The acquisition of non public firms in Europe: bidders' returns, payment methods and stock market evolution

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Alain CHEVALIER
Professor ESCP EAP Management School

Etienne REDOR*
PH. D. Candidate Université Lille 2
PH. D. Candidate ESCP EAP Management School

Abstract:

This paper studies the returns of non public firms acquisitions. Like the American studies do, we show the existence of a "non public firms acquisition effect" for the European multi-acquirer firms: abnormal returns are much higher for non-public firms (subsidiaries or private held firms) than for public firms. Our results also show that the returns are influenced by the stock market cycles: the returns are significantly higher for non public firms when the market is bullish than when it is bearish. According to us, this result is consistent with Shleifer and Vishny (1988) and with Amihud and Lev (1981) and can be explained by agency phenomena. Indeed, we think that when the market is bearish, managers have incentive to compensate for the decrease of their income if it is index-linked to the performance of the firm, thanks to operations that will maximize their own wealth, at the risk of destroying value for their shareholders. These operations can take the shape of conglomerate mergers, the goal of which is to stabilize the firm's cash flows, which allows to limit the bankruptcy risk, and therefore to reduce the risk linked to the human capital of the manager.

EFM classification codes: 160

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Contact: Alain CHEVALIER (presenter), ESCP EAP, 79 avenue de la République, 75 543 Paris Cedex 11, France. E-Mail : chevalier@escp-eap.net, Telephone: +33 (0) 1 49 23 20 71, Fax: +33 (0) 1 49 23 20 80.

Etienne REDOR, ESCP EAP, 79 avenue de la République, 75 543 Paris Cedex 11, France.
E-Mail : etienne.redor@escp-eap.net, Telephone: +33 (0) 1 49 23 20 84, Fax : +33 (0) 1 49 23 20 80.