Analysis of U.S. Acquirers' Performance Following Cross-Border Mergers and Acquisitions

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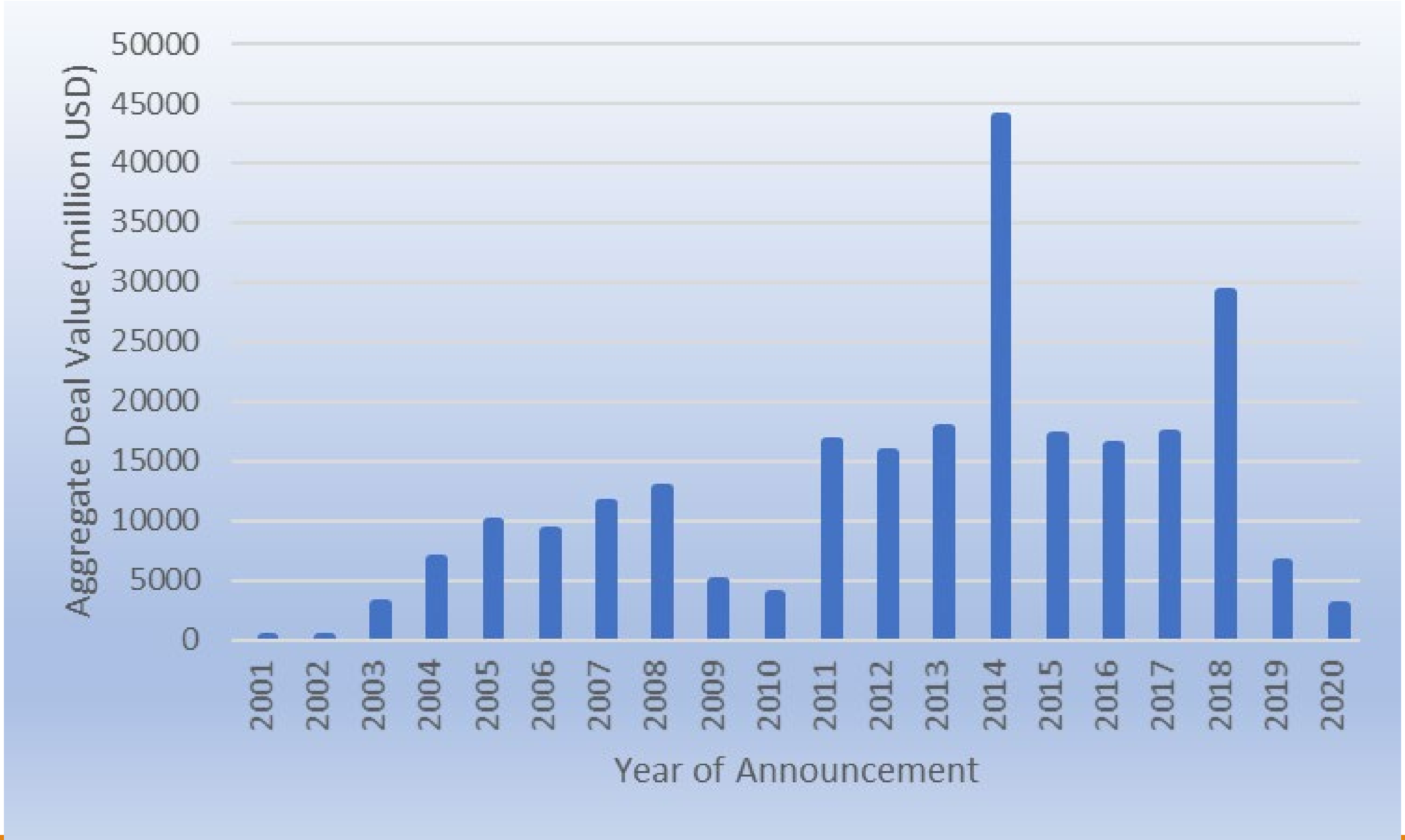
Introduction

- Cross-border mergers and acquisitions (CBMA) have become an increasingly popular method of Foreign Direct Investment in recent years.
- The UNCTAD reported an increase of 136% in the value of CBMA from 2014 – 2015.
- Firms undertake CBMA for a variety of reasons including technological advancement, economies of scale, and improved access to resources, among others.
- Despite the advantages anticipated by firms engaging in CBMA, studies show that they can have varying levels of success depending on several different elements of the deal.

Yearly Value of U.S. Acquirers' CBMA From 2001-2020 (in millions of USD)



Objective

- The purpose of this study is to determine which characteristics of U.S. acquirers in cross-border mergers and acquisitions have the potential to impact a firm's long-term abnormal returns in stock price following the transaction.
- We intend to add to the current literature available on cross-border mergers and acquisitions by providing insight into strengths and weaknesses of U.S. acquirers.
- The study will help to clarify best practices for U.S. acquirers wishing to undertake CBMA.

Methodology

- Collect data on completed CBMA by U.S. acquirers after the year 2003.
- Employ a standard event study and regression analysis by quantifying various qualities of U.S. companies that undertook CBMA and then determining their statistical significance in impacting the return in stock price over the following year (or more).
- Returns in stock price will serve as the dependent variable in our analysis while firm characteristics will serve as the independent, or explanatory variables.

Results

- The initial research suggests that there are several factors which can positively impact the long-term performance of U.S. acquirers following a CBMA deal, including:
  - Target firms cross-listing on U.S. exchanges
  - U.S. acquisitions of companies in segmented financial markets
  - Successful transmittance of corporate governance practices onto the target firm
  - Acquirers with high levels of R&D spending

Results

- There are also several factors which have been shown to negatively impact the performance of companies following a cross-border merger or acquisition, including:

  - Undertaking CBMA during a financial crisis

  - Hostile bids and tender offers

  - Firms with excessive amounts of cash on hand making acquisitions

Discussion

- The initial findings indicate that certain characteristics of U.S. acquiring firms in CBMA deals do impact the long-term performance of the company following the transaction.
- Significant results will add to the overall clarity and understanding of factors influencing the success or failure of cross-border mergers and acquisitions.
- Improved clarity regarding U.S. acquisitions of foreign companies will allow U.S. firms undertaking CBMA in the future to optimize the transaction for the highest probability of long-term success.

Sources

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