

# PREDICTING TAKEOVER TARGETS IN EUROPE: ASSESSMENT OF THE MAIN DETERMINANTS, OPTIMUM CUTOFF AND ABNORMAL RETURNS SIGNIFICANCE

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## ABSTRACT

In the past three decades, many scholars throughout the world attempted to explain the triggers of mergers and acquisitions and claimed that it was possible to predict targets of this behavior. Within this literature, one significant trend lied in the comparison of public data of companies that were target and non-target of an acquisition attempt. This dissertation aims to use this popular method in a sample of 8485 listed companies from the EU27, in order to: (i) examine the main determinants of firm targeting behavior; (ii) accurately predict and classify targets of acquisition; and (iii) test if abnormal returns can be earned by investing in this potential targets. For this purpose, a Probit regression is built, including independent variables related to the most frequently discussed hypothesis of takeover determinants. The results unveil that a large number of these variables and the overall model are statistically significant, although they present a low explanatory power (with a maximum of 6.3%). We were also able to accurately predict takeover targets better than chance, but this wasn't enough to earn significant positive abnormal returns (3.4% with significance: 0.794) from a long investment (250 trading days) in the predicted target stocks. Therefore, our results support Palepu (1986) pessimistic vision that it's not possible to earn significant positive abnormal returns by using publicly available information.

**Keywords:** *takeovers, prediction, classification, probit, abnormal returns*