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Effects of acquisitions on value and performance of JSE listed companies

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ABSTRACT

Many firms will undertake acquisitions when this is the most profitable means of enhancing capacity; obtaining new knowledge or skills; entering new product lines or geographic areas; or reallocating assets into the control of the most effective managers/owners (Pautler 2001). In addition to this, acquiring firms also seek to deal with overcapacity through consolidation in mature industries and exploit eroding industry boundaries by inventing a new industry (Bowler 2001). The ultimate goal is to improve shareholder value and financial performance. This research investigates the impact of acquisitions on shareholder value and operating financial performance for JSE listed acquiring companies.

Cumulative Average Abnormal Returns (CAARs) and Industry Adjusted Cash Flow Return on Tangible Assets (IACRTA) are used as measures of shareholder value and financial performance respectively. Furthermore, statistical t-tests are used to determine the significance of these calculated measures.

It is shown that shareholders of acquiring companies do not earn significantly positive or negative CAARs over the 3 day [-1,+1], 5 day [+2,-2] and 11 day [-5,+5] windows. Over the 21 day [-10,+10] window, investor value is destroyed as the CAARs earned are significantly negative. In addition, while share-funded transactions outperform cash-funded acquisitions over the 5 day [-2,+2] window, cash-funded acquisitions dominate over the 3 day [-1,+1], 11 day [-5,+5] and 21 day [-10,+10] windows,

This research also proves that the median IACRTA of acquiring companies, a year after an acquisition, does not significantly exceed median IACRTA before such an acquisition. However, the change in the median IACRTA a year after an acquisition for cash-funded transactions is significantly greater than the corresponding change in share-funded acquisitions.