

An Overview on the Romanian M&A Market during the Recent Financial Crisis

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Merger and acquisition (M&A) activity is often a good indicator of how well a given market performs or whether the economic environment within a country is ripe for investment. Based on empirical studies and theoretical evidence the present paper investigates the status of the M&A market in Romanian and several other EU countries from the perspective of the recent financial crisis. By investigating the structure of the M&A activity within the last two years compared with the last ten years, a clearer picture can be drawn regarding the impact of the crisis upon the M&A market in Romania.

Key words: *Mergers and Acquisitions, Outgoing M&As, Cross-Country M&As*

JEL classification: *G34, G30*

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I. Introduction

In the recent years, research activities were aimed towards explaining the impact the financial crisis had upon the financial markets. Pauly (2008) and Mosley and Singer (2009) explain the causes that lead to the crisis, the degree in which some economic areas were affected, how could the negative effects be reduced and how to mitigate newly arisen risks.

Event though the epicentre of the crisis was situated in the USA, the contagion spread to Europe and began affecting all markets' performance in various degrees, due to the correlation between the American market and other markets. Lieven, Gallegati, Greenwald, Richiardi and Stiglitz (2005) explain contagion and risk sharing between global markets.

Clarke and Ioannidis (1996), Sharma and Mathur (1989) and Cernat-Gruici (2009) proved that the stock market performance is related to M&A activity and, although the results are not generally accepted, one thing is certain – the recent financial crisis has influenced recent M&A activity in Europe and specifically in Romania. At a glance, the effects of a financial crisis upon the M&A market signify the end of an M&A wave. As Martynova and Renneborg (2008) show, the mergers and acquisitions waves are ended either by a financial crisis or by a major regulatory change, proving that M&As are strongly influenced by the overall economic environment. Malmendier and Tate (2005) show that mergers and acquisition also have an important subjective content given by managerial factors and it is not always evident the degree and sense in which objective market factors influence M&As. As a side note, a widely used tool to alleviate negative crisis effects upon companies is the buyout engagement, in this way companies search for potential buyers which usually ends with a merger or acquisition.

Within this paper we propose a comparative analysis between several European countries which were hit by the recent financial crisis and we observe how the M&A market was influenced by the recent events.

The aim of the paper is to determine several changes induced by the financial crisis in the M&A market in Romania, by showing how the number of bids in the last two years was affected compared to a ten year period of reference, and to observe the change in the number of completed deals and the number of failed deals before and during the financial crisis.

To better describe the M&A situation, we distinctively analyzed the number of inward and outward mergers and acquisitions during the financial crisis.

The leading question that this paper answers is: “What happened to the Romania mergers and acquisitions market during the crisis? Did it contract, remain the same or grow?”

II. Data

In order to describe the mergers and acquisitions market in Romania, we used data on the number of inward M&As for the period 2000-2009 and 2008-2009 and outward mergers and acquisitions for the same period. To have a wider perspective upon the M&A market in Romania, we used the same data for ten other European countries – United Kingdom, Germany, France, Italy, Czech Republic, Croatia, Hungary, Bulgaria, Poland, Greece.

A breakdown of the number of mergers and acquisitions was made considering the number of completed deals, the number of pending deals, the number of cancelled deals, the number of proposals and the number of rumours. By showing that within the period 2008-2009 the structure of the number of deals has changed compared to the period 2000-2009, we can prove that the recent financial crisis had indeed an impact upon the Romanian M&A market.

Table 1

Number and structure of inward M&As during 2000-2009

| Country | M&A Number | Completed M&A | Pending M&A | Cancelled M&A | Proposed M&A | Not specified/ Rumoured M&A |
|---------|------------|---------------|-------------|---------------|--------------|--------------------------------|
| ROM | 465 | 73.33% | 11.40% | 11.83% | 3.01% | 0.43% |
| UK | 21574 | 85.76% | 9.30% | 3.49% | 1.40% | 0.05% |
| GER | 8519 | 83.59% | 9.90% | 2.93% | 2.72% | 0.86% |
| FR | 7914 | 89.59% | 5.46% | 2.91% | 1.63% | 0.42% |
| ITA | 4260 | 77.23% | 15.09% | 3.17% | 3.40% | 1.10% |
| CZE | 560 | 83.57% | 9.46% | 3.93% | 2.50% | 0.54% |
| CRO | 232 | 65.09% | 20.26% | 6.47% | 8.19% | 0.00% |
| HUN | 618 | 84.14% | 11.00% | 2.59% | 1.94% | 0.32% |
| BUL | 326 | 65.03% | 23.62% | 6.13% | 3.68% | 1.53% |
| POL | 2636 | 70.37% | 13.47% | 8.23% | 6.34% | 1.59% |
| GRE | 872 | 84.86% | 10.09% | 3.56% | 1.49% | 0.00% |

Source: Thomson Reuters Data.

Table 2

Number and structure of inward M&As during 2008-2009

| Country | M&A Number | Completed M&A | Pending M&A | Cancelled M&A | Proposed M&A | Not specified/ Rumoured M&A |
|---------|------------|---------------|-------------|---------------|--------------|--------------------------------|
| ROM | 136 | 63.24% | 18.38% | 8.82% | 8.09% | 1.47% |
| UK | 3731 | 70.09% | 20.37% | 5.09% | 4.15% | 0.29% |
| GER | 2402 | 66.57% | 21.82% | 2.33% | 6.24% | 3.04% |
| FR | 1989 | 76.42% | 13.98% | 2.71% | 5.23% | 1.66% |
| ITA | 1289 | 61.37% | 25.60% | 1.86% | 7.53% | 3.65% |
| CZE | 159 | 64.15% | 25.16% | 0.63% | 8.18% | 1.89% |
| CRO | 62 | 45.16% | 29.03% | 1.61% | 24.19% | 0.00% |
| HUN | 88 | 55.68% | 32.95% | 1.14% | 10.23% | 0.00% |
| BUL | 157 | 46.50% | 40.13% | 2.55% | 7.64% | 3.18% |

| | | | | | | |
|-----|------|--------|--------|--------|--------|-------|
| POL | 1027 | 45.86% | 23.86% | 11.20% | 15.00% | 4.09% |
| GRE | 221 | 62.90% | 29.86% | 3.17% | 4.07% | 0.00% |

Source: Thomson Reuters Data.

Table 3

Number and structure of outward M&As in 2008-2009

| Country | M&A Number | Completed M&A | Pending M&A | Cancelled M&A | Proposed M&A | Not specified/Rumoured M&A |
|---------|------------|---------------|-------------|---------------|--------------|----------------------------|
| ROM | 45 | 53.33% | 20.00% | 8.89% | 15.56% | 2.22% |
| UK | 3778 | 68.93% | 21.33% | 4.29% | 4.45% | 1.01% |
| GER | 2286 | 65.57% | 23.01% | 2.14% | 6.74% | 2.54% |
| FR | 2138 | 72.73% | 16.51% | 3.27% | 5.24% | 2.25% |
| ITA | 1171 | 62.51% | 24.59% | 2.13% | 8.20% | 2.56% |
| CZE | 77 | 51.95% | 27.27% | 6.49% | 12.99% | 1.30% |
| CRO | 41 | 36.59% | 36.59% | 0.00% | 24.39% | 2.44% |
| HUN | 38 | 39.47% | 34.21% | 2.63% | 18.42% | 5.26% |
| BUL | 102 | 51.96% | 35.29% | 1.96% | 9.80% | 0.98% |
| POL | 925 | 44.22% | 24.43% | 11.24% | 16.43% | 3.68% |
| GRE | 208 | 62.98% | 30.77% | 3.85% | 2.40% | 0.00% |

Source: Thomson Reuters Data.

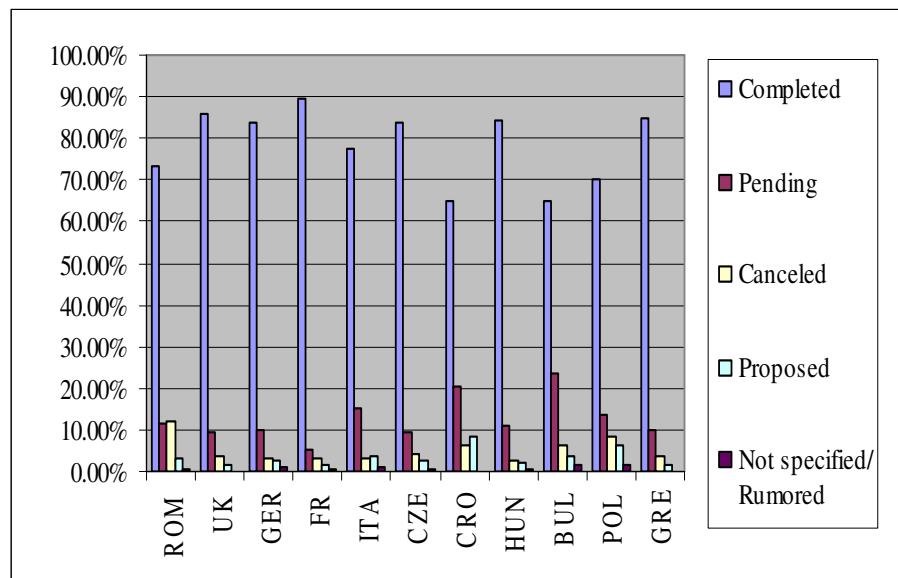
III. Results

Considering the tables presented above, it is obvious that in the time frame 2000-2009 the Romanian M&A market is fairly small compared to the majority of other countries and consistent with the M&A market in Czech Republic, Croatia, Hungary and Bulgaria. However, regarding the percentage of completed mergers and acquisitions, Romania scores much lower and in conjunction with a relative small number of completed deals, Romania is situated last regarding the number of failed deals. This reflects the very low development level of the Ro-

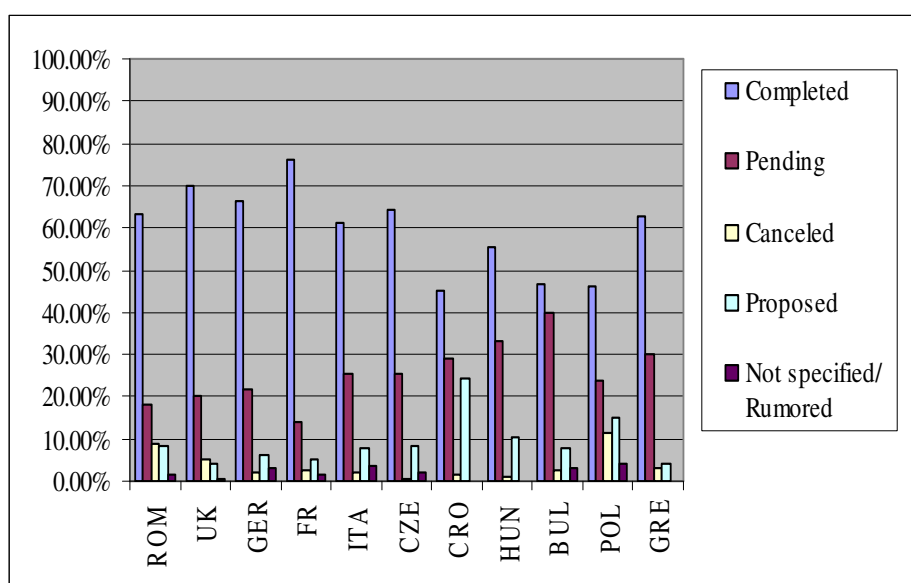
manian mergers and acquisitions market. In the context of an already underdeveloped M&A market, the question is whether the financial crisis further widened the gap between the Romanian M&A market and the other more developed markets.

Graph 1

Number and structure of inward M&As during 2000-2009



Source: Thomson Reuters Data.

Graph 2**Number and structure of inward M&As during 2008-2009**

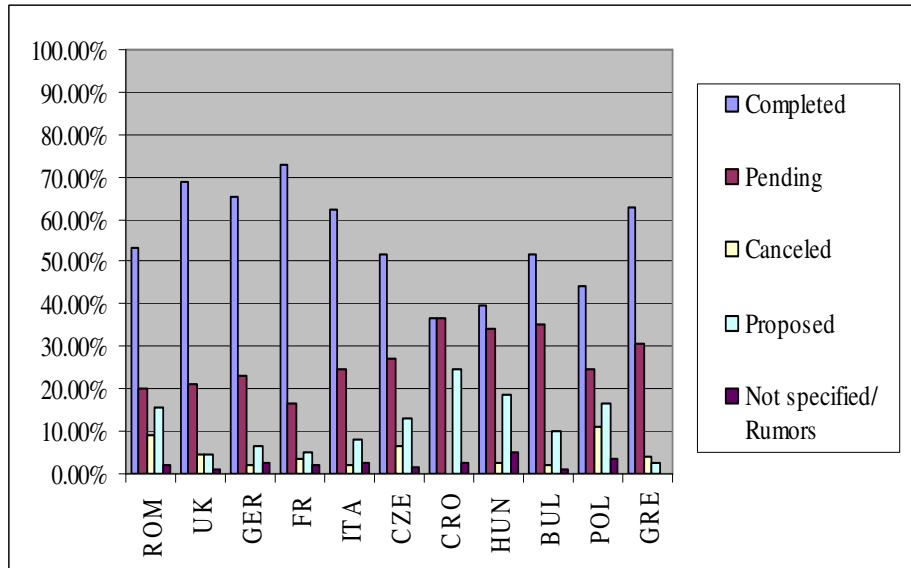
Source: Thomson Reuters Data.

By analyzing the structure of the M&A market during the period 2008-2009, we can determine whether significant changes took place in Romania and other countries. Firstly, by observing the number of M&A deals, we determined that Romania's status remained unchanged compared to the period 2000-2009, in the sense that the M&A market is still underdeveloped compared to other EU countries. By further examining the percentage of completed mergers and acquisitions, we conclude that Romania has improved its ratio of completed M&As relative to other countries. The percentage of cancelled deals is still very high compared to other countries, which further shows the poor state of the Romanian M&A market. For the considered 2008-2009 period, the percentage of pending deals becomes relevant because a

pending M&A deal signifies that, for a determined or undetermined period of time, due to certain factors, the deal is postponed. During a period of financial crisis, it makes sense to assume that some deals get postponed, because of increased risks in the financial environment. In the case of Romania, the relative number of pending deals is very low compared to other countries, which shows a relative stability of the market albeit less active. The relative proposed deals indicate companies' willingness to be acquired. This is relevant because during periods of capital shortage companies will opt to sell part of their stake in order to raise their capital. Romanian firms score well compared to other countries, showing that out of the total mergers and acquisitions within 2008-2009, Romanian companies consider M&As as a good source of raising capital and a good development tool.

Graph 3

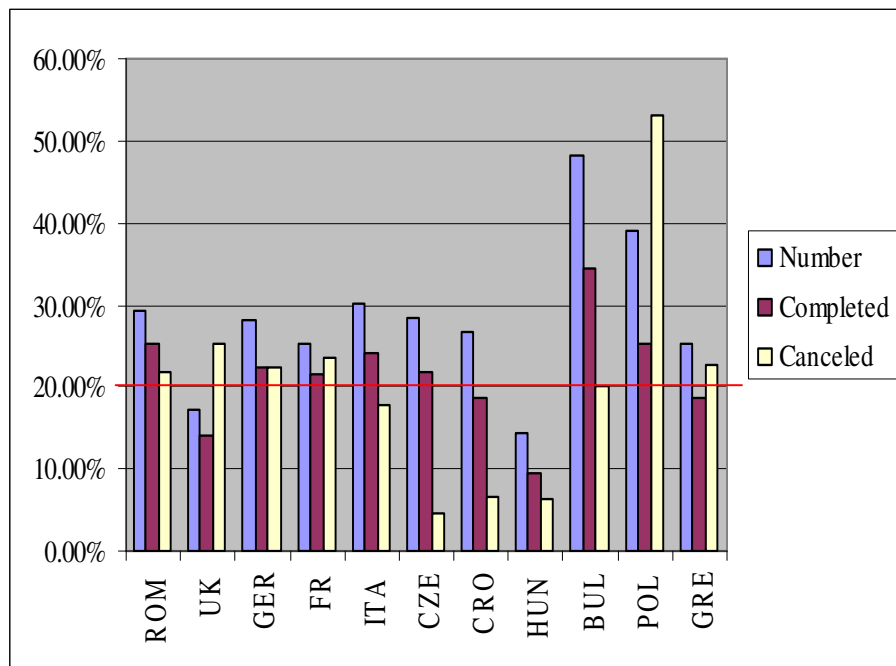
Outward M&A activity during 2008-2009



Source: Thomson Reuters Data.

To better understand the status of the Romanian mergers and acquisitions market during 2008-2009, we show the structure of outward M&As, which represents the propensity of companies to expand using acquisitions as an alternative to investments. Regarding the number of outward acquisitions, Romania ranks very poor compared to other countries for the same year and even compared to the number of inward mergers and acquisitions in Romania for the same period. Low ranking of the relative number of completed deals and cancelled deals further emphasizes the fact that the Romanian outward M&A market is underdeveloped compared to other EU countries.

In order to fully determine the status of the Romanian M&A market during the crisis period, a comparative analysis with the period 2000-2009 was considered relevant for the purpose of this paper, because it includes a period of M&A contraction (2000-2003) and a period of M&A recovery (2003-2007). Considering the ten years period used as reference, a 20% level corresponds to a simple mathematical spread of the number of mergers and acquisitions during 2000-2009. For the considered period 2008-2009, every percent above the 20% threshold shows that there is another two year period of time for which the number of mergers and acquisitions is lower than during the crisis period 2008-2009. By analyzing the results from Graph 4, we can now conclude that the Romanian M&A market is not affected by the recent financial crisis. Moreover, the volume of mergers and acquisitions in Romanian has actually grown within the last two years alongside with the number of completed deals, which suggests that the Romanian M&A market has become more attractive for foreign and domestic companies. The favourable status of the M&A market is also present in the majority of other states, while countries like Great Britain and Hungary were clearly hit by the recent crisis.

Graph 4**M&A activity during 2008-2009 relative to 2000-2009**

Source: Thomson Reuters Data.

IV. Conclusions

The results in this paper regarding the Romanian M&A market during the financial crisis contradict the theoretical and empirical evidence that M&A markets contract during periods of crisis. In fact, the market has actually grown in volume during the considered two year period, with the number of completed deals also rising. Graph 4 shows that almost 30% of the total number of mergers and acquisitions in Romania during 2000-2009 were recorded within 2008-2009 period.

Furthermore, more than 25% of the total completed deals in Romania from 2000-2009 took place within 2008-2009 period.

Regarding the overview on the Romanian M&A markets during 2000-2009, it is clearly visible that the volume of M&A is very small compared to other countries. The only countries with a smaller volume in M&A activity are Croatia and Bulgaria. For the same period of time, the structure of the recorded mergers and acquisitions in Romania is also inferior to other countries, with less relative completed deals and more relative cancelled deals.

Within 2008-2009 (two year period), the Romanian M&A market is still performing poorly compared to other countries both for the volume of inward mergers and acquisitions and outward number of mergers and acquisitions. However, within 2008-2009, the Romanian M&A market was surpassed by the Bulgarian M&A market, but outgrew the Hungarian M&A market.

Regarding the status of the M&A market during the financial crisis, the majority of the analyzed countries were not affected in terms of volume. Only Great Britain and Hungary show real signs that the M&A market was affected by the recent crisis. However, more in depth analysis would reveal more relevant data in terms of market performance and would show even closer ties between the financial crisis and the mergers and acquisitions market.

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