Mergers are good news for investors
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Shareholder value and market share improve when companies merge, confirms a new study from the University of Waterloo.

The study also found that the new company's market share ended up being greater than the market share of the two merged companies combined.

"The increase in firm value post-merger may be chiefly attributable to improved efficiencies as opposed to market power," said Anindya Sen, co-author and professor of economics at the University of Waterloo. "Firms are realizing synergies from mergers which benefit all stakeholders. Consumers are not necessarily paying higher prices, and investors are gaining through holding the stocks of such firms in their financial portfolios."

For the study, Sen and lead author Mahdiyeh Entezarkheir, professor of economics at Huron College, Western University, compiled data from multiple sources for more than 5,000 publicly traded U.S. manufacturing companies from 1980-2003, including financial information and patents. The dataset is unique because it included information on companies over an extended period of time including before, during and after the merger. The data allowed the researchers to compare and contrast merged entities to firms that didn't merge and rule out any industry-wide influences.

Previous studies often focused on a single firm or a shorter timeframe, and often yielded mixed results about whether mergers made companies significantly more productive and profitable.

"We often see firms such as Loblaws and Shoppers Drug Mart merge under the assumption that mergers create value. However, empirical evidence on merger effects across industries was limited because it's so hard to assemble and construct the required dataset," said Sen. "Our research offers some robust evidence and clarity on how firms benefit from mergers in terms of market value and market share."

These results may also be helpful for antitrust authorities for their merger assessments, wrote the researchers.

The study, "Market value, market share, and mergers: Evidence from a panel of U.S. firms", appeared in Managerial and Decision Economics.

Provided by University of Waterloo