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MEASURING ACCOUNTING PERFORMANCE OF SOUTH AFRICAN MERGERS AND ACQUISITIONS

By

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A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Management in Finance and Investment

JUNE 2016

SUPERVISOR: DR THABANG MOKOALELI-MOKOTELI

DECLARATION

I, Nozipho Phindile Mnyandu, hereby declare that the work presented in this dissertation is genuine work and was solely done by myself, except where otherwise indicated and acknowledged. This dissertation has not either in whole or in part, been submitted to any other University or institution for degree purposes. I further declare that I was given authorisation by a panel from the Wits Business School research committee to carry out this research.



……

Signature

23 June 2016

ABSTRACT

This study examines long-term performance of publicly-listed South African acquiring firms that participated in Merger and Acquisition transactions. In an effort to close the gap in South African literature of long-term M&A performance, the study used key financial ratios in calculating the change of financial position before and after each M&A transaction or in other words, before and after the 2007 recession. The sample included 10 acquiring companies that performed 18 acquisitions during the period, 2007 and 2009. Subsequently, accounting performance in the form of Profitability, Efficiency, Liquidity, Leverage/Solvency and Investment ratios, were then analysed three years before and after each M&A transaction. Furthermore, the Paired Comparison Test was used to test for significant differences in ratios, between pre- and post-M&A performance of each acquirer. The results suggest that overall, Mergers and Acquisitions do not significantly improve financial performance of South African acquirers after each M&A transaction.

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CHAPTER ONE: INTRODUCTION TO THE STUDY

1.1 Introduction

This chapter introduces the reader to the study by way of presenting the basic framework of study and thus, the problem, purpose and significance of the research. Section 1.2 presents the background of the study. Section 1.3 presents the research problem statement. Section 1.4 presents the contribution of the study to the Mergers and Acquisitions body of knowledge or the gap in Literature. Section 1.5 presents the research objectives and purpose. Sections 1.6 and 1.7 present the significance and the structure of the thesis.

1.2 Background

Changing business environments have challenged corporates to find new and creative ways to compete with each other, globally. Mergers and acquisitions (M&As, hereafter) are often used as strategic tool to stay competitive and that often results in other benefits such as maximisation of shareholders' wealth, enhancing firm profitability, economies of scale and scope, market power and reduction (Adu-Darko & Bruce-Twum, 2014; Christofferson, McNish & Sias, 2004; Inoti, Onyuma & Muiru 2014; Kyriazopoulos & Petropoulo, 2011) – to mention a few. M&As have been seen as early as the early 1800s (KPMG, 2011). According to Burksaitiene (2010), M&A activity comes in the form of waves or cyclical patterns and as documented in a KPMG (2011) study, M&A activity is currently in its seventh wave. This wave is highly characterised by not only increased global M&A transactions but also, volatility of financial markets and non-organic corporate growth strategies (Cordeiro, 2014). For emerging markets such as South Africa, booming consumer markets and incoming investments were seen as a new lead of a new wave in Africa (KPMG, 2011). According to KPMG (2011), previous waves, were dominated by Horizontal mergers (first wave, between 1893 - 1904); Vertical mergers (second wave, between 1919 - 1929); Diversified conglomerate, Mergers (third wave, between 1955 - 1970); Co-generic mergers, Hostile takeovers, Corporate raiders (fourth wave, between 1974 – 1989); Cross border, Mega mergers (fifth wave, between 1993 - 2000) and Globalisation, Private Equity, Shareholder activism (sixth wave, between 2003 - 2008).

Notwithstanding the benefits and the popularity of M&A transactions, several pitfalls exist when implementing M&A strategies in firms. Examples include corporate governance uncertainties, cumbersome integration of firm cultural differences and overoptimistic or overestimated synergies (Christofferson et al., 2004). Moreover, M&As have been reported to have failure rate of between 70 percent and 90 percent (Wadlow, 2015). If M&As are said to not meet firm expectations, it is the purpose of this thesis to make an assessment of the value add of South African acquiring companies, with respect to their accounting performance.

1.3 Problem Statement

Globally, there's been an increasing trend for M&A transactions since the late 1980s. Deal volumes have been seen to be at their peak, subsequent to economic recessions (Institute of Mergers, Acquisitions and Alliances (IMAA), 2015). According to IMAA, this trend is expected to continue in the future. Although, a bulk of these transactions are concentrated in developed markets such as Europe and North America – nonetheless, emerging markets such have also seen positive growth in these transaction volumes. Locally, transaction volumes saw an increase and were at their highest in 1998, for South Africa, followed by the year 2007 (in terms of transaction values) (IMAA, 2015) – despite the volatility of deal volumes. It is no surprise that M&As have not only sparked interest for managers but also, these vast transactions have caught the attention of the research/academic community.

Studies on M&As can be found in the research papers of Agrawal, Jeffrey & Gershon, 1992; Aybar & Ficici, 2009; Bruner, 2002; Fatima & Shehzad, 2014; Ghosh, 2001; Gubbi, Aulakh, Sarkar & Chittoor, 2010; Liargovas & Repousis, 2011; Mantecon, 2009; Singh, 2013; Uddin & Boateng, 2009 – to mention a few. Generally, these studies have predominantly focused on the performance of M&A transactions in the form of share price returns, accounting performance and other impacts that M&A have on firms and their management. Other researchers have specifically focused on investigating performance of M&As based on the (i) method of payment (for e.g. Faccio & Masulis, 2005; Heron & Lie, 2002; Kalinowska & Mielcarz, 2014; and Mushidzhi & Ward, 2004); (ii) industry type (for e.g. Fraser & Zhang, 2009; Liargovas & Repousis, 2011; Majumdar, Moussawi & Yaylacicegi, 2006; and Meghouar & Sbai, 2013) and analysis of M&A activity during certain economic

conditions (for e.g. Burksaitiene, 2010). Findings of these studies have been mixed and have shown various results about M&As transactions, globally. In South Africa, M&A studies have been predominant in the papers of Mushidzhi & Ward, 2004; Smit & Ward, 2007; and Wimberley & Negash, 2004. These papers have mainly focused on analysing (short-term) market reaction to M&A announcements, in the form of abnormal returns. Put differently, whether South African M&As add value to acquiring-bidder firm's stock price. Subsequently, this thesis investigates the performance of local M&As in the form of acquiring firms' long-term accounting performance.

1.4 Gap in the literature

As shown above, South African M&A studies are dominated by short-term performance studies and none (if any), focusing on the long-term. It is therefore, the objective of this paper to close the gap in literature in the long-term performance of South African acquiring firms.

1.5 Research Objectives (and Purpose)

The thesis assesses whether South African acquiring firms experience any positive changes in their long-term accounting performance. Firstly, this study focuses to establish whether M&A activity has an effect on the financial performance of firms under consideration. Secondly, evaluating the difference of M&A activity (before and after the 2009 recession) on returns of the listed firms under consideration.

1.6 Significance of the research

This paper's implications are three-fold. This paper hopes to target managers looking to M&As transactions – as part of their corporate strategy. The information will be useful for both companies of target and acquirer management as to appropriately adjust their expectations as to the financial performance to be created by the transactions. Secondly, government and/or regulatory bodies may benefit from the findings of the research. According to Gibson (2004), post-M&A performance of these companies might be influential to the taxation system and

might possibly impose higher or lower tax rates, should they yield any abnormal returns. Finally, as information plays an important role for investors, this might signal investors to the informational value of M&A Announcements.

1.7 Organisation of the paper

The thesis is structured as follows: including this introductory chapter, Chapter 2 reflects an overview of the M&A literature. Chapter 3 presents the research methodology and data sample. Chapter 4 presents research results and finally, Chapter 5 presents discussion of findings, provides conclusion for the thesis and discusses areas for future research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter discusses the theoretical and empirical literature on the formation of corporate strategies, such as mergers and acquisitions, and the contributions they make to firm value. Section 2.2 defines the concept of M&As; Section 2.3 presents various types of M&A investment strategies; Section 2.4 discusses types of methods of payment for M&As; Section 2.5 provides empirical evidence on the short-term and long-term performance of M&As; and finally, a Chapter Summary.

2.2 Definition of mergers and acquisitions

The literature often does not differentiate between mergers and acquisitions and as such the two terms are often used interchangeably and they both describe a combination of two companies coming together (Aggarwal & Singh, 2015). In this paper, a clear distinction between the two is made, so as to avoid any ambiguity. Firstly, a process by which two or more firms combine their organisations to attain some strategic or financial objective(s) is a 'merger' (Ebimobowei & Sophia, 2011; Ma, Pagan & Chu, 2009). Furthermore, one of the companies (the acquiring firm) will continue to exist, whilst dissolving the other (the acquired or target firm) – without liquidation (Dianita, Tarmidi & Hadian, 2013). As a result, both firms lose their corporate identities to form a new organisation with a new name, under new management. Subsequently, a merger may be voluntary or non-voluntary (Foltz, Araci & Kargin, 2002). According to Damodaran (2010), Marfo, Amoako & Gyau (2013) and Marimuthu (2009), to constitute merger validity, at least 50% of both target and acquirer shareholders have to approve the transaction (the merger).

An acquisition, on the other hand, is one firm (acquirer) buying another (target), into an existing structure (Ebimobowei & Sophia, 2011). The term 'acquisition', is often used interchangeably with that of 'takeovers'. According to Aggarwal & Singh (2015), in the process, the acquirer takes over the target firm with the objective of starting a new company. According to Marfo et al. (2013), mergers are actually acquisitions, as the acquiring firm is incorporated into the new business model (of the acquirer). As many of statistics and literature 'misuse' the term ('merger'), it

gives a “broader and more accurate view of the merger market”, according to Marfo et al. (2013, p.179).

2.3 Types of M&A investment strategies

Ebimobowei & Sophia (2011) distinguish between four broad categories of M&A activities, each classified according to relative size, industry focus, degree of integration, level of cultural change, amongst many characteristics.

Mergers and acquisitions can take in the form of two mindsets or management ‘attitudes’, namely: friendly or hostile. In a friendly M&A, management of the target firm welcomes the acquisition or better yet, seeks it (Damodaran, 2010). On the contrary, the latter refers to the target firm not wanting the offer to be made to target shareholders, directly (Clayman, Fridson & Troughton, 2008). Three forms of hostile M&As exist, namely a) bear hugs, b) tender offer and c) a proxy fight. Where offers are made privately and sent in confidence to the target’s management, this is known as a teddy bear hug. On the contrary, public and less polite offers are often referred to as grizzly bear hugs (Clayman et al. 2008; Sorkin, 2008). According to Damodaran (2010), bypassing management (and the Board of Directors) and communicating with target shareholders regarding the M&A offer, is an example of a tender offer. Finally, a proxy fight or contest occurs when a dissenting shareholder (or shareholding group) solicits proxies, thus, seeking control (Bebchuk & Hart, 2011).

When two or more companies (or rivals) in the same industry integrate, this is called a horizontal merger or integration (Ebimobowei & Sophia, 2011). According to Marks (1997), horizontal mergers may be seen as harmful and collusive strategies, as they enhance a degree of price control and anti-competitive structures. According to Pilsbury & Meaney (2009), merging with a party not in the same industry can create competition problems as this not only creates competition problems – but also, excessive market power for the merged parties by way of reducing competitors in the market.

Mergers between actual or potential buyer-seller relationships, are called vertical mergers (Marks, 1997; Ebimobowei & Sophia, 2011). In other words, a firm which supplies its product to the other firm. For example, a merger between a freight-forwarding company and a supplier of maintenance services – for a rail-freight company (Pilsbury & Meaney, 2009). Furthermore, these types of mergers are said to provide cost-effective benefits to firms, as they reduce technological economies (integration of technological processes) and transaction costs (costs between the buyer and seller) (Pilsbury & Meaney, 2009).

In an effort to maximise their economies of scale, firms may merge with unrelated firms in a conglomerate acquisition. According to Pilsbury & Meaney (2009) there are three classifications of conglomerates, namely, (a) product extension mergers, firms in the same marketing channels but, not in the same market; (b) market extension mergers, firms offering the same product but in different geographic markets and (c) finally, pure conglomerate mergers, where firms have no obvious relationship. Although, these conglomerates provide no significant competition threats or concerns; their significant effects would still be under scrutiny from competition authorities (Pilsbury & Meaney, 2009).

Concentric (or product extension) mergers and acquisitions share in the same production and distribution technology, such as a similar customer base or suppliers – however, the firms operate in different business operations (Ebimobowei & Sophia, 2011). Subsequently, a market extension is where firms that do not operate in similar geographic markets, merge (Solomon, 2012).

2.4 Methods of Payment for M&A

Management have at their disposal, various methods of financing M&A transactions. These can take in the form of cash, debt or leveraged buyout (LBO) and security payments, in two forms: (a) issuing new stock (or exchanging stocks with the target firm) to and (b) corporate bonds, to finance the transaction (Zhang & Zhang, 2011). According to Clayman et al. (2008) and Tsai (2008), methods of financing transactions are influenced by many factors such as information asymmetry, risk sharing between the acquirer and acquiring firm, signalling and the capital structure

of the acquiring firm. In the case of information asymmetry, or if the target firm's stock is undervalued, cash may be offered. On the contrary, if a firm's stock is overvalued, it would be preferable to use stock as a method of payment. Furthermore, it has also been found that firms with high growth rates and market values have been associated to use shares or mixed payments for M&A transactions, than those with lower growth rates (Tsai, 2008). According to Auerbach & Reishus (1987), the use of cash for acquiring firms may also be attractive for firms because of non-tax advantages. By using cash, a company may revalue their assets and thus, increase its depreciation expense (Rappaport & Sirower, 1998). Tax gains may also be realised if the target's shares are in tax-exempt pension funds. Whilst firm stock performance between using cash instead of stock are not the same, Rappaport & Sirower (1998) have found that acquiring shareholders that used stock instead of cash have performed relatively far worse (around the time of announcement).

2.5 Empirical Evidence

This section discusses M&A literature review into two sections, firstly, literature covering short-term M&A announcements on firm performance in the form of (a) general shareholder wealth effects and (b) empirical literature on long-term performance, based on financial statement analysis through ratios.

2.5.1 Short-term Performance

2.5.1.1 Event study analysis

In an effort to investigate whether the value of a firm changes based on the acquisition method of payment; Mushidzhi & Ward (2004) studied South African shareholder wealth effects for acquisition announcements, associated with the method of payment used. Using abnormal average return (AARs) and cumulative average abnormal returns (CAARs), to measure shareholder value, the authors found that cash funded acquisitions yield higher returns than share-funded acquisitions (targets). Their findings were consistent with Carline, Linn & Yadav, 2002; Davidson & Cheng, 1997; Ghosh, 2001; Huang & Walkling, 1987; Schwert, 1996; Wansley, Lane & Yang, 1983. In their study, were no significant findings for

bidding firms, whether acquisitions were cash- or share-funded (Mushidzhi & Ward, 2004).

Using the Real Estate sector, Ratcliffe, Dimovski & Keneley (2010) looked at the Australian Real Estate Investment Trust (A-REIT) sector to determine whether there have been significant positive returns in the area of M&A announcements. Using a period of 1995 to 2008 and 36 transactions, the study found that target firms earned excess returns. Although, findings were consistent with the results of McIntosh, Officer & Born (1989) and Sahin (2005), however, the positive results were lower than the findings of Eichholtz & Kok (2008) and Kirchhoff, Schiereck & Mentz. (2006). Similarly, bidding firms showed significant positive results around windows [-2;+2] and [-1;+1]. This is consistent with the findings of Allen & Sirmans (1987) and Eichkoltz & Kok (2008). However, the latter's results were not significant. The results were contrasting the findings of Sahin (2005), who found negative insignificant results.

Similarly, Dianita et al. (2013) found consistent results, to the above. Their study used a sample of 20 acquiring companies, listed on the Indonesia Stock Exchange that participated in M&A transactions, between 2005 and 2011. The results showed positive AARs, around announcement days [-3;+2]. The authors noted that information could have been leaked to the public at the General Meeting of Shareholders (AGM). Their results were consistent with the findings of Moeller et al. (2004) and Ma et al. (2009). Overall, the study was able to prove that M&A announcements were perceived as good news for investors and thus, there was a positive market reaction triggering abnormal returns.

Based on a Canadian data sample, Yuce & Ng (2005), added to the research literature insight about the "Canadian industry, capital markets and regulations" (Yuce & Ng, 2005, p.7). The authors found that target companies experienced positive significant CARs between [-5;+10] windows. Also, acquiring companies yielded positive results, nearing the event announcement at [0;+2] days. Furthermore, the study differentiated between private and public targets. Overall, they found that positive returns were less for acquirers of private targets. According to the authors, this could be possibly owed to the added risk in returns for private

targets and uncertainty in the pricing and thus, poor valuation for private targets (Yuce & Ng, 2005, p.15).

Owing to large growth numbers in cross-border M&A transaction by Chinese firms, Chen & Lin (2009) evaluated the short-term shareholder's performance using an array of methodologies. Overall, results were not significantly different from zero within the window period. According to Chen & Lin (2009), this represents investors' response to Chinese M&A activities. Similarly to the above Asian study, Ma et al. (2009), studied 10 Asian emerging markets between the periods 2000 and 2005. For their window period of [-1;+2] days, the sample experienced significant positive returns, with the highest AAR being in day_1, followed by day_0. Their findings were inconsistent with most US, UK and European findings of Campa & Hernando, 2004; Dodds & Quek, 1985; Firth, 1980; Gaughan, 2005; Hackbarth & Morellec, 2008; Mueller & Yurtoglu, 2007; and Sudarsanam, Holl & Salami, 1996;

Also, Shah & Arora (2014) conducted a study based on M&A transactions in the Asian Pacific Market for the period May 2013 and September 2013. Their CAAR results showed that target firms had positive significant results mostly at 1%, 5% and 10% significance. On the contrary, bidding firms yielded positive yet insignificant results (at all levels of significance). The authors make a point worth noting that possible insider trading could have possibly occurred as pre-announcement returns were higher than post-announcement. However, since the marginal difference was small, it therefore could be classified as a strong form of efficiency (Shah & Arora, 2014, p.177).

Similarly, studies such as Baker, Dutta, Saadi & Zhu, 2012; Chari, Ouimet & Tesar, 2004; Gubbi et al., 2010; Mantecon, 2009; Panayides & Gong (2002); and Samitas & Kenourgios (2007); show similar results of significant positive returns post-acquisition. On the other hand, Aybar & Ficici (2009) and Uddin & Boateng (2009) found that M&A transactions do not create value or that equity markets respond negatively to M&A announcements.

2.5.2 Long-term analysis

2.5.2.1 Accounting performance: Financial ratios

Fraser & Zhang (2009) were able to provide the following evidence (on accounting performance of Non-US bank acquirers on United States (US) bank targets): (a) Operating Cash Flow Return on Assets (OPCFROA); and (b) financial ratios, which included: profitability ratios (Return on Equity (ROE) and Return on Assets (ROA)), Capital Adequacy indicators, Liquidity Risk indicators, Growth indicators and most Efficiency indicators. This study was consistent with the results of Andrade et al. 2001; Cornett & Tehranian, 1992; and Cornett, McNutt & Tehranian, 2006 - who also found zero net wealth effects. Their findings were inconsistent with DeLong (2003), who found zero value creation wealth benefits for banking mergers.

For listed Indian manufacturing companies, Leepsa & Mishra (2012) also used several performance measures, such as: Liquidity, Profitability and Leverage Ratios. Using a long-term study of three years pre- and post- acquisition, the authors found that acquisitions larger-than-the-acquirer performed negatively and that related and non-related acquisitions both had negative returns. In terms of size, large acquiring firms earned negative returns. Overall, their results showed that manufacturing firms exhibited no significant performance improvement. This was contradictory to the findings of Ravenscraft & Scherer, 1989; Singh, 1975 (cited from Daga, 2007; Newbould, 1970 and Meeks (1977) (cited from Daga, 2007).

In a Pakistani study, Ashfaq (2014) set out to investigate whether there was any improvement in financial ratios for non-financial sector bidders. Overall, the study found that (a) financial ratios of non-financials (except for EPS) and textile sector have deteriorated, but insignificantly; (b) for pharmaceutical M&As ROE (and ROA) has significantly (insignificantly) improved. However, EPS did not improve insignificantly. Ashfaq (2014) cites factors such as lack of acquisition experience, poor execution and management could have contributed to the value deterioration from these mergers. The study's results were similar to Tawain's Yeh & Hoshino (2000); Australian petroleum studies by Hyde (2002) and Sharma & Ho (2002); an Indian study by Mishra & Chandra (2010) and a Canadian study by Andre, Kooli & L'her (2004).

Abbas et al. (2014) also found similar results using financial statement analysis – using Pakistan banks in their sample. Their sample also found that on average ROA (ROE) did not improve for the banks and only (two) three saw an improvement post-M&A. Abbas et al. (2014) state that for banks that showed an improvement in ROA were able to efficiently utilise their assets from merged or acquired firms. Their results were in conflict with the findings of Ong, Teo & Teh (2011). Other findings included decreased profitability via EPS. Only one bank showed an increased EPS. Their results were similar to Amel et al. (2004) and Kemal (2011), but inconsistent with Lin, Hung & Li (2006).

Similar to Ashfaq (2014), a Romanian study by Huian (2012) found relatively similar yet mixed results. For ROA, merged banks underperformed the industry, before and after the merger, for the entire three-year period. In the third year, ROA was seen to be negative, compared to a positive ROA for the industry. Similarly, ROE underperformed the industry by more than double. On the contrary, net interest margin (NIM), outperformed the market by almost double, after M&A for the three years. According to Huian (2012), this improvement in NIM could be attributable to a change in raised interest margins and thus, increased spread between lending and deposit rates. Huian's (2012) study was in contradictory to the findings of Campa & Hernando (2006) and Marques-Ibanez & Altunbas (2004), and was in line with the findings of Beccalli & Frantz (2009). The study comprised of 12 transactions, 10 of which were mergers and two were acquisitions, which occurred between 1998 and 2008, for Romanian commercial banks.

Contrary to Rhoades, 1998; Houston et al., 2001; Knapp et al., 2005; and Huian, 2012, who found improved NIM after M&A; Abbas et al. (2014) found an insignificant improvement after the deals. These results are similar to the results of Sufian, 2004; Kemal, 2011; and Allah-Yar, 2012. Other profitability and efficiency ratios such as spread ratios and ratio of interest expense to interest income, showed similar results of deterioration of performance or in other words, banks did not reduce expenses nor minimise their interest and non-interest expenses following the transactions. This was consistent with Kemal (2011) and Allah-Yar (2012). Similar to other ratios,

liquidity ratios, cash and cash equivalent to total assets and total liabilities to total assets did not improve. The latter was similar to the findings of Braggion, Dwarkasing & Moore (2010). Finally, leverage ratios, capital ratio and debt to equity also did not improve. The former were contradictory to the findings of Ghosh & Prem (2000) and Ong et al. (2011).

Abbas et al. (2014) state that one of many downfalls for many of these banks is the fact that M&A strategy might have been unfamiliar to Pakistani customers and investors. More so, that when the strategy was in progress, they withdrew funds into other financial institutions.

A Turkish study by Akben-Selcuk & Altiok-Yilmaz (2011) looked at 62 companies listed on the Istanbul Stock Exchange (ISE) that performed M&A transactions, between 2003 and 2007. Using accounting and stock return measures, their latter's results supported one of their hypotheses of there being a significant change in stock prices acquiring companies following the M&A deals. More specifically, ROA and Return on Sales (ROS) significantly decreased, in the two years after acquisition, as well as ROE, however, insignificantly. The study suffered from many limitations, chief amongst them were, firstly, analyses about private companies cannot be made as results reflected only listed public companies on the ISE; secondly, the ±2 year sample study period could not be used to make generalisations about the M&A environment in Turkish markets; and lastly, net income measures used to measure performance may have been distorted because of tax and depreciation.

Badreldin & Kalhoefer (2009) set out to analyse M&A transactions in the Egyptian banking sector for the period 2002 to 2007. Their study comprised of 10 acquiring banks that had undergone cross-border and domestic M&A transactions. Using 14 ratios including Pre-tax ROE, Interest Margin, Trading Margin, ROA, Equity Ratio, Cost Income Ratio and Operating Expenditure Margin – only four ratios showed relative improvement. These were Pre-tax ROE, ROA, EXOT and Risk Provision Margins. Similarly, for Domestic (and Cross-Border Mergers), only four (six) ratios showed improvement, ROE (ROA, Risk Provision Margin and Equity Margin) included. The study concluded that M&A transactions had no overall impact on the Egyptian banks' profitability, except for the positive effect on decreasing non-

performing loans. The study was in contradiction to European and United States' studies of Focarelli, Panetta & Salleo (2002) and Yener & Ibanez (2004). Limitations of the study included lack of financial information or databases for target companies, as the study only included acquiring firms; and limited information for a selected number of banks.

In a similar Czechian study by Pham (2014) using 11 banking targets; comprising of 11 transactions - of which five were mergers and six were acquisitions. The author was able to prove that the overall significant impact of M&As on these banks was not beneficial. The study was based on solvency (net profit margin (NPM), return on net worth (RONW), EPS, ROA ratios) and profitability (debt-equity ratio) ratios. In summary, ROA, RONW, NPM and EPS improved for most of the banks but insignificantly. Similarly, debt-equity ratio post-equity also improved overall, but insignificantly. Although, the study supports the value add of mergers and acquisitions on financial performance, however, other success factors could have affected the performance of these banks. Suggested factors are "economy or industry-wide factors … variables influencing operational and profit efficiency … changes in pricing behaviours of acquired banks" (Pham, 2014, p.8). The study suffered a number of limitations such as: (a) a small sample, (b) using single sector (banking) as opposed to studying various other industries to make conclusions about financial performance and (c) limiting statistical tests to the Wilcoxon signed ranked statistic.

In their efforts to "assess the impact of acquisitions on the financial performance of the acquiring company in Kenya" (Inoti et al., 2014, p.109), researchers Inoti et al. (2014) investigated 11 bidding firms who were involved in M&As between 2001 and 2010. Using a ± 3 year pre – and post – acquisition analysis, the study failed to reject the null hypotheses. In other words, statistical results for (a) profitability (EPS, Return of Capital Employment (ROCE) and ROE) and Asset Utilisation (Total Asset Turnover Ratio, Fixed Assets Turnover Ratio and Working Capital Turnover Ratio), showed no significant change; and (b) Asset Utilisation (Total Assets Turnover Ratio, Fixed Assets Turnover and Working Capital Turnover), also showed no significant difference between pre- and post-acquisition means. The study's findings of M&A transactions having no impact on Nairobi Stock Exchange (NSE) listed acquiring

companies, were consistent with the findings of Chesang, 2002; Ndura, 2010; and Pilloff & Santomero, 1997 and disputes the findings of Korir (2006), who found otherwise.

In a similar African study, Oduro & Agyei (2013) shared Inoti et al. (2013)'s findings, on having no significant improvement in financial performance for Ghanaian companies. Based on their independent sample test results, profitability ratios, ROA and ROE, were significantly higher before the merger rather than after. These results were consistent with the findings of Akben-Selcuk & Altiol-Yilmaz (2011); Hogarty (1969); Pazarskis et al. (2013) and Yeh & Hoshino (2002), and but were contrary to the findings in Gugler, Muller, Yurtoglu & Zulehner (2003); Ismail, Abdou & Annis (2011); Lau, Proimos & Wright (2008) and Ramaswamy & Waegelein (2003). The authors made a disclaimer that profitability could have been affected by other factors such as the inability to realise M&A synergies, firm risk and inefficient implementation mechanisms following the merger or the inability to properly "plan, execute and evaluate" M&A transactions (Oduro & Agyei, 2013, p. 102). Notwithstanding, the negative impacts on merged firms, factors such as increased debt use and firm growth added significant improvement to the firms' profitability performance.

A Greek study by Pazarskis, Sykianakis, Sotiropoulos & Diakomihalis (2013) showed similar results to the above studies – of no improvement of financial performance ratios following international M&A transactions. Using an array of 20 financial performance ratios, ranging from profitability to activity ratios; their sample only saw a significant positive improvement in working capital (from the first to third year, post-acquisition). Moreover, in the first year, all results were insignificant and in the second, all the ratios declined significantly. Their results did not the study of Lubatkin (1983; 1987), who hypothesised that M&As improve the profitability of the new firm. The limitations of the study included: (a) using a small sample of 19 transactions that occurred between the period 1998 and 2002, which might have caused a potential sampling bias; (b) analysis was only done for only listed Greek companies excluding banks, as they would present "special peculiarities of accounting evaluation of M&As

transactions" (Pazarskis et al., 2013, p. 397); and (c) using a sample not based on industry categorisation.

Similar to the above studies, an Indian Aviation study by Aggarwal & Singh (2015), also found negative significant results (for all the ratios) for the merger of Air Deccan and Kingfisher Airline, and Kingfisher Red thereafter. The financial ratios tested were liquidity (current and liquid), leverage (debt-equity, total asset to debt ratio, interest coverage) and profitability (return on capital, ROA, ROE) ratios. These results were similar to the findings of Dixit, Sharma & Karna (2007); Garg, Sharma & Yadav (2011) and Mahesh & Prasad (2012) – who studied transport and aviation studies in India. The study sample looked at two years before (2006-2008) and after the merger (2008-2010).

The results of Aggarwal & Singh (2015) were synonymous to the findings of Marfo et al. (2013), using the ChevronTexaco merger, as an example. Using seven financial ratios, the authors found deterioration in six of the ratios and efficiency was the only one that improved. Perhaps it could be argued that it was too early to draw definite conclusions on this firm's performance, as the analysis was based on year's study after the merger. Another major reason that was cited by the authors (for the decline in ratios) was that net income – which had declined by 81% in the second quarter – was used for most of the ratios. According to Marfo et al. (2013), the decline was owed to investment losses in subsidiary, Dynergy Inc., lowered petrol prices. These lowered prices did not only affect the merger but the industry in general, during the second quarter of 2002.

Using a sample of 12 target and acquirers firm pairs, Ahmed & Ahmed (2014) did an empirical study on the accounting performance of Pakistani manufacturing firms that participated in M&As between 2000 and 2009. Their study used four classifications of accounting measures, namely: profitability, the firm's capital position, liquidity/leverage and operational efficiency. Overall, the study found that the first three sets of ratios insignificantly improved and the latter, insignificantly deteriorated. As the study was divided into seven industries within the manufacturing sector, only four industries (chemicals, cement, motor and textile) showed an improvement. Moreover, electronics showed mixed results and sugar, spanning and weaving

industries showed an overall positive improvement in financial ratios. The authors noted that although many Pakistani firms did not engage in M&As transactions, these corporate strategies were beneficial for acquiring firms, overall. The authors also make an important suggestion that although firms enter into M&As for many reasons, even sometimes qualitative, it may not be worthwhile criticising M&A strategies and their post-performance, as it might not have possibly been the objective of the firm to improve it (financial performance) in the first place.

In a Ghanaian study based on the (financial post-performance) merger between two breweries, Guinness Ghana Limited (GGL) and Ghana Breweries Limited (GBL), that occurred in 2004 - Adu-Darko & Bruce-Twum (2014) used financial statement analysis, more specifically, profitability, liquidity, leverage, shareholders or firm value and growth ratios and interviews to conduct their study. The study found that profitability ratios, ROA, ROE, Gross Profit Margin, and Net Profit Margin, showed a decreasing trend over the five-year post-acquisition period. Secondly, liquidity ratios, such as quick and current ratios, also showed similar results to profitability. Thirdly, leverage and debt ratios showed an improvement after the acquisition; possibly owed to the debt financing of the transaction. Debt capital showed a decreasing trend due to equity injections to maintain the company's operations. Fourthly, shareholder ratios, dividends per share (DPS) showed significant improvement throughout the entire five-year period, owed to the increasing profit made by GGCL (the acquirer). However earnings per share (EPS), showed a net decrease. This is consistent with Evans & Bishop (2002) that "…shareholders benefit from a higher DPS when an acquisition is successful..." (Adu-Darko & Bruce-Twum, 2014, p.15).

To evaluate whether there is any success in Oklahoma agricultural cooperative mergers, Kenkel, Gilbert & Spence (2003) studied liquidity, leverage, efficiency, profitability and sales financial ratios as a measure of financial performance. The authors were able to conclude that for surviving cooperatives, there was a positive significant improvement in profitability ratios and sales volumes and growth. Although, efficiency ratios (personnel and total expenses) improved, the differences were not statistically significant. Secondly, the authors "synthetically combined" (Kenkel, Gilbert & Spence, 2003, p. 6) firms by comparing them to the performance of the newly merged cooperatives. Based on this, efficiency ratios, improved

significantly. Moreover, ROE and accounts receivable improved significantly. Sales (and its growth), ROA, current ratio, sales to total assets also improved, but insignificantly. Kenkel et al. (2003) were able to conclude that mergers for supply and cotton ginning cooperatives were indeed a "win-win". Furthermore, it was also established that the synergies were from efficiencies rather than changes to the new cooperatives' business environment.

Contrary to Kenkel et al. (2003)'s results, Usman, Khan, Wajid & Malik (2012) realised deteriorated ROA, ROE and Equity to Total Capitalisation following mergers, for Textile Pakistani mergers, for the period 2001 and 2005. Using a sample of five merger events (five acquirers and seven target companies), their study showed overall insignificant results for all the ratios. Only Debt to Total Capitalisation and net profit margin showed improvement (but insignificantly). However, when the authors combined a mean of projected three years after the merger, the results showed otherwise. From these projected results, this meant that these textile companies used debt financing as opposed to equity financing, after the merger. According to Usman et al. (2012), this could be owed to increased fixed costs and reduced profitability.

Similarly to Kenkel et al. (2003), Abu-Abbas, Daoud & Khalel (2014) also used a small sample size of two mergers, for two industrial-listed firms in Jordan. The study used three sets of financial ratios namely, liquidity, profitability and financial leverage ratios and found that, on average, liquidity and leverage ratios improved at a significant level, and therefore, the merger helped the two companies. The authors noted that the results were discouraging to investors and creditors as no improvement in financial performance following the mergers was realised.

Similar to the findings of Gugler et al. (2003), Lommerud, Straume, & Sørgard (2003); Megginson, Morgan & Nail (2004) - who investigated long-term performance of M&As, Cabanda & Pajara-Pascual (2011) found long-term (seven years, before and after) significant positive results for the merger of William, Gothong & Aboitiz (WG&A) shipping companies. The results were significant for certain profitability, leverage, solvency and operating efficiency ratios – at 1% and 5% levels. Other capital investment spending and leverage, also showed positive differences, yet

insignificant. However, when the study focused on short-term (three years, before and after), the findings showed a deterioration in all the financial ratios tested. They were significant for profitability and capital investment spending ratios. These results were consistent with the findings of Martin (1996).

Similar to the Pakistani study, Sinha, Kaushik & Chaudhary (2010) studied 17 financial companies that merged between 2000 and 2008. Using a Wilcoxon Signed Test, the study used seven financial ratios, from profitability, liquidity, solvency and efficiency ratio groups – the study found interesting results. Firstly, profitability ratios, EPS and RONW showed that mean difference increased for most of the merging firms. However, when results were tested for significance, the first was significant at a 5% level and the latter showed otherwise. Overall, their study was able to conclude that Indian M&A transactions were able to add value to merged firms in one way or another.

The literature on post-performance of M&A does not end there, although, many of the above-mentioned studies have analysed financial performance of these M&A transactions, other studies have gone as far as identifying other forms or non-financial impacts of these M&A transactions. For example, investigating the impact or performance of mergers and acquisitions on: (i) (un)employment (Arora & Kumar, 2012; Conyon, Girma, Thompson & Wright (2001; 2002); Nene, 2013) (ii) asset productivity and cost savings: (Capron, 1999; (iii) human resource management (Buono & Bowditch, 2003; Larsson & Finkelstein, 1999; and Mirc, 2014; including; employees and management and its morale, thereof (Rathogwa, 2008); Chambers & Honeycutt, 2011; Market power (Gallet, 1996); and (iv) Ownership or corporate governance or control changes (Afza & Nazir, 2012; Bhaumik & Selarka, 2008; Cho, 2009; Hoorn & Hoorn, 2011; Liu & Wang, 2013); and finally, the general economy (Doytch & Cakan, 2011).

2.6 Research Hypothesis

In answering this study's research question of: "Is there a difference in performance for SA acquiring firms following M&A activity?" - the following research hypotheses will be used:

H_0: There is no difference in financial ratios (of acquiring firms) before and after M&A activity. Alternatively,

H_0: $\mu_d = 0$.

Where,

d is the difference between the financial ratios (before and after).

H_1: There is a significant difference in financial ratios (of acquiring firms) before and after M&A activity. Alternatively,

H_1: $\mu_d \neq 0$.

CHAPTER SUMMARY

Overall, M&A literature has provided evidence on both pre- and post M&A performance using traditional event study and financial statement analysis approaches. Although, evidence on M&A performance is mixed, a large proportion of studies showed favour towards M&As – and thus, providing evidence that equity markets are in favour of these strategies. However, evidence from emerging markets remains limited. Moreover, these results clearly indicated that stock markets are not efficient and that new informational changes can trigger price reactions – as seen by several statistical significant returns after the announcements. Furthermore, event study literature showed that most M&A value creation or abnormal returns were mostly experienced around event announcement days [-2;+2].

Accounting studies, on the contrary, showed distinct negative performance results from M&A transactions. Perhaps it could be argued that mergers and acquisitions do not yield any significant benefits in the long-term. Nevertheless, litterateurs were concerned that their results might have experienced some distortions or biases. These limitations included, small and limited sample sizes (for e.g. Ashfaq, 2014; Leepsa & Mishra, 2012; Marfo et al., 2013; and Oduro & Agyei, 2013); lack of information resources (for e.g. Aggarwal & Singh, 2015; Badreldin & Kalhoefer, 2009; and Oduro & Agyei, 2013;) and results were also hindered by using a single-industry sample or using a single (or few) M&A studies , as in the case of Adu-Darko & Bruce-Twum, 2014; Asimakopoulos & Athanasoglou, 2013; Cabanda & Pajara-Pascual, 2011; Foltz et al. 2002; and Stålstedt & Eriksson, 2006.

This South African study of performance of acquiring M&A firms differs from previous studies, in the following respects:

(i) To measure performance, financial ratios will only be evaluated;

(ii) Long-term comparative performance of acquiring companies will analysed, in the form of three years before and after;

(iii) Publicly-listed cross-border and domestic M&A transactions will be analysed. More so, South African acquiring companies (listed on the Johannesburg Stock Exchange) will be analysed;

(iv) There will be no industry or sector ‘cherry-picking’ – all industries and companies of all sizes will be analysed;

(v) Finally, the study will not test any of the M&A theories (for e.g. Hubris Theory, Transaction Cost Economics; Resource-Based Theory etc.) on whether M&As create value.

CHAPTER THREE: RESEARCH METHODOLOGY AND DATA SAMPLE

3.1 Introduction

This chapter presents the methodology and data to be used for addressing the objectives of the study as set out in Chapter One: to determine the financial impact of South African acquiring firms after engaging in M&A transactions. Section 3.2 presents the data sample & data sources; Section 3.3 presents research design and Section 3.4 presents Statistical measures to be used for the study.

3.2 Data Sample and Source

This study considers all South African domestic and cross-border M&A transactions of publicly-listed acquiring firms on the Johannesburg Stock Exchange, which occurred between 2007 and 2009. The M&A and financial accounting information dataset were obtained from the Bloomberg and Zephyr databases. Furthermore, the study looks at a three year pre- and post- M&A transaction period - as previously seen in the studies of Cabanda & Pajara-Pascual, 2011; Fraser & Zhang, 2009; Huain, 2012; Inoti et al., 2014; Leepsa & Mishra, 2012; Onikoyi & Sokefun, 2013 and Verma & Sharma, 2014. The study time period was also motivated by authors, Abbas et al. (2014) and Badreldin & Kalhoefer (2009) as they warn against using longer study periods as they affect the "accuracy of results due to external economic factors" (Abbas et al., 2014, p.5).

Also, the second objective of this study is to evaluate whether M&A performance significantly differs before and after different economic conditions. Based on the sample period, pre-crisis time-periods are defined as from January 2004 to December 2006. Secondly, crisis time-periods are defined as January 2007 to December 2009. Alternatively, this is the event study period. Finally, post-crisis periods are from January 2010 to December 2012. Most importantly, these time periods are focused around the "Great Recession" or the financial crisis of 2007 and will limit focus around other minor economic recessions or slowdowns such the 'dot.com' bubble in 2001 or the rise in South African short-term interest rates in the early 2000s (Dwyer & Lothian, 2011; Hanival & Mala, n.d.; Verick & Islam, 2010;).

In selecting the study's data sample, a number of criteria (as shown in Table 3.1) were used to select to the final sample used in the study.

Table 3.1: Initial Versus Final M&A Sample

	Mergers	Acquisitions
Initial Sample (Completed between 2007 and 2009)	19	285
Less**:** Acquirer without ticker (or private)	-19	-119
Less: Lack of or incomplete financial information and/or suspended and/or delisted acquirers	0	-10
Final Sample (Acquirers), based on 18 M&A transactions	0	10

Source: Bloomberg and Zephyr

In this final sample (n) of 10 companies, the pre- and post-M&A descriptive statistics are illustrated in Tables 3.2.1 and 3.2.2

Table 3.2.1 Pre-M&A descriptive statistics

Pre-M&A (2004 – 2006)						
Profitability Ratios						
Financial ratios	**Mean**	**Median**	**Stdev**	**Std Error of Mean**	**Min**	**Max**
Gross Profit Margin	26%	25%	3%	0.01	23%	28%
Operating Profit Margin	828%	773%	103%	0.32	765%	946%
Net Profit Margin	576%	574%	69%	0.22	508%	647%
Return on Assets	1174%	1204%	69%	0.22	1095%	1223%
Return on Equity	3056%	2998%	154%	0.49	2940%	3231%
Efficiency/Asset Management Ratios[1]						
Financial ratios	**Mean**	**Median**	**Stdev**	**Std Error of Mean**	**Min**	**Max**
Total Assets Turnover	2.67	2.46	0.04	0.01	2.43	2.50
Inventory Turnover	13.60	10.99	4.32	1.37	10.86	18.40
Liquidity						
Financial ratios	**Mean**	**Median**	**Stdev**	**Std Error of Mean**	**Min**	**Max**
Current	1.40	1.39	0.04	0.01	1.37	1.44
Quick or Acid	0.74	0.73	0.04	0.01	0.70	0.79
Cash	0.20	0.21	0.04	0.01	0.16	0.24
Solvency/Debt Management Ratios						
Financial ratios	**Mean**	**Median**	**Stdev**	**Std Error of Mean**	**Min**	**Max**
Debt	1459%	1438%	143%	0.45	1328%	1612%
Debt to Capital	2338%	2242%	224%	0.71	2125%	2559%
Debt to Equity	3790%	3592%	483%	1.53	3379%	4301%
Investment/Market Value						
Financial ratios	**Mean**	**Median**	**Stdev**	**Std Error of Mean**	**Min**	**Max**
EPS	3,681	3,7290	0.90	0.29	2,7540	4,5594
P/E	13,339	8,6966	6.75	2.13	6,6491	19,2208
P/BV	2,477	2,7397	0.61	0.19	1,7817	2,9092
Market	3972,663	4293,1800	1422.87	449.95	2416,8700	5207,9400

Capitalisation						

[1] Fixed Assets and Working Capital Turnover could not be calculated due to insufficient data.

Table 3.2.2 Post-M&A descriptive statistics

Post-M&A (2010 – 2012)							
Profitability Ratios							
Financial ratios	**Mean**	**Median**	**Stdev**	**Std Error of Mean**	**Min**	**Max**	**đ**[2]
Gross Profit Margin	23%	21%	5%	0.01	21%	28%	-3%
Operating Profit Margin	483%	479%	32%	0.07	463%	508%	-345%
Net Profit Margin	242%	240%	15%	0.03	232%	253%	-334%
Return on Assets	519%	505%	48%	0.11	473%	541%	-655%
Return on Equity	1402%	1414%	93%	0.21	1330 %	1461%	-1655%
Efficiency/Asset Management Ratios[3]							
Financial ratios	**Mean**	**Median**	**Stdev**	**Std Error of Mean**	**Min**	**Max**	**đ**[2]
Total Assets Turnover	2.16	2.16	0.02	0.04	2.14	2.19	-0.51
Inventory Turnover	13.61	14.08	1.08	0.34	12.37	14.36	0.00
Liquidity							
Financial ratios	**Mean**	**Median**	**Stdev**	**Std Error of Mean**	**Min**	**Max**	**đ**[2]
Current	1.28	1.30	0.05	0.02	1.22	1.31	-0.12
Quick or Acid	0.61	0.61	0.04	0.01	0.57	0.65	-0.13
Cash	0.17	0.17	0.01	0.00	0.17	0.18	-0.03
Solvency/Debt Management Ratios							
Financial ratios	**Mean**	**Median**	**Stdev**	**Std Error of Mean**	**Min**	**Max**	**đ**[2]
Debt	1622%	1618%	72%	0.23	1552%	1696%	162%
Debt to Capital	2545%	2578%	105%	0.33	2428%	2630%	208%
Debt to Equity	3803%	3918%	213%	0.67	3558%	3934%	14%
Investment/Market Value							
Financial ratios	**Mean**	**Median**	**Stdev**	**Std Error of Mean**	**Min**	**Max**	**đ**[2]
EPS	3,5725	3,6738	0.69	0.22	2,8424	4,2013	-0.11
P/E	16,7941	15,3271	2.96	0.93	14,858 1	20,1972	3.46
P/BV	2,0398	2,0641	0.06	0.02	1,9743	2,0808	-0.44
Market Capitalisation	6676,46 67	6363,69 00	1207.98	382.00	5655,6 400	8010,07 00	2703.80

2 đ is the difference in means for Pre- and Post-M&A transactions. It is calculated as: $Mean_{post\text{-}M\&A} - Mean_{pre\text{-}M\&A}$

3 Fixed Assets and Working Capital Turnover could not be calculated due to insufficient data.

In addition to the above, data sample characteristics are shown below in Table 3.3.

Table 3.3 Data sample characteristics

Panel A: Target Company Region	
Cross-border	
Australia	1
Denmark	1
United States	1
Domestic	
South Africa	15
Continent	
Australia/Oceania	1
Africa	15
North America	1
Europe	1
Panel B: Completed Deals by Years (By Acquirer)	
2007	10
2008	5
2009	3
Panel C: Diversification (By Acquirer)	
Related (horizontal)	10
Unrelated (vertical)	0
Panel D: Sectors	**Acquirer (Target)**
Automobiles & Parts (*Combined Motor Holdings*)	2 (4)
Food & Drug Retailers (*The Spar Group*)	1 (1)
Food Producers (*Astral Foods*)	1 (2)
General Industrials (*Argent Industrial; Barloworld*)	3 (4)
General Retailers (*Iliad Africa Ltd*)	5 (1)
Industrials, Metals, Mining	0 (1)
Industrial Transportation (*Grindrod; Imperial Holdings; Value Group Ltd)*	5 (0)
Personal & Household Goods (*Beige Holdings*)	1 (4)
Travel & Leisure	0 (1)
Panel E: Payment Type	
Cash	1
Debt	0
Shares	2
Cash, Deferred payment, Shares	0
Cash, Shares	2
Cash, Debt	1
Shares, Earn-Out	0
Cash, Shares, Earn-Out	0
Undisclosed/Unknown	12
Panel F: Prior M&A Experience by Acquirer	
Yes	4
No	6
Multiple mergers by acquirer (between 2007-2009)	
Argent Industrial Ltd	2
Astral Foods Ltd	1
Barloworld Ltd	1
Beige Holdings Ltd	1
Combined Motor Holdings Ltd	2
Grindrod Ltd	1
Iliad Africa Ltd	5
Imperial Holdings Ltd	3

Spar Group Ltd, The	1
Value Group Ltd	1
Panel G: Acquisition stakes	
0 – 25%	0
26% - 74%	0
75% - 100%	16
Undisclosed/Unknown	2
Panel H: Transaction Value ($ million)	
< 100	0
101 – 300	1
1,000 – 5,000	2
5,001 – 10,000	2
10,001 – 30,000	2
> 30,001	1
Undisclosed	10

Source: Bloomberg and Zephyr

3.3 Research Design

To measure accounting performance, the following ratios (in Table 3.4) will be used.

Table 3.4 Financial ratios – measuring post-merger accounting performance

Measures	Ratio	Calculation Description
Profitability	Gross profit margin	Gross income / Sales
	Operating profit margin	Operating income / Sales
	Net profit margin	Net income / Sales
	Return on assets	Net income / Average Total assets
	Return on equity	Net income / Average Shareholders' equity
Efficiency / Asset Management / Activity	Fixed asset turnover	Sales / Average Fixed assets
	Total asset turnover	Sales / Total assets
	Inventory turnover	Cost of goods sold / Average Inventory
	Working capital turnover	Sales / Net Working capital
Liquidity	Current ratio	Current assets / current liabilities
	Quick or Acid test ratio	(Current assets - inventories) / Current liabilities
	Cash	(Cash + marketable securities) / Current liabilities
Solvency / Debt Management	Debt ratio	Total debt or liabilities / Total assets
	Debt to capital	Total debt or liabilities / Total shareholders equity
	Debt to equity ratio	Long-term debt / shareholders' equity
Investment / Market value	Earnings per share	Net income / Basic weighted average outstanding shares
	Price-to-Earnings	Price per share / Net income per share
	Price-to-Book Value	Price per share) / Book value per share
	Market Capitalisation	Number of outstanding shares * share price

Source: Agorastos, Pazarskis & Karagiorgos, 2013; Brigham and Ehrhardt, 2013; Correia et al. 2011; Firer, Ross, Westerfield & Jordan, 2012; and Mahesh & Prasad, 2012.

3.4 Research statistical measures

To test whether acquiring companies benefit significantly from performing M&A transactions, the Paired Comparison (Difference) test will be used. According to the CFA Institute (2015), a Paired Comparison tests for statistical differences for dependent items. For example, the test may be used to test a dividend policy of companies before and after a change in the tax law affecting the taxation of dividends. Subsequently, pairs of "before" and "after" observations for the same

companies are created. Furthermore, this test may be used to test for a hypothesis about mean differences across companies CFA Institute (2015).

The Paired Comparison test statistic is defined as:

$$t^* = \frac{đ - 0}{s_d\sqrt{n}}$$

Where,

*t** is the t-value to compare whether the means are statistically different from each other;

đ is the mean difference (between 'before' and 'after' M&A pairs);

S_d is the standard deviation of the sample;

n is the number of observations.

To test for significance of values, the rule of thumb is used:

If *t** (referring to a positive t-value) or |*t**| (referring to a negative t-value) is > T critical values of 5% and 10% (obtained from a t-table), therefore, H_0 is rejected and the H_1 is not rejected (or accepted). This would mean that there is a significant difference before and after M&A transactions in the sample. Also, (seen in Section 2.6: Research Hypothesis), the study will make use of a two-tailed t-test to find out whether post-M&A financial impacts on accounting ratios, were either negative or positive.

3.5 Research Limitations

This study's analysis is limited to all acquiring South African JSE-listed firms, which engaged in M&As, during the period 2007 and 2009. Similarly, to other authors that used financial performance metrics, such as financial ratios, to measure abnormal to measure long-term financial acquiring firms - this study also used limited performance metrics and techniques and thus, results were confined to the above-mentioned parameters.

Furthermore, as data sources were from Bloomberg and Zephyr databases, therefore, the study's results are subject to the completeness and accuracy of these databases. Finally, the investigation period – January 2004 to December 2012 – may be seen as a relatively short time to draw definitive conclusions about the performance of these transactions during this nine-year period. This may question whether this period is a true representation of the economic environment of South African M&A transactions.

CHAPTER FOUR: RESULTS

4.1 Introduction

This chapter presents the findings of the study. Section 4.2 presents the general results of all South African acquirers that performed M&A transactions between the recessionary period, 2007 and 2009.

4.2 Do South African firms experience any significant changes in accounting performance following M&A transactions?

To answer the research question, Table 4.1 illustrates accounting performance pre- and post-M&A results using the Paired Comparison Test.

Table 4.1 Results of accounting performance pre- and post-M&A results using the Paired Comparison Test

Financial Ratios	Results					
	Means Difference	Standard Deviation	Standard Error of Mean	T-Value (Based on 9 Degrees of Freedom)	Significance (based on T-Critical Values of 2.228 and 2.262)	
					90% $t_{0.05,9} = 1.833$	95% $t_{0.05,9} = 2.262$
Profitability						
Gross Profit Margin (GPM)	-3%	5	0.01	-2.11	**	*
Operating Profit Margin (OPM)	-345%	23	0.07	-47.91	**	**
Net Profit Margin (NPM)	-334%	11	0.03	-100.32	**	**
Return on Assets (ROA)	-655%	34	0.11	-61.52	**	**
Return on Equity (ROE)	-1655%	67	0.21	-78.34	**	**
Efficient/Asset Management						
Total Assets Turnover (TAT)	-50.69%	0.02	0.01	-73.93	**	**
Inventory Turnover (IT)	0.11%	1.08	0.34	0.00	**	**
Liquidity						
Current (CR)	-12.14%	0.05	0.02	-7.40	**	**
Quick or Acid Test (QR)	-12.74%	0.04	0.01	-9.34	**	**
Cash (CASH)	-2.54%	0.01	0.00	-8.50	**	**
Solvency/Debt Management						
Debt	162%	72	0.23	7.16	**	**
Debt to Capital (D/C)	208%	105	0.33	6.24	**	**
Debt to Equity (D/E)	14%	213	0.67	0.21	**	**
Investment/Market Value						

EPS	-10.83%	0.69	0.22	-0.50	*	*
P/E	345.53%	2.96	0.93	3.70	**	**
P/BV	-43.71%	0.06	0.02	-24.13	**	**
Market Capitalisation	270380.33%	1207.98	382.00	7.08	**	**

* Not Sig = Not Significant
** Sig = Significant

CHAPTER FIVE: DISCUSSION OF FINDINGS AND CONCLUSION

5.1 Introduction

This chapter outlines the discussion of findings and conclusions of this study. Section 5.2 presents the summary of findings and Sections 5.3 and 5.4 provide conclusions and areas for future research.

5.2 Discussion of Findings

This study analysed all the South African M&A transactions performed between 2007 and 2009. Based on the results in Section 4.2, there is significance for the long-term accounting performance of South African acquirers, more specifically, results showed to be mostly significantly negative. This is consistent with the findings of Akben-Selcuk & Altiok-Yilmaz, 2011; Allah-Yar, 2012; Ashfaq, 2014; Cabanda & Pajara-Pascual, 2011; Chesang, 2002; Inoti et al., 2014; Kemal, 2011; Marfo et al., 2013; Ndura, 2010; Oduro & Agyei, 2013; Pazarskis et al., 2013; Pilloff & Santomero, 1997 and Sufian, 2004. However, this is inconsistent with the findings of Gugler et al., 2003; Ismail, et al., 2011; Lau, Proimos & Wright, 2008; Lommerud et al., 2005; Megginson et al., 2003 and Ramaswamy & Waegelein, 2003.

Under a 5% significance level, most Profitability ratios showed to be significantly negative (negative means difference or deterioration after the M&A acquisition) with the exception of the Gross Profit Margin, which did not show a significant difference in means, but showed negative significance under a 10% significance level. Similarly as to the above, Total Asset Turnover under Efficiency ratios, also showed negative significance. However, Inventory Turnover, showed no difference before and after the M&A transactions. Furthermore, all Liquidity and Solvency ratios showed negative significance. However, for the latter, all Debt ratios worsened. Finally, half of the Investment ratios (P/E and Market Capitalisation), showed positive significance. However, for EPS, the results were non-significant (at both 5% and 10% significance levels) and P/BV showed to be negatively significant.

5.3 Conclusion

The objective of this study was to evaluate whether, in the long term, South African acquiring companies listed on the Johannesburg Stock Exchange, yield any changes – whether positive or negative - to their accounting performance by participating in M&A transactions. This study has contributed to the global body of knowledge on Mergers and Acquisitions; and it has attempted to close the gap in the South African literature on this subject. Furthermore, accounting performance was measured by using five common types of financial ratios – to study pre- and post- recessionary M&A performance, on the basis of the M&A event study window of 2007 to 2009.

An initial sample of 98 local acquirers, who participated in 166 mergers and acquisitions, was narrowed down to a final sample of 10 acquirers, who had performed 18 acquisitions during 2007 and 2009. This sample of 10 companies, from seven industry, was then analysed – using the Paired Difference Test to order to make inferences about a firm's performance.

Limitations of this study's results are confined to the small sample of listed South African acquirers that performed M&A transactions between 2007 and 2009. The limited sample was influenced not only by the event study period, but also by the availability of financial data and the limited number of publicly-listed acquirers. In measuring long-term post-M&A firms' performance, only the accounting performance was evaluated. Therefore, a selected number of financial ratios were tested; while other ratios, such as the Cash-Flow ratios were excluded.

Using five sets of financial ratios, only the P/E ratio and Market Capitalisation were found to have positive significance. Overall, the study finds that, post-M&A impact has shown to be significantly negative in the financial performance of South African acquirers. Therefore, the study concludes that these transactions add little value to corporates, in terms of their financial performance.

5.4 Areas for future research

An extended study could be undertaken to address this study's limitations. Firstly, the data were sourced from the Zephyr database (and Bloomberg for ratios) and helped to finalise the data sample. Perhaps an alternative database could be used to

increase the sample size, and thereby ensure that the results represent the larger population and include more mergers and more industries. Also, other methodologies, such as the Wilcoxon Signed Rank Sum Test or Data Envelopment Analysis (DEA), could also be applied to test the performance.

This study also focused on the long-term performance before and after recessionary periods (as the event study period, being M&A transactions during the recession), future study could focus on non-recessionary periods. Also, longer estimation periods (more than three years) could also be used to capture the full effects of the performance of ratios. Although, not all financial ratios showed significance, one could argue that the benefits of these acquisitions (for the acquirers) were not to solely to improve their balance sheets or in other words, M&A success does not solely stem from financial performance of firms, there are other variables that contribute to improved shareholder value. For example, acquirers set out to improve management efficiency or other non-financial performance issues. Therefore, M&A benefits cannot be 'contained' in financial statements. An extension of this paper, could investigate non-financial value-drivers of M&A transactions. Finally, the study was limited to five common types of financial ratios and excluded the cash-flow ratios and other long-term performance metrics. Inclusion of these could possibly result in a different research outcome.

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