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She is mine: Determinants and value effects of early announcements in takeovers

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She is Mine: Determinants and Value Effects of Early Announcements in Takeovers

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Abstract

Some bidders voluntarily announce a merger negotiation before the definitive agreement. We propose an “announce-to-signal” explanation to these early announcements: they allow bidders to signal to target shareholders high synergies so as to overcome negotiation frictions and improve success rates. Consistent with signaling, we show that negotiation frictions predict earlier announcements. Early announced transactions are associated with higher expected synergies, offer premium, completion rates, and public competition. Moreover, bidder announcement returns do not suggest overpayment and the existence of agency issues in these transactions. Taken collectively, our findings rule out alternative explanations such as managerial learning from investors and jump bidding.

JEL classification: D01; D82; G34

Keywords: Mergers and Acquisitions, Early announcement, Signal, Negotiation frictions

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