



Earnouts as Payment Currency and Value Gains to Bidder Shareholders.: An Analysis of the German and Swedish M&A Market.

Silke Schmid

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Master's Thesis from the year 2013 in the subject Economics - Finance, grade: 1,0, University of St Andrews (Economics and Finance), course: Merger and Acquisitions, language: English, abstract: This dissertation analyses the cumulative abnormal return (CAR) to Swedish and German bidders and the impact of method of payment. Cash and Stock as means of financing have been discussed widely in the last decades. More recently the contingent payment form earnout has come to focus of research which will be further investigated in this dissertation. The study involves a sample of 927 transactions of which 346 bids are made by German and 581 bids are made by Swedish acquirers. Moreover, the sample comprises 24 German and 49 Swedish earnout deals. The sample period is chosen from 01/01/1986 to 31/12/2012 whereby a German or Swedish company acquires a domestic or foreign target of any listing status. The univariate analysis shows marginally significant results for the outperformance of earnout over non-earnout in cross industry acquisitions (CIAs) and insignificant results for a combination of cash and earnout over cash-only. Furthermore, it provides evidence that earnout deals with a small relative earnout value (REAV) and a short earnout length (EAL) significantly outperform earnout deals with a large REAV and a long EAL. In addition, a multivariate regression is performed to control for the impact of several factors that previously have been found to determine bidder CAR. In conformity with existing studies of the UK and US takeover market, the multivariate analysis provides evidence that earnout currency is a mean to mitigate valuation risk and offers higher value gains to bidder shareholders than non-earnout currency. It further shows that a combination of cash and earnout is a superior means of financing than cash-only payments. Besides, the multivariate analysis supports the univariate results with respect to REAV and EAL and it is shown that earnout measures (EAMs) as profit and sales are important value determinants, which both offer positive and significant value gains to bidder shareholders in earnout deals.

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