



Applied Economics Letters >

Volume 11, 2004 - [Issue 12](#)

1,113 21

Views | CrossRef citations to date | Altmetric

0

Original Articles

The price of corporate acquisition: determinants of cash takeover premia

Vijay B. Gondhalekar, R. Raymond Sant & Stephen P. Ferris *

Pages 735-739 | Published online: 16 Aug 2006

🗨️ Cite this article 🔗 <https://doi.org/10.1080/1350485042000254601>

Sample our
Economics, Finance,
Business & Industry Journals
>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

📄 Full Article

🖼️ Figures & data

📖 References

🗨️ Citations

📊 Metrics

🖨️ Reprints & Permissions

Read this article

🔗 Share

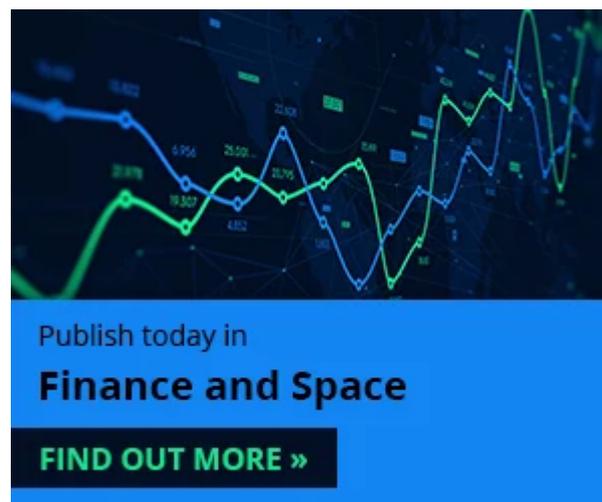
Abstract

A sample of cash-only acquisitions of Nasdaq targets during 1973–1999 is examined. It is found that the mean (median) percentage premia declines from 74% (65%) during the 1970s to 47% (42%) in the 1990s. Consistent with recent research on the value reduction associated with diversification, it is observed that acquirers generally will not pay higher prices to acquire firms operating in different industries. It is found that over-invested firms pursue acquisitions more aggressively by paying higher premia while under-invested firms pay less, on average. Finally, the evidence suggests that agency rather than synergistic or hubris effects influence the level of merger premia.

Notes

It might be that acquirers sell securities in the capital market in an effort to raise a 'war chest' that they would use in the future to make acquisitions. But in such cases, the capital and equity issuance effects would be captured immediately at the time of the new security issuance. They would not impact the determination of the premium to be paid for the acquisition.

The size of premia paid in a merger based on the free cash flow and market-to-book characteristics of the target is also examined. The impact that the target's level of over or under investment might have on the price that acquirers are willing to pay is examined. It is found that acquirers are more aggressive in their bidding for targets that are over-invested rather than under-invested. This suggests that acquirers are more interested in the cash flow of a target than its internal investment opportunities. The difference in the mean (median) premium paid for over-invested relative to under-invested targets is statistically significant at the 10% level.



Related research

People also read

Recommended articles

Cited by
21

Information for

[Authors](#)

[R&D professionals](#)

[Editors](#)

[Librarians](#)

[Societies](#)

Opportunities

[Reprints and e-prints](#)

[Advertising solutions](#)

[Accelerated publication](#)

[Corporate access solutions](#)

Open access

[Overview](#)

[Open journals](#)

[Open Select](#)

[Dove Medical Press](#)

[F1000Research](#)

Help and information

[Help and contact](#)

[Newsroom](#)

[All journals](#)

[Books](#)

Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2026 Informa UK Limited [Privacy policy](#)

[Cookies](#) [Terms & conditions](#) [Accessibility](#)

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG

 Taylor and Francis
Group