Why M&A Synergies Matter

Idea In Short

With deal valuations climbing toward 14 times EBITDA, synergies have shifted from a nice-to-have talking point to the make-or-break test of a merger's success. Cost synergies are relatively easy to capture; revenue synergies are not, and six disciplined practices separate the deals that deliver from the ones that only promise.

A Booming, Pricier Market

Mergers and acquisitions activity has stayed robust, with tens of thousands of deals announced globally in a recent year, even as total deal value has slipped from a 2015 peak near 3.9 trillion dollars. Years of historically low interest rates created ideal conditions for leveraged mergers: cheap financing, slow organic growth pushing companies toward acquisition and strong investor appetite for deal-making.1

Valuations Keep Climbing

Purchase price multiples have risen to roughly 14 times EBITDA, a level driven partly by the sheer volume of private equity capital chasing a limited pool of attractive targets.2 Private equity deal counts have grown, and their share of total deal volume has risen to roughly 16 percent, with mid-cap deals between 100 million and 1 billion dollars increasing from about 48 percent to 62 percent of that activity, as firms lower their target transaction size to find deployable opportunities and increasingly pursue smaller add-on acquisitions to existing portfolio companies.

Synergies Move to Center Stage

Synergies used to function as a nice-to-have talking point in deal announcements. With purchase prices this elevated, BCG research describes synergy capture as a make-or-break element of merger success. Actually capturing synergies, rather than simply announcing an intent to pursue them, requires substantial analytical work: identifying real risk, implementing organizational change and protecting the customer relationships that generated the acquired revenue in the first place. The stakes are large in dollar terms too: a one percent improvement in run-rate pretax operating income on a large deal can represent roughly 200 million dollars annually, which at a 12 times EBITDA multiple translates into an increase in enterprise value approaching 2.4 billion dollars.

Not All Synergies Are Equal

Synergies come in three broad categories, and they are not equally easy to capture. Revenue synergies are the hardest to realize and typically take the longest to materialize, while cost synergies tend to be more concrete and faster to deliver. Industry context shapes the opportunity considerably: one media acquisition was projected to have synergy capture potential around 5 percent, driven by eliminating duplicate expenses, trimming corporate overhead and cross-selling content, while a large energy sector acquisition targeted synergy capture below 1 percent because the combining businesses had limited operational overlap to begin with.

Six Essentials for Capturing Synergies

BCG's research on post-merger integration outlines six disciplined practices that separate deals delivering real synergies from deals that only promise them.3 Tightly linking due diligence and integration planning matters because the people who estimated the original synergy case should carry direct accountability for delivering it. Making full use of independent clean teams gives the newly combined company a genuine head start on integration work. Adopting stretch targets, while it can feel like motivational theater, keeps a real focus on the efficiency gains a merger is supposed to unlock as volume scales. Rapidly iterating targets as new information arrives keeps the synergy case realistic rather than static. Pursuing revenue synergies as diligently as cost synergies matters precisely because they are harder, with pricing often the most overlooked lever for dropping profit straight to the bottom line. Tracking progress consistently through the integration period matters most of all, echoing management theorist Peter Drucker's well-known principle that what gets measured gets managed.

Timing the Synergy Case Realistically

Boards evaluating a deal should also weight how quickly a promised synergy figure is expected to arrive, not just its final size. A large cost synergy expected in year three carries meaningfully more execution risk than a smaller one expected in month six, since three years gives leadership turnover, market shifts and integration fatigue far more time to derail the plan before it is ever tested against results.

Where Deals Go Wrong Anyway

Even disciplined acquirers occasionally overshoot, promising synergy figures during deal announcement that internal teams privately doubt they can hit. The pressure to justify a high purchase price to shareholders creates a real incentive to inflate the synergy case at exactly the moment, pre-close, when the least verification is possible. The clean-team and tracking disciplines described above exist partly to correct for that incentive after the fact, but the more durable fix happens earlier: building the original synergy estimate from a bottom-up, function-by-function analysis rather than a top-down target set to make the price look justified.

The Bottom Line

Elevated valuations have removed the margin for error that once let acquirers treat synergy estimates as optimistic marketing language. In a market pricing deals at roughly 14 times EBITDA, the gap between a deal that pays for itself and one that destroys value increasingly comes down to whether the promised synergies were ever built to be delivered in the first place.

- 1Mergers and acquisitions
- 2EV/EBITDA
- 3Post-merger integration

Summary

Rising valuations turned synergies from a talking point into the real test of a deal's success. Link diligence to integration, use clean teams, set stretch targets, iterate rapidly, chase revenue synergies as hard as cost ones, and track everything. What gets measured gets managed.