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Value creation and challenges of an international transaction The DaimlerChrysler merger

Matej Blaško, Jeffry M. Netter*, Joseph F. Sinkey, Jr.

Terry College of Business, University of Georgia, Athens, GA 30602-6253, USA

Abstract

Globalization is a buzzword in international finance and economics. On May 6, 1998, in London, Daimler-Benz of Germany signed a merger agreement with Chrysler Corporation of the United States. Using the DaimlerChrysler merger as a case study, this paper focuses on value creation and analysis of various issues in an international transaction. The market responded very favorably to this merger, and we review the potential sources of value creation in the merger as well as outline the steps undertaken to consummate the merger. We also consider an interesting question: Can a company truly be "global"? Differences in corporate culture, compensation policies, ownership structure, and the legal environment pose significant challenges to all mergers but especially international business combinations. Important post-merger events, such as the Standard & Poor's decision not to include DaimlerChrysler in the S&P500 Index and the clash of corporate cultures and compensation schemes, have presented major roadblocks to it becoming a truly global company.

JEL classifications: F23, G34

Keywords: Mergers; Acquisitions; International finance; Business combinations; Value creation; Globalization

1. Introduction

The two companies are a perfect fit of two leaders in their respective markets. Both companies have dedicated and skilled workforces and successful products, but in different markets and different parts of the world. By combining and

* Corresponding author. Tel.: 706-542-4450.
E-mail address: jnetter@terry.uga.edu (J.M. Netter)

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Table 1
Industry overview (1998)

Largest carmakers	Earnings	Revenue	Car sales	Cash	Rumored merger partners
General Motors	$2.8 billion	$140 billion	7.5 million	$16.6 billion	Isuzu, Suzuki, Daewoo
Ford Motor*	$6.7 billion	$118 billion	6.8 million	$23.0 billion	Honda, BMW
DaimlerChrysler	$6.5 billion	$147 billion	4.0 million	$25.0 billion	Nissan, Fiat
Volkswagen	$1.3 billion	$75 billion	4.6 million	$12.4 billion	BMW, Fiat
Toyota Motor Co.	$4.0 billion	$106 billion	4.5 million	$23.0 billion	Daihatsu, Hino
Honda Motor Co.	$2.4 billion	$54 billion	2.3 million	$3.0 billion	BMW

* In the spring of 1999, Ford Motor acquired Sweden's Volvo car division for $6.5 billion. Volvo sold 400,000 cars in 1997. DaimlerChrysler called off merger talks with Nissan. Subsequently, Renault of France acquired a stake in Nissan. Source: Naughton (1999), Company reports, Merrill Lynch & Co., Salomon Smith Barney, J.P. Morgan, Wasserstein Perella.

> utilizing each other's strengths, we will have a pre-eminent strategic position in the global marketplace for the benefit of our customers. We will be able to exploit new markets, and we will improve return and value for our shareholders. This is a historic merger that will change the face of the automotive industry.
>
> This is much more than a merger, today we are creating the world's leading automotive company for the 21st century. We are combining the two most innovative car companies in the world.
>
> Jürgen Schrempp
> Chairman of the Daimler-Benz Management Board

On May 7, 1998, Daimler-Benz of Germany announced plans to merge with Chrysler Corporation in the largest international merger in history. Jürgen Schrempp of Daimler-Benz and Robert Eaton of Chrysler had signed the combination agreement the day before in London. The combined entity is called DaimlerChrysler AG and is incorporated under the jurisdiction of the Federal Republic of Germany. The company's stock (DCX) trades on all of the world's major stock exchanges, including New York, Frankfurt, London, and Tokyo, as well as on the other exchanges in the U.S., Germany, Austria, Canada, France, and Switzerland. In many respects, the DaimlerChrysler merger is shaping the future of the auto industry and has triggered consolidation in an industry plagued by overcapacity. Table 1 presents an overview of the auto industry, including rumors about mergers that are likely to follow the largest international merger ever.

This article provides an overview of the important elements of the DaimlerChrysler merger and relates them to the empirical evidence on mergers.[1] Specifically, this study analyzes potential sources of value creation and the evidence on whether value creation has occurred in the DaimlerChrysler merger. We also discuss specifically some of the important issues that must be taken into account in cross-border mergers and acquisitions. Differences in corporate culture, compensation policies, ownership structure, and legal environment may pose significant challenges to international business combinations.