Talouselämä
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Unofficial translation

[These kinds of corporate acquisitions fail: Difficulties only start afterwards – Nokia is a warning example]

Equity investor dollars no longer remain only in Silicon Valley or New York says Jude McColgan, new CEO of M&A software provider Midaxo.

*The outlook on this year's M&A market remains good despite economic uncertainty according to **Jude McColgan**, the new CEO of M&A software company Midaxo.*

He has a solid justification for this view: 60% of CEOs say that they are not planning to postpone M&A according to a global survey conducted by PwC.

"They understand that organic growth is not enough for competitive success," says McColgan.

According to McColgan, statistics clearly show that companies which grow both organically and inorganically do better than the ones that only grow organically.

A lot of M&A is now taking place, especially in the financial sector. McColgan believes a reason for this is the lagging digitalization among companies operating in the sector. As many of these companies do not yet offer satisfactory, digital-age customer service and they lack the resources or innovation capability to develop it internally, many financial sector companies are now acquiring companies that have them.

Among industrial companies, M&A is carried out with the goal of creating supply chain efficiencies because previously implemented outsourcings caused supply chain problems during the COVID-19 pandemic.

AI is disrupting old boy networks

The process of M&A has changed dramatically during the past 3–5 years. In the past, deals were struck via old boy networks with investment bankers presenting companies on sale to potential buyers, says McColgan, who has been in the role of a buyer and a seller himself.

“That was a good approach, too, but today buyers are also interested in learning about companies that are not for sale but could be interesting acquisition targets.”

Data and AI are making the discovery of new acquisition targets easier and they are something that Midaxo, a company originally founded in Helsinki, offers.

Midaxo’s software helps companies find potential acquisition targets and analyze, for example, their cultural fit and potential synergies. The company’s more than 500 clients include, for example, Nokia, Philips and PwC.

According to McColgan, the use of data and AI balance human biases and prejudices. At the same time, they help in discovering interesting acquisition targets from a wider geographical area than before.

“The destination of private equity dollars is no longer limited to Silicon Valley or New York,” says McColgan.

Investor dollars are also flowing to Helsinki in a very different way than a decade ago.

Smaller is better

In addition, the size of deals has changed.

Over the past ten years, the 2,000 largest public companies completed 21,000 deals. Of those deals, 70% were considered small deals. Also, Midaxo’s own data shows that the number and total revenue of small deals clearly exceeds that of big deals.

McColgan sees this as a good thing. Small deals are more likely to create value for owners while big deals are more likely to fail.

“Typically, problems appear only after the closing of a deal. The reason is that ultimately M&A is about people.”

When changes dictated from above affect thousands of people, not all of them are likely to be happy. McColgan mentions the AOL and Time Warner merger and Microsoft’s Nokia deal as cautionary examples.

“In those deals, everybody lost.”

As a case unlike the unfortunate megadeals, McColgan mentions a Canadian company, which has been buying small optical retailers with only a few employees every couple of weeks. The acquired companies continue operating independently but joint ownership allows lowering production costs.

Small, gradual changes work best, McColgan adds. “It is just like in everything else, including people’s behavior.”