Home ▶ All Journals ▶ The European Journal of Finance ▶ List of Issues ▶ Volume 18, Issue 8

The European Journal of Finance > Volume 18, 2012 - Issue 8

► How have M&As changed? Evidence from the

6.550 78

CrossRef citations to date Altmetric

Original Articles

How have M&As changed? Evidence from the sixth merger wave

George Alexandridis, Christos F. Mavrovitis 🔀 & Nickolaos G. Travlos

Pages 663-688 | Received 26 Nov 2010, Accepted 27 Sep 2011, Published online: 17 Nov 2011

66 Cite this article ▶ https://doi.org/10.1080/1351847X.2011.628401



Full Article

Figures & data

References

66 Citations

Metrics

➡ Reprints & Permissions

Read this article

Abstract

We examine the characteristics of the sixth merger wave that started in 2003 and came to an end approximately in late 2007. The drivers of this wave lie primarily in the availability of abundant liquidity, in line with neoclassical explanations of merger waves. Acquirers were less overvalued relative to targets, and merger proposals comprised higher cash elements. Moreover, the market for corporate control was less

competiti

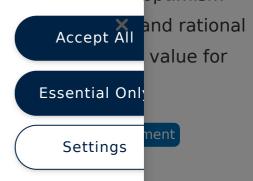
and offe

acquisit



About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy



Acknowledgements

We are grateful to the editor (Chris Adcock) and two anonymous referees for their insightful comments and suggestions. We also thank Juan Arismendi, Jan Bena, Christos Cabolis, Ching-Chieh Chang, Alan Gregory, Oliver Levine, Carol Padgett, Bruce Rosser, Tanja Steigner, Lars Terhaar and participants at the 2011 Financial Management Association European Conference, the 2011 European Financial Management Association Conference, the 2011 Northern Finance Association Conference and the 2011 Financial Management Association Annual Meeting. Part of this project was conducted while George Alexandridis and Christos F. Mavrovitis were at Durham University. Travlos acknowledges the Kitty Kyriacopoulos Chair in Finance for the financial support received. All errors are our own.

Notes

Data are from Bob Shiller's web site (www.irrationalexuberance.com/index.htm).

Rhodes-Kropf, Robinson, and Viswanathan (2005) and Dong et al. (2006) found that acquirers were more overvalued than targets in the 1980s and 1990s.

Shleifer and Vishny (1991) reported that acquisitions during the fourth merger wave were more frequently financed with cash. Andrade, Mitchell, and Stafford (2001) found that the fraction of cash-financed deals during the 1980s was about 45%. Availability of liquidity is cited among the drivers of the fourth merger cycle that also include relaxation of regulatory restrictions that led to an increase in hostile deals and bust-up takeovers as well as a plethora of LBOs.

Officer (2003) reported that acquirers paid, on average, premiums of 55% in public

acquisiti About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

Accept All
(up to
Essential Onlshareholders

Settings

A month

The unre

Along th

2006)

(Dob

average market P/E over the past 5 years.

We modify the five-industry classification from Kenneth French's website (Consumer, Manufacturing, HiTec, Healthcare, Other) by adding an additional category of 'Financials' (SIC codes 6000–6999), which was originally included within 'Other'.

However, where appropriate, we also examine in unreported tests whether our results are similar for deals by private acquirers or where the target is unlisted and find consistent patterns in most of the cases.

Including clustered acquisitions, however, does not materially affect our results.

Market value of assets is the book value of total assets minus the book value of common equity plus the market value of common equity. Alternatively, Tobin's Q can proxy for growth opportunities (Lang, Stulz, and Walkling 1989; Malmendier and Tate 2008) and management effectiveness (Lang, Stulz, and Walkling 1989; Servaes 1991). Nonetheless, results are similar when we use the market-to-book ratio instead of Tobin's Q.

This could potentially imply less scope for value creation through M&As during the sixth merger wave.

Using sales-adjusted cash reserves produces similar results.

A similar measure was used by Alexandridis et al. (2010) to proxy for competition at the country level. A more extensive sample is used for the construction of the competition measure that is based on the number of all listed firms acquired irrespective of the acquiring firm's public status. Using a measure based only on public acquisitions produces similar results.

Our results are similar when using a 5-year window as in Billett and Qian (2008) or other alternative specifications, such as 3- or 4-year windows.

Executiv

filings.

For rovolute results r

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Onl

15)

Settings

re, and our

bles, they

Although .

are always very similar to using the mist measure.

Acquisition premium differentials are also statistically significant for all payment methods.

Alternatively, using a market-adjusted model where $\alpha=0$ and $\beta=1$ does not materially affect our results.

The minimum estimation window is set to 30 days. Equally weighted benchmark returns or alternative estimation windows produce very similar results.

Fama and French group financials (SIC codes 6000–6999) in the 'Other' sector subset that also includes firms in the mining, construction, construction material, transportation, hotel, business service and entertainment sectors. We also partition targets based on 12 and 17 industries according to Fama and French but do not report the results as the number of observations is particularly low for several period–sector subsets and this impacts statistical significance. It appears, however, that premiums during the sixth merger wave are still lower for 11 out of 12 cases and 14 out of 17 cases, respectively. In addition, premium differentials between the two merger wave periods remain similar in terms of both direction and significance when we exclude high-tech firms.

This requires that the expected synergy gains from acquisitions are comparable.

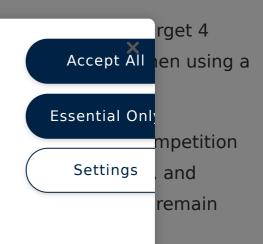
See, for example, Firth (1980), Asquith (1983), Jensen and Ruback (1983), and Travlos (1987), Andrade, Mitchell, and Stafford (2001), Fuller, Netter, and Stegemoller (2002), Moeller, Schlingemann, and Stulz (2004), and Faccio, McConnell, and Stolin (2006). In unreported results, we also establish that acquirer returns are also not statistically different between the two merger waves for deals where the target is unlisted.

The median abnormal return for the winner (loser) subset is 2.6% (-3.6%).

Premium weeks p premium We h varia Walkling similar t

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy



The results remain similar when we use a 5-, 11-, or 21-day CAR window.

In unreported results, we have also compared (non-)large loss deals across different methods of payment and a 21-day event horizon, and the results remain similar.

Due to the fact that the 36-month holding period could be biased by events that are affected by the financial crisis, we also performed tests using 12-month event window and the results remain similar. In addition, we exclude acquirers that are involved in more than one acquisition during the event window (for both 36-month and 12-month holding periods) and rerun the tests. The direction and significance of the results remain similar.

We do not compute CTAR differences as these involve regressing monthly return differences on the four factors. However, there are no common months between the periods compared here.



About Cookies On This Site



We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings

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 © 2024 Informa UK Limited Privacy policy Cookies Terms & conditions

Taylor & Francis Group an informa business

Accessibility

Registered in England & Wales No. 3099067 5 Howick Place | London | SW1P 1WG

About Cookies On This Site



We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy



Essential Onl

Settings