

Shareholders' Value Creation and Destruction: The Stock Prices' Effects of Merger Announcement

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Ognjenka Zrilic
200520910

Academic Advisor
Prof. Yasuo Hoshino

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株主価値の創造と破壊：
合併アナウンスメントの株価への効果

ABSTRACT

This study investigates the relative importance of different sources of value gains and losses for Japanese acquirers in the post-bubble period. Based on the event study approach, we find an average 1.19% cumulative abnormal return in 3 days surrounding the merger announcement. We empirically test value creation, buying growth, hubris and rescue merger hypotheses on the sample of 62 Japanese domestic mergers with announcement in period 1993 to 2005. Our findings suggest that value is advanced in mergers when one party has higher liquidity while the other has higher growth, due to ability of liquid party to finance partner with growth prospect. Further on, acquiring target with higher financial leverage is favorably perceived by market at announcement. Thus, differences in financial resources allocation pattern may provide a source of value gain. Our results do not confirm negative effect of buying growth. Moreover, mergers with fast-growing target are value enhancing when acquirer has prior ownership in target. Consistent with hubris hypothesis by Roll (1986), announcement returns are adversely related to prior acquirer's operating performance implying that well-performing acquirers possibly overestimate the value of particular deal and overpay target. In contrast with Kang et al. (2000), rescue mergers as evaluated through target's past industry adjusted performance are not value destroying. Announcement returns are significantly positive for mergers announced after 1998, indicating that recent deregulation of financial markets resulted in improvement of conditions for merger activity.

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