

# M&A Is Not a Coin Flip —If You Manage the Right Risks

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M&A is one of the most important levers for achieving strategic objectives across industries and company sizes. Yet, for many leaders, the odds of success in M&A still feel like a coin flip. Some deals create lasting value. Others destroy billions and tie up leadership for years.

BCG's analysis of nearly 1,300 large public-to-public transactions shows a clearer pattern. (See "About the Study.") The median deal is roughly neutral—it neither creates nor destroys shareholder value. The issue is the tail: a relatively small set of deals drives most of the value destruction. Our analysis points to consistent predictors of significant risk that drive negative outcomes. When companies manage these downside risks and avoid the worst deals, the expected relative return from M&A shifts firmly into positive territory. This means repeatable success in M&A is a capability challenge.

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## — About the Study

BCG analyzed nearly 1,300 global public-to-public transactions from 2000 through 2025 with targets valued at more than \$500 million, including deals that were canceled after announcement. We measured acquirer two-year rTSR beginning one week before announcement through two years after deal close (or cancellation). We labeled deals as having severe downside outcomes if their rTSR fell into the bottom two deciles—the worst 20%.

To identify what influences severe downside outcomes, we screened more than 110 financial and deal variables and applied advanced statistical modeling to isolate the most predictive factors. We then translated the strongest predictors into eight signals to assess (four for acquirer readiness, four for deal complexity), generally using top-quintile or extreme-threshold cutoffs to flag outlier risk.

The best acquirers build institutional capabilities that improve with experience, learning from each transaction and applying those lessons to the next. A critical aspect is understanding where risk concentrates and managing it deliberately. Two dimensions matter most. The first is acquirer readiness: Does the company have the leadership capacity, integration capability, and operating discipline to make the deal work? The second is deal complexity: Is the acquirer paying a high premium, buying a company close to its own size, or committing to synergies that will be hard to deliver?

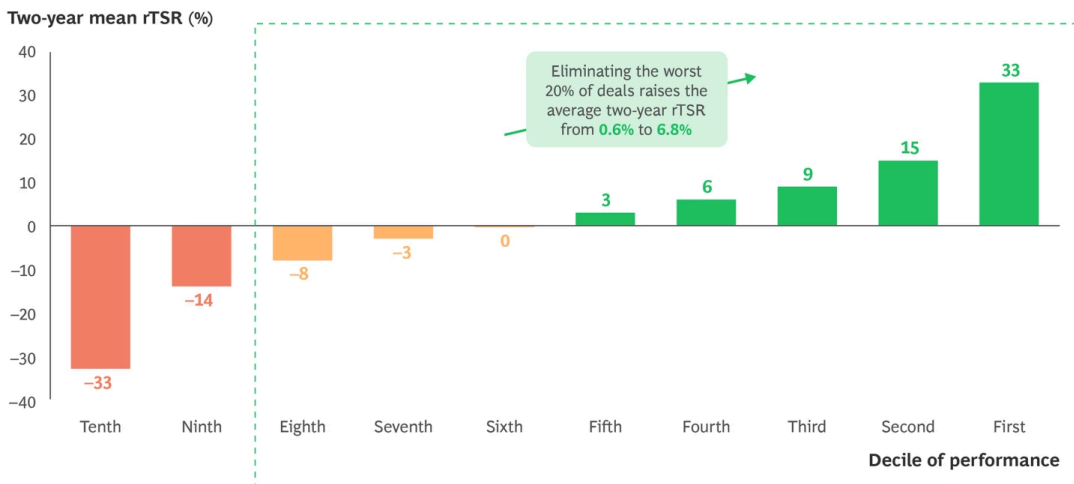
For CEOs, CFOs, and boards of directors, the implication is clear: understand where the risk is highest and prepare for it. Companies that build strong deal capabilities and match ambition with execution discipline consistently do better. For them, M&A stops being a coin flip and becomes a more reliable tool for creating value.

## Value Destruction in M&A: The Bottom 20% of Deals

In BCG's study of large public-to-public transactions, the two-year relative total shareholder return (rTSR) was centered near zero for all deals but ranged from roughly -33% to +33%. (See Exhibit 1.) The real story lies in the wide range of outcomes and the patterns that distinguish successful deals from failed ones.

## EXHIBIT 1

### The Bottom 20% of Deals Drives Most M&A Value Destruction



Sources: S&P Capital IQ; LSEG Data & Analytics; BCG analysis.

Note: rTSR = relative total shareholder return. Data is based on global M&A transactions valued at more than \$500 million from 2000 through 2025, excluding acquirers in the financial services and real estate industries.

The worst 20% of deals account for a disproportionate share of value destruction. These bad deals have erased billions of value in our sample and can often take years to recover, if recovery occurs at all. They also destroy leadership credibility, disrupt core operations, and dissipate investor confidence in ways that extend beyond the initial financial impact.

Across the top 80% of transactions, the picture changes dramatically: the average two-year rTSR rises to approximately 7%—an improvement of roughly 6 percentage points and a level that represents meaningful outperformance. In other words, when companies avoid deals with severe downside, M&A more often contributes to outperformance than to value destruction.

# Two Dimensions That Shape M&A Risk

Our analysis points to two dimensions that consistently shape the probability that a deal has a severe downside outcome:

- **Acquirer Readiness.** Even before a particular deal surfaces, the best acquirers run an industrialized, always-on M&A process, which includes year-to-year financial discipline. This prepares the organization to execute a transaction and integrate it without destabilizing the core business. It encompasses financial resilience, operating stability, leadership bandwidth, strong capabilities to reshape the portfolio, and the presence of a repeatable M&A operating model. Risk tends to rise when financial flexibility is constrained, operating performance is volatile, or leadership capacity is already stretched by other strategic priorities. Organizations undertaking major internal transformations, managing elevated leverage, or lacking institutionalized integration processes have less room to absorb disruption without affecting the base business.
- **Deal Complexity.** This dimension determines the degree of difficulty leaders are signing up for. A high premium, a relatively large target, and aggressive synergy commitments that strain the integration process all contribute to deal complexity. Risk increases when a target approaches a large share of the acquirer’s size, premiums stretch beyond historical norms, earnings effects become extreme, or synergy expectations outpace the acquirer’s track record. In competitive bidding processes, dealmakers cannot always dial down ambition. But leaders can assess whether the scale and structure of a transaction match the organization’s current capacity—and whether the integration plan reflects that reality.

To make these dimensions operational, we distilled more than 110 financial and deal variables into eight diagnostic signals—four for readiness and four for complexity—that most consistently correlate with severe downside outcomes. (See “Signals to Assess M&A Risk.”) The more risk signals that are present, the higher the bad-deal rate observed in the data. (See Exhibit 2.)

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## — Signals to Assess M&A Risk

The following signals are not mechanical approve or reject criteria. They are indicators of where risk is concentrated and where greater conviction, preparation, and follow-through are required.

### Acquirer Readiness

When multiple readiness signals are present, integration strain is more likely to disrupt ongoing operations. In the S&P Composite 1500, we found that 68% of companies encounter a challenge with at least one of these signals, and 16% encounter a challenge in two or more, putting meaningful market value at risk.

**Limited Financial and Operating Scale.** Smaller acquirers can create value, but

they face a basic constraint: they must fund integration, hire the right talent, and run both businesses without overloading management. The practical test is capacity: cash flow headroom, leadership bandwidth, IT and process maturity, and the ability to staff an integration program without pulling top operators out of the core activities.

**Elevated Through-the-Cycle Leverage.** Leverage matters most when it constrains choices. High debt levels can shift value to debtholders, raise financing costs, and make boards reluctant to fund integration and follow-on investments. Measuring leverage on a through-the-cycle basis helps assess whether integration funding will compete with core priorities.

**High Performance Volatility.** Stable operators integrate better. High performance volatility reduces forecasting accuracy and limits tolerance for integration surprises. It also increases the risk that synergies are needed early to justify the transaction economics.

**Lack of a Repeatable M&A Operating Model.** Successful acquirers do not rely on muscle memory. They operate with standing governance, clear decision rights, a reusable integration playbook, and leaders who have delivered integrations before. Without that institutional capability, execution risk rises materially.

## Deal Complexity

These signals help to reflect the degree of difficulty in executing a deal.

**Extreme Earnings Impact.** Highly accretive or deeply dilutive deals often signal aggressive assumptions or financial engineering. Boards of directors should distinguish between the deal's accounting profile and its underlying drivers of value creation.

**Elevated Premium Paid.** Paying a very high premium shifts value to sellers and leaves less room for execution error. In competitive processes, premiums may be unavoidable—but elevated prices demand correspondingly stronger conviction and integration discipline.

**Large Relative Target Size.** As the target's size approaches a significant share of the acquirer's size, integration complexity increases sharply. Governance strain, cultural friction, and operational disruption become more likely.

**High Synergy Load.** Synergy expectations should be ambitious yet credible

relative to the track record. Overstated synergies increase the risk of overpayment and underdelivery after the deal closes.

Among these signals, limited scale, high leverage, and high dilution were most predictive of bad-deal risk. (See the exhibit.)

These signals are not a checklist for approving or rejecting a deal. They are indicators of where risk is concentrated. Each signal that moves into an extreme range increases the likelihood of value destruction—but does not make it inevitable. Many successful transactions exhibit one or more of these risk signals. The difference is that leaders recognize them early and govern them deliberately.

While each signal increases the risk of value-destructive M&A, the interaction between acquirer readiness and deal complexity determines the overall risk profile. Our analysis groups transactions into five zones based on this interaction. (See Exhibit 3.)

Severe downside risk concentrates where readiness is low and deal complexity is high. The strongest outcomes appear when complexity is matched with sufficient organizational capability and capacity. The matrix does not predict outcomes or prescribe go-no-go decisions. Rather, it provides a practical way to assess whether the degree of difficulty in a transaction matches the organization's capacity to execute it—and where additional focus, resources, and discipline will be required.

From a governance perspective, the assessment reduces to two core questions:

- On acquirer readiness: Are we financially and operationally prepared to take on a new business? Stable operating performance, prudent leverage, adequate leadership bench strength, and a repeatable M&A operating model are what “good” tends to look like.
- On deal complexity: Are we choosing a degree of difficulty that matches our capacity—and do we understand what integration requires? Disciplined premiums, manageable target size, credible synergy ambition, and a balanced earnings profile help ensure that ambition is matched by execution capability.

# Two High-Risk Deals with Different Outcomes

Both of the following transactions exhibited several elevated risk signals at signing. One failed, while the other succeeded. The difference was in how the acquirers structured and executed the deals.

**Strong Readiness, but High Complexity and Weak Execution.** A North American distribution company acquired a target to expand its core business and move into downstream ownership. It entered the deal from a position of strength, with meaningful scale, moderate leverage, stable margins, and solid growth momentum. Readiness signals indicated the company could absorb a large acquisition.

However, several complexity risks converged: the target was materially larger than the acquirer, the transaction carried a substantial premium, and subsequent earnings proved volatile. In addition, projected synergies represented an aggressive share of the target's EBITDA relative to the acquirer's historical delivery record.

On the readiness–complexity matrix, the deal had elevated risk: organizational footing was solid, but complexity was high. From the outset, it was clear that the transaction required strong execution.

Upon announcement, shares fell as doubts surfaced about value creation. Over the next two years, management compounded the challenges by disclosing quantified synergies inconsistently—in fewer than half of the eight quarters following the announcement. It also failed to show how much of the reported cost savings translated into net value after customer-retention investments.

Because of the acquirer's inconsistent execution, investors never gained confidence. Two-year rTSR underperformed by 40%. Although there was a brief rebound, performance ultimately fell back below predeal levels.

**Elevated Structural Risk, but Disciplined Design and Strong Execution.** A global hotel company pursued the acquisition of a large hotel brand portfolio amid signals of high structural risk. The acquirer's leverage was elevated, margins had been volatile, and revenue growth had slowed. From a readiness standpoint, the company had limited room for error.

The deal itself added complexity. The target represented a substantial share of the acquirer's revenue base and required integration across brands, loyalty platforms, franchise networks, and centralized systems.

But the company made disciplined choices in structuring the deal. The premium was in line with market benchmarks. Earnings impact remained balanced in the first year after closing. Synergy

targets were ambitious but grounded in a detailed integration plan.

On the acquirer readiness–complexity matrix, the transaction fell into a balanced risk profile. Pressures were real, but they were not concentrated. Ambition was matched to capacity.

The acquirer followed through with strong execution. It realized the planned cost synergies, identified additional revenue opportunities, and achieved cultural alignment within two years. It reinforced this with consistent disclosure—quantifying synergy progress against a defined baseline in nearly every quarter after closing the deal and giving investors visibility into which integration milestones were achieved and the impact on costs.

Investors responded positively. Over the two years following the closing, rTSR outperformed by approximately 20%. By structuring rigorously and executing well, the acquirer overcame the challenges of a high-risk deal.

## The Lessons for High-Risk Deals

The lessons here are less about tactics and more about the importance of timeless discipline. Many of the structural drivers of M&A risk—such as performance volatility, capital structure, and relative size—are not easy to change in the moment. But three choices are within management’s control, and they consistently separate strong outcomes from weak ones.

- **Quantify your ingoing risk level.** Assess both deal complexity and your own readiness as an acquirer before momentum forecloses honest debate. High-risk deals can succeed—but only if leaders recognize the level of difficulty early and govern accordingly.
- **Ground the effort with an explicit investment thesis.** Be specific about why a particular deal matters and why now. The rationale should link directly to the enterprise strategy—and not depend on optimistic assumptions.
- **Stay disciplined on shareholder value creation.** Understand the value creation thesis clearly and announce the size of the opportunity. Avoid overpaying for the synergies you intend to capture. Ensure that your teams follow through over the years it takes to deliver synergies.

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Severe value destruction in M&A occurs when risk signals are concentrated and not actively managed. Companies that recognize these conditions early and govern them deliberately outperform, deal after deal. They match ambition to capacity, address structural pressure upfront,

and sustain disciplined execution where it matters most. M&A will never be risk-free, but it can become a more reliable engine of value creation.

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