The effects of a credit crunch on the profitability of M&A transactions

Bachelor Thesis

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Executive summary

We will show with linear regressions that tough times in term of credit market and economic growth are indeed some of the best times to do corporate M&A. Firms that do have the financial strength and take opportunity of that will outperform with abnormal stock returns. Out model is based on basics of supply and demand. We argue the crowding out of private equity firms and financial speculators during times of a credit crunch lowers demand of target firms. As a result corporate buyers have to pay lower premiums compared to times where the economy and the credit market are in a good state. Therefore corporate buyers should get their wallets ready, as will show, 2009 could be the best year for corporate M&A in terms value generated for the buyer.