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Analyzing the Short-term and Long-term Effects of Mergers and Acquisitions on Stock Prices: A Comprehensive Study of Acquiring and Target Companies

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Abstract:

In this study, Microsoft's acquisition of linkedin on June 13, 2016 is taken as the research object, focusing on the impact of mergers and acquisitions on stock prices. A hybrid approach is adopted, combining quantitative analysis of stock price data and financial performance indicators with qualitative evaluation of strategic results. Preliminary results show that the stock price fluctuated in the short term after the merger event, but then gradually stabilized. This paper emphasizes that this research provides valuable insights for business decision makers, investors and financial analysts. More importantly, this study provides empirical evidence to support the trend that M&A gradually stabilizes after short-term fluctuations in stock prices, and provides a practical basis for understanding the impact of M&A on corporate strategic decision-making. Therefore, this work not only has guiding significance for the decision-making of investors, but also provides an important reference for the formulation of corporate strategy, and helps to improve the decision-making wisdom of decision makers.

Keywords: Merger and Acquisitions, Stock Prices, Abnormal Returns.

1. Introduction

Technology company mergers and acquisitions, as well as merger transactions, are becoming more and more significant occurrences on the international corporate scene in the current digital era. These transactions have a significant impact on the global economy in addition to changing the IT industry's competitive environment. Microsoft's 2016 acquisition of LinkedIn was one of them; it garnered a lot of attention and turned into a prominent strategic choice.Microsoft is a well-known multinational technology company best recognized for its operating system, office suite, and cloud computing offerings. But to be competitive, Microsoft needs to look for new strategic directions as the technology industry develops. In this regard, the business declared in 2016 that it would purchase LinkedIn, the biggest professional social network globally[1,2]. LinkedIn's primary goals are to facilitate information exchange, offer chances for career advancement, and connect professionals. Hundreds of millions of professionals worldwide now choose it as their preferred social network because it presents exceptional chances for marketing, promotion, and recruiting in addition to fostering professional relationships. This case study will comprehensively explore the impact of Microsoft's acquisition of linkedin on Microsoft's stock. The article will provide an in-depth analysis of the impact of this carefully planned move on the operations of Microsoft and linkedin, as well as the changes in their respective market positions. In addition to reflecting the changing nature of the technology sector, Microsoft's acquisition of LinkedIn offers insights into corporate mergers and acquisitions as well as digital transformation. It motivates us to look at the prospects and difficulties of cross-industry mergers and acquisitions, as well as how the biggest players in technology may create strategic plans that will help them succeed over the long run in a market that is changing. This case study tries to offer insights into corporate strategic decisions, market rivalry, and the future growth of the technology sector by a thorough examination of the path and implications of this strategic decision[3].

2. Literature Review

The internet giant's entry into professional social networking was spurred by Microsoft's strategic acquisition of LinkedIn in 2016, which attracted a lot of attention and controversy. Academic and industrial emphasis has shifted to the merger's success, particularly in terms of fortifying the company's position in the market and growing its cloud computing business about the strategic objectives that need to be met[4].Microsoft has been well-known for its operating system, office suite, and cloud computing services since its beginnings. However, for businesses to be competitive in the digital age, they must continually adapt and grow. Keeping up with the rapidly evolving technology industry entails growing its cloud computing company and fortifying its market position. Microsoft's M&A actions are somewhat influenced by its strategic ambitions the company's 2016 acquisition of LinkedIn is one such example[5].

The biggest professional social network in the world, Linkedin connects professionals, grows professional networks, and offers job and career development possibilities. Its distinct approach to professional social networking has made it the preferred platform for professionals, with a wide range of market opportunities. Given that Microsoft's acquisition of LinkedIn marks a significant investment by a key player in several domains to foster innovation while fulfilling strategic objectives, the move has generated a great deal of interest and debate.

Within this framework, the central research issue concerns whether Microsoft's acquisition of LinkedIn has been successful in accomplishing its strategic goals, particularly fortifying its market position and growing its cloud computing division. This literature study will primarily address this issue through an analysis of relevant academic research and news articles, in this case providing an understanding of the impact of the deal on the market and the technology sector. Through the research of this subject, corporate strategy and market influence occupy the main position[6].

Microsoft made headlines in 2016 when it revealed that it had acquired LinkedIn for a cool $26 billion. Given that it is a cross-sector merger between two industry titans and has significant repercussions for the market and society, this strategic choice has attracted a lot of academic interest. This topic is worth analyzing in-depth for several reasons that touch on social networks, technology, markets, strategy, and networks. First off, by making this choice, Microsoft has entered a market that is different from its usual area. Microsoft is a well-known and reputable name in the world of technology, best known for its operating systems, office suites, and cloud computing offerings. Nonetheless, LinkedIn is a business that focuses on the professional social network industry, and its business strategy differs greatly from Microsoft's traditional domains. Because of this calculated move, there is a lot of interest in and discussion about Microsoft's reasoning for purchasing LinkedIn. Secondly, LinkedIn's professional social network model holds unique value for professionals and businesses. It provides a platform for expanding professional networks, job seeking, knowledge sharing, and career development. This specialization and differentiation make Microsoft's decision even more intriguing, as it opens up a potential growth area that could drive future innovation and development. Thirdly, the market has been significantly impacted by this acquisition. Microsoft's resources and assistance might help LinkedIn expand its company and also give Microsoft additional chances to provide all-encompassing services. To comprehend how corporate acquisitions might change the market ecology, it is important to look at the market effect. Finally, there are significant societal and cultural ramifications associated with this case. This transaction may have a substantial impact on professionals and society, including employment, career growth, and industry relations. Professional social networks are important in both professional and societal spheres.By examining these social impacts, conclusions can be drawn that may enhance professional life and social relationships in the digital age. In order to fully grasp the significance and impact of this strategic choice, in the following literature research, the reasons and impact of Microsoft's acquisition of linkedin as well as related theories and previous research will be deeply discussed.

The layout's social component has caused Microsoft trouble. Because Google+, Facebook, and other competitors are all active in the social media space, Microsoft remains noticeably quiet in this regard. Microsoft started working on the Wallop project in 2005 to create a terminal application-based social networking platform similar to Facebook's Bebo offerings. Wallop split off from Microsoft in 2006 to form a stand-alone business. Wallop declared bankruptcy in 2008. Microsoft was keen to introduce new social products when Google released Google+, and the social network Socl, created by Microsoft Research, was formally introduced in December 2012. Despite having the most streamlined surfing experience available at the time and being powered by the potent Bing search engine, the social network was not very impressive. Thus, even though Microsoft has maintained its unwavering dominance in the IT industry for such a long period, the empire must be concerned by the rise of social giants. Microsoft needs an army that is capable of competing with rival social networks head-to-head right now.

LinkedIn can compete with Facebook on Wall Street, where profit is essential, in addition to its massive user base. Compared to Facebook, which makes 6.2 cents for every hour a user spends on the site, LinkedIn makes $1.30.Compared to social information kept by social networking sites, LinkedIn's career information is significantly more valuable. Facebook users' thoughts, interests, uploaded photos, places visited, and other personal information are all stored there and are subject to change as people's preferences and circumstances do. However, in the working world, a far more uniform collection of factors characterizes an individual: residence, age, place of employment, title, university, major, and GPA. Customers will find it simpler to comprehend and utilize this type of data, and it will be delivered with greater accuracy. Microsoft's acquisition of LinkedIn can be seen as the acquisition of "human relations". More importantly, LinkedIn is populated by professionals, and 'professionals' are heavy users of productivity tools. Therefore, from the point of view of user matching, the Microsoft productivity platform and LinkedIn are very compatible [7]. The 2016 acquisition of LinkedIn by Microsoft generated a lot of talk and interest. Academic and industrial attention has been focused on the success of this strategic deal, particularly in terms of boosting the market position and growing the cloud computing company[8,9].

An article in Forbes claims that the acquisition will assist Microsoft in growing its market share in the business sector, particularly in the fields of career development and social networking. Expanding professional networks and offering recruiting and advertising services are just a few of the options and tools that LinkedIn's professional social network offers to the business industry. Because of this, Microsoft is now better positioned to compete with its rivals in the enterprise sector. The strategic acquisition of LinkedIn by Microsoft gives the company the chance to improve its market position, diversify its product line, and advance the development of its cloud computing and enterprise services businesses. Though a complete evaluation of the acquisition's performance will take some time, its effects are already being noticed. The instance also emphasizes the difficulties in integrating cultures and maintaining employee satisfaction that arise from cross-industry M&A. In addition to handling the numerous problems brought on by the transaction, Microsoft needs to keep working to guarantee that LinkedIn's resources are completely employed. The story also emphasizes the difficulties associated with cross-industry M&A, such as employee happiness and cultural assimilation. Microsoft has to keep working to make sure LinkedIn's resources are appropriately utilized in addition to handling several merger-related concerns[10].

3. Data analysis

Part1: Disney's acquisition of Pixar Data: Revenue&Profit Trend&Segment Reporting (The data in Table 1 below come from Walt Disney's annual reports)

Table 1. Walt Disney 2005 Annual report.

(in million)	2001	2002	2003	2004	2005
Revenues					
Media Networks	$ 9,569	$ 9,733	$ 10,941	$ 11,778	$ 13,207
Parks and Resorts	7,004	6,465	6,412	7,750	9,023
Studio Entertainment	6,009	6,691	7,364	8,713	7,587
Consumer products	2,590	2,440	2,344	2,511	2,127
	25,329	27,061	27,061	30,752	31,944
Segment Operating Income					
Media Networks	$ 1,758	$ 986	$ 1,213	$ 2,169	$ 2,749
Parks and Resorts	1,586	1,169	957	1,123	1,178
Studio Entertainment	260	273	620	662	207
Consumer products	401	394	384	534	520
	4,005	2,822	3,174	4,488	4,654

Analysis: stable increase for total revenue from 2001-2005 & stable increase for studio entertainment from 2001-2004 but decrease from 2004-2005 in Table 2.

Table 2. Walt Disney 2008 Annual report.

(in million)	2004	2005	2006	2007	2008
Revenues					
Media Networks	$ 11,299	$ 12,722	$ 14,186	$ 15,104	$ 16,116
Parks and Resorts	7,7750	19,023	9,925	10,626	11,504
Studio Entertainment	8,713	7,587	7,529	7,491	7,348
Consumer products	2,414	2,042	2,107	2,289	2,875
	30,176	31,374	33,747	35,510	37,843
Segment Operating Income					
Media Networks	$ 2,378	$ 3,040	$ 3,481	$ 4,275	$ 4,755
Parks and Resorts	1,077	1,178	1,534	1,710	1,897
Studio Entertainment	661	206	728	1,195	1,086
Consumer products	538	533	607	631	718
	4,654	4,957	6,350	7,811	8,456

Analysis: stable increase for total revenue from 2004-2008 & stable decrease for studio entertainment from 2004-2008.

Table 3. Walt Disney 2010 Annual report.

%Change Better/(Worse)

(in million)	2010	2009	2008	2010 Vs. 2009	2009 Vs. 2008
Revenues					
Media Networks	$ 17,162	$ 16,209	$ 15,857	6%	2%
Parks and Resorts	10,761	10,667	11,504	1%	(7)%
Studio Entertainment	6,701	6,136	7,348	9%	(16)%
Consumer products	2,678	2,425	2,415	10%	_%
Interactive Media	761	712	719	7%	(1)%
	$ 38,0063	$ 36,149	$ 37,843	5%	(4)%

Analysis: decrease in total revenue from 2008-2009 but an increase from 2009-2010 & decrease in studio entertainment from 2008-2009 but an increase from 2009-2010.

The conclusion drawn from the three data: From 2001 to 2010, ranging from 5 years before the merge and 4 years after the merge. The Revenue shows a fairly stable increase(except for the decrease from 2008 to 2009). However, the Segment Reporting for Studio Entertainment, which includes a contribution from Pixar, fluctuated throughout time, including a constant decrease from 2004-2009 until a slight increase which happened 4 years after the merge. However, that doesn't necessarily mean the merge with Pixar was a failure because there were lots of factors to consider in the revenue of studio entertainment and the tool revenue was increasing after all. In Disney's 2006 annual report, they pointed out that the decrease in revenue of Studio Entertainment was due to an overall decline in DVD unit sales(see Table 3).

Part2: Microsoft's acquisition of LinkedIn Data: Annual Revenue & EPS History(see Table 4)

Table 4. Microsoft Annual Report from 2020.

Year Ended June 30,	2020	2019 (a)	2018	2017(d)(e)	2016(d)
Revenue	$143.015	$125.843	$110.360	$96.571	$91,154
Gross margin	96,937	82,933	72,007	62,310	58,374
Operating income	52,959	42,959	35,058	19,025	26,078
Net income	44,281	39,240	16,571	25,489	20,539
Diluted earnings per share	5.76	5.60	2.13	3.25	2.56
Cash dividends declared per common share	2.04	1.84	1.68	1.56	1.44
Cash, cash equivalents, and short-term investments	136,527	133,819	133,819	132,981	113,240
Total assets	301,311	286,556	258,848	250,312	202,897
Long-term obligations	110,697	114,806	117,642	106,856	66,705
Stockholders' equity	118,304	102,330	82,718	87,718	83,090

Note : (a) GitHub has been included in our consolidated results of operations starting on the October 25, 2018 acquisition date.

(b) Includes a $2.6 billion net income tax benefit related to intangible property transfers and a $157 million net charge related to the enactment of the Tax Curs

and Jobs Act ("TCJA"), which together increased net income and diluted earnings per share ("EPS") by $2.4 billion and $0 31, respectively. Refer to Note

1 2 - Income Taxes of the Notes to Financial Statements.

(c) Includes a $13.7 billion net charge related to the enactment of the TCJA, which decreased net income and diluted EPS by $13.7 billion and $1.75,

respectively. Refer to Note 12 - Income Taxes of the Notes to Financial Statements.

(d) Reflects the impact of the adoption of new accounting standards in fiscal year 2018 related to revenue recognition and leases.

(e) Linkedin has been included in our consolidated results of operations starting on the December 8, 2016 acquisition date.

(D Includes 3306 million of emplvee severance exenses primarily related to our sales and marketing restructuring plan, which decreased operating income

net income, and diluted EPS by $306 million, $243 million, and $0.04, respectively.

(g) Includes $630 million of asset impairment charges related to our Phone business and $4S0 million of restructuring charges associated with our Phone

Analysis: It can be seen from Microsoft's annual report that since 2016, their total revenue has been increasing stably. Even in 2017, when LinkedIn was included in the consolidated results of operations, the increasing trend of the revenue was not disrupted (see Figure 1).

Figure 1. EPS History.

Note: (Date from companiesmarketcap.com about EPS History for Microsoft)

Analysis: According to the EPS History for Microsoft from 2000 to present, it shows that after hitting a low EPS in 2016, when Microsoft bought LinkedIn, its EPS started to increase considerably. Conclusion drawn from the two data: Having considered the performance of Microsoft's annual revenue and stock history before and after its merge with LinkedIn in 2016, it could be concluded that Microsoft's aquisition of LinkedIn was beneficial to its own performans, if it didn't harm[11].

4. Discussion

Microsoft's competitiveness and market position have been significantly impacted by its acquisition of LinkedIn. Although this choice expands Microsoft's offering of business services and products, it also creates obstacles for acquisitions and mergers across industries. This situation demonstrates the shortcomings of equities valuation methodologies. Regarding uncertainty and insufficient information, the following opinions exist:

Inadequate data: A lot of information is needed for valuation models, such as industry statistics and financial statements for the companies. However, the model's conclusions might be skewed if this data is unreliable or missing.

Considerations regarding uncertainty: Uncertainties, particularly those about projected future growth rates and discount rates, can provide a challenge to the accuracy of valuation models, particularly in an unpredictable economic climate.

Market sentiment: Even though market sentiment has a big influence on stock prices, stock valuation methods frequently neglect it. Large discrepancies between estimated and real share prices may result from this.

Future innovation and integration: The deal also raises questions about future innovation and integration. Here are some ideas related to innovation and integration: Innovation opportunities: Microsoft's acquisition of LinkedIn opens up innovative opportunities for the company, particularly in the areas of cloud computing and artificial intelligence. LinkedIn's data can be used to develop new solutions and enhance the company's ability to innovate. However technology integration and working together can be a challenging task that requires effective management and coordination. Successful integration is critical to the company's future growth. Ultimately, the significance of this purchase extends beyond the economy to include social and cultural implications. The following are some topics for conversation on social and cultural influences:

Opportunities for Career Development: Professionals may expand their professional networks and take advantage of professional development opportunities through LinkedIn. The effects of this on society have been favorable. When considered collectively, the Microsoft acquisition of LinkedIn underlines the drawbacks of stock valuation techniques as well as the potential and difficulties associated with cross-sector mergers and acquisitions. When making practical decisions, one must exercise prudence when dealing with inadequate or unclear information and take the emotions of the market into account. Future success will also depend heavily on innovation and integration, while a greater knowledge of sociocultural effects is necessary. This case offers details on strategic choices[12-15].

5. Conclusion

The case of Microsoft's acquisition of linkedin involves corporate strategic decision-making, market competition and stock valuation models. The acquisition decision was a success in terms of market position and competitiveness, but it also created a series of challenges that need to be addressed on an ongoing basis. To begin with, there are possibilities and difficulties for cross-domain M&A in the industry. Although Microsoft's choices have strengthened its market position and allowed it to grow its business services and product range, cultural integration and collaborative working have presented difficulties. This underscores the need for strategic planning and cultural integration in mergers and acquisitions involving different industries. Secondly, it is important to acknowledge the constraints of stock valuation methods. The accuracy of models is challenged by uncertainties and incomplete information, particularly in unpredictable economic conditions. Market mood may have a big influence on stock prices, but models tend to disregard it. Consequently, while valuing stocks, uncertainty and missing information should be carefully taken into account, and the valuation model should be used as a guide rather than the only foundation for judgment. Microsoft's acquisition of LinkedIn serves as a prime example of how difficult strategic choices are to make and how many variables must be considered. It offers insightful information on market rivalry, sociocultural effects, valuation frameworks, and strategic decision-making. This case will continue to spark a lot of debate in academics and the business sector about whether it was ultimately successful and if it might teach other companies any valuable lessons. It also emphasizes how crucial it is to manage risks, plan strategically, and integrate cultures in order to succeed in a market that is changing.

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