

## EXECUTIVE SUMMARY

The debate whether mergers and acquisitions (M&A) create or destroy value to the incumbent shareholders is ongoing and challenges the principle of shareholder maximizing when managers acquire other companies. The reason is that the short-term abnormal returns of acquiring companies is marginally different from zero and that there is evidence that the acquirers realize negative abnormal returns in the long run.

According to the market efficiency theory, there are no long-term abnormal returns at all since the market incorporates all information quickly. A famous paper advocating the market efficiency theory was published by Franks et al. (1991). The authors altered the literature of post-merger performance by using more sophisticated methods to measure abnormal returns and did not find any evidence of long-term abnormal returns for acquirers. The same holds for the research papers published by Mitchell and Stafford (2000) and Moeller et al. (2004). But there are several research papers that state the opposite. Agrawal et al. (1992) reported statistical significant negative abnormal returns of US acquirers of -10.26 percent five years after the transaction. Gregory (1997) examined the performance of UK acquirers and reported negative abnormal returns of -18 percent two years after the event.

Due to the different findings of the long-term literature the question whether M&A create or destroy value is not clarified and needs further research. Additionally, there is empirical evidence that different deal characteristics lead to different abnormal returns in the long run. The deal characteristics that obtain the highest approval for having the power to explain abnormal returns are the method of payment, the book-to-market (B/M) ratio of the acquirer and the mode of acquisition. Due to the ambiguous long-term performance of acquirers and because there is no research of acquiring companies in Switzerland, this thesis examines the abnormal long-term stock price returns of Swiss acquirers. Consequently, this thesis not only examines the long-term abnormal returns of the full sample but also forms subsamples to investigate the impact of the mentioned deal characteristics.

The method found to be the most appropriate examining abnormal returns in the long run is the calendar-time portfolio approach. Fama (1997) and Mitchell and Stafford (2000) strongly advocate the calendar-time methodologies which automatically accounts for cross-correlations of event-firm abnormal returns in the portfolio variance. The approach takes all companies into account that have completed an event within a certain period to build each month a so-called event-portfolio. The excess-returns of the event-portfolio are then regressed on an asset pricing model. The five-factor model developed by Fama and French (2015) serves as a benchmark. The improvement of adding two new factors is directly measured by regressing the event-portfolio on the Fama and French three-factor model (1993) in addition. Because there are no known factor loadings of the five-factor model for Switzerland, the first task of this thesis is to calculate these factor loadings. While Fama and French (2015) used value-weighted (VW) factor-portfolios to calculate the factor loadings, this thesis also applies equally weighted (EW) factor-portfolios. The reason is that the Swiss market is highly concentrated regarding the market capitalization. The same holds true for the market return when the Swiss Performance Index (SPI) is used. About 50

percent of the SPI return is based on Novartis, Roche and Nestle. Therefore, the EW return of the sample stocks is calculated and used as the market return as well. Thus, there are four approaches to calculate the factor loadings: 1) the original SPI which applies VW factor-portfolios and the SPI as market return 2) the modified SPI which uses EW factor-portfolios and the SPI 3) the original  $R_m$  which applies VW factor-portfolios and the EW return of the sample stocks as market return and 4) the modified  $R_m$  which takes EW factor-portfolios and the EW return of the sample stocks. The event-portfolio excess returns are regressed on the asset pricing models using all approaches. It can be shown that the modified  $R_m$  approach performs the best and has enough power to detect abnormal returns. The adjusted  $R^2$  of the full sample regressions using the modified  $R_m$  factors is 0.78 for both the three-factor and the five-factor model. However, the improvement of the regressions applying the five-factor is marginal compared to the three-factor regressions. Thus, the improvement of adding two new factors cannot be verified.

The full sample includes deals between January 1995 and December 2012. The data sample contains 285 deals, but after several restrictions only 58 deals will be considered. The conclusion of the full sample regressions is that Swiss acquirers realize no abnormal returns three years after a transaction. Consequently, the first hypothesis must be rejected. The second hypothesis states that acquirers used all-cash to finance the deal perform better than acquirers using all-stock. While the all-cash subsample shows no abnormal returns at all, the all-stock subsample realized negative abnormal returns of -10.8 percent three years after the transaction. But due to the statistical insignificance and the low power of the all-stock regression the second hypothesis must be rejected as well. The third hypothesis states that acquirers with a high B/M ratio performs better than acquirers with a low B/M ratio which is based on the performance extrapolation theory. According to this theory the market extrapolates the past performance of companies with a low B/M ratio and reassess the expectations about future returns just slowly. This is the theory's approach to explain why companies with a low B/M ratio will realize negative abnormal returns in the long run. The results of this thesis rather indicate that the low B/M subsample realize positive abnormal returns and the high B/M subsample positive abnormal returns. Furthermore, it can be shown that the event-portfolio of the low B/M companies realizes negative abnormal returns in the first two years and significantly positive abnormal returns of 19.6 percent in the third year after a transaction. For this reason, the third hypothesis must be rejected and the performance extrapolation theory cannot be supported neither. The last hypothesis that this thesis examines predicts a better performance for companies that initialized the deal with a tender offer. But in the sample these very acquirers realize negative abnormal returns of -11.4 percent after three years. In contrast, the abnormal return of the merger subsample is positive and amounts to 3.7 percent three years after a transaction. However, the intercepts of the merger group and the tender offer group are statistically insignificantly different from zero and therefore provide no statistical evidence of abnormal returns. Therefore, the last hypothesis is rejected as well.

The conclusion of this thesis is that the full sample of Swiss acquirers does not realize negative abnormal returns three years after the transaction, but there is evidence that some subsamples do. However, the

samples must include more observations to reach statistical significance. Therefore, it would be interesting to apply the used method in another country with a higher activity of M&A. Furthermore, the improvement of the Fama and French five-factor model (2015) cannot be supported since the performance of the regressions is only marginally better than the performance of the three-factor model. This conclusion may also be sample specific and needs further research.