Discussion of "Is there information in corporate acquisition plans?" by Sinan Gokkaya, Xi Liu, and René M. Stulz

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Is there information in corporate acquisition plans? **Yes.**

- **Main finding**: Announcements of intentions to pursue acquisitions are informative to investors and predict subsequent acquisition activity.
- **Setting**: 13,137 firm announcements of M&A intent from 2003 to 2015.
  - Distinct from specific target announcement.
  - Data sourced from Mergermarket Ltd. covering U.S. firms.
- **Findings**:
  - Informativeness: Insignificant average market reaction; significant absolute abnormal returns and abnormal turnover.
  - Announcements predict future acquisition activity; lower market uncertainty proxies around eventual acquisitions.
  - Eventual acquisition even more likely if market reaction was positive.
  - Announcers more likely to be larger, less innovative, serial acquirers, with high institutional ownership & ownership coverage (least opaque firms).
  - Propensity to announce is lower in more competitive industries; higher if peers announce.

Comments

- I can contribute the perspective of a “representative” general reader.
- This paper clearly provides new and interesting facts. I learned a lot!
- General reader needs more hand holding:
  - Explaining and illustrating institutional details;
  - Providing a (verbal) theoretical framework; and
  - Organizing the many results and drawing takeaways across tests.

Suggestion #1: Provide context and institutional details

- Currently acquisition plan announcements are abstract.
  - E.g, is the market responding to the acquisition plan itself or the announcement of the *existence* of such a plan?
  - How does this compare to the announcement of a target? Is that a limiting case (maximally specific and committed)?
- Complement large-scale statistical evidence with specific case studies
  - A firm that successfully used acquisition plan announcements to signal strength or deter competitors.
  - A case where an announcement led to negative outcomes.
  - Contrasting cases of a "Committed" versus "Noncommitted" and/or "Internal M&A Pipeline" versus "Opportunistic" case.
- Place paper and findings (effect sizes etc.) in the context of the literature on M&A target announcements.

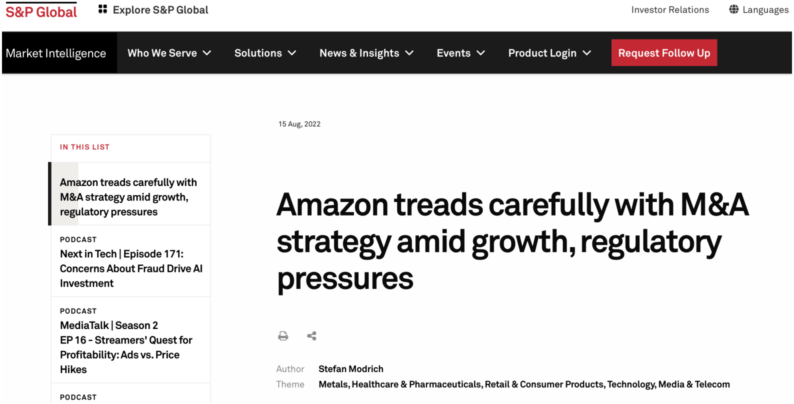
Appendix example of an "Internal M&A Pipeline" and " Comitted" firm

Timken (NYSE: TKR), the North Canton, Ohio-based manufacturer of bearings, transmissions, gearboxes and related products, will ramp up its acquisition activity and has ample financial capacity, according to management. At the Goldman Sachs Industrials Conference, CEO Richard Kyle was asked about the M&A funnel and if transactions were possible. "The pipeline today is probably more active than it has been," he replied. Kyle said the company's ability and confidence to acquire businesses, integrate them effectively, and create value was as high as it has been in recent times, adding that management liked the current portfolio and was not looking to make significant changes to it.

- What was the market reaction?
- Were there subsequent acquisitions? Where they successful (for the acquirer)?
- Ask TKR why they made this announcement and what role it played.

Suggestion #2: Regulator signaling role?

- Announcers are larger, less innovative and in less competitive industries. These are the main focus of anti-trust authorities. Maybe announcements serve to address regulatory risk?



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Author Stefan Modrich
Theme Metals, Healthcare & Pharmaceuticals, Retail & Consumer Products, Technology, Media & Telecom

Suggestion #2: Signaling to regulators?

Amazon.com Inc.'s recent acquisitive streak aims to close big deals by targeting new sectors as executives look for future growth, analysts said.

The company's M&A strategy appears tailored to withstand the scrutiny faced by Amazon's Big Tech peers, some of which are pulling back on dealmaking amid heightened regulatory headwinds. A key question is whether concerns about how Amazon will handle sensitive data like medical records could lead to roadblocks for the company's recently announced acquisitions.

In the past month, Amazon announced two big deals that, if approved, would account for the company's third- and fourth-largest acquisitions ever. The targets are 1Life Healthcare Inc., which oversees a health provider network known as One Medical, and iRobot Corp., a company best known for its autonomous vacuum, Roomba.

"They're able to do acquisitions in areas where they can claim small market share," said Loup Ventures managing partner Gene Munster.

- Do you see that acquisitions after announcements are more likely to be in industries in which the acquirer has low market share? (What industry definition do regulators use?)
- Potential instruments: Regulatory capacity (# ongoing cases, budget); regulatory focus (change of party).

Suggestion #3: Discuss theoretical framework for extensive margin

Empirical facts:

- 1/3 of acquisitions by a plan-announcing firm; 1/5 of signallers acquire.
- Announcers' mergers better quality then the universe of M&A (+ acquirer CAR (T9), not larger premiums (T11), not lower target returns (AT5).
- Announcers are large, mature, cash-rich firms with high institutional ownership and analyst coverage.

What framework would predict the apparent separating equilibrium we observe even *within* industry?

Framework 1: Principal (shareholders) elicit a signal from the agent (management).

Versus

Framework 2: The agent (firm) pro-actively sends a signal.

- Seems implicit in current draft.

Suggestion #3: Discuss theoretical framework for extensive margin

Institutional ownership and analyst coverage seem key.

- High reputational cost if bluffing?
- Repeat game with institutional investors who demand some of M&A bump?
  - Shifts in institutional investments in likely targets around announcement?

Matters for identification/interpretation

- For whether announcements convey information, causality irrelevant
  - Stock "*ideal*" experiment of randomly assigning treatment (announcements) makes no sense.
- For subsequent tests, bias source likely reverse causality.
  - Expectation of better M&A opportunities/better bargaining position $\Rightarrow$ announcement.
  - But then understanding why those with better deals select into announcing a first-order question.

Suggestion #4: Unify subsample analyses

- Many sub-sample analyses, raising issues of comparability, firm composition, and multiple testing.

- Consider employing Susan Athey's causal forest methodology to estimate heterogeneous causal effects with correct confidence intervals.
  - Build tree on training data and fit on estimation data for correct inference.
  - Model the distribution of treatment effects.
  - Data-driven sample splits reveal most important covariates (explain treatment effect differences best).

- Some references:
  - Athey, Susan, and Guido W. Imbens. "Machine learning methods that economists should know about." Annual Review of Economics 11 (2019).
  - Wager, Stefan, and Susan Athey. "Estimation and inference of heterogeneous treatment effects using random forests." Journal of the American Statistical Association (2018):
  - Code: grf package on github

Conclusion

- Ambitious and clearly worthwhile to pin down acquirer strategic behavior.
- The burden of being first is that the "general" reader needs extra help getting situated.
- Other benefits include enhancing usefulness to practitioners.
- I look forward to seeing the paper in print!