

## Event study: How does the announcement of an acquisition impact the share price of the acquirer?

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# 1 - Context & Objectives

## I. Context of our research question

We conducted an event study to examine acquirers' short-term abnormal stock returns before and after acquisition announcements. We then used cross-sectional regressions to identify which deal-specific and acquirer-specific characteristics help explain the variations in these market reactions.

This research addresses a central question in corporate finance : does M&A transactions create value? More specifically, it examines how financial markets assess acquisitions from the acquirer's perspective, and whether market reactions reflect expected synergies or concerns about overpayment.

## II. Objectives of our research question

The objective of this project is then to analyze the impact of M&A announcements on the acquirer's share price by examining stock price behavior days before and after the announcement date, and by addressing the following questions:

**Part I:** How does the market react to M&A announcements on average for acquirers?

**Part II:** What drives differences in market reactions?

# 2 - Hypothesis & Expected Results

**H1:** Mean acquirer CAR\* around announcements is  $\leq 0$

**H2:** Large cap acquirers see a smaller reaction compared to small and mid caps (more analyst coverage, less financing risk, smaller relative deal size)

**H3:** Larger relative deal size leads to more negative CAR (overpayment risk)

**H4:** Acquiring a public target leads to more negative CAR (higher premiums, competition)

**Financial Theory:** The analysis tests the semi-strong form of market efficiency, which states that new public information is rapidly incorporated into stock prices.

**Target Firm Reaction:** Target stock prices are expected to increase by +20% to +40% immediately following the acquisition announcement, reflecting the acquisition premium.

**Acquirer Firm Reaction:** Acquirer stock prices are expected to remain stable or experience a slight decline of approximately 0.5% to 1.5% immediately after the announcement.

**Heterogeneity of Outcomes:** Market reactions are expected to vary depending on deal characteristics such as deal size, payment method, and whether the transaction is domestic or cross-border.

\*Cumulative Abnormal Returns

# 3 - Data used for the regressions

**Data Sources :** Capital IQ, LSEG

**Sample Scope :** European firms

**Acquisition announcements :** Between 08/01/2024 and 07/08/2024

**Companies types :** Public companies (Buyers/Investors)

**Share prices :** expressed in USD

**Financial ratios :** expressed in percentages

**Units & variable definitions :** expressed in USD million (default)

## **Data Cleaning & Adjustments :**

Observations dropped when transaction price was not disclosed ( $\approx$  half of initial sample)

Observations dropped for data inconsistencies (e.g., share price equal to zero; very limited cases)

Observations also dropped due to cancelled acquisitions

**Number of companies in the sample**

→ 804 071

→ 7 005

→ 943

**Number of observations (acquisitions) in the main regression :**

→ 498

# 4 - Methodology (1/2)

## Methodological Choices

Companies financial results are based on the latest fiscal year ending (LTM) before 01/01/2024, with the STOXX 600 used as the common benchmark.

Announcements made on non-trading days are assigned  $t = 0$  on the next trading day, and all event windows are defined in trading days rather than calendar days.

## Part I – Measurement

An event study methodology is used to compute Cumulative Abnormal Returns (CAR) over a  $[-1; +1]$  trading day window, complemented by descriptive statistics.

The short window isolates the announcement effect and limits contamination from concurrent information releases, in line with standard empirical M&A practice.

# 4 - Methodology (2/2)

## Part II – Explanation

**Model framework:** Cross-sectional OLS regression explaining CAR [-1; +1] using deal- and firm-specific characteristics.

**Dependent Variable:** CAR [-1; +1], with abnormal return computed relative to STOXX 600 daily returns

### Key Independent Variables:

- Target type: public vs private (dummy)
- Payment method: share of cash (%)
- Relative deal size: deal value / acquirer market cap
- Cross-border deal: domestic vs cross-border (dummy)

### Control Variables:

- Industry fixed effects
- Acquirer size: log market capitalization
- Financial controls: Leverage (Net Debt / EBITDA), Profitability (EBITDA margin), Liquidity (Cash / Total Assets), Valuation (Price-to-Book)

**Robustness Checks:** Re-estimation using CAR [-2; +2] to account for information leakage/delayed market reactions\*

\*robustness checks confirmed all of our findings for each regression

# 5 – Results and Interpretation (1/3)

## Summary Statistics

Average deal size = around \$200m

Median Deal size / market cap of acquirer = around 4%

Public/private: only around 3% of targets are public

Average cash used for acquisition = around 93%

Around 60% of deals are cross-border  
(where target HQ  $\neq$  buyer HQ)

Market cap samples (33%/33%/33%):

**Small:** average mcap = around \$42m

**Mid:** average mcap = around \$680m

**Large:** average mcap = around \$20,000m

## CAR -1/+1 day mean/median for the 3 different sub samples as follows :

```
df_small['car_1'].mean()
```

```
-0.12662956619792987
```

```
df_small['car_1'].median()
```

```
-0.3968454353707739
```

```
df_mid['car_1'].mean()
```

```
-0.11256257471908601
```

```
df_mid['car_1'].median()
```

```
-0.07271082592832356
```

```
df_large['car_1'].mean()
```

```
-0.023097126019198194
```

```
df_large['car_1'].median()
```

```
-0.10024204362302391
```

The results show that the mean and median CAR (-1,+1) are negative and between -0.02% to -0.40% across all three subsamples, indicating that acquisition announcements are, on average, associated with a slight negative market reaction for acquirers. However, this effect is less pronounced for large-cap acquirers, whose CARs are closer to zero compared to small- and mid-cap firms, suggesting a weaker market reaction for larger firms. These findings **confirm H1 and H2.**

# 5 – Results and Interpretation (2/3)

OLS Regression Results						
Dep. Variable:	car_1	R-squared:	0.023			
Model:	OLS	Adj. R-squared:	0.006			
Method:	Least Squares	F-statistic:	1.432			
Date:	Tue, 30 Dec 2025	Prob (F-statistic):	0.201			
Time:	01:03:49	Log-Likelihood:	-781.84			
No. Observations:	355	AIC:	1578.			
Df Residuals:	348	BIC:	1605.			
Df Model:	6					
Covariance Type:	HC3					
	coef	std err	z	P> z	[0.025	0.975]
Intercept	-0.3574	0.525	-0.681	0.496	-1.385	0.671
cash_payment_pct	0.0028	0.006	0.483	0.629	-0.009	0.014
deal_mcap	-0.0015	0.001	-1.712	0.087	-0.003	0.000
cross_border	0.4760	0.278	1.711	0.087	-0.069	1.021
mcap_log	-0.0283	0.076	-0.372	0.710	-0.177	0.121
pb_ratio	8.229e-05	0.000	0.294	0.768	-0.000	0.001
debt_ebitda	-6.606e-05	0.000	-0.444	0.657	-0.000	0.000
Omnibus:	372.998	Durbin-Watson:			1.514	
Prob(Omnibus):	0.000	Jarque-Bera (JB):			28562.515	
Skew:	4.270	Prob(JB):			0.00	
Kurtosis:	46.105	Cond. No.			5.16e+03	

OLS Regression Results						
Dep. Variable:	car_1	R-squared:	0.071			
Model:	OLS	Adj. R-squared:	0.012			
Method:	Least Squares	F-statistic:	0.5313			
Date:	Tue, 30 Dec 2025	Prob (F-statistic):	0.783			
Time:	01:03:49	Log-Likelihood:	-253.38			
No. Observations:	102	AIC:	520.8			
Df Residuals:	95	BIC:	539.1			
Df Model:	6					
Covariance Type:	HC3					
	coef	std err	z	P> z	[0.025	0.975]
Intercept	-0.5689	1.087	-0.523	0.601	-2.700	1.562
cash_payment_pct	0.0104	0.011	0.987	0.323	-0.010	0.031
deal_mcap	-0.0019	0.002	-1.153	0.249	-0.005	0.001
cross_border	0.9214	0.714	1.291	0.197	-0.478	2.321
mcap_log	-0.1397	0.304	-0.459	0.646	-0.736	0.457
pb_ratio	-0.0012	0.003	-0.382	0.702	-0.007	0.005
debt_ebitda	-0.0005	0.001	-0.757	0.449	-0.002	0.001
Omnibus:	152.178	Durbin-Watson:			1.818	
Prob(Omnibus):	0.000	Jarque-Bera (JB):			7793.493	
Skew:	5.321	Prob(JB):			0.00	
Kurtosis:	44.479	Cond. No.			3.65e+03	

We ran 4 OLS models. The left table (Table 1) presents results for the entire sample. The right table (Table 2) presents the small caps subsample. Explanatory power is low for all 4 models, with R-squared values ranging between 2.3% and 9.7%. Most coefficients are statistically insignificant. Globally, these results suggest that observable firm and deal level variables explain only a small portion of the variation in acquirers' CAR (-1,+1). This is consistent with literature and highlights the difficulty of predicting market reactions to acquisition announcements. Relative deal size is statistically significant and negatively correlated with CAR for the entire sample, **confirming H3**.

# 5 – Results and Interpretation (3/3)

OLS Regression Results						
Dep. Variable:	car_1	R-squared:	0.097			
Model:	OLS	Adj. R-squared:	0.053			
Method:	Least Squares	F-statistic:	11.10			
Date:	Tue, 30 Dec 2025	Prob (F-statistic):	7.24e-10			
Time:	01:03:50	Log-Likelihood:	-258.05			
No. Observations:	130	AIC:	530.1			
Df Residuals:	123	BIC:	550.2			
Df Model:	6					
Covariance Type:	HC3					
	coef	std err	z	P> z	[0.025	0.975]
Intercept	-0.8186	1.849	-0.443	0.658	-4.442	2.805
cash_payment_pct	-0.0006	0.008	-0.072	0.942	-0.017	0.015
deal_mcap	-0.0229	0.008	-2.932	0.003	-0.038	-0.008
cross_border	0.5106	0.315	1.620	0.105	-0.107	1.128
mcap_log	0.0711	0.301	0.236	0.813	-0.519	0.662
pb_ratio	0.0012	0.000	3.408	0.001	0.001	0.002
debt_ebitda	-2.64e-05	0.000	-0.121	0.903	-0.000	0.000
Omnibus:	68.189	Durbin-Watson:			1.749	
Prob(Omnibus):	0.000	Jarque-Bera (JB):			453.002	
Skew:	1.664	Prob(JB):			4.28e-99	
Kurtosis:	11.518	Cond. No.			1.52e+04	

OLS Regression Results						
Dep. Variable:	car_1	R-squared:	0.036			
Model:	OLS	Adj. R-squared:	-0.013			
Method:	Least Squares	F-statistic:	0.7947			
Date:	Tue, 30 Dec 2025	Prob (F-statistic):	0.576			
Time:	01:03:51	Log-Likelihood:	-239.64			
No. Observations:	123	AIC:	493.3			
Df Residuals:	116	BIC:	513.0			
Df Model:	6					
Covariance Type:	HC3					
	coef	std err	z	P> z	[0.025	0.975]
Intercept	0.4189	1.677	0.250	0.803	-2.867	3.705
cash_payment_pct	-0.0035	0.011	-0.328	0.743	-0.025	0.018
deal_mcap	0.0039	0.013	0.294	0.769	-0.022	0.030
cross_border	0.0959	0.390	0.246	0.806	-0.668	0.860
mcap_log	-0.0320	0.145	-0.220	0.826	-0.317	0.253
pb_ratio	-6.866e-05	0.000	-0.180	0.857	-0.001	0.001
debt_ebitda	0.0009	0.000	1.853	0.064	-5.16e-05	0.002
Omnibus:	0.478	Durbin-Watson:			1.404	
Prob(Omnibus):	0.787	Jarque-Bera (JB):			0.621	
Skew:	0.050	Prob(JB):			0.733	
Kurtosis:	2.666	Cond. No.			5.24e+03	

The left table (Table 3) presents results for the mid caps subsample; the right table (Table 4) presents the large caps subsample. Consistent with previous findings, relative deal size is negatively correlated and significant at the 1% level for mid caps (Table 3). Surprisingly, price-to-book ratio is also positive and significant for mid caps, indicating that premium or “growth” stocks experience a better market reaction to M&A announcements. All variables are notably less significant for the large caps subsample, further **confirming H2**. We found no evidence to confirm H4. Therefore, we **reject H4**.

# 6 - Conclusions

Using an event-study framework on European public acquirers, we find that announcements of acquisitions are associated with small but consistently negative short-term abnormal returns for the acquirer, particularly for smaller firms and relatively large deals. Cross-sectional regressions show that deal characteristics explain only a limited share of these reactions, highlighting both semi-market efficiency and the difficulty of predicting value creation at announcement.

## Limitation

Earnings release may impact stock prices when they happen during the window of a deal announcement.  
We did not control for that.

## Ideas for future research

- 1- Run an analysis of the target stock price during announcement: How does the market value acquisition premium?
- 2- Do synergies actually happen down the line? Run a post-merger integration study 6-12 months after acquisition?  
Does M&A destroy value due to over-paying or does it create value in the long run?