

# STOCK PRICE PERFORMANCE OF TARGET FIRMS IN UNSUCCESSFUL MERGERS AND ACQUISITIONS

Ettore Croci\*

This Version: December, 2005

## Abstract

*I examine the stock price returns of 459 targets in unsuccessful M&A deals in the period 1990 to 2001. The evidence suggests that an information hypothesis that includes new information arrived after the M&A proposal explains better than the synergy hypothesis the evidence for the failed acquisition. Target firm's shareholders suffer when a deal is terminated. The average abnormal return from two days before the announcement to two days after the termination is a negative 10.61%. The permanent revaluation found in previous literature is only supported for firms that received a rival offer before the termination date. Abnormal returns vary greatly when the reason of termination is taken into account. When the target rejects a deal, the target stock price drops by 4.33 percent, a small decline compared to the loss of 14.49 percent when the bidder terminates the deal. In the long-run, abnormal returns are generally insignificant when a new acquisition proposal does not arrive.*

*JEL classification code:* G34.

*Keywords:* unsuccessful merger, unsuccessful acquisition, event study.

\*University of Lugano, Via Buffi, 13, CH – 6900 Lugano, Switzerland, ph. +41 58 666 4764, e-mail: [ettore.croci@lu.unisi.ch](mailto:ettore.croci@lu.unisi.ch).

Part of this research has been carried out within the project on Corporate Finance of the National Center of Competence in Research “Financial Valuation and Risk Management” (NCCR FINRISK). The NCCR FINRISK is a research program supported by the Swiss National Science Foundation.