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Telecommunications Deregulation and the Motives for Mergers

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Highlights

- Rivals of targets earn positive abnormal returns with substantial cross-sectional dispersion
- Rivals that become subsequent targets earn greater returns than subsequent non-targets
- Financial characteristics of initial target firms and subsequent targets are indistinguishable
- Rival abnormal returns not related to market concentration and horizontal vs. vertical deal status
- Results are consistent with predictions of anticipation hypothesis and inconsistent with collusion

Abstract

We study mergers in the regulated telecommunications industry to test theories of merger gains. We find that mergers yield positive returns to the combined firms. Because this effect is consistent with the collusion, competitive advantage and anticipation hypotheses, we study returns to rivals to differentiate the hypotheses. Our results indicate that rival firms earn positive abnormal stock returns upon the announcement of an industry merger and that returns exhibit substantial cross-sectional dispersion. Rivals that become targets in subsequent mergers earn significantly greater

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