CHAPTER 5

CONCLUSION AND RECOMMENDATION

Summary

The results of this study indicate that, on the whole, the acquired firms improved their performance in the first three years after the acquisitions. This is evidenced by the improvements in their price earnings ratio, acid test ratio, debt-equity ratio, net profit margin, return on capital employed, return on investment, earnings per share, total assets turnover, dividend yield, dividend times covered ratio and net tangible asset backing.

Two ratios, however, showed a declining trend. They are valuation ratio and gearing ratio. The decline in valuation ratio implies that the firms' stock prices were very much over-valued probably due to market speculation prior to the acquisitions. However, the valuation ratios gradually return to more realistic level in the aftermath of speculation fevers on the stocks.

The increase in gearing ratio implies that the acquired firms increased their gearing ratios despite their greater earnings after the acquisitions. This may reflect the preference for greater use of long term debts financing by the new owners or management in order to take advantage of the tax shield. Even at the increased level of debt, the gearing of the acquired firms is still relatively low at 14.7 percent.

In comparison with the non-acquired firms, the acquired firms appeared to perform better as can be seen by their higher valuation ratio, higher acid test ratio, lower gearing ratio, lower debt-equity ratio, higher net profit margin, higher return on capital employed, higher return on investment, higher earnings per share, higher dividend times covered ratio and higher net tangible asset backing.

However, most of the financial ratios of acquired firms are not statistically better than those of non-acquired firms at 10% significance level. This is due to the large variances among ratios of the acquired firms.

Limitation of Study

Even though the study did give us some insights on the trends and relative performance of the acquired firms after acquisitions, it should be noted that in view of the lack of statistical significance on the findings and the limited scope of this study, namely, the small sample and short period of post-acquisition performance, it is difficult to generalise any conclusion from the findings.

Suggestion for Future Research

The research was carried out with limited sample of acquired firms and limited available post acquisition financial data. Further studies should be carried out on larger sample and on longer period after the acquisition to ascertain the true long term performance of the acquired firms. Since this study covers only the boom period of the KLSE, further studies should examine the performance of acquired firms under different economic conditions.