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

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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 peri... finds that the post... to that of UK firms ac... S targets is bette... rend conti... which respond... uld be serious. ... underpe... cquiring in

Europe suggests that this anomaly may become even more significant as European cross-border activity gathers pace.

Notes

[1] 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).

[2] The 50% figure was selected so as to eliminate companies that were only acquiring an interest in the target company.

[3] 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.

[4] See Appendix A for final sample list.

[5] See Appendix B for a list of company's that have changed names.

[6] The estimation period is the period over which the parameters of the model, α and β, used to estimate expected returns, is calculated.

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

[8] Conn and Connell (1990).

[9] $t - 48$ would mean 48 months prior to the month of the announcement of the acquisiti [illegible]

[10] Conn [illegible]

[11] Log [illegible] buted (com [illegible] mptions of standar [illegible]

[12] Arithm [illegible] lume and Stambau [illegible]).

[13] See Brown and Warner (1980).

[14] See tables 4 and 5 for significance level.

[15] Firth (1979), using the MM, found significant abnormal losses of around −8.2% in the 12 month post-bid period on a UK sample.

[16] However, their base date is the date at which the bidder has enough shares to guarantee control of the target.

[17] 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.

[18] Where t is the announcement month of the bid.

[19] Although they too experienced negative CARs.

[20] 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.

[21] See O'Connor and Bueso (1990).

[22] 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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