

DOES PERFORMANCE IMPROVE FOLLOWING TAKEOVERS: THE USE OF ACTUAL CASH FLOWS

ABSTRACT

Although there have been many studies into the post-merger performance of takeovers, there remains a fundamental disagreement surrounding the question of whether performance actually improves. This study addresses a significant limitation of this prior research highlighted in Hribar and Collins (2002) and uses actual rather than implied cash flows to assess post-merger performance in Australia. Performance is also examined using accrual based ratios and sharemarket returns. Utilising the approach of Healy, Palepu and Ruback (1992) and subsequent research, we find that merged firms exhibit no improvement in performance in the three years after the offer. More detailed investigation, however, reveals that acquiring firms that offer cash achieve improvements in performance in the one and two years post-acquisition. In addition, once we control for method of payment, the results show that acquiring firm post-merger performance is at best constant or slightly negative. Industry overlap and takeover hostility are found to have no impact on the performance of the merged firm subsequent to the takeover.

KEY WORDS: Takeover, mergers, post-merger performance

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