University of Zurich[UZH]

Department of Banking and Finance

Shareholder Wealth Effects of M&A Announcements by Swiss Acquirers

Bachelor Thesis

Presented at the University of Zurich

Faculty of Economics and Business Administration
Department of Banking and Finance
Professorship for Corporate Finance

Field of Study:
Bachelor of Arts in Economics and Business Administration
Major in Banking & Finance

Author:
Fabio Tamino Bernasconi

Submission Deadline:
5th of November 2012

Professor:
Prof. Dr. Per Österberg
Department of Banking and Finance

EXECUTIVE SUMMARY

Moeller, Schlingemann, and Stulz (2005) published a paper empirically analyzing the short- and long-term shareholder wealth destruction resulting from the recent merger waves of the United States Economy. Finding that a small number of highly valuated firms destroyed an aggregated 7 billion US Dollars in the period from 1998-2001. Based on this research paper an empirical study, founded on secondary market-based data, is performed for passed Merger and Acquisition transactions of Swiss Acquiring Firms.

The Swiss Market reported a total of 7'626 completed deals within the 1980-2011 time period accounting for a disclosed transaction value of 1.161 trillion Swiss Francs. Average Abnormal- and Cumulated Percentage Returns of public acquirers domiciled in Switzerland show significant positive return signs for the (-1,+1) event window. Average Cumulated Abnormal Percentage Returns being a significant 1.1% for bidding and 22.6% for targeted firms. Industrial and Financial Sectors are responsible for over half of all transactions.

Disclosed transaction values of publicly traded, in Switzerland domiciled Acquiring Firms, reach nearly 500 billion Swiss Francs, creating 34 billion Swiss Frances to bidder's shareholders during the announcement phase. This represents a gain of roughly seven centimes for every Swiss Franc spent on acquisitions. The vast majority of wealth being generated during the period of 1995 to 2008.

Excluding statistical and economical not significant deals, as well as only further investigating firms creating or destroying more than 100 million Swiss Frances per deal, the final sample panel is broken down to 126 relevant acquisition announcements. These transactions still account for a total transaction value of 422 billion Swiss Francs, generating 33 billion Swiss Francs of shareholder wealth. This equals to nearly eight centimes for every Swiss Franc invested.

Investigation of specific deal characteristics showed that firms with high Price-to-Book-Value ratios returned significant higher returns. Transactions containing equity as a form of payment also showing significant greater returns. Large-cap acquirers as well as firms following conglomerate-build-up-structures showed significant lower Abnormal Percentage Returns. Four fifth of the invested funds going into mergers and acquisitions within the final sample panel were allocatable to just fourteen firms, generating a total of 24 billion Swiss Francs of shareholder wealth.

Post-takeover announcement long-term performance showed a significant Average Abnormal Buy-and-Hold Return of 11.7% twelve months after the announcement. For the period leading up five years after the announcement, the average returns remained positive, but showed no further progression. In fact showing strong significant negative sign overall for periods beyond the first year.

This reading provides an overview of the Swiss M&A Market. The main body shows current literature review and methodologies applied, and then leading step-by-step to the relevant findings.