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Shareholder Wealth Effects of European Domestic and Cross-border Takeover Bids

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Abstract

This paper analyses the short-term wealth effects of large intra-European takeover bids. We find announcement effects of 9% for the target firms compared to a statistically significant announcement effect of only 0.7% for the bidders. The type of takeover bid has a large impact on the short-term wealth effects with hostile takeovers triggering substantially larger price reactions than friendly operations. When a UK firm is involved, the abnormal returns are higher than those of bids involving both a Continental European target and bidder. There is strong evidence that the means of payment in an offer has an impact on the share price. A high market-to-book ratio of the target leads to a higher bid premium, but triggers a negative price reaction for the bidding firm. We also investigate whether the predominant reason for takeovers is synergies, agency problems or managerial hubris. Our results suggest that synergies are the prime motivation for bids and that targets and bidders share the wealth gains.

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