M and A

- Motives for M and A
- Value-creation?
- Probability of takeover
- Who gains? Bidder or target shareholders?

New Evidence on M and A: Andrade et al 2001

- Event studies: => M and A create Value in short-run
- Most gains go to target
- “Target firm shareholders are clearly winners in merger transactions”
- Long-run: gains reversed

New Evidence on M and A: Andrade et al 2001 (continued)

- M and A tends to go in waves
- Clusters by industry, and responds to a shock
- Deregulation

M and A: a financial economics perspective: Kaplan 2006

- Evaluates merger success
- Considers evidence on returns
- Sources of gains and losses
- Factors that drive merger success

M and A: a financial economics perspective: Kaplan 2006 continued

- Change in company’s value at time of announcement of merger (over 3 to 11 days)
- This measures market ***expectation*** of change in value from merger
- Do we look at change in combined value? Change in target value? Change in bidder value?

M and A: a financial economics perspective: Kaplan 2006 continued

- Change in value at the M and A announcement is the sum of:
- Market’s estimation of the synergies
- Market’s re-evaluation of the bidder and target stand-alone value.
- Acquisition announcement returns are informative about the subsequent success of the acquisition.

M and A, multiple acquisitions, and public or private firms: Fuller et al 2001

- Authors examine firms that acquire public and private targets
- Multiple acquisitions during massive merger wave of the 1990s
- Isolate market’s perception of the transaction
- Division of gains between bidder and target depends on type of target
- Public firm => target firms gain
- Private Firm => bidding firms gain

Managerial Overconfidence and gains to M and A

- Behavioural Corporate Finance => widespread managerial overconfidence!
- Effects on M and A?
- Malmendier et al (2003)
- Doukas and Petmezas
- Liu and Taffler (2008)
- Croci et al (2010)

M and A with overconfidence

- Roll (1986): hubris hypothesis
- Malmendier and Tate 2003: CEOs overestimate their ability to generate returns, both in current firm and in potential target: market reacts negatively to such bids.
- Interestingly, in their model, they include a case with multiple bidders.
- Croci et al: High and low market valuation periods
- Non-OC mgrs conduct value-creating M and A in all periods
- OC managers fare rather badly!
- Doukas et al: self-attribution bias:
- OC bidders realise lower announcement returns
- OC bidders make more acquisitions.

CEO overconfidence and M and A: Liu and Taffler 2008

- Interestingly, first to look at Overconfidence of bidder AND target!
- OC CEOs more likely to conduct mergers than rational CEOs.
- CEO overconfidence has negative impact on both short-term and long-term M and A returns.
- True for both bidder AND target CEO overconfidence!

Anti-takeover provisions and returns (Sokolyk 2011)

- Analyses effect of ATPs on takeover probability and returns.
- G-index (24 provisions) proxies for takeover protection
- Different provisions have different strengths and different effects
- Eg: ATPs that require shareholder approval less harmful to shareholders
- Powerful and weak defences
- Opposing effects of ATPs
- Staggered boards and poison pills => negative effects on target's risk of being acquired
- Compensation plans and golden parachutes => increases takeover probability
- Effects of these ATPs on bid premium and division of gains?

Summary

- Most of the gains go to the target, due to:
- Market expectations (EMH)
- Target defensive mechanisms (ATPs)
- Defensive use of Capital structure: take-over threats and leverage-increases (Garvey and Hanka)
- Free-rider problem (Grossman and Hart)
- Multiple bidders
- Hubris/overconfidence