ALTERNATIVE INVESTING

Do Bad Bidders Become Good Targets?

April 1, 1990

The stock market's reaction to a corporate merger can be a useful signal about whether the transaction will succeed as well as whether the acquiring company may itself become a takeover target.

The authors review the stock price movements of 1,158 firms from 1980 through July 1988 to gauge market reactions to transactions from 1982 to 1986, looking for the size of the average stock price move after acquisition announcements.

The paper asserts there was a significant difference in market reactions to acquisitions that subsequently were sold off compared with those that were not subsequently divested.

Post-announcement stock-price movements also differed for acquiring companies that later became takeover targets themselves compared with those of acquiring companies that did not later become takeover targets.

The market reaction was even more pronounced for companies that both failed to integrate their acquisitions and became takeover targets themselves.

These results suggest that one source of value in many corporate takeovers, especially hostile takeovers, is recoupment of target equity value that had been lost because of the targets' poor acquisition strategies prior to the reception of their bids.

actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. Diversification does not eliminate the risk of experiencing investment losses.

The information in this paper may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this document, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.