 ISBN 978-80-7668-004-3, IISES

TOBIAS KELLNER

University of Erfurt, Germany

THE IMPACT OF M&A ANNOUNCEMENTS ON STOCK RETURNS IN THE EUROPEAN UNION

Abstract:

This article investigates short-term stock market reactions to mergers and acquisitions (M&A)-announcements of targets and acquiring firms in the European Union. The assumption of market efficiency plays a key role in terms of company takeovers. An empirical test of the theoretical assumptions is not only interesting for managers, but also for government regulators. The analysis distinguishes between several transaction forms and nations in order to provide a broad insight into the European M&A market for the period 2010 to 2019. An event study is applied to measure abnormal announcement returns of both firms. Based on a sample of 2190 M&A announcements, the empirical results show a strong positive stock price increase of the targets around the announcements, whereas the abnormal returns of the acquirers are almost entirely insignificant. In addition, the positive pre-announcement returns of target firms indicate a violation of the assumption of market efficiency. The regression analyses suggest that there is no significant effect for both firms with respect to location (domestic vs. cross-border) and industry relatedness. UK targets show significantly higher returns than companies from the rest of Europe. There exists a significant quadratic relationship between the offered premium and the abnormal return predicted by the overpayment hypothesis, surprisingly only for target firms and not for acquirers. These findings provide a solid evidence base for the market response to M&A's in the European Union. Furthermore, this study identified evidence of inefficient market movements that could be relevant for financial market supervision.

Keywords:

Mergers and acquisitions, Europe, Event study, Stock returns, Announcement, Market efficiency

JEL Classification: G14, G34