POST-ACQUISITION PERFORMANCE OF ACQUIRED COMPANIES
LISTED IN THE KLSE

By
YONG VOON CHUEN
Bachelor of Engineering
University of Melbourne
Australia
1984

Submitted to the Faculty of Economies and Administration
University of Malaya
in partial fulfillment of the requirement for the Degree of
MASTER OF BUSINESS ADMINISTRATION
March 1995
ABSTRACT

The rapid growth in Malaysia's economy for the past few years has seen many public and private companies expanding their businesses relentlessly in response to the many growing business opportunities. In their zeal for rapid expansion or in their haste to get a public vehicle in order to tap the local capital market to meet their expansion plans, some of these aggressive companies have bought into other public listed companies and taken control of the target companies eventually.

The super performance of stock prices of these acquired companies prior to announcements of acquisitions, though partly assisted by the generally bullish sentiment of the market, suggested that acquisitions of public listed companies can be very costly affairs. This study examines the performance of these acquired firms after the acquisition as compared with non-acquired firms to see if there is any justification to purchase those acquired companies at such premium prices.

The findings indicate that the performance of acquired firms varies greatly. On the whole, the acquired companies improved in performance after the acquisitions. They also appeared to perform better than the non-acquired companies in most of the aspects. However, because of the large variances in acquired companies' performances, most of the differences in performances are statistically insignificant.

In view that the sample of acquired companies is rather small and the period of analysis is restricted by the availability of financial data after the acquisitions, the findings are thus far inconclusive.
ACKNOWLEDGEMENTS

I wish to express my sincere appreciation to my supervisor Encik Ramli Bahroom for his invaluable guidance and advice throughout the research. I am also indebted to my classmate Mr. Lim Lip Khoon for his assistance and input in the course of this project.

I would also like to take this opportunity to express my gratitude to my parents for their upbringing, support and encouragement which made this accomplishment possible.

My appreciation also extends to my fellow classmates, in particular, Lim Lip Khoon, Raymond Lim, Lim Bee Leong, Chris Choy, Shanmugam and Wong Weng Yam whose friendships, encouragements, inspirations and moral supports throughout this course made it most enjoyable despite many toils and sweats.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abstract</td>
<td>i</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>ii</td>
</tr>
<tr>
<td>List of Figures</td>
<td>v</td>
</tr>
<tr>
<td>List of Tables</td>
<td>vi</td>
</tr>
</tbody>
</table>

1. INTRODUCTION ........................................................................ 1
   - Overview ........................................................................ 1
   - Some Definitions On Mergers and Acquisitions .................... 2
     - Mergers ..................................................................... 2
     - Acquisition ..................................................................2
     - Reverse Takeover ......................................................3
     - Acquirer and Acquiree ...............................................3
   - Objectives and Significance of Study ................................ 3
   - Scope and Limitation of the Study ................................... 4
   - Organisation of This Report .......... ................................ 4

2. LITERATURE REVIEW .................................................................. 6
   - Introduction ..................................................................... 6
   - Mergers and Acquisitions Activities in United States .......... 6
   - Mergers and Acquisitions Activities in United Kingdom ....... 8
   - Studies on Mergers and Acquisitions ................................ 8
   - Conclusion ...................................................................... 13

3. RESEARCH METHODOLOGY ................................................................ 15
   - Data .............................................................................. 15
   - Measures of Financial Performance .................................... 16
   - Financial Ratios ........................................................... 17
     - Price Ratio ................................................................... 18
     - Liquidity Ratio .......................................................... 20
     - Leverage Ratio .......................................................... 20
     - Profitability Ratio ..................................................... 22
     - Activity Ratio ........................................................... 24
     - Dividend Policy .......................................................... 25
List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Trends of Performances of Acquirees and Controls After Acquisitions</td>
<td>36</td>
</tr>
</tbody>
</table>
List of Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Composition of Acquirees Sample</td>
<td>29</td>
</tr>
<tr>
<td>2. Financial Characteristics Prior to Acquisition (Year 0)</td>
<td>31</td>
</tr>
</tbody>
</table>