	-409	-988	-1781	1994	129	2434
PV of realized synergies:	625					

4.7.3 Industry Comparison

Figure 21



Due to the very specific industry AarhusKarlshamn operates in, we decided to make a peer comparison with the only two competitors named by the company. This is a better benchmark than using a larger sample that would use firms in the cosmetic industry with very different profitability levels. Comparing the company to its closest peers, we can clearly notice a negative trend during the first two post-acquisition years, in line with what management expected in terms of difficulties in integrating the two firms. The following years are much more positive and show both favorable market conditions and contracts to access raw materials at fixed prices, as well as the capture of synergies, resulting in AarhusKarlshamn outperforming its closest peers.

4.7.4 Conclusion

- Pros
    - Slightly outperforms the industry in the post-acquisition period
    - Improved operating Margins
    - No impairment of goodwill in the pre-acquisition period
- Cons
    - Costs reductions have not been as good as expected
    - Compared to "As if" scenario AarhusKarlshamn has failed to realize the total expected synergies

4.8 Telia AB – Sonera Oy acquisition

Telia have managed to realize 90% of their expected synergies and outperformed their industry peers.

The company in brief

TeliaSonera is today one of the largest telecom operators in Europe (5th as of year-end 2010) with a presence in 19 countries and a leading position in the Nordics, with almost 30 000 employees and net sales amounting to SEK 107 bn. TeliaSonera is the result of the acquisition of Sonera Oy by Telia AB in December 2002. TeliaSonera's headquarters is in Stockholm, Sweden. The stocks are traded on the Stockholm Stock exchange and on the Helsinki Stock Exchange.

Background information

The new state of affairs with new technologies, a growing number of private competitors and a swiftly increasing number of new markets to compete in demanded changes. After having made an unsuccessful attempt to merge Telia with Telenor (the largest Norwegian telecom operator) during the late 1990's, Telia were listed on the Stockholm Stock Exchange in June 2000. After the listing and in the wake of the IT bubble bursting, new opportunities opened for a larger future oriented change in the form of an acquisition of Finnish telecom company Sonera.

The Deal in Brief

Telia's acquisition of Sonera was facilitated by several factors. The two companies, which were both listed on the stock exchange, had collaborated previously and Sonera was at the beginning of the 2000s facing difficult financial problems. In the preceding years, Sonera's management had dramatically expanded the organization, consequently incurring substantial costs investing in a new mobile network and the purchase of two very expensive 3G licenses in Germany and Italy. Telia on the other hand – which had refrained from similar investments in 3G licenses – generally had more stable finances.

Telia and Sonera had similar strategic agenda consisting of international ambitions and had recently invested in foreign markets which meant according to the management team that the companies complemented one another in a pragmatic way. Plans for the acquisition were consequently made public in March of 2002. The subsequent negotiations went smoothly and progressed so quickly that the two companies could be merged as early as December 2002.

The acquisition was formalized by Telia buying Sonera. After the acquisition, the Swedish state owned 46 % of the new TeliaSonera and the Finnish state slightly over 19 %. The company immediately became a large international concern and obtained a strong market position, primarily in Sweden, Finland and the other Nordic countries, but also in the three Baltic countries.

The corporate expectations and synergies

When the acquisition was announced, management of Telia were anticipating synergies from the acquisition that would enable the newly formed company TeliaSonera to be the market leader in the Nordic countries and continue its international expansion outside of its historical home markets. The greatest savings were expected to be found in product development, IT systems, networks and technical platforms as well as within administration. The increased size was also expected to increase bargaining power and reduce costs from goods and service suppliers. Management also expected revenue synergies because they believed TeliaSonera had a broader and more attractive range of products and services and a larger customer base than Telia and Sonera each had individually.

The cost and capital expenditure savings were expected to increase gradually. Company management expected the cost synergies in the Nordic operations to total SEK 2.3 billion up to the end of 2005. Calculated monthly, TeliaSonera expected to attain approximately 20 % of the annual sum at year-end 2003 and 50 % at year-end 2004. The annual capital expenditure savings were expected to total SEK 640 M up to 2005. TeliaSonera expected to attain approximately 30 % of the annual sum at year-end 2003 and 60 % at year-end 2004. The total synergies after 2005 were expected to yield pre-tax cash flow of approximately SEK 2.7 billion each year. The synergies do not include revenue synergies and synergies in the Baltic countries. The restructuring costs, which were non-recurring, were estimated at SEK 2 billion during 2003-2005.

Summary of corporate expectations:

Cost synergies	2,3 bn up to 2005
Capex savings	640 m up to 2005
Total Synergies	2,7 bn annually from 2006
Restructuring cost	2 bn between 2003-2005

The corporate expectations can be translated into a present value, present value of corporate expectations (PVCE):

Table 19

Steady state growth	2%					
Wacc	6,9%					
Year	**Total**	**2003**	**2004**	**2005**	**2006**	**Terminal Value**
CAPEX SAVINGS	640	192	192	256		
Cost synergies	2300	460	690	1150		
Total synergies yearly		652	882	1406	2700	
Non reccurring costs	2000	667	667	667		
Synergies		-15	215	739	2700	39382
PVCE 2003		33059				
PVCE March 2002	31455					

Now the next step in our analysis is to compare these expectations with what we actually can observe from the financials in the post-acquisition period.

4.8.1 Operating efficiency

Figure 1 illustrates data for five years prior to the deal for the combined entities and five years after the acquisition for the newly formed entity. First when analyzing gross margin development we notice a steady progress where gross margins have stabilized around the 45% mark. Second when analyzing EBIT margin development, one can clearly see that there is a significant improvement. With an average EBIT margin of 9.8% in the pre-acquisition period, the years following the deal present a ratio around 20%. The figure is fruitful as it tells us a lot about the story of synergistic benefits. Remember that management was expecting cost synergies to be quite substantial, well looking at the improvements in gross margins, one can observe that the company has achieved a slight improvement by reducing its costs. However, the EBIT margin development has been more direct and the levels in the post-acquisition period that had never been attained in the pre-acquisition period, revealing an operating performance that is clearly improved post-acquisition.

Figure 22

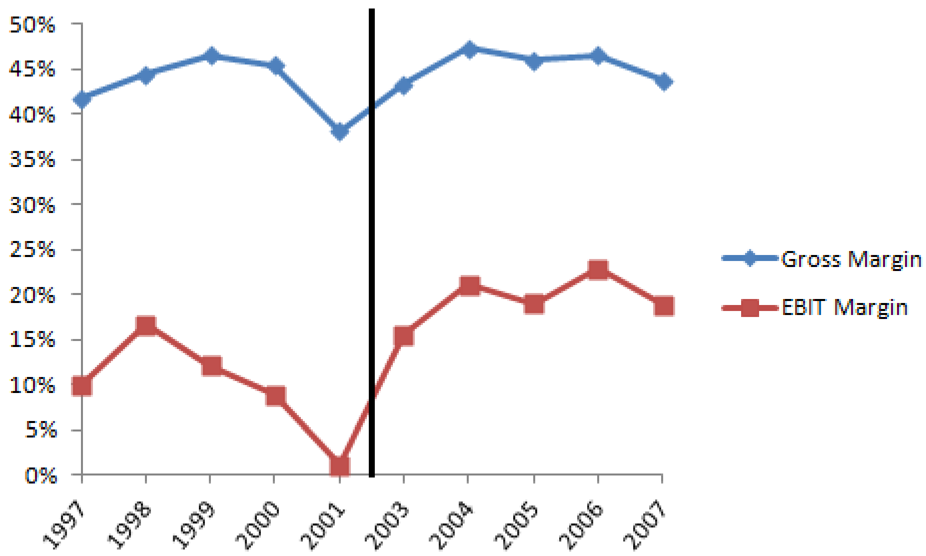
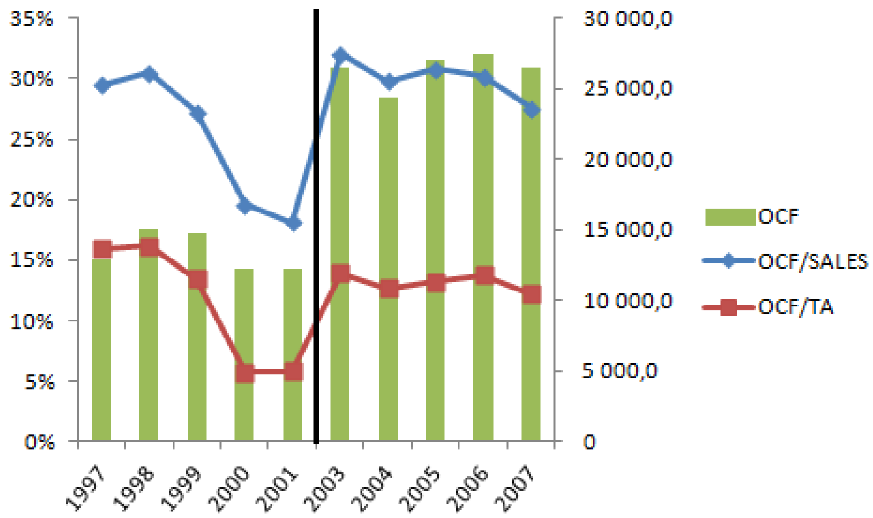


Figure 2 below illustrate that the OCF to total assets. In figure 2 one can notice an improved efficiency immediately after the acquisition however, we cannot attribute this fully to synergies, since the two years prior to the acquisition took place in the midst of the dot com bubble where the telecommunication industry suffered severely, explaining much lower levels of OCF. Further the graph illustrate that OCF's in relation to sales has improved and stabilized on a high level after the deal, which would indicate that for every SEK of sales the combined entity is able to produce higher levels of operating cash. This is evidence of synergistic benefit and a positive sign for the M&A.

Figure 23



We have seen in the paragraphs above that TeliaSonera AB has had an improved operating performance than it would have had Telia would not have acquired Sonera. In the next section we will assess the post-acquisition operating performance and compare it to the expectations that management had at the time of the announcement.

4.8.2 Our assessment of post-acquisition operating performance vs. corporate expectation

Given that we have a relatively clear understanding of what management was aiming at in terms of synergistic benefits, the TeliaSonera AB is a good case to see if they have succeeded in transforming their predictions into real economic benefits. Assuming that the two companies would not have merged, we can estimate what levels of OCF returns would then have been realized. Taking the mean of OCF's of the combined 'as is' firm in the pre-acquisition period gives us 21.37%. Using historical data, we have estimated the sales growth to 4%. This enables us to calculate what the OCF's would have been if there had been no acquisition. Comparing the estimated OCF's with the achieved OCF's enable us to estimate a value for the synergies achieved, as can be seen in the table below.

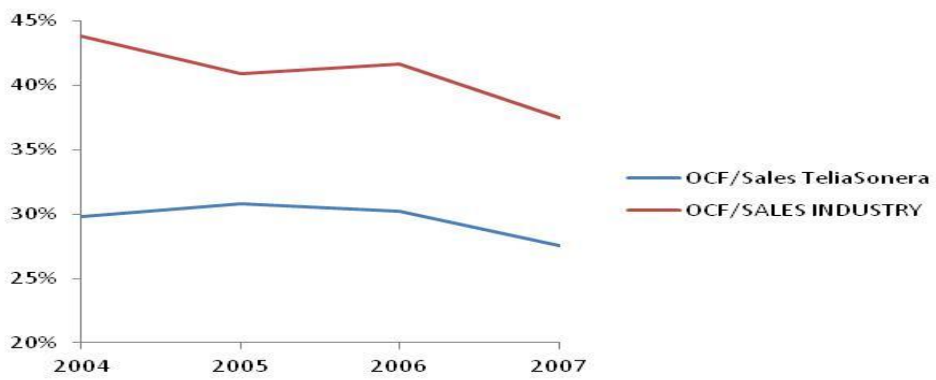
Table 20

Steady state growth	2%						
Wacc	6,9%						
Year		**2003**	**2004**	**2005**	**2006**	**2007**	**Terminal Value**
Estimated OCF 'as if'		23103	23911	24748	25614	26511	
Achieved OCF		26443	24403	26990	27501	26529	
Synergies		3340	492	2242	1887	18	32859
PV of excess OCF		30440					
PV March 2002	28340						

The terminal value is derived from taking the mean excess OCF in the pre-acquisition period. At the announcement date, the present value of synergies for the next five years represents 28.3 billion, which is above corporate expectations.

4.8.3 Industry Comparison

Figure 24



When comparing TeliaSonera's development compared to their peers on can see that they have outperformed their closest peers. While TeliaSonera's OCF/Sales ratio only has dropped 2% their peers has lost over 5%. The results strengthen our analysis and indicate that through acquiring Sonera Telia has not only managed to realize synergies but also outperformed their industry.

4.8.4 Conclusion

- Pros
  - Increased operational efficiency
  - Clear signs of realized synergies
  - Outperformed industry peer group
  - Goodwill has withstand the impairment tests
- Cons
  - -

5 Discussion

In this paper we studied eight acquisitions made by Swedish acquirers between 2000 and 2007. Out of these eight deals, one (Nobia) realized operating synergies above the expectations expressed by management at announcement date. Five, namely Telia, Husqvarna, Assa Abloy, Boliden and Saab realized significant synergies but below corporate expectations. Finally, AarhusKarlshamn managed to realize 21% of the expected synergies though slightly improving operating performance and Eniro did not realize any synergies, meaning that their operating performance declined in the post-acquisition period.

Table 21

Realized synergies / Expected synergies (SEK bn)								
	Telia	Husqvarna	Assa Abloy	Nobia	Eniro	Boliden	Saab	Karlshamn
Expected	31,4	3,3	8,8	3,0	1,6	4,1	4,7	2,8
Actual	28,3	2,5	3,9	4,9	0	2,5	2,3	0,6
Percentage	90%	75%	44%	167%	0%	61%	49%	21%
Realized expectations								
Mean	63%							
Median	55%							

From our results we can derive that in 7 out of 8 deals, i.e. 87.5% of our analyzed M&A's, management have overstated the value of the synergies they were expecting to realize from the acquisition. These findings are in-line with prior research, with empirical evidence showing that expected synergies are often not realized in full (Johnson, 2002), and that only half of the revenue synergies and just 45 percent of the anticipated cost synergies have been captured (Accenture & Economist Intelligence Unit, 2006). Another reason could be derived from Berkovitch & Narayanan (1993) who argue that companies overpay for acquisitions when non-economic variables are included in valuations. This could be the case in the acquisition of Findexa by Eniro. Our results suggest that post operating performance deteriorated and that the acquisition was not correctly priced. This was stated both by Lars Berg, chairman of the board until 2011, who admitted that the growth prospects of the Norwegian market were erroneously estimated, and by the CEO Jesper Kärrbrink, who was not in place at the time of the deal, that saw the deal as good strategically but too expensive. Furthermore the large goodwill impairments points in the same direction.

As the purpose of this paper was not to uncover the reasons behind success or failure in M&A's, we do not intend to answer this question here, several researchers have found results indicating that acquisitions that are value destructive are driven by agency rather than hubris (Berkovitch & Narayanan, 1993; Seth et al, 2000). Moreover, it must be noted that it is very difficult to identify and expressively quantify post-takeover synergistic benefits (Johnson, 2002) which may be a partial explanation to our findings from the difficulty in correctly valuing synergy.

An interesting outcome is that for two of the acquisitions, namely Telia and Nobia, operating performance improvements exceeded managerial expectations. Further, Saab, Boliden, Assa Abloy and Husqvarna also managed to significantly improve their operations in the post-acquisition period, even though they have not achieved to meet their expectations, signifying that management from six out of eight companies succeeded in meaningfully improve their operations in the post-acquisition period. These results yield an indication that by only looking at operational improvement the analyzed M&A's conducted by Swedish acquirers have been successful. The results point towards that operational improvements are indeed the motivation for the takeover in at least 75% of our analyzed deals, in-line with Switzer (1996) who claim that if synergistic benefits are the source of value in corporate takeovers, then these improvements should be reflected in the operating performance post-acquisition.

To further increase the evidence from our results we chose to benchmark them with an industry peer group of non-merging companies. The comparison did not only confirm our results, it actually even further strengthened our expected development of each M&A. When our analysis yielded indications that the development had been positive, the benchmark comparison yielded results signifying that the company had outperformed its peers. Furthermore, when our analysis yielded signals of a negative development these M&A's were outperformed by the peer group. These results increase the correctness of our findings, and our chosen method for analyzing each M&A.

5.1 End discussion

Our purpose was to uncover if we could observe any changes in operating performance, and how those potential changes would compare to corporate expectations. This leads us to ask ourselves some questions. The first interrogation would be to know if these firms would have performed in a similar way if they had not been combined. From our results we would say that for 75% of our sample, post-operating performance was superior both to the pre-acquisition firm and the industry peer group, suggesting synergy realization. This is further strengthened by our choice of peer group which has been adjusted for size in order to avoid the drawbacks of selecting firms of different sizes (Gosh, 2001). This leads us to a second interrogation, what have led to the changes in operating performance? While we can assume that managers correctly anticipated the increases in OCF for the successful deals, it is unclear what the causes for the two firms were that did not achieve a satisfactory performance. This could be simply because of unfavorable circumstances, but it could also be linked to managerial and corporate governance issues.

We have decided to use a longer time span because we have chosen to study firms engaging in relatively large deals, thus significantly reducing the probability of distortions from other events that in comparison to the takeover would be minor and subsequently not bias our observations. Using a longer time span also allows for sufficient gestation time for the combined firm to realize synergies and improve operating performance (Sharma & Ho, 2002). Indeed we can observe that in several cases the OCF measure is negative in the first years following the deal and tend to pick up in the later years of our time period.

5.2 Limitations

When comparing our results with Martynova et al. (2008), who present results showing that out of 26 studies analyzing changes in operating performance following an M&A deal, 14 report a decline in operating performance, 7 cannot see any noteworthy changes and only 5 report evidence of significant positive effects on operating performance, we find that our results belong to the category which recognizes improvements in operating performance. Does this imply that Swedish acquirers are better at improving operational efficiency in the post-acquisition period? First we must acknowledge that there is a generalization problem since our sample of studied companies is restricted. This latter drawback is minimized since we have used a limited time period for our analysis, acquisitions made in 2000 until 2007, and only included the largest M&A's made by Swedish acquirers. Consequently we have included a large fraction of the total value transferred in the Swedish public M&A market during the specific time span. Subsequently the results suggest indications related to how well Swedish acquirers have succeeded in the M&A market during this time period. We cannot conclude to how many M&A's have been successful in the Swedish M&A market instead we can observe that of the total value of deals performed in the Swedish public M&A market during the period 2000-2007, a large fraction have been successful in terms of improving their operations. Further along the same line, Swedish private equity firms have historically outperformed their international peers when it comes to generating returns to their respective investors (Kaplan,2006), indicating that perhaps there could be a specific configuration or cultural aspect making Swedish acquirers more successful in the M&A market. This needs to be further investigated and we will provide hints for future research in the final section.

6 Conclusion

Our conducted research suggests, at least for Swedish acquirers, that there is a potential for improvements in operating performance in the post-acquisition period. However, our results also show that there is an important heterogeneity in outcomes and there are mixed results within the company sample that we studied. Comparing the results we obtained with the expectations that management had expressed upfront also gives us an indication of the degree of optimism that management can have when they use synergies as a way to motivate and rationalize an acquisition. What we can extract from our result is that operational improvements have significantly increased and, on average, over 63% of the expected synergies have been realized. However, when focusing on the amount of deals managing to realize the expected synergies 87.5% overstate their expectations indicating that although operational improvements have been observed, those were overstated by management.

6.1 Future research

A large number of researchers have focused on stock returns to assess performance and value in M&A, leaving empirical evidence on operating performance changes limited. Furthermore the results from those studies vary greatly, with some recognizing improvements in operating performance (Healy et al.,1992; Switzer 1996; Rahman & Limmack 2004) others finding no significant changes (Gosh,2001; Sharma & Ho 2002) , and finally those that have found negative developments in operating performance post-acquisition (Dickerson et al., 1997). The different types of samples and the differing benchmarking methods may have an explanatory power in this matter. Nevertheless, with the vast majority of studies focusing on US deals much is to be learned on the patterns specific to European M&A, which we have intended to contribute to by solely focusing on Swedish acquirers.

While we have examined a smaller sample of Swedish acquirers, there are still some interesting paths to take to go even further in the study of operating improvements and corporate expectations in terms of synergies. On a more general basis for the whole M&A research field these would include conducting an even more clinical study that would get access to non-public information apropos corporate expectation regarding realized synergies and premiums paid. Such a strategy would demand that the researcher could work from inside different companies, which of course, will be of great complexity.

While our results indicate positive operating changes following an acquisition, there is a mount of knowledge to develop on the reasons why those deals have been successful. One path to take would be to analyze the corporate expectations of managers and what drives the decisions to engage in M&A, exploring non-economic factors such as academic background and the structure of executive compensation packages.

Acknowledgment

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8 Appendix

Listing of Industry Peer Group Companies

Company	Peer Group
TeliaSonera AB	Telecom Italia SpA
	Swisscom AG
	Telstra Corporation Limited
	KT Corp.
	Portugal Telecom SGPS SA

Company	Peer Group
Boliden AB	Antofagasta plc
	Minmetals Resources Limited
	KGHM Polska Miedz SA
	Tongling Nonferrous Metals Group Co Ltd.
	Teck Resources Limited

Company	Peer Group
Assa Abloy AB	Taiwan Semiconductor Manufacturing Co Ltd
	Ingersoll-Rand Plc
	Kaba Holding AG
	Andritz AG WBAG
	The Black & Decker Corporation

Company	Peer Group
Husqvarna AB	Makita Corp
	Kennametal Inc
	Snap-on Inc
	Hilti
	Stanley Black & Decker Inc

Company	Peer Group
Eniro AB	Seat Pagine Gialle SpA
	Telgate AG
	Pages Jaunes Groupe
	Google Inc.
	Hi Media SA

Company	Peer Group
Saab AB	Dassault Aviation SA
	MTU Aero Engines Holding AG
	Zodiac Aerospace SA
	AAR CORP
	Textron inc

Company	Peer Group
Nobia AB	Alno AG
	Ballingslöv International AB
	BoConcept Holding A/S
	Howden Joinery Group Plc
	American Woodmark Corp.

Company	Peer Group
AarhusKarlshamn AB	Fuji Oil Co Ltd
	IOI Corp Bhd

Analysis example: Saab AB acquisition of Celsius AB

This appendix is a brief description of how we proceeded when analyzing each deal and is included to clarify our methodology to the reader.

We started the analysis by computing the operating cash flows (OCF) for each year both prior to the acquisition and after the deal. We start with EBIT and adjust for depreciation and working capital changes. Once we have the OCF for each year and for both firms in the pre-acquisition period, we go on by creating the As if scenarios. This made through adding the OCF's of the two firms as following:

Pre-acquisition period: OCF "As If"= OCF (acquirer)+OCF(acquired)

Post-acquisition period: OCF of the combined firm

Once we have all the OCF for all the years, we go on to calculate the WACC. Below is a detailed table of the WACC calculation.

WACC calculation		
Debt Beta	0,77	Fin. Exp./Int. Bearing debt (Acq year)
Equity Beta	1	Value derived from compustat 60 month average
Market risk pren	6%	
Risk free rate	5%	5 Year Treasury Yield
Re	11%	(Risk Premium * Equity beta) + Rf
Rd	9%	(Risk Premium * Debt beta) + Rf
Equity	5670	Common equity acq. Year
Debt*	5613	Debt acq. Year
E/(E+D)	50%	Equity/Capital Employed
D/(E+D)	50%	Debt/Capital Employed
Tax rate	28%	Stationary tax rate
Wacc	8,7%	(E/(D+E) * Re)+(D/(D+E)*Rd*(1-tax))
Inflation SS	0,02	2% long run inflation
Growth SS	0,02	0% real growth assumed in steady state

Cost of capital	8,7%				
Steady state growth	2%				
Year	2000	2001	2002	2003	Terminal Value
Cost Synergies		100	200	400	
Costs	200	200	200		
Total synergies	-200	-100	0	400	6099
PVCE	4388				

The corporate expectations are given by management and retrieved through corporate publications or conference calls around announcement date. We use those expectations to calculate the present value of corporate expectations (PVCE). The terminal value is here based on annual synergies of 400, in line with what the company had announced. We use this value to calculate the terminal value, using the WACC as the discount factor and a 2% steady state growth.

Steady state growth	2%				
wacc	8,7%				
Year	**2001**	**2002**	**2003**	**2004**	**Terminal Value**
OCF "As If"	1154	1217	1269	1313	
OCF Actual	1332	1308	1830	1127	
Synergies	178	91	561	-186	2407
PV of realized synergies:	2269				

We then proceed and calculate the present value of realized synergies. The OCF as if is based on performance pre acquisition and is an average of the historical years of OCF to Sales. This is then applied to sales of an as if scenario where we estimate growth that is coherent with both historical figures as well as industry developments. In the very particular case of SAAB AB, we did not apply a static growth rate to sales in the post-acquisition period because of the high cyclicality in sales and therefore used a development of sales close to the one that was actually observed in the post-acquisition period.

Our last step is to benchmark the results we have obtained against both the industry performance, but also by analyzing impairments of goodwill. Those two supplementary steps facilitate affirming our results and give them a higher grade of credibility.