The New York Times
DealBook
Edited by Andrew Ross Sorkin

JULY 22, 2010, 5:40 AM

Stanley Black & Decker: A Merger That Works?

From Reuters Breakingviews:

Academic studies generally support the idea that shareholders of companies that make acquisitions get the short end of the stick. But that's not always the case. **Stanley Black & Decker**, the tool giant created this year, is shaping up to be a notable exception if Wednesday's quarterly report is any guide. Investors might want to make a punch list of the deal's key components.

From the start, the merger, announced last November, looked good on paper. **Stanley Works** agreed to buy **Black & Decker** for stock valued at a 22 percent premium. That was justified because Stanley got management and board control, and its shareholders were to own more than half of the stock.

More important, the amount Stanley was paying above Black & Decker's market capitalization was dwarfed by the value of cost cuts promised by the deal. These, of course, were no sure thing; achieving them depended entirely on management making them happen. But in the first full quarter as a combined group, these are now being captured.

The company reported better-than expected second-quarter results and raised its outlook for 2010 profit, despite lackluster consumer demand for its power drills, saws and other gear. Moreover, the company said it was "firmly on track" to meet its estimates for cost cuts and was examining opportunities for revenue synergies.

Since the deal was announced, Stanley shares have risen by more than 20 percent, adding about $1.5 billion in combined value for the two companies' collective shareholders. By comparison, the Standard & Poor's 500-stock index has added just 4 percent.

The lesson should be fairly simple: mergers can work if the blueprints are solid. In the Stanley Black & Decker case, the elements included overlapping businesses with broad scope for expense reduction, a modest premium amply justified by the synergies, clear governance and control, and a shared distribution of future gains. Put those tools in the box, and there's no reason shareholders can't benefit from such deals.

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