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Volume 14, 2004 - [Issue 5](#)

2,874 80

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# The performance of UK firms acquiring large cross-border and domestic takeover targets

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Pages 337-349 | Published online: 02 Feb 2007

🗨️ Cite this article   🔗 <https://doi.org/10.1080/0960310042000211605>

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## Abstract

This paper focuses upon cross-border acquisitions. A three-way comparison is made between the post-takeover performance of UK acquirers of domestic UK, US, and Continental European targets between 1991 and 1996. This study examines if UK firms acquiring large takeover targets experience cumulative abnormal returns significantly different from zero up to two years after the acquisition. This study finds that UK firms acquiring large takeover targets experience negative cumulative abnormal returns over the period examined, at various significance levels. Furthermore, the study finds that the post-takeover performance of UK firms acquiring UK targets is superior to that of UK firms acquiring US targets. In turn, the performance of UK firms acquiring US targets is better than that of UK firms acquiring Continental European targets. If this trend continues, the consequences for institutional investors and pension funds, which respond to a major takeover by increasing their holdings in the acquirer, could be

serious. The shares they are buying are the very companies we show to be underperforming. And the particularly poor performance of UK companies acquiring in Europe suggests that this anomaly may become even more significant as European cross-border activity gathers pace.

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## Notes

<sup>1</sup> The Rosters are extracted quarterly from the Securities Data Company Merger & Corporate Transactions Database, a computer-accessible data bank of M&A activity from 1981 to present (from Rosters, Mergers & Acquisitions).

<sup>2</sup> The 50% figure was selected so as to eliminate companies that were only acquiring an interest in the target company.

<sup>3</sup> It is acknowledged that the threshold set is somewhat arbitrary, but it is considered that this would filter the large acquisitions desired for this study.

<sup>4</sup> See Appendix A for final sample list.

<sup>5</sup> See Appendix B for a list of company's that have changed names.

<sup>6</sup> The estimation period is the period over which the parameters of the model,  $\alpha$  and  $\beta$ , used to estimate expected returns, is calculated.

<sup>7</sup> Conn and Connell ([1990](#)), Mathur et al. ([1994](#)) and Cakici et al. ([1996](#)) all use pre-event estimation periods.

<sup>8</sup> Conn and Connell ([1990](#)).

<sup>9</sup>  $t - 48$  would mean 48 months prior to the month of the announcement of the acquisition.

<sup>10</sup> Conn and Connell ([1990](#)).

<sup>11</sup> Logarithmic returns are used as they are more likely to be normally distributed (compared to discrete non-logarithmic returns) and so conform to the assumptions of standard statistical techniques (Strong, [1992](#)).

- <sup>12</sup> Arithmetic averaging implies rebalancing to equal weights each period (Blume and Stambaugh, [1983](#)).
- <sup>13</sup> See Brown and Warner ([1980](#)).
- <sup>14</sup> See [tables 4](#) and [5](#) for significance level.
- <sup>15</sup> Firth ([1979](#)), using the MM, found significant abnormal losses of around  $-8.2\%$  in the 12 month post-bid period on a UK sample.
- <sup>16</sup> However, their base date is the date at which the bidder has enough shares to guarantee control of the target.
- <sup>17</sup> The results are consistent with Conn and Connell ([1990](#)), when comparing their results calculated using parameters estimated on a similar pre-announcement period. However, Conn and Connell ([1990](#)) also used different estimation periods for the calculation of the parameters, which led to different results.
- <sup>18</sup> Where  $t$  is the announcement month of the bid.
- <sup>19</sup> Although they too experienced negative CARs.
- <sup>20</sup> Although a possible explanation may be that their sample period of 1975–1990, focusing on UK M&A activity, was a considerably longer period than ours.
- <sup>21</sup> See O'Connor and Bueso ([1990](#)).
- <sup>22</sup> The fact that bidders of US targets perform better than bidders of Continental European targets suggest that it could be possible that the investor environment feels more optimistic about the financial reporting and information disclosure environment in the US compared to Continental Europe, since the US has arguably more stringent guidelines on information disclosure.

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