

AG431 CORPORATE INVESTMENT

COURSEWORK ASSIGNMENT

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Abstract

This work explores the merger of Standard Life PLC and Aberdeen Asset Management PLC, to form Standard Life Aberdeen PLC. Examining merger mechanics, economies of relevant scale and scope, merger wave trends, and proposed synergies; it finds some success. The merger has fairly successfully seen cost-based synergy improvements, through reduced relevant operational costs, in *Operating Platforms*, *Distribution Overlap*, *Central Functions* and *Pool of Investment*. These immediately apparent areas for enhanced efficiency have yet to be aided by other proposed revenue-based synergies such as improvement of *Global Market Access*, for example. Additionally, factors such as AUM decline, annual profit decline, large implementation costs etc., highlight areas of failure however.

Index terms: Merger, Horizontal, Congeneric, Standard Life PLC (SL), Aberdeen Asset Management PLC (AAM), Standard Life Aberdeen PLC (SLA), Assets Under Management (AUM), Investment Management, Pension & Savings, International Business, Corporate Relationships, Operating Platforms, Distribution, Central Functions, Complementary Capabilities, Global Market Access, Pool of Investment, Efficiency Theory, Synergy Theory, Diversification Theory, Strategic Realignment Theory, Market Powder Theory

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Question Summary

1. What type of merger was it? Discuss the potential for economies of scale and scope.
2. Would you consider it to have been part of an industry merger wave?
3. Discuss the merger synergies outlined in both the prospectus and the scheme document in light of class discussions.
4. Based on the evidence thus far would you consider the merger to have been a success or failure. Try to relate your answer to the merger theories discussed in the course. You may wish to focus on merger integration, particularly in relation to Sections 7 and 8 of the Prospectus and Sections 5-7 of the Scheme document.

For the final question you will need to download the latest balance sheet and/or look at recent articles on Aberdeen Standard Life in the financial press (please provide appropriate attribution)

1 Introduction

The adjoining of Standard Life PLC (SL) and Aberdeen Asset Management PLC (AAM) of March 2017 formed Standard Life Aberdeen PLC (SLA). It came during an M&A surge cooldown; in a year reflecting ~\$3.776tn worth of M&A (Statista, 2021 [2]). The value of this deal was £3.2bn paid by acquirer, SL (Table 1). The newly formed company became the largest UK asset manager at the time; ranked the third largest by 25.8% (ADV Ratings, 2021), using an Assets Under Management (AUM) metric. AUM of SLA is slightly lesser than the sum of both firms pre-merger (Standard Life Aberdeen, 2019); partially offset by a large 2018 legal settlement. The merger was designed to allow SL to optimise cross-overs through *synergies* and economies of scale/scope increasing global real estate, and halting unwanted over-concentration in insurance¹.

¹This was reflected in SL's subsequent sale of their insurance business to Phoenix Group

2 Merger Type

2.1 Merger Mechanics

Mergers such as this call for mutuality of interests, growth aspirations, and efficiency-enhancing concepts (Cheng, et al. 2007). This was not a hostile takeover. It was a horizontal, congeneric merger between similar firms. SL's 2016 half-year report states AUM of £328.0bn (Standard Life PLC, 2016). AAM's; a sum of of £312.1bn (Aberdeen Asset Management PLC, 2016). Thus, the firms were operating [approximately equivalently in respective hierarchies] in overlapping business such as insurance, pensions; with promise for scale enhancement. Also, with [complimentary-extension opportunities] in differing business such as private equities and global operations. (Tables 5 & 6). Thus, horizontal-congeneric (Table 7). This supports mutual interest in expanding client base and using shared resources/methodologies as efficiency stimulant. The merger seeks improved choice, prolonged investment, expanded specializations/brands/networks, talent acquisition, greater dividends and, optimized profits/costs (Table 2).

2.2 Economies of Scale & Scope

Firms achieve positive economies of scale when joint efforts increase efficiency; optimizing profits/costs. SLA, wish to reduce market competition using *Market Power Theory* (Weston, et. al, 2010)². Using enhanced scale and of combined volume allows ever-increasing insurance service, pension/savings demand to be met (Table 3). Scope of incorporating non-crossover operations; creates new international business networks and corporate relationships, also at a cheaper cost than when operating individually (Table 3).

The letter from the CEO (Aberdeen Standard Investments, 2017) proposes '1000 investment professionals', '24 investment centres', and '20 countries'. This highlights enhanced scale matching employees with greater focus on existing specializations, and scope matching employees/locations with new/expanded networks/foreign networks and more efficient operation re-alignment. Thus, offering greater versions of an increased variety of services (Table 3). This delivers enhanced quality, client reassurance, improved relationships, more efficient cash purposing (in cross-over/work-force/supply/infrastructure etc.), less spent on competitive, stronger legal standing, stronger growth etc.

²More in Table 10

3 Industrial Waves

3.1 Industrial Context

The year of this merger reflected ~\$3.776tn worth of M&A (Statista, 2021 [2]). 2017 was the second-greatest year for financial service M&A (Statista, 2021 [1]). It could be argued the SLA merger was part of a ‘wave’. Merger waves are based upon common frameworks/mechanics of firms for more macroscopic reasons. The £3.2bn value of the SL/AAM merger was global-top-tier however, merger activity was down by ~35% in 2017, financial services by 5.4%, (NASDAQ, 2017). The overwhelming 2017 wave was technology-oriented; based on huge industry-level NASDAQ activity. It saw Amazon’s world-famous acquisition of Whole Foods, and further’ by Intel, Cisco, Apple, Alphabet. Financial services saw their second-highest year (£2.119tn) of M&A meaning SLA may have carried wave characteristics.

3.2 Relevant Indicators

Much like waves of 1922–1929 and 1981–1989, there were various industrial legal/regulatory drivers in 2017, alongside moderate economic growth (Table 9). 2017 contained low volatility trends, as little-as-so as the early 1900’s period, and technological return was up by ~38% (CNBC, 2017). 2017 also saw regulation tightening around disclosure of asset management firms’ fees/liquidity, for a more accurate view of AUM etc. (The Economist, 2017); also further regulation upon relevance of client asset advisory. Thus, this period saw clients moving to online asset management services, not associated with ‘traditionals’ SL/AAM.

There wasn’t an industry wave. However, the circumstances created an industrial issue suspending traditional scope. Thus, to attain goals such as improved client choice (reacting to perhaps lower-value assets they’re require to recommend to client needs), prolonged active investment (reputation), global demand (without going fully digital), maintaining brands and networks (Tables 2 & 3); mergers make sense. Especially when discarding unoptimized management/workforce. SLA could use their new scope to increase AUM volume while accepting/adopting technological changes/preferences. Thus, generating brand-new revenue greater than possible losses from shifting regulation and technological preferences. This is particularly relevant to strategies of SLA such as international business as they wish to maintain relationships/reputation with the global networks of both SL and AAM as they expand (Table 4).

4 Merger Synergies

4.1 Merger Synergy Outline

*Synergy Gain Theory*³ refers to when two firm's sum output value is greater than the whole output value (Romano, 1992). Hence, efficiency stimulus. Synergies focus on cost-revenue optimization, making use of economies of scale/scope. Synergies should utilise inventory/supply/service/manu-facturing to produce greater volume for lower cost-per-[unit/service] (scale) and, fill non-crossovers in adjacent firms to widen reach offerings (scope).

4.2 Proposed Enhancements

SLA porpose four cost-reduction synergies (Table 4), forecasted to generate £200m pre-tax cost reductions p.a. by year-three end post-merger. [1] overlapping operations: client/command-chain interfacing/communication platforms. *Efficiency Theory* (Wolfe, et al, 2011) sees under-optimisation, associated fixed/floating costs, reduced. [2] overlapping distribution: networks/rel-ationships. *Strategic Realignment Theory* (Wes-tion, et. al, 2010) sees this removed and harmony realised. Time and costs are reduced and cash can be repurposed upon expanding *scope* of distribution rather than wasted on 'empty-overlap'. This is particularly apparent where the firms shared geographically similar logistic strategies. [3] overlapping central functions: workforces/specializations. Harmonising these removes cross-over real estate/operations/workforces. Further, centralizing *scope* of specialization networks for enhanced *scale* through time-efficiency and reduced talent costs. [4] the formers imply additional cost-savings on real estate, management fees, travel (and travel time), legalities, professional/consulting. This is again enhanced by *Efficiency Theory*.

Four revenue-increasing synergies are proposed (Table 4) as a result of complimentary investment capabilities, client footprints and distribution relationships. [1] customer franchise : expanded *scope* of client type and *scale* of clients-service-specialization. *Efficiency/Diversification Theory* see merged firms providing greater-quality service to existing clients and attracting broader range through greater capabilities. [2] complementary investment: alignment of greater *scale/scale* of offering due to higher volume of client interest who arrive from one area and find others. These should also be better-optimized with combined specialization. *Diversification Theory* ex-

³This study makes use of various merger theories, see Table 10 for more

tends this into AAM's Asian networks. [3] global access: joining of domestic/foreign geographical infrastructure offers greater UK *scale*, where both firms exceed; and, greater *scope* (*Diversification Theory*) in Asia, North/South America where the adjacent firm has smaller/non-existent operations. [4] investment pool: *scope* of interest (clients/investors) is widened as not only does the merged firm offer greater variety, offerings should also be of greater caliber due to complements/alignments. This aligns with *Efficiency/Diversification Theory*.

5 Merger Success

Pre-merger AUM totalled £640.1bn, with 2019's at £544.6bn. This doesn't satisfy *Synergy Gain* merger success; indicating failure. This is seconded by the 62.9% drop in annual profit from 2017–2019. However, the issue is more complex as initial stages are primarily cost-based. In 2016, SL reported £328.0 of AUM. This was based on investment management, pensions/savings and Indian/Chinese operations. Foreign revenue was decreasing from 2014. As of 2016, AAM reported AUM of £312.1. 5,400 of 6,302 of SL's staff were located in the UK, with the majority of their AUM also appearing in the UK (Table 5). ~64% of the staff were focused on pension and savings; this *scope* should be enhanced by realignment of staff and *scale* from AAM. ~60% of AAM's business was UK-based. As of 2019⁴. Institutional/wholesale fee-based revenue prevailed at £1011m, next to insurance at £317m.

SLA extended synergy integration until 2021 due to 'technological/infrastructural issues'. They claim £400m of synergy realization by 2021's end. Synergies realized to 2019 were valued at £114m. These were primarily cost-based based, on rationalisation of premises and workforce/supplier efficiencies, reducing staff costs, and reducing *Operating Platforms*. This aided further £62m of synergies in *Distribution Overlap*; furthered by *Pool of Investment* reducing financing costs associated with acquiring clients/talent. 2019 didn't focus on revenue-enhancements such as *Global Market Access*. Despite positive synergies, implementation costs summed £436m, with an estimated total of £555m(↑£125m). However, 2019 saw a 4%(↓£62m) reduction in operating expenses to £1,333m⁵. Although implementation costs are far greater than realized synergies, SLA made reasonable progress towards their £200myear⁻¹ synergy realization.

By 2020⁶ half-term, an additional £34m of synergies were realized from staff optimization and logistical synchronisation (*Operating Platforms*). A further £57m was realized from localizing infrastructure and simplifying supply networks (*Central Functions*). This focuses again on cost-refinement, not revenue-enhancement; neglecting scope from *Global Market Access* and *Client Opportunities*. Updated 2020 implementation costs are £482m(↑£44m) so centralizations are assisting. Total realized synergies are £323m, with a greater £137m reduction in operating expenses.

⁴Source: Standard Life Aberdeen PLC Financial Report 2019

⁵Accounting for costs of inflation, partnerships/acquisitions and foreign exchange

⁶Source: Standard Life Aberdeen PLC Half-Term Financial Report 2020

SLA are on track for £200myear⁻¹ cost-based synergy realization but, not all grounds have been covered. Current priorities/refinements do however, aid future revenue-based enhancements. Implementation costs have been fairly high, remaining at total expected £555m. The synergy goal remains at £350m (2020) plus £50m (2021). Dividends are to remain constant at 21.6pshare⁻¹ until focus on revenue-based synergy, when they're proposed to decrease to 14.3pshare⁻¹. Here, much of the £3.7bn cash/liquidity and dividend savings will be focused on further (growth/scope) synergies and maintaining a consistent dividend (reliability), in-line with remaining rationale (Table 2). This merger has seen successful cost-minimizations however, failure of revenue-maximisation, particularly in their £109bn loss of business from Lloyds Banking Group, for example. There is neglect of *International Business* and *Corporate Relationships*

Appendices

Appendix 1: Merger Information

Adjoining Firms	Standard Life PLC & Aberdeen Asset Management PLC
Acquirer	Standard Life PLC
Formed Firm	Standard Life Aberdeen PLC
Paid By Acquirer	£3.2bn
Ownership Share	0.6 (SL); 0.3 (AAM)
Share Issuance	999,848,295
Share Value	12 $\frac{2}{9}$ GBX
SL¹ Pre-Merger AUM²	£328.0bn
AAM³ Pre-Merger AUM	£312.1bn
SLA⁴ Post-Merger AUM (2019)	£544.6bn

¹: Standard Life PLC
²: Assets Under Management
³: Aberdeen Asset Management PLC
⁴: Standard Life Aberdeen PLC

Table 1: Basic Merger Details

Reason	Rationale
Improved Choice	Both firms operate very similarly. They both dominate the market and offer wide portfolios. Joining the firms means that their respective portfolios will become more diversified and the skills of employees will be complimentary due to the harmony in operations. Operations extend to developed and developing economic markets, portfolio management, other-asset management, real estate etc. Hence, a wide offering to combined clients. There is also a claim of low overlap within specific asset operations, meaning joining efforts will not mean the cancellation of much business; business simply multiplies.
Prolonged Active Investment	Both firms claim to seek a long-lasting reputation in anaging assets, i.e. they do not wish to transition operations to other sectors/subsectors as they hold strong reputation and performance in their current business. The similar strategies and operations but new combination of talent are said to work in harmony to refresh general corporate quality, client offerings offerings, diversity etc. In result, prolonging the life of the newly formed firm.
Demand Requirements	As both firms are already very large industry leaders, joining forces only enhances this. The combination of talents should theoretically exponentially grow the firm meaning they can acquire more global clients outwith their current ones. It's believed that the new firms are able to adapt to changing global economies more efficiently and on a larger scale, therefore having the knowledge, skills and ability to take on new types of (perhaps larger) clients. This larger scale also should be able to produce better innovation and development. Reflecting this, it's claimed that the new firm's insurance assets are forecast to grow by \$750bn in 2015–2020. This is due to both fimrs already holding a huge footprint in these areas. Its also claimed that much of the innovation will take place within offering new, global, methods in managing the changing needs of individual's savings and retirement funds. Standard Life saw success in this area and believe this will be the next big area to grow post-merger.
Brands & Networks	Both firms own reputable brands and chains of operations such as client-scope-enhancing methods such as specific client seeking and marketing etc. This is as simple as the fact that when two reputable set of brands join, they tend to make equally, if not more, reputable and stable brands in the future. Therefore, leading to further improved networks, reputation and client relationships. The geographical expansion is said to hold 50 locations of operation; Aberdeen AM aid the existing distribution by offering central Asian and US location and relationships. This of course, is in search of a further diversified client network and scope.

Talent Acquisition	With the enhanced scale and scope of reputation, networks and assets under management etc.; and, not forgetting the fact that the new firm is one of the largest of its type; greater volumes of higher-quality talent should be attracted from corporate, employee and client perspectives. In theory, this means further enhanced efficiency and investment. This is in hopes of increasing fixed/long-term relationships and income. Talented and skilled people attract good business. This also holds promise for new perspectives and opinions on development in technological, logistical and risk areas.
Specific Specializations	As discussed, Standard Life are leaders in pension management. Therefore, not only does the merger aid in developing business operation scope on a whole, it also gives a new perspective on the enhancements of existing specializations such as this. The same argument holds for the previously discussed strength of insurance asset management, of both firms.
Dividends	A goal for the new firm is to generate the appropriate revenue from diversification to offer attractive long-term returns and dividends to their shareholders. That is, maintaining and growing their reputation and relationship with existing and new shareholders. Standard Life had a strong pre-merger dividend policy. They wish to use the joint resources to enhance this.
Profit & Cost Benefits	It's estimated that the synergies proposed in this merger will generate cash savings of £200m by the end of year-three succeeding the merger. 75% of this is said to be accomplished by the end of year-two succeeding the merger. Along with the discussed revenue generation, the proportionately improved cost savings and profits are projected to be large.

Source: Prospectus Scheme Document

Table 2: Merger Rationale

The newly formed company aim to use their discussed rationale to further grow, specialise in, and maximise value of the following areas of operations; with the aim of being one of, if not the, best offerer of these in the UK and perhaps globally.

Operation	Strategy
Investment Management	Primary operations remain in asset management. As discussed, firms merged with the aim to dominate this market and grow their reputation as a whole. A market-leading scale of investment opportunities and funds are made available. Services are provided to clients through institutional and wholesale methods.
Pensions & Savings	One of the largest operations in Standard Life. Together, pension and savings operations are market-dominating and extend to the UK, Ireland and Germany. Included in this branch is an array of pension, savings and other benefit schemes. They're operated through a chain of intermediaries such as financial advisors and direct contact with the client.
International Business	As discussed, Aberdeen AM provides much Asian scope to operations. Improved reach comes in places such as India, China and Hong Kong. its claimed that in India, the new firm could expand to 25m individual customers across operations. On the whole, the new firm's stake in large Indian asset and insurance companies provides a strong advantage in growth rate. This is reflected in Standard Life's pre-merger 40% holding in HDFC Asset Management Company Limited and 35% holding in HDFC Standard Life Insurance Company Limited subsidiaries, in India. The new firm also shows a similar position in the Chinese and Hong Kong markets. A 50% holding is present in Heng An Standard Life Insurance Company Limited, in China.
Corporate Relationships	With the connections of SL and AAM, the network of connections available globally is proposed to be huge. Providing the merger does not cause any corporate changes of opinion. The biggest operational connections include Lloyds Banking Group, the largest UK commercial bank; Mitsubishi UFJ Financial Group, one of the largest commercial banks in Japan (Japan has a huge retirement market, aligning with the specialties of the merged firm); Phoenix Group, a large life insurance firm who's assets in which SL already have a stake and; various other US, Canadian, Asian and Australasian firms. With this network, there is huge opportunity for the new firm to continue to communicate with and gain exposure to new and greater clients.

Source: Prospectus & Scheme Document

Table 3: Strategies

Synergy	Value Creation
Cost-Based	
<i>Forecast £200m Pre-Tax Cost Synergies Value p.a. By Yr.3 End</i>	
Operating Platforms (31%)	Synchronised operations on equivalent and platforms simply save costs which are historically found in the individual under-optimisation or lack of ability to optimise resources and platforms as single firms. Essentially 'filling in the gaps' of one-another to aid optimisation. Number of platforms used is also reduced, reducing fixed and some floating costs and; there is a reduction in the reliance on third parties meaning more efficient platforms are only used for greater versions of already existing work, they're used for the increased scope of tasks too.
Distribution Overlap (16%)	Standard Life and Aberdeen AM as two entities have overlapping distribution networks. This is good in this case as the overlaps are removed upon merger meaning that the large spread of distribution represented by the sum of the two firms is concentrated; with focus and efforts also being concentrated in this regard. This means, time and money is saved in producing output. Again, the sum of the two firms efforts in this regard would be far greater than the merged efforts with the overlap removed. This is especially apparent where the individual firms use geographically close/similar logistic strategies, making the transition easier, also.
Central Functions (12%)	Much like the former, operations are also centralised, with overlapping or no longer necessary functions being removed or minimised. This way, operations, workforce, efforts, finance, etc., is concentrated in the relevant areas and optimised as well as possible. Like the previous example; this optimisation is incredibly more efficient than each firm acting as a single entity.
Other Costs & Fees	It's claimed that savings come in the form of real estate, management fees, travel costs, legal fees and, professional/consulting fees. This is clearly evident as operations are more centralised and optimised. Naturally, a narrower spread/scope of real estate, management, etc., are required. Thus, again optimising concentration where relevant. Essentially, all 'duplicates'/overlap is removed.
Revenue-Based	
<i>Result of "Complementary Investment Capabilities, Client Footprints & Distribution Relationships"</i>	
Customer Franchises	A wider scope and range of type of client and individual is made apparent by the joining of the firms. This means more opportunity for selling innovative and new services etc.
Leveraging Complimentary Investment Capabilities	The firms have areas in which gaps can be filled by the adjacent firm. That is, something one of them does extremely well may compliment a need of a client of the other firm. This specific type of client may not be immediately apparent in the former firm's selection of clients therefore, they have been underoptimising this specialisation. The examples given are that Standard Life's multi-asset and risk management will find its fundamental value in Aberdeen AM's client base and, Aberdeen AM's emerging Asian market experience and capabilities will find its fundamental value in the growth of Standard Life.

Global Market Access	Simply, scope and reach of markets is significantly increased over the joining of the firms. Infrastructure and operations appear now in many major Asian, North American, South American and UK locations. As two firms operating in their respective shares of those continents, they may not have held resources to obtain the optimal reach however, with the efforts of the joined firms, resources can be better used for this international growth and reach purpose.
Pool of Investment	Investors, influential forces and interest is widened by the joining of the firms. this means the opportunity of attracting development and innovation driven forces is more likely due to the increased chances of the correct aligning of intellect and interest.
Additional	
In addition to cost-saving and profit-maximising synergies based around economies of scale and scope, the merging of the firms shows potential for ‘capital synergies’ also. This, for example, includes reduction and concentration of legal and regulatory efforts, fees and outsourcing and; other chains/networks which act alike.	
<i>Source: Prospectus & Scheme Document</i>	

Table 4: Synergies

Insurance Business	
Distribution	Products
Institutional	Equities
Wholesale	Fixed Income
	Real Estate
	Multi-Asset
	Private Equities
	Insurance
Markets	
Client Geography	2016 AUM (bn£)
UK	144.4
Europe	16.2
North America	12.7
Asia Pacific	3.8
India	10.6
Σ	187.7
Pension & Savings Business	
Distribution	Products
Retail	Fee-Based
Workplace	Spread & Risk
Markets	
Client Geography	2016 PBT (P&S) (m£)
UK	319
R.o. Ireland	43
Germany	
Indian & Chinese Business	
Distribution	Products
Bancassurance (HDFC Life)	Individual Life Insurance
	Group Life Insurance
Banks & Brokers (HASL)	Individual Health Insurance
Direct (HASL)	Group Health Insurance
Client Geography	2016 PBT (P&S) (m£)
India	34
China	7
Hong Kong	-5
Strategic Framework	
<i>Broadening and deepening investment capabilities → Building and efficient and effective business → Attracting, retaining and developing talented people → Growing and diversifying revenue and profit → Developing strong relationships with cutomers and clients</i>	
Employees	
Employee Geography	2016 N Employees
Asia	150
Australia	9
Europe	641
North America	102
United Kingdom	5400
Σ	6302

Employee Segment	2016 N Employees
Standard Life Investments	1681
Pensions & Savings	4026
India & China	112
Other	483
Canada	0
Σ	6302
<i>Source: Prospectus & Scheme Document</i>	

Table 5: Standard Life PLC Information

Markets (Third Party)	
Client Geography	2016 Share of AUM
UK	57.4%
Europe	18.5%
Asia	5.9%
Americas	16.3%
Middle East & Africa	1.9%
Σ (bn£)	324.4
Strategic Framework	
<i>Enhance capabilities, meeting changing needs → High-level service in new investor pools → Long-term efficiency and strong balance sheet → Develop, retain talent</i>	
Clients	
Client Type	2016 Share of AUM
Insurance	44%
Open-Ended Funds	25%
Pension Funds	15%
Other Institutional	7%
Closed-Ended Funds	6%
CB's & Gov. Agencies	3%
Σ (bn£)	283.7
Investment Strategy	
<i>First-Hand Research → Team-Based Investing → Risk Focus → Long-Term View</i>	
Investment Type	2016 AUM (bn£)
Equities	89.1
<i>% of Total</i>	28.6
Fixed Income	70
<i>% of Total</i>	22.4
Aberdeen Solutions	134.5
<i>% of Total</i>	43.1
Property	18.5
<i>% of Total</i>	5.9
Σ	312.1
Additional Financials	
Statistic	2016 Value
AUM (2017)	308.1bn£
Outflows	13.4bn£
Profit Before Tax	115m£
Net Revenue	483.6m£
Operating Expenses	327.7m£
Cash @ Bank & In-Hand	838.1m£
(Cash & Cash-Equivalents)	548.8m£
Operating CF Before I&T	362.4m£
Dividend Payments	280.4m£
<i>Source: Prospectus & Scheme Document</i>	

Table 6: Aberdeen Asset Management PLC Information

Appendix 2: Fundamental Material

Basic Definitions	
Merger	The approximately equivalent combination of two firms to form one larger firm.
Acquisition	The takeover of one firm by another. Often <i>harmonious</i> meaning both firms are in favour, for mutual benefit. Sometimes <i>hostile</i> , where one firm wishes to add another to their portfolio often for single-firm gain.
Corporate Mechanics	
Horizontal	Firms operating at an approximately equivalent level in their respective hierarchies, in the same industry.
Vertical	Firms operating at different levels in their respective hierarchies/supply chains, in the same industry.
Industry Mechanics	
Conglomerate	Firms in different industries with little/nothing in common; joining purely for their own expansion across markets.
Congereric ‘Product Extension’	Firms that offer different products/services in the same market who wish to reduce the overall size of their industry thus, increasing thier own real estate of the market. Frequently becuae the two firms can benefit from similarities in their chain of operations.
Market Extension	Firms that offer the same product/service in different markets, seeking larger overall real estate.
Economic Mechanics	
Economies of Scale	Cost-Revenue optimization from efficiencies of size.
Economies of Scope	Cost-Revenue optimization from efficiencies of diversification and expanded reach.
Industry Merger Wave	Cyclical periods of higher merger volume within an industry, usually caused by macroeconomic states and factors (as explored in Table 9).
Synergies	
Merger Synergy	One entity enhances another entity to create a total value which is greater than the sum of both individual entities.
Cost-Reduction	Minimization of costs through efficiencies factors such as the removal of cross-overs and white spaces in operations.
Revenue-Enhancement	Maximization of revenues through factors such as greater sales volume, market reach, and growth.

Table 7: Merger Mechanics

	Economies of Scale	Economies of Scope
Purpose	Optimise the cost of production, focusing on one type of product.	Optimise the cost of production, focusing on multiple types of product.
Method	Producing a bulk of one type of product.	Producing multiple types of products using cross-over efficiencies.
Strategy	Standardization	Diversification
Product Example	One firm's raw materials may aid the production methods of another firm, vice-versa. Merge to decrease production time (efficiency).	One firm's resources may be able to be used to create different products of another firm, vice-versa. Merge to increase product variety (efficiency).
Service Example	One firm may use distributors and transportation that is relevant to another firm and on which there is unoptimised space, vice-versa. Merge to decrease distribution time and costs (efficiency).	One firm may have connections in areas in which the other firm is relevant but not present, vice-versa. Merge to increase service variety (efficiency).

Table 8: Economies of Scale & Scope

Period	Description	Characteristics
<i>Characteristics Include:</i>		
<i>High Economic Growth Periods → Favourable Stock Prices → Technological Change → Input Price Volatility → Legal & Regulatory Changes → Financing Innovations</i>		
1895–1904	The first major progression in infrastructure and production/manufacturing. There was a greater demand for the transportation of goods and people across borders so this called for increased rail infrastructure. Alongside this was the complimentary advancements of electrical energy and its distribution of use across industries. The distribution of oil, metal ore, other ores, food goods etc., was increasing immensely. So fourth, this period called for great economies of scale to deal with the demand and needs. This was a period in which brands, people and firms were defining themselves and their specialities so, desired large market reach. Hence, a monopolistic driver through horizontal mergers.	High economic growth period Technological change
1922–1929	This was a period primarily made up of product extension. After various passings of new laws and regulation in reaction to the first wave, combatting monopolistic tendencies etc., this period saw many vertical mergers in an attempt to combine efficiencies of industries such as mining, ifrastructure, building etc. Thus, an oligopolistic period. There was a huge demand by firms for scope for mass distribution.	High economic growth period Legal and regulatory changes
1960's	This was a period of conglomerate mergers, known as the period where the market was 'rewarding' diversification. There was a large opportunity at this point for large established firms to being acquiring other firms, not for vertical reasons discussed prior, but simply for more basic financial and economic reasons. Firms aimed to reduce instability by diversifying their scope of operations. This was especially apparent in low-growth-prospect markets. Companies aimed to satisfy wide post-World War II demands by broadening their offerings. This not only meant more revenue form more places but, a safety net in reaction to future changing demands as more businesses could support this. Convertable bonds also played a role. Frequently two firms with low growth prospects merged to imporve P/E and EPS, by focussing on decreasing the denominator of the latter. This was accomplished by issuing a substantial amount of convertable bonds which would not be classed as shares. This was adided by the driving of earnings by the merger also. However, various legal acts, including the Tax Reform Act of 1969, which put an end to manipulation of convertable bonds by requiring their accountance as if converted. Additionally, laws were passed regarding conglomerate logistics also.	Financing innovations

1981–1989	<p>Known as the unwinding of the conglomerate wave and in response to the low economic growth during the 1970's. It was more of a reactive period than a proactive one; many of the 60's' conglomerates had failed in the sense that the mergers had worked in an inverse manner to that sought. In result, the sum of the individual parts of the merged firms were was greater than thier whole. Therefore, the reaction was to unwind this and operate firms in their stand-alone form. There was also large economic growth around this period. One part of this was the issuance of junk bonds, where firms with cash-raising problems issue bonds with low credit ratings and promise for high yield. These were designed to be bought in bulk as part of a 'diverse' package. This attracted buyers and therefore raised cash, in a completely new market. It raised more capital than expected which went towards acquisitions. Many of these were 'bustup' acquisitions; focusing the breaking up firms with part-sums greater than their whole. Pieces were sold off and revenue used to reduce debt.</p>	<p>High economic growth periods Legal and regulatory change Financing innovations</p>
1992–2000	<p>This period saw the innovation and rise of brand new firms and even industries/subindustries. For example, following the huge success with PS2 Terminals and Model M's in the 80's/90's, IBM began overtaking every workplace with the start of their famous T-Series of portable computers (ThinkPads), UltraDocks and business accessories for the pragmatic businessman. This was not only a new opportunity for many industries in manufacturing, engineering and computer science; it was also a huge one simply because of the percieved mass 'need' for these business items, across most business platforms. Therefore, this was a period of P/E and EPS increae (attractiveness to investors and acquirers etc.) driven by the numerator of the latter; earnings. This expansion wasnt only happening in relative domestic markets, globalisation was rising; increasing requirement for scale in manufacturing and distribution etc. thus, mergers. A great example of network exapansion was the increase in demand for the AT&T Merlin telecommunications system. This was a growth and earnings-driven period, not debt.</p>	<p>Favourable stock prices Technological change</p>

Table 9: Merger Wave Timeline

Overview

Theories of mergers to separate into three categories: [1] rationale behind the reasoning for a merger, [2] expected impact of the merger and, [3] the process/timeline over which the merger takes place (Weston, et al. 2011).

As mergers are designed to add efficiency, wealth and reduce costs; there is a large focus on economies of scale and transaction costs (Leepsa, Mishra, 2016).

Furthermore, Gohlich (2012) describes four primary theories of the merger process, rationale and impact: [1] synergy theory, [2] agency theory, [3] market power theory and, [4] strategic similarity theory.

Additionally, Romano (1992) discusses the breakdown of the two primary explanations of mergers and acquisitions (value-maximising/non-value-maximising) into: [1] benefits of efficiency from synergies (technological harmony/development and economies of scale etc.); [2] financial benefits from tax, labour reconfiguration, etc.; [3] removal of market myopia (a naïve approach in which firms over-concentrate efforts on singular or small operations), reducing productivity (which Bradley, et al. (1983) suggest that the latter can be heavily attributed to inefficient managers and poor intra-firm and firm-to-market communications) and; (non-value-maximising factors) [1] diversification/intellectual growth, [2] self-promotion of power, [3] free cash flow, [4] ‘winner’s curse’ hypothesis (Varaiya, 1988) (in which firms overvalue aspects of a business or a company itself. For example, when acquiring, paying too-high-a-price thus, ‘winning’ but simultaneously ‘losing’).

A basic view of a general merger rationale timescale is presented by Giannopoulos (2008), stating that pre-merger operations are focused on profit-increasing methods including market power, economies of scale, creating barrier for entry (especially in congeneric mergers where you operate for real estate). Post-merger operations are focused on cost-reducing methods like asset re-alignment, resource management etc.

Grouping much of the above are Motis’ (2007) ideas of grouping pre-merger motives into ‘industrial organisation’ and post-merger re-alignments into ‘corporate governance’. These essentially reflect the idea that pre-merger activities are based on power and profit aspirations and post-merger activities are focused on solving corporate problems between staff, their methods and the logistics of optimisation.

Another relevant idea is one described by Gorton, et al. (2009) where merger motive can be hugely driven by size. It’s said that [1] smaller industries may experience a higher volume of mergers as firms see more potential for an easier route to higher industry real estate. [2] this idea of size can be what triggers industry waves as there becomes competition for more tangible real estate. [3] larger companies over-pay in these situations as they approach from a more conglomerate point of view; ‘buying the market’, instead of gaining relevant real estate such as the smaller firms at the same time.

Overall, Coase (1937) gives the view that M&A is value-increasing in the sense that efficiency, technology enhancement and growth, scale and scope are greater than any problem in corporate governance etc. Jensen (1986) gives the opposing view that M&A is value-reducing as managers frequently mis-value the projected synergies of mergers and thus, mis-align cash post-merger. This is very much on a firm-by-firm, manager-by-manager basis however.

Efficiency Theory

Wolfe, et al. (2011) highlights the fundamentals of efficiency: optimising the use of and inter-linking nature of skills between the acquirer and target, repurposing and re-aligning resources in the supply chain and in the (post-merger) firm itself, sharing and building the technologies of each firm to perhaps make something ‘greater than the sum of its parts’, eliminating cross-over expenses and promoting both firms’ specialities; in effect increasing efficiency and reducing costs. It’s suggested that firms with different strengths and weaknesses offset those of each-other. Using this idea, many areas of operation may equalize/normalize; such as management, intra-firm operations and sourcing. These ideas therefore form much of the basis on which horizontal mergers are built.

Efficiency Examples	
M&A	Rationale
Facebook & Little Eye Labs	Significant enhancement of mobile development. Facebook provided the fundamental ground and content, Little Eye Labs provided the efficient technology.
Holcim & ACC	An exchange of mutually beneficial methodologies and technologies which is aimed at decreasing time-to-production and increase rate of innovation.
United Breweries & various other breweries	Minimising resource waste in a specific situation where the sum of waste of all the associated firms was enough to house the equivalent of another brewery. In effect, removing the equivalent cost of running one or more breweries post-merger.
ABG Shipyard & Western India Shipyard	Minimising repair, docking, maintenance costs etc.

Source: Leepsa, Chandra, (2016)

Synergy Gain Theory

The popular saying “the whole is greater than the sum of its parts”, refers to the fact that often the combination of two firms is greater than the sum of their efforts if they were operating side-by-side. This section relates heavily to economies of scale through which fixed costs are distributed across a longer span. Further, economies of scope which allow resources of each firm to act as efficiency enhancers. For example, a firm who has produced an extremely effective rear-end SQL system (such as Amazon) would greatly benefit from a firm which specialises in front-end promotion.

Economies of scale are driven by such an immense operation chain being simplified or optimisation of inventory holding. Economies of scope are driven primarily by automatic reductions in costs through widening of resources and expertise (Romano, 1992).

Synergy Examples	
M&A	Rationale
Prism Cement & Milano Bathroom Fittings	Increasing manufacturing capabilities, resources and real estate. Manufacturing plants also became more commonly and effectively accessible (for transport (import/exports etc.)).
Steel Authority of India & Neelachal Ispat Nigam	With growth prospects in search of a wider product span and manufacturing capabilities of such. More effective application of manufacturing resources. Quality enhancements also as each firm added an aspect which benefitted a specific procedure.

Source: Leepsa, Chandra, (2016)

Diversification Theory

Most commonly firms aim to diversify in product range or geographical reach (Weston, et al., 2010). In many cases, this type of diversification increases debt capacity and decreases tax liabilities. Also, spreading into a larger geographical area can also have great effects on reputation in different cultures etc. Often, these methods are considered to be better than intra-firm growth as there is much greater potential for exposure in the former.

Diversification Examples	
M&A	Rationale
EID Parry & Nutraceuticals Co. & Valensa International	Greater access to the United States and European markets which act as primary hubs now for global trade.
Hindustan Unilever Ltd. & International Bestfoods Ltd.	Entering smaller markets in search of reviving older and forgotten operations.
Kamadgiri Fashion Ltd. & Stripes Apparels Ltd.	Expanding capacity of production and reducing costs of such by using cheaper locations.
<i>Source: Leepsa, Chandra, (2016)</i>	

Strategic Realignment Theory
Weston, et al. (2010) states highlights the fact that it is important for a firm to optimise their strategies and operation chains relative to the economic and technological state at the given time. Unlike long-run motives of M&A, strategic drivers are response techniques which mutually benefit firms involved as they use their resources to become more efficient in market reactions.

Strategic Realignment Examples	
M&A	Rationale
Tata Motors Ltd. & Tata Finance Ltd.	Growing various support aspects of their business in order to be more secure in a global market and better equipped for different market conditions.
Merger of Gabriel India Ltd. & Stallion Shox Ltd.	Modernise technologies and develop R&D in order to better prepare for reactions to other firms and the differing states of economies in which they operate (e.g. different technological stages).
Merger of Novartis India Ltd. & Ciba CkdBiochem Ltd.	Stabilise quality and sustainability of manufacturing and research techniques and, sources.
<i>Source: Leepsa, Chandra, (2016)</i>	

Undervaluation Theory
Firms may be targeted because of their undervaluation. This can be dominant in conglomerate acquisitions, for example. Weston, et al. (2010) highlights that historically, undervaluation is the doing of inefficient managers who don't realise a firm's potential in time. In a case where the acquirer has insider information, they have the best chances of realising and pockets of inefficiency. Most commonly, undervaluation is seen in the difference between market value and replacement costs of assets; where the cost of replicating it would be greater than the current valuation.

Undervaluation Examples	
M&A	Rationale
<i>Source: Leepsa, Chandra, (2016)</i>	

Market Power Theory

Many firms wish to dominate their industry/market. Weston, et al. (2010) says that increased market share is not always the best option for the market as a whole. This strategy leads to a high concentration of firms in the industry and lowering competition, particularly in waves. Recognised, is either a monopolistic nature or bloated competition between very large firms. These are both poor for the market, industry and economy in the long-run. Quality of products and services would become irrelevant as a result. Additionally, throughout large horizontal mergers (taking over an industry as described), as there is a decrease in the overall number of firms, a firm's reliance on itself will become far more important and its volatility will increase.

Market Power Examples	
M&A	Rationale
Himadri Chemicals & Industries Ltd.	Expanding into larger Asian markets, relative to areas of high demand and ease of production; makin the firm, as it has access to more capital than many other of its type with the same goals and geography, a market leader.
Merger of Ultratech Cement Ltd. & Samruddhi Cement Ltd.	Simply two of the largest firms in their industry in India, joining for an even bigger share and control of the market.
<i>Source: Leepsa, Chandra, (2016)</i>	

Tax & Redistribution	
Finally, Weston, et al. (2010) highlights firms' large desire to minimise tax liabilities. Many firms may not be looking for efficiency etc.; they may simply view mergers as ways of spreading tax. Of example, an acquirer may purchase a small growth firm with little liabilities etc., aiding capital gain tax substitutions. Or, a high-profit acquirer may purchase a low-profit firm in search of tax reduction again. Or, by acquiring firms with specific depreciable asset configurations.	

From a redistribution perspective, Ahern and Weston (2007) state that acquirers aim to use thier new acquisitions to reorganise their tax, bondholder, labour and pension cost configurations. This is commonly reflected in shareholder wealth redistribution. Tax and pension (etc.) redistribution comes from the government after previousl discussed strategies are in-play. There may also be a redistribution of employee costs to shareholder wealth, depending on the capital structure and payou policy of either firm etc. In this case, conclusions may be made that drivers for mergers come from s shareholder-driven point of view as opposed to economic efficiency.

Tax & Redistribution Examples	
M&A	Rationale
Merger of Indo Rama Synthetics & Indo Rama Petrochemicals Ltd.	Bypass various taxes in the purchase of materials.
Merger of Mirc Electronics Ltd. & Onida Savak Ltd.	Income tax loss benefits and sales tax benefits.
Neelachal Ispat Nigam Ltd. & Konark Met Coke Ltd.	Saving sales tax on inter-firm sales between the two merged firms.
Air India & Indian Airlines	Reducing human labour per aircraft, reducing total costs and redistributing elsewhere.
<i>Source: Leepsa, Chandra, (2016)</i>	

Table 10: Theories of Mergers & Acquisitions

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