Summary:

- Sig. (+) AR for target-buyer
- Sig (+) AR for target
- Mixed evidence for buyers
- ST wealth effects – on avg M&A → value
- LT post ann. Are mixed and op performance also mixed.

Large loss deals – financed with equity, hostile, within industry, acq firms has high M/B ratio, size, ↓ op C/F – thus linked to overvalued equity (make poor acq when they run out of good ones, consistent with high M/B ratio and (+) AR at ann.)

Module 2: Drivers of M&A Waves and Cross-border M&A

Wave	Drivers	Org Invention	Industries	Turning Point
Wave 1 (1895-1904) - **monopolies, EOScale,** easy/fraudulent financing, stock market crash	- favourable eco, stock market conditions - rapid tech innovation	Horizontal trust	Manufacturing	Regulation against horizontal combinations
Wave 2 (1925-1929) - **oligopoly**, enhance productivity as part of war/tech innovation	- SP boom, ↑reg against H-mergers - tech innovation	Vertical Integration	Public utilities, mining, banking	Stock Market Crash of 1929
Wave 3 (1965-1970) - **diversification** principle applied to managing large mergers	- booming of economy, low IR, high SP	Conglomerate	Oil	1971 recession, antitrust movement against conglomerates
Wave 4 (1981-1987) - **hostile mergers**, IB plays aggressive role	- ↑SP, ↓IR - ↑ capital market innovation/sophistication - deregulation	LBO, specialist PE firms	Broad-based hostile deals	1990 Recession
Wave 5 (1992-2000) - **mega/strategic mergers** - equity based - oligopoly market structure - globalisation	- ↑SP, ↓IR - industry specific shocks (deregulation, tech innovation, demographic change)	VC's	Broad based, more friendly	Internet Bubble burst in March 2000
Wave 6 (2003-2007)	- ↑SP, ↓IR – cash used due to abundant liquidity - more relaxed antitrust rules - innovation – credit derivatives	PE firms**, cross-border**, hostile deals, LBOs, European		GFC in 07/08
Wave 7 (2014 -)	- hist. low IR due to CB liquidity injection - commodity and currency vol. → cross border M&A	Disruptive innovation (search for IP) **– buying future competitors**	Cross-border mergers	??? Brexit, Trump, China Economy, US vs NK

Explanations for Merger Waves

Reason	Description	Explains	Managers Rational?	Markets Rational?
1. Hubris (Roll)	- On avg, buyers earn no sig. AR after merger ann. - Managers of buyers must believe they have superior abilities	- Why firms do bad deals, but not M&A waves and industry clustering	N	Y
2. Market Manias	- mass irrational behaviour → bubbles, crashes → deal frenzy	- M&A waves but not industry clustering	N	N
3. Overvaluation of stock - problem for acquirer S/H as manager cannot produce performance req. to justify SP → LR value destroying acq. to satisfy ST growth expectations – ST compensation	- asymmetric info - firms use overvalued stock as 'acq currency' – when assessment of firm value is lower than that of the market - realise gains from mispricing premium over LT	- M&A waves and use of payment (equity) - bidders are on avg more overvalued than targets → ↑P(equity offer)	Y – bidder is rational, and max S/H value	N – greater bidder overvaluation strongly associated with ↓ ann. AR
4. Agency Costs	- inefficiencies arising from conflicts of interest between agents and principals - takeover removes these costs and make the firm more efficient due to ↑ governance	- M&A waves but not industry clustering	Y	Y
5. Monopoly, comp. position and rent seeking	- M&A has antitrust constraint	- industry clustering but not waves	Y	Y
6. Product Market Cycle and Operating Synergy	- incentive to merge during periods of eco expansion → EOScale – market power consideration - procyclical and (+) related to product market demand	- takeover waves and industry clustering of M&A	Y	Y
7. Industry Shocks e.g. globalisation, trade lib. Tax changes – **dispersion of Tobin's Q is driver** - high TQ firms have better prod^{n} tech, predicts that mergers with lower TQ firms being sold to higher TQ to create synergies	- eco disturbances/shocks (targets) → ↑dispersion of Q values among firms - L-TQ firms tend to be dissolved/taken over, due to high FC and low marginal adjustment cost of M&A	- industry clustering and M&A waves	Y	Y