

Evaluation of Merger Premium and Firm Performance in Europe

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Abstract : This paper investigates the relationship between premiums and returns in the short and long terms in European merger and acquisition (M&A) deals. The study employs Calendar Time Portfolio (CTP) model and find strong evidence that in the long run, premiums have a positive impact on performance, and we also establish evidence of a significant difference between the abnormal returns of the high premium paying portfolio and the low premium paying ones. Even in cases where all sub-portfolios show negative abnormal returns, the high premium category still outperforms the low premium category. Our findings have implications for companies engaging in acquisitions.

Keywords : mergers, premium, performance, returns, acquisitions

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