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About the Research Study

Title: Does CSR influence M&A Target Choices

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Introduction

A few things before we dive in

- M&A targets are traditionally selected based both on their stand-alone value, and potential synergies between the two companies
- CSR has been known to increase the value of an acquisition target because of greater potential synergies, increased customer loyalty, and higher employee retention
- Studies have shown that higher prices are paid for targets with higher levels of CSR
- This study seeks to look at whether CSR influences the selection of targets for M&A

Methodology

So here's what they did

- To measure CSR, Thomas Reuters ASSET4 data was employed, using a relative performance measure on three dimensions of CSR: environmental, social, and governance.

- A list of international M&A deals from 2003-2014 was selected, omitting any deals that didn't have a CSR score, was in a non-developed country, or involved financial firms (all standard practice for M&A research).
- Finally, the researchers needed to develop a non-target sample or comparable companies that were not involved in M&A. To do so they used propensity score matching, which accounts for how similar the companies are on seven financial metrics (including firm size, liquidity, and profitability) and controlled for year, country, and industry.

Key Takeaways

So what does all of this mean?



Target Firms

Target firms tend to have CSR scores 3.5 times higher than those of comparable non-target firms.



Synergies

Some synergies discussed include cost savings from energy-efficient infrastructure, revenue growth of sustainable products, and less risk from better governance/increased transparency



Recent Deals

Companies like Ben and Jerry's have been the subject of a recent acquisition, and others including Warby Parker and Patagonia may have further potential from their CSR initiatives.



Socially Responsible Investing

Socially responsible investing has become increasingly popular in recent years for those looking to grow their portfolio while doing social good, but if M&A targets show us anything, these companies may have great financial potential as well.



original authors of the research study and this newsletter serves as a summary of their original work.

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