Recent Mergers and Acquisitions of Vertically-Integrated, American Forest Products Companies: Has Shareholder Value Been Created?

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Abstract

Event study methodology was used to test the null hypothesis of no shareholder value creation from the mergers and acquisitions of nine vertically-integrated American forest products companies within the last ten years. The concept of market efficiency dictates that the reaction of financial markets to new information should be both quick and lasting. Short-term event study methodology tests the first characteristic, while long-term event study methodology can be used to test the latter. A net creation of $4.7B of market value upon the announcement of the nine mergers and acquisitions was identified by the use of short-term event study methodology. Seven of the nine combinations displayed a creation of value. When the results are viewed separately for shareholders of the target and acquiring firms, we found that target firms enjoyed a statistically significant, nearly 15% average return attributable to the merger announcements. The returns to acquiring firms averaged a statistically insignificant 0.34%. In the aggregate, the return for this sample of firms was a statistically significant 7.66%. These results are consistent with the findings from previous research on merger and acquisition announcements. The calendar-time portfolio approach was used to estimate long-term post merger performance. Three year mean abnormal returns of -5.11% and -10.93% were found, when benchmarking performance based on firm size and risk, respectively. For both of these benchmarks, the abnormal returns were strongly insignificant. These findings are both consistent with previous research, and in keeping with the tenets of market efficiency.

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