Do Acquiring Firms Achieve Their Mergers and Acquisitions Objectives? Evidence from Japan

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Motivation and Research Question

• The IASB (2020), “Business Combinations—Disclosures, Goodwill and Impairment,” proposed that acquiring firms provide M&A information including:
  ➢ “The strategic rationale, objectives and related targets in the financial statements;”
  ➢ “Whether the original objective is still expected to be met;” and
  ➢ “The acquisition’s subsequent performance for as long as the information remains necessary for investors to assess whether the original objectives of an acquisition are being met.”

• Research Question: this paper investigates the usefulness of the information on M&A objectives.
Hypothesis and Findings

• **H1**: When acquiring firms mention M&A objectives, their financial indicators show greater improvements, compared with firms that do not.
  
  ➢ No strong evidence (univariate analyses).

• **H2**: When acquiring firms mention M&A objectives, they experience higher stock returns, compared with firms that do not.
  
  ➢ Supportive evidence based on 2-month stock returns (univariate and multivariate analyses).

• Analyses based on a sample of 232 M&As conducted between Japanese listed firms from 2006 to 2016.
Comment 1 – Short-term Market Reaction

• To investigate the usefulness of M&A objective information, it could be helpful to analyze stock returns based on short-term windows around the announcement dates of press releases and annual reports.

[month 0, month +2]

[day 0, day +2]

Press release

Annual report
Comment 2 – Whether the Objective Has Been Achieved

- It would be interesting to examine the stock market responses to the subsequent performance, conditional on whether original M&A objectives have been met (IASB 2020).
  - Identify the firms that meet or miss the targets.
  - It would be expected that the stock market will react positively (negatively) to the news that acquiring firms meet (miss) M&A objectives.
  - Run regressions to analyze stock returns around the subsequent annual report dates, controlling for other factors that can affect returns.
Comment 3 – Information Relevance

• Given that the description of M&A objective can be *boilerplate*, using textual analyses, we can further classify those descriptions into generic information and non-generic information.

• We may expect that **non-generic information** can provide more relevant information to investors, **leading to stronger market reactions**.
An interesting paper provides important policy implications.