E Q U I T I E S

The Value of Corporate Takeovers

January 1, 1991

This article summarizes the results of three studies of the value of corporate takeovers. The first study suggests that takeovers discipline some managers who make value-reducing decisions. Specifically, firms that have made acquisitions that reduced their stock values tend to become takeover targets, while firms that have made acquisitions that increased their values do not. Furthermore, acquisitions associated with abnormal stock price declines tend to be divested, either in subsequent bust-up takeovers or during and following subsequent takeover attempts.

The second study suggests that the quality of acquisition decisions tends to increase with the degree of the acquiring firm's leverage. The more levered the acquiring firm, the more likely it is that its stock price will increase at the announcement of an acquisition. However, it is difficult to determine whether managers of highly levered firms make better decisions (presumably as a result of the oversight provided by debtholders) or whether managers who make good decisions are simply able to obtain more debt.

The last study argues that Congressional action to limit takeovers contributed to the 10.4% market decline on October 14–16, 1987, which in turn may have triggered the market crash of October 19. The stock market reactions following Congressional action suggest that market participants view takeovers favorably.

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