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Changing Share Price after Announcement of the Merger and Acquisitions by Acquiring Firms Is Significant or Insignificant?

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Abstract

This paper scrutinizes a model of merger and acquisition declaration of different companies in United Kingdom (Home Takeover) region and also other countries (Cross-Border Takeover) during the time period of 01 January 2019 to 30 June 2022 and finally displays the consequence of 50 Home takeover companies (UK companies acquired UK companies) and 50 cross-border companies (UK companies take over foreign companies) to recognize the post effect of merger and acquisition declaration on the stock prices of the target and acquired firms. Event Study Methodology has been used for this study, like, Average Abnormal Returns (AAR) and Cumulative Average Abnormal Returns (CAAR) are used to analyze the different event windows about the stock prices of the target and acquired firms. A paired sample investigation has also been directed by associating the pre- and post-announcement returns on stock prices for the event window of ±5 days of the target and acquired firms. In the event windows, the stock price of the target firm's all is not positive CAAR but pointedly dissimilar from zero. In the home takeover figures, all the AAR and CAAR are not significant and some negative returns after the post-declaration prove about the primary investor's overreaction and efficient market hypothesis (EMH). There is no presence of positive implication in the cross-border pre-event return but only a positive implication returns in the home takeover pre-event return that is also significant at the 10% level.

Keywords

Merger & Acquisition, Event Study, Home Takeover, Cross Border Takeover, Abnormal Returns, Cumulative Abnormal Returns (CAAR)

1. Introduction

The merger is very common topics in the finance that is the most researched, where still some elementary issues are mysterious and not cleared yet. Most of the empirical research had done on the daily stock yields nearby the declaration dates where a few studies were fixated on the long run effect after merger performance of acquiring firms. Both Academicians and researchers have growing consideration for international mergers and acquisitions. The financial services industry also has practiced a wide period of restructuring and merging with the augmented tendency in the direction of cross-border takeovers. The inspirations for these comprise the presence of economic motives for the reshuffle, an intensification in the wide-ranging economic incorporation and capacity of trade crosswise state boundaries, deviations in acts, and attendance of a relaxed financing atmosphere. Two companies are amalgamated after the merger and acquisition to accomplish premeditated and professional purposes which are of great importance to both companies as well as many other stakeholders together with competitors, societies, workforces, and the total economy (Sudarsanam & Sorwar, 2010). Due to involvement with the different companies of the different part of the world can bring more success for the firms with the diversity of risks, together with financial risks, political risks, and economic risks among others. Universal competitiveness of the business gives some benefits initiated for globalization through economies of scale and scope. In the period of 1980's many takeovers were happened and a huge extent of cross-border acquisitions into the United Kingdom. In that time most of the shareholders of UK target companies achieved from the cross-border acquisitions and which is examined with the achieved connected with UK domestic acquisitions. If the companies are not segmented intercontinentally and systematically dissimilar to the domestic and cross-border acquisitions then there is no way to assume of abnormal returns to target companies (Fatemi & Furtado, 1988; Franks et al., 1991). Some conclusions we may make about these companies experience pointedly undesirable abnormal returns for more than 3 years after the merger (for instance, Langetieg 1978; Asquith et al., 1983; Magenheim & Mueller, 1988). The United Kingdom is the most popular country among all the European countries to Chinese companies to do business as the easiest most important economy. As a result, UK was in first place in 2014 among the top ten European target countries followed by France and Germany for cross-border merger and acquisition according to agreement worth (Zhu & Moeller, 2016). It was conveyed that in the period of January 2019 to June 2022 almost 91 Chinese companies invest as cross-border merger and acquisition in the UK, which also demonstrations a noteworthy uphill trend for the last few years (Zhu & Moeller, 2016). The deal worth is also notable, combined at more than $35 billion. A study which is not published by Grisons Peak L LP for the European Commission observed at inward bound European agreement movement from China from January 14 to December 15 and revealed that the UK had the maximum contract capacity amongst all European

countries and ranked second behind Italy on agreement worth (André, Ben-Amar, & Saadi, 2014).

Event study method used for this paper to scrutinize the influence after the merger and acquisition declarations, unambiguously, this paper used 50 home-takeover and 50 cross-border takeover companies' share prices acquired by the UK from January 2019 to June 2022 which is London Stock Exchange (LSE) recorded companies.

2. Literature Review

Usually, takeover takes places under merger and acquisition due to the corporate development approach for the last few years where most of the companies' shareholders profited that take on them. Moreover, by doing merger and acquisitions most of the companies and shareholders are benefited and growths, market influences, market stake, cost of capital minimizing, economies of scale and assuages, terminated trade expenses, others forthcoming aids (Ma, Zhang, & Chowdhury, 2011). On the other hand, in some cases mergers can make some negative effects on the companies for instances, it may decrease shareholders value and business may face operating problem and manager can overestimate the value of the two companies between targets and acquirers and for this reason target company may get extra money from acquirer firms (Roll, 1986).

The merger is a deal and it only happens when two companies come in a pleasant verdict to make their company combined. In merging process, one company dominates the other company when they make the transaction (Fred Weston, 2001). When one company takeover other company's operations then it is called acquisitions where the acquirer company occupied the target company.

To inspect the impression or influence of merger and acquisition on shareholders affluence, most of the researchers used the event study method (e.g., Frame & Lastrapes, 1998; Houston, James, & Ryngaert, 2001). This empirical research found that target firms shareholders get substantial positive abnormal returns and negative abnormal returns were achieved by acquiring companies' shareholders from mergers. Some phenomena of Merger and acquisition in 14 European Countries scrutinized by the Cybo-Ottone and Murgia (2000) and found that both parties in M&A generate positive yields for instances: both target and acquirer firm win or do not lose.

The terms "mergers" and "acquisitions" are frequently castoff interchangeably meanwhile the net outcome is habitually alike: two firms (or more) that had discrete proprietorship is now functioning under the similar roof, to gain some policies (Sherman & Hart, 2006). Academics commonly split M&A into two sorts, including two corporations with identical nations is the Home takeover and a firm obtains another firm from a diverse country is the cross-border takeover (Salminen-Tuomaala et al., 2017). Usually, companies have many motives behind to involve in merger and acquisition, these are: Augmented of Growth and market supremacy, obtaining collaboration and new clients, accessing of intangible resources (Duksaitė & Tamošiūnienė, 2009).

3. Event Study

Usually, in the business research event studies are extensively used. Inspections the consequence of an event on an explicit non-independent variable which is premeditated is called the event study technique. Most of the time, the stock price of the firm is main non-independent variable in recent event studies (McWilliams & Siegel, 1997). In this paper, the stock price is used as a dependent variable whether that is changing the price after merger and acquisition announcement date (Abnormal returns) for the defined period. An analysis of fluctuations in stock value beyond the anticipation (Abnormal Returns) for a certain period (event window) is the event study's characterization. The main thing of event study method is to regulate either the stock price return is abnormal and consequence accompanying with an event or not (Magenheim & Mueller, 1988). To conduct an event study some procedures are involved these are, proof of identity of event-interest, estimation of abnormal stock yields linking with the event and evaluation the consequence of the event.

The Inevitability of the event study increasing day by day because of its assessment directly hit to the company's strategies. Based on some assumptions the empirical study usually directed. Some of these are: at first, according to the market efficiency hypothesis event influence is displayed immediately by the stock price reflection and market response of the event can be examined by the outcomes of the stock for a certain time period. After that, if the event is unanticipated then the abnormal (surplus) stock outcomes direct the market response to the unexpected event. Finally, throughout the event window, no perplexing impacts of the event express the other effects of any other event is out-of-the-way.

4. Empirical Evidence

To observe the influence on the stock value after the declaration of the acquiring company's, many empirical workings had directed. Some of the results from them we understand and most of the event studies were short-term and provide us a diverse consequence. Many examinations or research were conducted about the features that stimulate to gain wealth in the merger of the international context. (e.g., Kiymaz, 2009; Markides & Ittner, 1994; Kiymaz & Mukherjee, 2000; Harris & Ravenscraft, 1991; Cakici, Hessel, & Tandon, 1996). By doing research by Mateev & Andonov (2016) concluded that stock performance found differences between Home-takeover and cross-border takeovers by European acquirers and found that the higher Abnormal Return achieved by the domestic buyers compare to the cross-border buyers. In proportion to extremely positive abnormal return (AR) founded after a three-day event window inquiry by Moeller et al. (2004) and also positive Cumulative Abnormal Return (CAR) founded in different three-daily event window, studies again by André, Ben-Amar, & Saadi (2014). In opposite, deals of the merger and acquisition for creating the value a research had done by Asimakopoulos & Athanasoglou (2013) and found that

adverse earnings for acquiring stockholders but non-substantial Abnormal Return from merger agreements. Some other research gets the inconsequential non-positive returns studied by Andrade et al., (2001) and Sudarsanam & Mahate (2006). Anticipated data availability and event periods dimension for defining the frequency of yields should be well-thought-out for the event study scheming. Additionally, many positive and negative mixed result found in the different study (Ayoush, 2011) and found that inconsequential adverse returns come out in cross-border merger and acquisition compare to the domestic merger and acquisition which get positive abnormal returns (AR) when the United Kingdom is the acquirer.

Furthermore, many analyses had also run for the short-term effects of the inter European takeover pricing and founded the unalike results based on payment procedure or condition, financial situation, institutional variances and bid position (Goergen & Renneboog, 2004). Many studies also showed that on the basis of the event window result may be changed and not similar. Similarly, Result of the CAAR may be different in different event window, i.e. result of the pre-event phase, event phase and the post-event phase show the different outcomes (Lau, Liao, Wong, & Chiu, 2012). They also prove that the result of the share price of the companies before and after the announcement of the merger and acquisition may be changed because of some criteria's, these are—leak of the internal information of the company, profit variance of the company, and in which price company is going to be acquired, are the main influence for changing the market expectations (Lau, Liao, Wong, & Chiu, 2012).

5. Hypothesis Development

Hypothesis creates for the further investigation after reviewing the effects of the merger and acquisitions declarations. These are:

Null Hypothesis:

H_0a: $\beta_0a = 0$ ≥ since it is home takeover then abnormal return is not significant after merger and acquisition announcement.

H_0b: $\beta_0b = 0$ ≥ since it is cross-border takeover then abnormal return is not significant after merger and acquisition announcement.

Alternative Hypothesis:

H_1a: $\beta_1a \neq 0$ ≥ since it is home takeover then abnormal return is significant after merger and acquisition announcement.

H_1b: $\beta_1b \neq 0$ ≥ since it is cross-border takeover then abnormal return is significant after merger and acquisition announcement.

6. Data Selection

6.1. Source

This study uses THOMSON ONE BANKER for collecting the data for data analyzing for home takeover and cross-border takeover. Two main part of data analysis was "Deals analysis" and another one was "Indices" to collect data from

Thomson One Banker. From Deals Analysis menu the elaborate evidence about the merger and acquisition declaration dates globally has achieved and indices delivers market value index, FTSE share index and individual share information about the individual company. All information collected from Thomson one banker is highly focused on merger and acquisition declaration date and the acquired firm's everyday share value which are listed on the London Stock Exchange (LSE) and the market price of the share are called FTSE All-share index.

6.2. Sample Selection

Making the selection standards is very important after the event identification (Mackinlay, 1997). This research paper conducted the research based on the 100 observations of merger and acquisition declaration, in which consists of 50 home takeover observations and 50 cross-border takeover observations. These data randomly selected on some restrictions. At first, the merger and acquisition of some companies declared from 01 June 2015 to 30 June 2017 and then only the public company (Acquirer) of the UK which is listed on London Stock Exchange. Finally, the acquired firm should be occupied 100% share of the company and acquiring the status of the company should be completed.

6.3. Event Date

The event date is very important to analyze the event study. Any abnormal share value before the announcement date means the leakage the internal information of the company to the outside (Weston, 1983). The actual event date should be considered in which day the company finally done its merger and acquisition based on the market efficiency (Yagil, 1996). So, we finally accepted the merger and acquisition date as an event date.

7. Methodology

Efficient Market is the main fundamental assumption or hypothesis for the event study. Efficient market hypothesis describes that the share price of the companies changed and quickly adjust with the new information. In the event study, the most common data stream is the daily and monthly data stream Mackinlay (1997), where daily data are more influential compare to the monthly data for the null hypothesis to be rejected. Moreover, for analyzing the data an approach should be designed after assembling all the samples. The design is given below:

7.1. Logarithm Return Calculation

Another important supposition is to use the normally distributed data. It is well known to all that arithmetic returns are the normally distributed and researchers usually use the lognormal model which is normally distributed in logarithmic returns (Wacek, 2014). The logarithmic model can be described from the statistical viewpoint which has an ordinary economic explanation. The logarithmic returns are considered by taking variances of logarithms of regular ending price

and the formula is:

$$R_t = \ln\left(\frac{P_t}{P_{t-1}}\right)$$

Here,

R_t = return at the time t ln = Natural logarithm.

P_t and P_{t-1} = price at time t and $t-1$ (Anderson & Brooks, 2014).

Expected return calculation

Variance between the actual return and expected return is called the abnormal return (Shah & Arora, 2014). In this paper market model method is used to calculate the expected return. Stock returns and market returns are linearly related in this model (Black, Fields, & Schweitzer, 1996). Linear relationship in which market reflects is as follows:

$$R_{it} = \alpha_i + \beta_i R_{tm} + \varepsilon_{it}$$
$$\varepsilon_{it} \sim N\left(0, \sigma^2_{\varepsilon,i}\right)$$

Here:

R_t = on the day t, the daily real return of company i R_{mt} = on the day t, market index return.

α_j = intercept term.

β_j = systematic risk of stock i (slope coefficient).

ε_{it} = error term of stock i on day t which is E (ε_{it}) equal to zero (McWilliams & Siegel, 1997).

7.2. Calculation the Abnormal Return (AR) and Average Abnormal Return (AAR)

Analyzing and discussing the abnormal returns is considered in this segment. This framework is also called the normal performance return model as because of this model is formed helping with the market model (Mateev & Andonov, 2016). Subtracting between normal return and the ex-post return of an individual company for a certain window period is called the actual abnormal return. The event taking place is not the condition for defining the expected return by the normal return (MacKinlay, 1997). To determine the expected return parameters of the market model are attained and cast-off in the actual event period. To calculate the abnormal return (AR_{it}) in the event window by subtracting actual return R_{it}, accompanying with an expected return (Frame & Lastrapes, 1998), so now the first equation will be:

$$AR_{it} = R_{it} - E\left(R_{it}\right)$$

Estimation of α_i, β_i, which is the intercept and slope separately estimated by the model parameters, executed for regression of ordinary least squares (OLS) for the everyday stock price in the estimation period. For any of the given security i the model of the market will be:

$$R_{it} = \left(\alpha_i + \beta_i R_{mt}\right) + {}_{it}$$

Here,

AR_{it} = abnormal return of stock i at the day t R_{it} =security return of i on day t.

R_{mt} = market return portfolio for the period t.

$_{it}$ = Disturbance term of Zero mean.

α_i and β_i = market model parameter.

Finally, it can be represented as:

$$AR_{it} = R_{it}\left(\alpha_i + \beta_i R_{mt}\right) = R_{it} E\left(R_{it}\right)$$

For all observations, average abnormal returns (AAR) is accomplished by combining on day t divided by the total number of observations (N) with the lower formula:

$$AAR_t = \frac{1}{N_t}\sum_{i=1}^{N} AR_{it}$$

7.3. Calculate the Cumulative Abnormal Return (CAR) and CAAR

The aim of the cumulative abnormal return (CAR) is to calculate the overall conclusion of abnormal return over the event window for the study purpose (MacKinlay, 1997). $CAR_{(T_1,T_2)}$ is the cumulative abnormal return (CAR) of t_1 and t_2. Sum of the encompassed abnormal returns comes from t_1 to t_2 of the CAR.

$$CAR_{(T_1,T_2)} = \sum_{t=T_1}^{T_2} AR_{it}$$

Attaining by the aggregating CAR_{it}, after calculations of the CAR, the Cumulative average abnormal return (CAAR) divided by the number of the observations:

$$CAR_{(T_1,T_2)} = \frac{1}{N}\sum\nolimits_{t=1}^{N} CAR_{it}$$

Here,

$CAR_{(T_1,T_2)}$ = the CAAR over the period of the event (T_1, T_2) N = number of the observations (Lau, Liao, Wong, & Chiu, 2012).

In the short-event window, abnormal performance is measured dependably respected to the stock return for CARs adjusting (Brown & Warner, 1980). In this paper, we tried to divide the event window in the 3 periods as pre-event period, event period, and post-event period. The pre-event period is from (−5 to −1) 5 days before of the announcement date, event period (0 and 1) means the announcement date and next day of the announcement date and finally post event period (2 to 5 days) means second day of the announcement to fifth day of the announcement date.

8. Conduct the Hypothesis Testing

By which equation the hypothesis testing can be conducted is as follows:

$$t_{CAR} = CAAR_{iT} \Big/ \left(\sigma\left(CAR_{iT}\right)/\sqrt{N}\right)$$

where,

t_{CAR} = t statistics for CAR.

$CAAR_{it}$ = Cumulative Average Abnormal Return at time t.

σ = standard deviation of the CAR.

N = number of the observations.

In this paper, the two-tailed test was used to test the effect on the acquiring company's share price after the merger and acquisition declaration. In the t-distribution, the degrees of freedom (df = n − 1) will be (50 − 1) 49 for both home takeover and cross-border takeover. In Table 1, to scrutinize the substantial impression, the decision rule of his study is given as follows.

Empirical Results

This paper shows the feedback for the whole sample which is tested on home takeover and cross-border takeover of UK Companies. The results are given in the figure and tables below.

8.1. Average Abnormal Returns

The figures in the down show the average abnormal return of the prior and post of the event date started from 5 days before to 5 days later of the announcement of the company's merger and acquisition.

There are two figures about the home takeover and cross-border takeover. In Figure 1, the plotted graph tries to show the abnormal return of the selected companies, which is showing the irregular trend of the share value those companies. This graph also represents the fluctuations between the home makeover and cross-border takeover where we understand that home takeover is more fluctuated compared with the cross-border takeover.

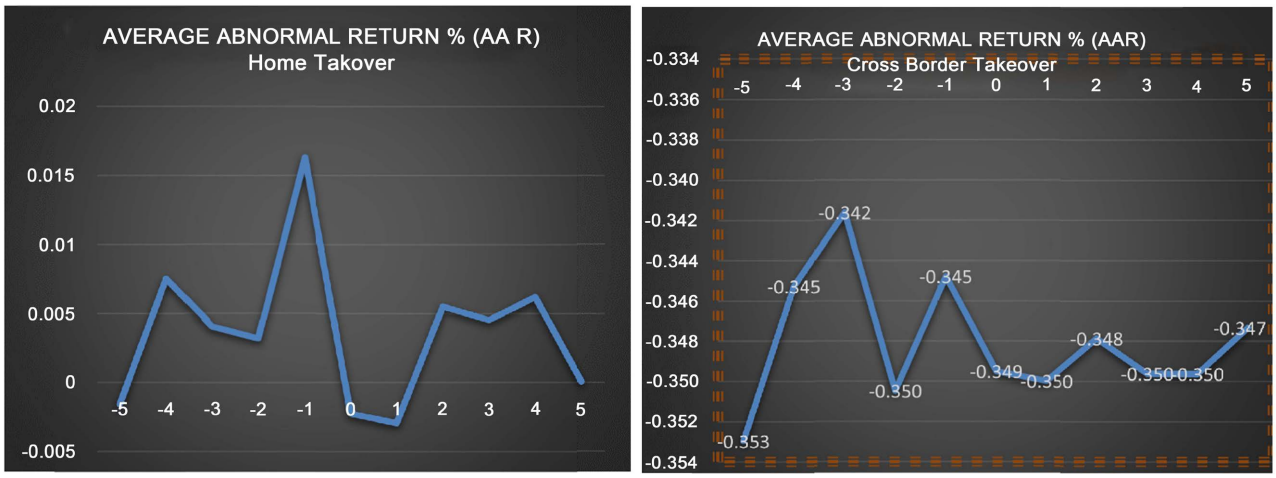
In the home takeover graph, it shows that on the event date the price decreased by a huge amount before the event date at "−1" the price goes up almost the same amount which gives a signal where about the information leakage. On the other hand, in the cross-border takeover graph, the price lifted up slightly before the event date and the on the event day the price again fell down with the amount and then the price forwarded with slight fluctuations. We can understand about these fluctuations is the poor performances and some influences occurred.

In Table 2, the price is significant at the 10% level and the 5% level as well at previous day of the event date and also on the 4th day after the event date of the home makeover is significant at the 10% level. Before the event day, the price was raised from 0.32% to 1.63% which means 1.31% net raised up. Moreover, at the event date, the price goes down at −0.23% which is decreased by 1.86% net.

On the other hand in Table 3, the return of the average abnormal return of the cross-border takeover is insignificant and it means the market was efficient.

8.2. Cumulative Average Abnormal Return

This result has given in Table 4 and Table 5 for the short-term cumulative average return of different time interlude where the pre-event window (−5 to



(a) (b)

Figure 1. Average abnormal return of home and cross-border takeover.

Table 1. Decision rule of two-tailed test.

Criteria	Decision
−t-table ≤ t-stats ≤ t-table	Cannot reject H_0
t-stats < −t-table	Reject H_0
t-stats > t-table	Reject H_0

Table 2. Significant table of the home takeover.

Event Days	AAR	T−Stats	Significance
−5	−0.0016	−0.3336	Insignificant
−4	0.0075	1.5344	Insignificant
−3	0.0041	1.3440	Insignificant
−2	0.0032	0.9702	Insignificant
−1	0.0163	2.5786	@10% and 5% Level
0	−0.0023	−0.5305	Insignificant
+1	−0.0029	−0.5494	Insignificant
+2	0.0055	1.5553	Insignificant
+3	0.0045	1.0977	Insignificant
+4	0.0062	1.7154	@10% Level
+5	0.0001	0.0128	Insignificant

Table 3. Significant table of the cross-border takeover.

Event Days	AAR	T-Stats	Significance
−5	−0.353	−2.226	Insignificant
−4	−0.345	−2.166	Insignificant
−3	−0.342	−2.164	Insignificant

Continued

−2	−0.350	−2.197	Insignificant
−1	−0.345	−2.176	Insignificant
0	−0.349	−2.186	Insignificant
+1	−0.350	−2.230	Insignificant
+2	−0.348	−2.182	Insignificant
+3	−0.350	−2.213	Insignificant
+4	−0.350	−2.187	Insignificant
+5	−0.347	−2.180	Insignificant

Table 4. CAAR of home takeover.

Event Window	CAAR	T-Stats	t-table	Significance	Comparison	Hypothesis Decision
(−5 to −1) **Pre-Event**	0.030	1.980	2.0096	@10% Level	t-stats < t-table	**Cannot reject H_0**
(0 to +1) **Event**	−0.005	−0.573	2.0096	Insignificant	t-stats > t-table	**Reject H_0**
(+2 to +5) **Post-Event**	0.016	1.404	2.0096	Insignificant	t-stats > −t-table	**Cannot reject H_0**

Table 5. CAAR of cross-border takeover.

Event Window	CAAR	T-Stats	t-table	Significance	Comparison	Hypothesis Decision
(−5 to −1) **Pre-Event**	−0.347	−2.1866	2.0096	Insignificant	t-stats < t-table	**Cannot reject H_0**
(0 to +1) **Event**	−0.349	−2.2084	2.0096	Insignificant	t-stats > t-table	**Reject H_0**
(+2 to +5) **Post-Event**	−0.348	−2.1909	2.0096	Insignificant	t-stats > −t-table	**Cannot reject H_0**

−1), event day window (0 and 1) and post event window (+2 to +5).

In Table 4 & Table 5, it's clear about home takeover and cross-border takeover significance. In the home takeover CAAR table only the pre-event window is significant at the 10% level where in the cross-border table no event window is significant. At the event date (0 and 1), statistically insignificant all types of takeover. As well as, post event window (+2 to +5), is also insignificant for all types of takeover.

9. Conclusion

This paper scrutinizes about the share price fluctuations before and after the announcement of the merger and acquisitions. 100 companies of the UK (50 of the home takeover and 50 cross-border takeover) have taken to analyze for this research. At first, we tried to find out by calculations of Average Abnormal Return (AAR) and then again Cumulative Average Abnormal Return (CAAR) to show the fluctuations about the news of takeover among the shareholders of

both companies. We know that, after the USA, the second largest acquiring company is the UK.

Sometimes the figure shows the huge fluctuations of the share price and sometimes shows the stability of the price which is non-significant. In the efficient market hypothesis, the news of the takeover does not any great impact on the share price of the individual companies. If the prices fluctuate more then, it gives a signal about the information leakage.

Moreover, the event study is a simple method of research which gives you straightforward interpretation of result. This method usually used by the researchers and the academicians to find out the effect of the event that how much profit or loss a company gains after merger and acquisitions. Sometimes, it gives the inaccurate result on the market based outcome to the researchers in terms of abnormal returns. Though the event study is still necessary to the researchers but it has some limitations. First of all, this methodology is not effective to all situations because of any events do not affect the share price instantly. Furthermore, sometimes many events can be anticipated before occurring and that effect on the share price. So, abnormal returns are not the only results to understand about the event impact (Ritter, 1991).

Finally, every company has the different characteristics of operations and they have different outcome of the event.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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