Stanley black and decker ma analysis merger finance essay

This paper seeks to conduct an M&A analysis of the merger between The Black & Decker Corporation and Stanley Works. It also seeks to provide details of the announcement and various reactions it elicited in the corporate market. The paper conducts a thorough research on available data on the companies and uses it to conduct the M&A analysis to show the possible projected reactions in the market due to the merger. It also looks at the actual current data after the merger and compares the two. The paper concludes that the shareholders of Black and Decker Corporations got a good deal from the acquisition of the company while also the shareholders of Stanley Works experienced increased market capitalization and has had increased share value and dividend earnings. The paper adds knowledge to the already existing body of knowledge.

Introduction

A merger is the joining up of two or more firms into a single entity. Most companies usually use this strategy in order to increase the competitiveness of the two companies by increasing market share and enjoying economies of scale. Others merge in order to enjoy increased financial synergistic benefits (McDonald, Coulthard and De Lange, 2006). As the world economy is recovering from the 2008 recession, there is increased demand for provision of goods and services. Most companies try to fulfill this demand through various strategies of growing the companies further. Some of those companies do this through mergers and acquisitions. In the past months a merger between The Black & Decker Corporation and Stanley Works has graced most of the corporate circles. Black & Decker was acquired by the Stanley Works for $ 4. 5 billion (Walker, 2011) and the merger completed in

March 12, 2010 (Stanley Black & Decker Inc Form 10-K, 2011). This paper seeks to conduct an M&A analysis of the two companies. It also seeks to provide details of the announcement and various reaction it elicited in the corporate market.

Analysis

Studies done by Shukla and Gekara (2010) showed that horizontal merges between two multinational firms have various effects on the value of the shareholders wealth. A few days before merging, the share prices were found to be performing very well but a few days after the merge the share prices were found to perform below market portfolio. The share holders would therefore face losses at certain periods after the merge, and depending on market conditions and decisions made by the management, the share prices would probably raise afterwards. Cigola and Modesti (2008) used a static model to conclude that most likely the share prices of companies would increase after mergers. The KPMG report of 2003 (McDonald, Coulthard and De Lange, 2006) also supported this view, by pointing out that, 34% of mergers increased stockholders value, while 32 % reduced. The remaining 34% caused no changes in shareholders value. In the case of Stanley works and The Black & Decker Corporation, the announcement for the merger was made officially on November 2, 2009, was completed in March 12 2010 and became effective on December 3, 2010 (Stanley Black & Decker Inc Form 10-K, 2011). The two companies merged to create an 8. 4 billion dollars business leader in its industry. Over 350 million dollars in cost were the expected synergies during the merger with the Black and Decker shareholders set to get a fixed share ratio of 1. 275 shares of

Stanley Works for each of their share (Townson, 2009). The shareholders of Black & Decker Corporation welcomed the merger and voted in its favor. In order to fully understand the impact of this merger to the shareholders of Stanley Works and The Black & Decker Corporation, a financial analysis of the position of the two companies needs to be done.

M&A analysis

Before the merger took place the viability of the merge would have been evaluated using M&A analysis. From the data in the M&A analysis, it can be clearly deducted that:

1. The value shareholder value at risk (SVAR) and value at risk will be as shown below;

The value of shareholders value at risk (SVAR) and value at risk of the merger between the two companies is very important in analyzing the viability of the merger and acquisition. The Black and Decker shareholders received 1, 275 shares of Stanley works share for each share they owned at Black and Decker Corporation. This implied that as at October 30, 2009, they got get a premium of 22. 1 % (Townson, 2009). From the M&A analysis sheet, the percentage of post merger owned by Black and Decker shareholders assuming price at closing date reflects no synergies is 27. 7% while that of Stanley Works would be 72. 3%. The post deal return to Black and Decker's shareholders assuming price at closing date reflects no synergies was be – 0. 9% while that of Stanley Works shareholders assuming price at closing date reflects no synergies was be 0. 3%. Black Decker's Premium At Risk was 27. 7%, while Stanley Work's hypothetical shareholder value at risk (SVAR) Assuming an all cash deal was – 0. 5 %. Stanley Work's Actual Shareholder Value At Risk (SVAR) was -0. 3% %.(Expectations investing, 2001).

2. The anticipated market reaction will be as shown below:

The present values of capitalized annual synergies starting the following year 2011 are 853. 7 million and the premium offered for Black and Decker would have been 55. 9 million. The Percentage projected of post merger company owned by Black and Decker shareholders was 27. 7% while that for Stanley Works shareholders would have been 72. 3%. The Post deal return to Black and Decker's shareholders would have been 4. 4% while that for Stanley Work's shareholders would have been 5. 7% (Expectations investing, 2001).

3. Post market initial reactions will be as follows;

The percentage post merger company owned by Black and Decker shareholders would have been 27. 7% while that of Stanley Works would have been 72. 3%. Black and Decker's Post announcement premium At Risk would have been -447. 6% while Stanley's Hypothetical post announcement shareholder At risk (SVAR) assuming all cash in would have been 7. 2%. Stanley Works Actual Post announcement Shareholder Value At Risk would have been 5. 2% (Expectations investing, 2001).

Actual data after the Merger

Stanley Black and Decker's market capitalization has reached 12. 44 billion dollars with its shares trading at $ 74. 95. After the merger the Stanley shareholders retained 50. 5% of the total share of the combined company.

The value of the merger was estimated at $ 4. 657 billion with the Merged companies experiencing 425 million dollars in cost synergies a 75 million dollars increment from the originally projected. The number of securities issued upon stock awards stand at 15, 369, 387. Revenue synergies after the merger have also been put at between 300 million and 400 million dollars by 2013. since the merger the company has been able to enjoy increased goodwill and net earnings of 198. 2 million dollars in the year 2010 (Stanley Black & Decker Inc Form 10-K, 2011)

Conclusion

From the above pre merger analysis and post merger data, it can be clearly noted that the shareholders of Black and Decker Corporations got a good deal from the acquisition of the company. Where as the analysis projected that they would only own 27. 7 % of the combined stock in the company, the owned 49. 5 % from the deal. The deal has also been beneficial to the Stanley Works shareholders who have experienced increased market capitalization and has had increased share value and dividend earnings.