
THE EFFECT OF ACQUISITIONS ON THE PERFORMANCE OF COMPANIES: CASE OF WHIRLPOOL'S ACQUISITION OF INDESIT

Kondrashova Nadezhda Viktorovna, Cand. Sc. (Econ.), Assoc. Prof.
Mironova Anna Mikhailovna, master's degree student

Voronezh State University, University sq., 1, Voronezh, Russia, 394018; e-mail: n.kondrashova@outlook.com; mironova.anna.m@gmail.com

Purpose: article is devoted to the estimation and analysis of the effects of the acquisition of Indesit on the acquiring company – Whirlpool.

Discussion: in order to accomplish the objective of the article authors used two main performance evaluation approaches for M&A deals: stock price measurement and accounting-based method. In order to adjust these methods to the case of Whirlpool the specifics of two companies and of the home appliance sector in general were taken into consideration. *Results:* authors assessed the results of the deal pointing out positive and negative effects for the Whirlpool's performance after the closure of the deal in the medium-term period.

Keywords: mergers, acquisitions, M&A, stock price, target company, acquiring company, performance of the company.

DOI: 10.17308/meps.2017.12/1779

1. Introduction

The reasoning behind mergers and acquisitions (M&A) is that two companies together are more valuable than two separate companies. The key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies. This rationale is particularly alluring to companies when times are tough. Strong companies will act to buy other companies to create a more competitive, cost – efficient company. The companies will come together hoping to gain a greater market share or achieve greater efficiency [4].

Basically, there are five commonly used performance evaluation approaches in M&A field:

1. Event studies (stock-market-based measures), both in the short run [6] and long run [8] (Haleblian and Finkelstein, 1999; Sudarsanam and Mahate, 2006).

2. Accounting-based measures [12] (Lu 2004; and Zollo and Singh 2004).

3. Managers' subjective assessments (Brock, 2005; and Homburg and Bucerius, 2006).

4. Expert informants' assessment (Hayward, 2002).

5. Divesture (Mitchell and Lehn, 1990) [9].

Due to limited resources in our study we will use first two methods. Firstly we will rely on widely available information on stock prices and apply event study methodology. Then we will do empirical studies looking at post-merger profitability have mainly used data on stock market returns to assess acquisition performance. We will also look at how the deal was put through, its chronology and general characteristics.

2. General information about the case

The 10th of July 2014 Whirlpool, the world's largest maker of home appliances has agreed to pay 758 million euros (1 billion \$) to buy a 60 percent stake in smaller Italian rival Indesit to further expand beyond its U.S. home market.

Family-controlled Indesit, which produces washing machines, freezers and ovens, has been searching for eight-months for a buyer that would help it reduce its dependence on Italy and compete against cheaper products from eastern Europe and China. There were also other rivals (Electrolux and China's Sichuan Chaghong Electric), trying to take over Indesit, but apparently Whirlpool offered a better price.

The 14th of October 2014 Whirlpool Corporation announced that it had closed a deal of acquiring Indesit. Since that day it possesses a new wholly owned subsidiary, Whirlpool Italia Holdings S.r.l. In this transaction, Whirlpool simultaneously entered into share purchase agreements (collectively, the «Share Purchase Agreements») with Fineldo for a 42.7 percent stake in Indesit (the «Fineldo Agreement»); certain members of the Merloni family (the «Merloni Family Members») for a 13.2 percent stake in Indesit (the «Merloni Family Agreement»); and Ms. Claudia Merloni for a 4.4 percent stake in Indesit. [10] This total of 60.4 percent of Indesit stock capital represents a 66.8 percent voting stake in Indesit, in light of the treasury shares held by Indesit.

Whirlpool financed this transaction through cash on hand, together with private, domestic and international public debt financing. So it simultaneously used cash and securities in order to fulfill this takeover.

To characterize this acquisition we take into account different classifications of M&A. As these two companies were direct rivals, we can characterize this acquisition as the horizontal one. This acquisition is the friendly takeover, because it was not only approved by the management, but managers had been seeking for these takeover.

4. Choice of the target company and expectations from Acquisition

The acquisition of Indesit, which was a market leader in Italy, the United Kingdom and Russia, followed Whirlpool's purchase of a majority stake in China's

Hefei Rongshida Sanyo Electric Co Ltd in 2013 for \$552 million. It has become the last major step into expanding its market beyond U.S.A. after the chain of acquisitions of Brazilian Multibras in 2000, Maytag in 2006 and Hefei Sanyo in 2013. By this pattern we can assume that Whirlpool is pursuing two following objectives of its M&A strategy: to take over competitors in the U.S. market and by this strengthen its positions and to enter relatively new markets as the positions of Whirlpool in Europe and Asia were quite weak.

Whirlpool chose Indesit as the Target company, in our opinion, due to the fact that it strengthens positions of Whirlpool on the European market. In 2013 Whirlpool was only the fourth-biggest player in Europe, Middle East and Africa, where it made 16 percent of its \$19 billion global sale. Both companies had a lot of overlapping production facilities in Italy, where Whirlpool has its European headquarters. On second glance, there are other aspects: Indesit is about the same size as Whirlpool's European operations, so there are large scale advantages, and the Indesit brand is still valuable, mostly in Southern Europe. Indesit is also leading in the UK, after purchasing Hotpoint years ago, and in Russia.

However, there is also an official proclaimed goal of Whirlpool top management, that was expressed on the press release right after closing the deal. «The appliance market in Europe is competitive and increasingly global. This transaction will build our market position and enable sustainable growth in the region,» said Jeff M. Fettig, chairman and chief executive officer of Whirlpool Corporation. «And with Indesit, we have found a great fit, as both companies are complementary and focused on delivering quality and innovation to consumers» [10].

From another side of the market, just after the closing of the deal analysts expressed their point of view about the future prospects this acquisition can bring: «Europe, where growth in several countries is still very weak, is unlikely to boost Whirlpool's sales near-term, but the purchase could offer cost synergies and help margins, which are lower than Indesit's in the region» [5].

4. Analysis of acquisition

To understand if both official goal and the forecasts of analysts came true we should take a look at the dynamic performance of Whirlpool in EMEA region in the years following the takeover (Table 1). It clearly boosted the number of sales in the region even more than twice (214% from 2012). This fact tells us that probably Whirlpool has reached a synergetic effect after the acquisition by the year 2016. Monetary indicator of net sales also grew but not a much as the sales volume (only 179% from 2012 to 2016) and it is probably they reach huge sales volumes by selling cheaper rather than premium brands and models. To increase proceeds from sales for 1% Whirlpool had to increase the sold units in 1.48 times. This is probably connected with the fact that Indesit is mostly popular by its mass market brands (like Indesit), and the premium segment is not sold very well.

Table 1

Performance of Whirlpool in EMEA region 2012-2016

Indicators	FY 12	FY 13	FY 14	FY 15	FY 16
Sold Units, thousand	11 546	11 907	15 744	25 145	24 671
Growth rate of sold units,%		103	136	218	214
Net Sales, Million \$	2 874	3 024	3 905	5 601	5 148
Growth rate of net sales, %		105	136	195	179
Operating Profit, Million \$	-51	-4	59	188	158
Operating Margin, Actual	-1,80%	-0,10%	1,50%	3,40%	3,10%
Gross Margin	9,70%	11,20%	14,70%	14,70%	14,80%

Operating growth increased drastically, that shows relative success of the operational side of the business. Operating margin increased and became positive, but the value is still not very high. This fact indicates financial vulnerability to negative market changes and can make it difficult for a company to find substantial growth. Gross margin is also growing but still it is not sufficient enough for the future success.

The history of stock prices in NASDAQ market are presented in the figure 1. After acquisitions in 2013 and 2014 stock prices rose significantly. At the closing of the year 2014 stock prices of Whirlpool first time in history reached the price of 150-160 \$ per share. It can mean that investors believed that the acquiring company received a bargain on the price of the target company. [3] However, despite numerous ups and downs in the period 2014-2017 current stock price stays on the approximately the same level as after the takeover of Indesit. This can mean that the confidence of investors is growing insignificantly.



Fig. 1. Screenshot of stock prices dynamics of Whilpool 2015-2018 in Nasdaq [11]

The analyses of result of the acquisition would be not complete without looking at the market of home appliance producers (Figure 2). We took 6 biggest companies and their revenue in the period 2012-2016. Being the strongest

company performing only in home appliance area it still faces the strong competition from multy-sector giants such as Bosch and LG as well as 2nd and 3rd global plays (Swedish Electrolux and Chinese Haier). In order to stay N^o1 in home appliance sector the current actions of Whirlpool might not be enough.

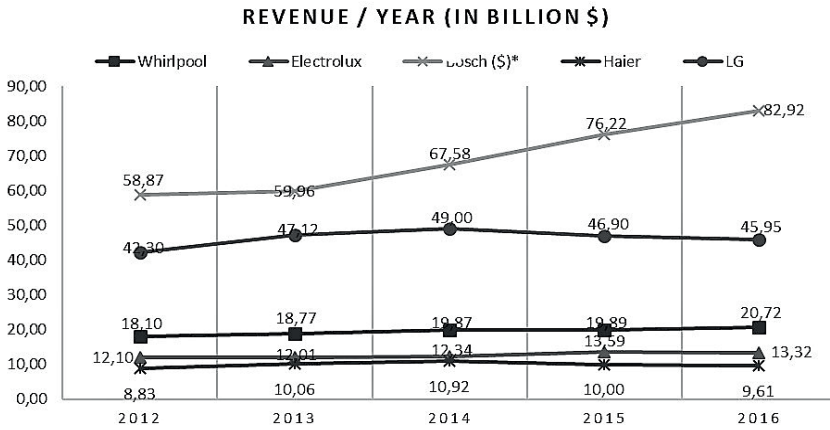


Fig. 2. Comparison of tendencies of revenues of competitors in the home appliance market

Speaking about this sector it is highly important to say that the M&A is one of the most common strategy among big market players. Two months after Whirlpool's Indesit acquisition, the BSH Bosch & Siemens Hausgeräte GmbH joint-venture announced that Siemens wished to exit the consumer business in pursuit of higher margin activities elsewhere. Robert Bosch GmbH would acquired Siemens' 50 percent stake in the joint venture BSH Bosch und Siemens Hausgeräte GmbH (BSH). The purchase price will total €3 billion. Under the terms of the agreement, BSH will also be allowed to produce and market household appliances under the Siemens brand over the long term [1].

The big counter move to Whirlpool's entry began in that same month when Electrolux announced a deal to buy General Electric Co (GE)'s appliance business for US\$3.3 billion, potentially threatening Whirlpool with a jump into the second spot globally. According to Euromonitor data that would be a jump to a 25% share of appliances volume sales in the US in 2015 for Electrolux, without the loss of its iconic local brands. This acquisition would be returning the favor, with Electrolux matching scale efficiencies against its US rival on its home turf [7].

5. Summary

In order to finally give an assessment conclusion and answer the question whether this acquisition was a wise step of Whirlpool management or not it is important to summarize all the points mentioned above. After looking at the stock market information and post-merger performance of the company we can get an ideas about success of this deal

Whirlpool certainly strengthened its positions in the EMEA region as the Indesit was one of the biggest players in this market and logistically these 2

companies complemented each other. Moreover, acquiring Indesit, Whirlpool prevented the same step by Electrolux, its main competitor. Economical indicators of Whirlpool in European region significantly improved after takeover. They are far from showing sustainable development though. The confidence of investors in its turn enhanced after 2 takeovers in Europe and China. In my opinion, in order to stay the leader in the market this kind of acquisition is far from being enough, as it can enhance the confidence of investors and to reach an insignificant synergetic effect but it can hardly help them to beat the growing competition.

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РЕЗУЛЬТАТИВНОСТЬ СДЕЛКИ ПОГЛОЩЕНИЯ ДЛЯ КОМПАНИЙ: ПРИМЕР ПОГЛОЩЕНИЯ INDESIT КОМПАНИЕЙ WHIRLPOOL

Кондрашова Надежда Викторовна, канд. экон. наук, доц.
Миронова Анна Михайловна, маг.

Воронежский государственный университет, Университетская пл., 1, Воронеж,
Россия, 394018; e-mail: n.kondrashova@outlook.com; mironova.anna.m@gmail.com

Цель: статья посвящена вопросу оценки и анализа результативности сделки по поглощению компании Indesit компанией Whirlpool. *Обсуждение:* для достижения поставленной цели авторы воспользовались двумя основными подходами к оценке сделок слияний и поглощений: анализ изменения курса акций на рынке ценных бумаг и метод анализа финансовой отчетности. С целью сделать исследование наиболее объективным авторами так же учитывалась специфика рынка бытовой техники и особенности этих двух компаний. Учитывая приведенные выше параметры, авторами были проанализированы отчетность Whirlpool, тенденции на рынке ценных бумаг и положение компании по сравнению с основными конкурентами. *Результаты:* авторами был проведен анализ результатов сделки для компании Whirlpool и была представлена оценка результативности сделки для компании-поглопителя в среднесрочном периоде после завершения сделки.

Ключевые слова: слияния, поглощения, курс акций, результативность сделок слияний и поглощений, компания-цель, компания-поглодитель.

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