

Partial Takeovers: An Empirical Comparison of the UK and Australian Markets

by

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Abstract

This study looks at the wealth effect to UK and Australian shareholders of partial takeovers from 1990 to 1999. The objective of this study is evaluate and compare the wealth effect on

the shareholders of bidding and target firms in both the UK and Australian markets. This study measures the wealth effect to shareholders of acquiring and target firms using cumulative abnormal returns (CAR). The evidence indicates that UK and Australian shareholders of target firms receive a positive wealth effect from the announcement of a partial takeover. For acquiring firms, the wealth effect to Australian shareholders is positive. In contrast, the wealth effect to UK shareholders is essentially neutral. The study also examines the occurrence of subsequent or secondary bids in Australia. The results indicate there is a likelihood of a partial acquisition being followed by a subsequent offer. There are thus short run trading opportunities in buying into a partial takeover once it has been announced. This paper highlights these and contrasts the difference in timing necessary to achieve abnormal returns and recommends the appropriate trading strategy.

Introduction

A significant body of finance literature has examined the wealth effects of full takeovers on shareholders. Partial takeovers, however, have received much less attention. The objective of this study is to investigate the use of partial takeovers, in the UK and Australia, and to evaluate and compare their wealth effect on the shareholders of bidding and target firms. This study examines the cumulative abnormal returns (CAR) for shareholders as a method of evaluating the wealth effect of a partial bid where the acquisition is classified as successful. In addition, the paper will investigate the relationship between partial acquisitions and subsequent takeover attempts by an acquiring firm for the target.

Literature Review

Sudarsanam (1996) and Fraser (1996) outline three main reasons for partial acquisitions. Firstly, partial acquisitions can be used as a step in attaining majority control of the target firm at a future date. Secondly, partial acquisitions can assist in resolving agency problems by monitoring managerial performance. Finally, the bidding firm can exploit the under-valuation of the target firm.

A recent article by Spencer, Akhigbe and Madura (1998) states that partial acquisitions often occur due to the bidding firm not having sufficient funds to make a full offer. Loton (1986) concurs with this view, stating that from the acquirer's perspective a partial acquisition is a 'cheaper' form of gaining some control over the target. A second reason outlined by Spencer, Akhigbe and Madura (1998), is that the bidding firm may not wish to fully acquire the target because the target's future cash flows are uncertain. Thirdly, partial acquisition enables the acquirer to exercise managerial control or a monitoring role without complete integration of the target firm or its management. The fourth reason outlined

involves strategic positioning, where the acquiring firm may wish to align itself with a complementary firm to achieve strategic benefits or to achieve vertical integration.

A problematic advantage according to Ramsay (1992) with regard to partial acquisitions is that they can be used as a defensive takeover technique. That is, partial takeovers enable companies to establish cross shareholdings. However, the majority of advantages discussed have been mainly from the acquirer's point of view. According to Rosenstein (1989) there are three motives for a partial acquisition, passive investment, monitoring of management, and wealth transfer. The issue of wealth transfer motive is discussed in greater detail later in the paper.

Partial takeovers according to a number of authors have always generated controversy particularly in relation to target shareholders. Ramsay (1992) believes that the issues facing partial takeovers are similar to those of full acquisition since partials are a particular type or tool for market for corporate control. Ramsay believes there are two main problems, the coercion of target company shareholders and the potential for exploitation of minority shareholders in the target firm following the acquisition.

Dodd and Officer (1986) note that there are two problems with partial takeovers. The first, involves the takeover premium paid to the shareholders of the partially acquired firm. According to Dodd and Officer (1986) and Hughes (1993) partial takeovers can mean that the premium is paid only to a select group of shareholders therefore a proportion of the shareholders miss out on any transfer of wealth. The second concern is that there is a coercive feature in a partial takeover.

According to Datta and Iskandar-Datta (1995) there are a number of differences in the basic nature of a partial acquisition from that of a merger. Firstly, partial acquisitions are usually friendly, while a merger transaction can be either a friendly or hostile. A second difference involves the method of payment. The method of payment for merger or tender offers can involve cash, a share offer, or a combination of both. In contrast, the method of payment in partial acquisitions is usually a cash payment.

A third difference involves the debt obligation of the target firm (Datta and Iskandar-Datta, 1995). In mergers, the debt obligations of the target firm are assumed by the merged entity. However, in partial acquisitions, the acquiring firm generally does not assume the debt obligation. The article also notes that partial acquisitions and mergers differ with regard to the size of the acquirer and the target. However, size issues are not only restricted to partials but also to full acquisitions.

The main focus of this paper is to examine the wealth effect on target and acquiring shareholders upon the announcement of a partial takeover. One of the first empirical studies regarding the wealth effect of partial acquisition was by Madden (1981). The aim of Madden's paper was to test the efficiency of the stock market reaction to the announcement of a partial acquisition. The empirical evidence shows that in the announcement month

partially acquired firms received positive abnormal returns. He found a maximum cumulative abnormal return of 32.2% in the event month. Madden examined only target firms. A more recent study by Datta and Iskandar-Datta (1995) also suggests that there are positive effects to target shareholders from a partial acquisition.

Mikkelson and Ruback's (1985) study on the share price response to the announcement of an acquisition of 5% or more of shares show that there is a positive reaction for both the acquiring and target firms. Their study uses a data sample that consists of US firms that filed a Schedule 13-D between the period 1978 to 1980. Schedule 13-D requires bidding firms to notify the U.S. Securities and Exchange Commission (SEC) that the firm has acquired more than 5% of another firm. Mikkelson and Ruback extend this valuation of stock prices to the potential outcomes that may occur after the initial 5% or more investment. For example, does the target become completely taken over by the initial acquirer or by a third party? Alternatively, does the target repurchase those shares, or does the acquirer sell the shares on the market or to a third party? Of the 337 initial filings there were 43 complete takeovers by the initial acquirer and 45 by a third party. Therefore, 12.76% of the initial filings of a partial acquisition resulted in an outcome of a complete takeover (tender offer or merger) by the initial acquirer.

Mikkelson and Ruback (1985) also extend their analysis of share price response to those acquirers that are "frequent purchasers" and the outcome event as discussed above. The results indicate that there are differences between the returns for the target and acquiring firm depending on the future outcome and whether the acquirer is a "frequent purchaser". If the acquirer is a "frequent purchaser" and the outcome is a complete takeover negative returns are earned by the shareholders of the acquiring firm. On the other hand, if the acquirer is not a "frequent purchaser" the returns are slightly positive. For target shareholders, if the outcome is a complete takeover, large positive returns are earned regardless of whether or not the acquirer is a "frequent purchaser". If the complete takeover is by a third party and not by the original acquirer of the partial bid, positive returns are earned by both the target and the third party regardless of whether they are a "frequent purchaser" or not. However, the size of the positive returns is influenced by this factor.

Another article, which examines the future outcome following the acquisition of a toehold of 5% or more, is by Choi (1991). Like Mikkelson and Ruback, Choi examines the wealth effect of outcomes such as takeovers, however Choi also includes other control-related outcomes like proxy fights and management turnover. The results suggest that partially (toehold of 5% or more) acquired firms that experience a control-related outcome display an abnormal increase in share value. Alternatively, those target firms, that after the toehold acquisition do not experience any control-related outcome, display a decrease in share value.

A Canadian article by Amoako-Adu and Smith (1993) is a comparison study on the wealth effects of full or complete takeovers to partial takeovers. The data sample examined is for the period 1977 through to 1984 and is comprised of only successful tender offers. The data sample is small, with 33 partial offers, however Amoako-Adu and Smith do attempt to control for payment method, acquisition size, and multiple bidders. Another problem with the sample is that it includes tender offers that were originally full offers where the acquirer did not gain a sufficient number of shares. The inclusion of these failed full bids may result in an overestimation of the returns to partial targets, because the returns to shareholders associated with full takeover bids tends to be greater than for partial offer.

Amoako-Adu and Smith's empirical results show that target shareholders of complete tender offers receive a mean return of 21.90% on the announcement day compared to a mean return of 12.80% for partial acquisitions. The cumulative abnormal returns (CAR) for the period -20 to $+10$ indicates a positive gain to target shareholders for both complete and partial bids upon the announcement of an offer. Over the period -20 to $+10$ the CAR for complete tender offers was 39.46% compared to 23.77% for partial acquisitions.

The study by Rosenstein (1989) also examines the wealth effects on shareholders of partial acquirers and their targets around the announcement of a partial acquisition. Rosenstein believes that ownership of a relatively small block of shares can be sufficient to give the holder some measure of control or influence over the target. The US study with a data sample of 41, finds the cumulative average residuals for the acquirer and target over a 121 day period, 60 days before and after the announcement date ($t=0$). For the 60 days prior to and including the announcement date (61-day period), the cumulative average return (CAR) for the target shows +19.4%. The two-day period around the announcement shows an average return of +2.6%. On the other hand, for the 60-day period after the announcement the CAR was negative -4.1%. For the entire window period, 121 days, the CAR for the target was +15.3%.

Alternatively, the acquirer received a CAR of +4.1% for the 60 days prior to and including the announcement date (61-day period). Around the two-day announcement period the acquirers earned a CAR of +1.26%. The 60-day post-announcement CAR showed a negative -6.45%. Over the entire event period, 121 days, the CAR for the acquirer was -2.32%. Rosenstein believes that these negative results are similar to those results for unsuccessful mergers.

A UK study by Sudarsanam (1996) aimed to examine whether partial acquisitions are wealth enhancing and investigates the relationship between partial offers and subsequent bids. Sudarsanam divided the sample data of acquisitions for the period 1985 through to 1992 into two block sizes, that being 5% and 20%. The empirical results confirm that partial acquisitions are wealth enhancing for target shareholders. Furthermore the identity of the

partial acquirer affects target shareholders returns. The article also suggests that the initial block size has an impact on the frequency of bids and whether they are hostile or friendly offers. For example, the larger the initial partial acquisition the greater the probability of a takeover bid.

An American article by Holderness and Sheehan (1985) examines six controversial investors, Carl Icahn, Carl Lindner, David Murdock, Victor Posner, and Charles Bluhdorn, between the period 1977 and 1982. The article examined the role of these investors and whether or not these six corporate raiders reduce the shareholder wealth of the target firm and acquiring firm. Acquisitions of 5% or more, filed according to Schedule 13D were examined. Approximately 90 % of the partial acquisitions were for less than 12% with the remaining ranging between 20% and 64%. The results suggested that the announcement of a partial acquisition by one of the six investors on average increased the wealth of the target shareholders. For the six investors, that is the bidding firms, the event day showed positive returns, however over the event period (-40 to +40) the cumulative abnormal returns were negative.

A study by Eysell (1988) examines the market effect and the subsequent effect on the firm's performance as a result of partial acquisition in the US. Eysell investigated the daily average and cumulative return of the target's shares, as well as financial ratios such as liquidity, profitability, operating expenses, and financial leverage. The cumulative return over the 61-day period (-30, +30) was 9.205%. For the period, 30 days (-30) prior to and including the announcement day (t=0) the cumulative residual was 10.699%. An interesting aspect of Eysell's article is the results relating to his final sample of 62 targets. For example, 13.6 months on average elapsed between the first bid and the filing of the sixth bid, most of the acquirers were not well known, and there was no concentration of targets in any particular industry.

Spencer, Akhigbe and Madura (1998) investigated the influence of the partial acquirer on the target after the partial acquisition has occurred. The authors outlined three policy decisions, which are enacted by the partial target after the acquisition (acquisitions, divestitures and dividends). The results showed that the market not only interprets these decisions in relation to the partial target by re-evaluating its share price, but also assesses these decisions in relation to the partial acquirer. For example, when the partial target acquires an unrelated business it not only results in a negative abnormal return for the partial target but also for the partial acquirer. Likewise, if the partial target divests part of its core business, this decision results in a negative abnormal return for both the partial target and the partial acquirer.

Whilst this article cannot be directly compared with the main objective of this paper, it does provide some empirical evidence that partial acquisitions effect the cumulative abnormal returns of both the acquirer and target. Another interesting point made by the

Spencer, Akhigbe and Madura (1998) is in regard to the type of business that is acquired. For example, if a firm makes a subsequent bid on another firm where the core business is related, the shareholders will tend to earn a higher cumulative return.

A paper by Bishop and Dodd (1987) examined the premise that partial takeovers are coercive, that is shareholders are coerced into accepting an offer that is wealth decreasing. The data sample consisted of partial bids made in Australia during the financial period 1981/2 and 1992/3 with a relatively small sample of 26 partial bids. Their evidence shows that the shareholders of a target firm experience a wealth increase as a result of a partial acquisition. For example, shareholders that hold their shares throughout the partial bid experienced a market-adjusted wealth increase of 11.1%.

The Dechow (1987) article is an Australian version of the study by Holderness and Sheehan (1985) outlining the effect of a number of controversial investors on the share price. Dechow likewise examines the share price reaction of target firm's to an announcement of a partial bid by a particular type of investor during 1981 to 1986. The particular type of investor has a reputation for making bids for other companies, and is known as a "corporate raider". For example, Alan Bond, John Elliot and Robert Holmes a Court. The study included bids ranging from 1 % of shares to 19 %. However the acquirer was required to own at least 10% or more after the acquisition.

Dechow's results show there is an increase in the share price of the target due to a partial bid. The cumulative abnormal returns for target shareholders during the period four weeks before and two weeks after the announcement week was +14.93%. For the corporate raiders, the cumulative abnormal return was +5.70%. The results are constant with the finding of this thesis and other literature demonstrating improved returns for target shareholders. However, it is difficult to draw a comparison today to the controversial corporate raiders of the 1980's as outlined in the article.

In addition Dechow's results suggest that an initial acquisition by one of the corporate raiders meant there was a greater probability of being followed by a takeover offer.

Bishop, Dodd and Officer's (1987) study examined the returns of partial takeovers during the period 1972 and 1985. The study divided the results into two sections, firstly those partial acquisitions that occurred prior to the Company (Acquisition of Shares) Act 1980, and those that occurred after the Acts implementation.

Bishop, Dodd and Officer (1987) showed that target shareholders receive a positive return as a result of a partial takeover, regardless of whether they adopt sell or hold strategy. This result occurred in both samples, that is the before and after the Companies (Acquisition of Shares) Act 1980 implementation. However, target shareholders that adopted a strategy of sell received a higher return than those who adopted a hold strategy. In addition, target

shareholders that held their shares longer than three months experienced lower returns and in some case negative returns.

Dodd's (1985) study examined the returns to target shareholders of a takeover. The study included both full and partial takeovers in Australia. The sample covered the period July 1981 through to June 1983 and examined 26 partials. Dodd noted that this sample is small and suggested that "generalisations based upon this sample data must be tempered accordingly" (1985, Appendix, p1). The empirical evidence shows that for those target shareholders, which sell their shares on the open market at the date of the announcement bid, the mean return is +17%. On the other hand, target shareholders that sell their shares at the close of the offer receive a mean return of +18.1%.

The majority of authors on partial acquisition have demonstrated that value is created by a partial acquisition. The results regarding target shareholders is consistent with the results in this paper and the literature reviewed. However, the results pertaining to the acquiring firm are inconclusive. Some studies outlined above have shown negative returns while others have shown positive returns. These results do depend on the investment strategy of the shareholder of the acquiring firm, and the event period in which the returns are examined. Another interesting point is that a number of the studies reviewed use a relative small data sample when finding their results.

Data and Sample

A full takeover is classified in this paper as the acquirer bidding for control of the target, that is the percentage of shares owned after the transaction by the acquirer is between 90-100%. Ninety percent is seen as a benchmark for full control since the acquirer has the legal right in most countries Corporations laws to compulsory acquire the remaining shares.

Partial acquisition is defined as the acquirer seeking less than full control of the target firm, that is less than 90%. Partial bids occur where the percentage sought means that the percentage owned after the transaction is between 5% and 89.9%, and the target firm continues to be publicly listed. Five percent is used as a minimum benchmark as this signifies a substantial shareholding. The basis of these definitions is founded on similar studies (Madden 1981, Amoako-Adu and Smith 1993, Sudarsanam 1996), and the effect of the legislative and regulatory framework on the examples used.

There are two sets of data collated and examined in this paper for Australia and the UK. Firstly, an initial data sample of takeover offers is used to find the number of successful full and partial bids. The second data sample consists of stock returns for the companies involved in successful partial bids and the returns for the UK and Australian stock market index. This second sample is used to examine the wealth effect of a partial bid on shareholders by calculating the cumulative abnormal return (CAR).

The criterion used for the initial sample is outlined below:

- Both the target and acquiring companies are of the same nationality, either UK or Australian;
- Both the target and acquirer are publicly listed at the time of the bid announcement;
- The sample period for Australia is 1 January 1990 to 11 August 1999;
- The sample period for the UK is 1 January 1990 to 31 December 1999;
- The bid is classified as completed or withdrawn, where completed means that the bid transaction is closed

The initial data sample for Australia and the UK was then used to identify or classify full and partial bids. This process is based on the definition for full and partial acquisitions outlined above. Once this process was completed the bids were classified as successful, unsuccessful or withdrawn. A successful bid was defined as the acquirer purchasing the percentage of shares, as per the percentage sought on the announcement date. That is, the percentage sought is approximately equal to or greater than the percentage of shares actually acquired after the bid transaction is classified as completed. If the percentage was not achieved then the bid was classified as unsuccessful. The category of a withdrawn bid is defined as an offer, which was withdrawn after the announcement was made. Withdrawn bids were not included in the sample used to investigate the cumulative abnormal returns, but were used in relation to the identification of subsequent bid.

In addition, full takeovers that were announced on the “announcement date” but were followed by additional entries (with the same target and bidder) in the list of acquisitions, occurring prior to the effective date of the original full bid were classified as a single full takeover bid. These additional entries could have occurred on the same day as the announcement of the full takeover bid, alternatively after the announcement date as long as the entry was before the “effective date”.

On the other hand, if there were two entries on the same announcement date where the partial bid was announced and/or completed prior to the launch of a full bid, the offers were still classified as separate bids, that is, a partial bid and a full bid. If this did not occur then the bids were classified as per the previous paragraph.

Takeover bids were excluded from the sample in cases where there was insufficient information pertaining to the intention of the acquiring company. For example, an acquirer may have acquired a partial percentage of the target, however their actual intention was a full takeover.

The initial sample for Australia was 455 bids, 143 were successful full takeovers, 193 successful partial takeovers, and 69 were withdrawn bids. The total number of partial bids including successful and unsuccessful for Australia was 199. The initial sample for the UK was 713 bids, 187 were successful partial takeovers, 401 successful full takeovers, and 125 were withdrawn bids.

The sample of companies examined for cumulative abnormal returns is based on the number of successful partial bids. The event period included 30 days prior to the announcement date and 30 days after the announcement (-30, +30). The announcement date is defined as the date when either the target or the acquirer makes a public announcement with regard to a takeover offer.

Companies were excluded from the sample where daily return/price data was not available or the data was not available for the entire event period. In addition, firms were excluded if they were involved in multiple bids, additional entries as outlined earlier, or other offers which meant that event periods overlapped. Because banks are regulated in Australia they were also excluded from the sample. The final sample for Australia was 97 acquirers and 91 targets. The final sample for the UK was 56 acquirers and 46 targets.

Methodology

Cumulative Abnormal Returns

The wealth effect to shareholders as a consequence of a partial acquisition is measured by cumulative abnormal returns (CAR). The event period used in this paper is 30 days prior to and 30 days after the announcement, where the announcement date is zero (t=0).

The first step involves calculating the daily stock returns and the daily market returns for the All Ordinaries Index and the FTSE100 over the event period. The following formula is used to calculate the returns (RI):

$$RI_t = RI_{t-1} * \frac{PI_t}{PI_{t-1}} * \left[1 + \frac{DY_t}{100} * \frac{1}{N} \right]$$

where

- RI_t = return index on day t
- RI_{t-1} = return index on previous day
- PI_t = price index on day t
- PI_{t-1} = price index on previous day
- DY_t = dividend yield % on day t
- N = number of working days per year (taken to be 260)

The return index (RI) for stocks shows a theoretical growth in the value of a shareholding over a specified period, assuming that dividends are re-invested to purchase additional stock at the closing price applicable on the ex-dividend date. The same formula is used to calculate the return index for the market index.

The above step is used for the entire sample period, 1 January 1990 through to 11 August 1999, for the Australian data. However, this step was not used for the entire sample period for the UK. For insistance, 1 January 1993 to 31 December 1999, the above formula was used to calculate the return index for stocks and the market in dex. On the other hand, daily price data was utilized for the stock and market index (FSTE100) during the period, 1 January 1990 to the 31 December 1992.

The second step was to identify the actual change in return for each security and the market index. The following continuous return formula was used to calculate the change in return:

$$ri = \ln \left(\frac{RI_t}{RI_{t-1}} \right)$$

where ri = the change in return for the security
 \ln = log function
 RI_t = return index on day t
 RI_{t-1} = return index on the previous day

The above formula was also used to calculate the change in return for the market index (rm).

The next step involved calculating daily excess returns. The market-adjusted return is calculated as followed:

$$MAR(r_{jt}) = ri - rm$$

where $MAR(r_{jt})$ or r_{jt} = market-adjusted return
 ri = change in return to a security
 rm = change in return to the market index (All Ordinaries)

The third step involved calculating the average returns from the market-adjusted model. The average return for each day (t) is calculated as followed:

$$AR_t = \frac{1}{N} \sum r_{jt}$$

where N is the number of securities in the sample.

Finally the average returns (AR_t) are cumulated over the entire event period (-30, +30) to compute the cumulative abnormal return (CAR). The cumulative abnormal returns are obtained as followed:

$$CAR = \sum_{t=-30}^{30} AR_t$$

Identification of Subsequent Bids

There were three steps used to identify subsequent takeover offers in Australia. Firstly, the Australian data sample, which identifies successful, unsuccessful and withdrawn including both full and partial targets was listed alphabetically and chronologically.

Secondly, all targets, which did not have a second offer, made on them, either by the original bidder or by a third party, were excluded. For example, successful full takeovers were excluded, and partial bids where the target received only one acquisition offer during the period 1990 to mid-1999 were excluded. In other words, the targets were grouped by the frequency of appearance.

The final step involved dividing the above sample into first offers which had second and third bids, that is subsequent bids, into full and partial offers.

Analysis of Results

Cumulative Abnormal Return Findings for Targets Shareholders

The daily average returns (AR) and the cumulative average returns (CAR) to shareholders of target firms for the 61-day period for Australia and the UK are presented in Table 1 and 2, and plotted in Figure 1. Figure 1 is a graphical representation of CAR for the sample of 91 partially acquired Australian firms and 46 partially acquired UK firms.

Figure 1 indicates that a tangible gain accrues to target shareholders upon the announcement of a partial takeover. An examination of the cumulative abnormal return (CAR) for the entire event period (-30 to +30) indicates that shareholders of the target firm in Australia receive a CAR of +10.29%. The results pertaining to the UK are not as significant as those for Australia, however for the same event period UK shareholders of the target firm receive a positive CAR of 2.85%.

Both sets of data, Australian and the UK, the figures show substantial returns around the announcement day of a partial bid. The cumulative abnormal return for the Australian data peaks 10 days after the announcement at 13.65%. On the other hand, the cumulative abnormal return for the UK peaks 13 days after the announcement at 5.48%. Once this peak is reached both sets of data begin to fall through to day thirty (+30).

Figure 1 – CAR for Target Shareholders

Australian target firms demonstrate on average a return of +2.07% (Table 1) on the announcement day of a partial acquisition, while UK firms show a +1.62% return (Table 2). For the period leading up to the announcement (-30, -1) Australian targets show a CAR of +9.77%, while UK firms show a +0.67%. Over the three-day period around the announcement (-1, +1), the CAR for Australian firms is +4.17% and +3.30% for UK firms. The period after the announcement (+1, +30) shows a CAR of -1.56% and +0.56% for Australian and UK firms respectively.

Table 1: Summary of Average Daily Returns and Cumulative Abnormal Returns for Successful Targets, 1990-1999 – Australia

		Successful Target - 91 Firms			
Day		Average Return			CAR
			(%)		(%)
-30		0.0005814	0.06		0.0005814 0.06
-29		-0.0084245	-0.84		-0.0078431 -0.78
-28		0.0035057	0.35		-0.0043374 -0.43
-27		0.0078609	0.79		0.0035235 0.35
-26		0.0137481	1.37		0.0172716 1.73
-25		0.0008053	0.08		0.018077 1.81
-24		0.0010637	0.11		0.0191406 1.91
-23		0.0072697	0.73		0.0264104 2.64
-22		-0.0016979	-0.17		0.0247125 2.47
-21		0.0016548	0.17		0.0263673 2.64
-20		0.0069848	0.70		0.0333521 3.34
-19		-0.0029988	-0.30		0.0303532 3.04
-18		0.0084934	0.85		0.0388466 3.88
-17		-0.0050356	-0.50		0.0338111 3.38
-16		0.0061107	0.61		0.0399218 3.99
-15		0.0008615	0.09		0.0407833 4.08
-14		-0.0020536	-0.21		0.0387297 3.87
-13		-0.008562	-0.86		0.0301677 3.02
-12		0.0018116	0.18		0.0319793 3.20
-11		0.004091	0.41		0.0360702 3.61
-10		0.0002038	0.02		0.0362741 3.63
-9		0.0115914	1.16		0.0478654 4.79
-8		0.0018043	0.18		0.0496697 4.97
-7		0.0081419	0.81		0.0578116 5.78
-6		0.0011403	0.11		0.0589519 5.90
-5		0.0012204	0.12		0.0601722 6.02

-4	0.0062668	0.63	0.0664391	6.64
-3	0.0059876	0.60	0.0724267	7.24
-2	0.0153188	1.53	0.0877454	8.77
-1	0.0099237	0.99	0.0976691	9.77
0	0.0206522	2.07	0.1183213	11.83
1	0.0110669	1.11	0.1293882	12.94
2	-0.0002623	-0.03	0.1291259	12.91
3	-0.0011234	-0.11	0.1280025	12.80
4	-0.0037085	-0.37	0.124294	12.43
5	-0.0004498	-0.04	0.1238442	12.38
6	0.0055286	0.55	0.1293728	12.94
7	-0.0036761	-0.37	0.1256967	12.57
8	0.0025165	0.25	0.1282132	12.82
9	0.0006967	0.07	0.1289099	12.89
10	0.0075453	0.75	0.1364552	13.65
11	-0.001785	-0.18	0.1346702	13.47
12	-0.0059477	-0.59	0.1287225	12.87
13	-0.0069859	-0.70	0.1217365	12.17
14	0.0029449	0.29	0.1246815	12.47
15	3.809E-06	0.00	0.1246853	12.47
16	-0.0053117	-0.53	0.1193736	11.94
17	0.0013557	0.14	0.1207293	12.07
18	-0.0007391	-0.07	0.1199902	12.00
19	0.0064374	0.64	0.1264276	12.64
20	0.0006233	0.06	0.1270509	12.71
21	-0.0022915	-0.23	0.1247594	12.48
22	0.0029301	0.29	0.1276895	12.77
23	0.0021558	0.22	0.1298453	12.98
24	-0.0031061	-0.31	0.1267392	12.67
25	-0.0056586	-0.57	0.1210806	12.11
26	-0.0026535	-0.27	0.118427	11.84
27	-0.0010713	-0.11	0.1173558	11.74
28	-0.0116792	-1.17	0.1056765	10.57
29	-0.0061232	-0.61	0.0995534	9.96
30	0.0033101	0.33	0.1028635	10.29

Partial Takeovers: An Empirical Comparison of the UK and Australian Markets (part 2)

Table 2: Summary of Average Daily Returns and Cumulative Abnormal Returns for Successful Targets, 1990-1999 - UK						
Successful Target – 46 Firms						
Day		Average Return			CAR	
			(%)			(%)
-30		-0.00089	-0.09%		-0.00089	-0.09%
-29		0.001751	0.18%		0.000857	0.09%
-28		-0.00065	-0.07%		0.000205	0.02%
-27		-0.00081	-0.08%		-0.0006	-0.06%
-26		-0.00268	-0.27%		-0.00328	-0.33%
-25		-0.00164	-0.16%		-0.00492	-0.49%
-24		0.00053	0.05%		-0.00439	-0.44%
-23		0.002433	0.24%		-0.00196	-0.20%
-22		0.003013	0.30%		0.001054	0.11%
-21		0.001128	0.11%		0.002182	0.22%
-20		-0.00244	-0.24%		-0.00025	-0.03%
-19		-0.00193	-0.19%		-0.00219	-0.22%
-18		-0.0029	-0.29%		-0.00509	-0.51%
-17		0.003391	0.34%		-0.00169	-0.17%
-16		0.003003	0.30%		0.001308	0.13%
-15		0.004845	0.48%		0.006153	0.62%
-14		-0.00258	-0.26%		0.003573	0.36%
-13		-0.00199	-0.20%		0.001582	0.16%
-12		0.003877	0.39%		0.005459	0.55%
-11		0.000594	0.06%		0.006053	0.61%
-10		-0.00105	-0.10%		0.005006	0.50%
-9		0.000964	0.10%		0.00597	0.60%
-8		0.000119	0.01%		0.006089	0.61%
-7		-0.00262	-0.26%		0.00347	0.35%
-6		-0.00595	-0.60%		-0.00248	-0.25%
-5		0.012609	1.26%		0.010125	1.01%
-4		-0.00658	-0.66%		0.003548	0.35%
-3		-0.00042	-0.04%		0.003129	0.31%
-2		-0.00264	-0.26%		0.000493	0.05%

-1		0.006178	0.62%		0.00667	0.67%
0		0.016213	1.62%		0.022883	2.29%
1		0.010603	1.06%		0.033486	3.35%
2		0.004322	0.43%		0.037808	3.78%
3		0.006563	0.66%		0.044371	4.44%
4		0.001361	0.14%		0.045733	4.57%
5		0.005361	0.54%		0.051094	5.11%
6		-0.00146	-0.15%		0.049637	4.96%
7		0.003224	0.32%		0.052861	5.29%
8		-0.00324	-0.32%		0.049618	4.96%
9		-0.00708	-0.71%		0.04254	4.25%
10		0.008632	0.86%		0.051172	5.12%
11		0.000845	0.08%		0.052016	5.20%
12		0.001457	0.15%		0.053473	5.35%
13		0.001332	0.13%		0.054805	5.48%
14		-0.00608	-0.61%		0.048721	4.87%
15		-0.0036	-0.36%		0.045117	4.51%
16		-0.00169	-0.17%		0.04343	4.34%
17		0.002325	0.23%		0.045755	4.58%
18		0.002765	0.28%		0.04852	4.85%
19		-0.00164	-0.16%		0.046883	4.69%
20		0.000153	0.02%		0.047036	4.70%
21		-0.00047	-0.05%		0.04657	4.66%
22		0.000412	0.04%		0.046982	4.70%
23		-0.00147	-0.15%		0.045515	4.55%
24		-0.00446	-0.45%		0.041053	4.11%
25		0.000401	0.04%		0.041455	4.15%
26		-0.00065	-0.07%		0.0408	4.08%
27		0.001666	0.17%		0.042466	4.25%
28		-0.00573	-0.57%		0.036732	3.67%
29		-0.00132	-0.13%		0.035413	3.54%
30		-0.00688	-0.69%		0.028533	2.85%

The objective of this paper is to examine the cumulative abnormal returns (CAR) for shareholders as a method of evaluating the wealth effect of a successful partial acquisition. The cumulative abnormal return evidence outlined above indicates that shareholders of target firms receive a positive wealth effect, in other words a positive return from the announcement of a partial acquisition.

These results demonstrate a pattern of return comparable to those of full acquisitions. However, there is a difference in the level of positive return earned by the target shareholders of partial versus full bids. International studies such as Dodd (1980), Jensen Ruback (1983), Dodd and Ruback (1977), Limmack (1992) and Dennis and McConnell (1986) show that positive abnormal returns are earned by target shareholders from the announcement date of a full takeover bid. In addition, Australian studies such as Walker (1984), Dodd, Officer and Bishop (1987), and Brown and da Silva Rosa (1997) also show that full takeovers have a positive wealth effect on target shareholders.

The key difference between the wealth effect of full and partial acquisitions is the level of CAR received by the shareholder of the target firm. Figure 2 provides a comparison between the data in Tables 1 and 2, and the data outlined in Dodd's (1980) and Dennis and McConnell's (1986) studies on mergers. From Figure 2 we can see that around the announcement of either a merger or partial acquisition there is an increased CAR. However, the return to shareholders of a merger is substantially greater than that of a partial acquisition. After the announcement, there appears to be a leveling off period which is then followed by a decline in the return, but more so for partial acquisitions, leading up to day thirty.

Figure 2 – Comparison of CAR for Full and Partial Acquisitions (Target Firms)

An important distinction between mergers and tender offers is in respect to the amount of return a shareholder should expect. Weston, Chung and Siu (1998) note that the return from a merger ranges from 20% to 25%, while the gain from a tender offers is around 30%.

According to several authors [Weston, Chung and Siu (1998), Dodd and Ruback (1977, and Jarrell and Poulsen (1994)] this difference is a result of the method of payment for the takeover. For example, a merger usually involves stock transactions and tender offers are usually for cash. Dodd's, and Dennis and McConnell's data, which are graphed in Figure 2, represents only merger takeovers. The data used in this paper for Australia and the UK does not draw a distinction between the method of payment used for the partial acquisition. Figure 2 is a comparison of one type of full acquisition, that being mergers, and partial offers which could involve a stock swap, tender offer, or an on-market share purchase. This means that some qualification must be applied in drawing conclusions from this comparison.

The majority of the literature on partial acquisition demonstrates that value is created by partial acquisitions. Studies such as Choi (1991), Eyssell (1989), Sudarsanam (1996), Rosenstein (1989), and Mikkelson and Ruback (1985) concur with this paper, showing that the shareholders of a target firm earn a positive abnormal return from the announcement of a partial acquisition.

However, a direct comparison between the average daily return and the CAR provides some mixed results. For example, the average rate of return on the announcement day for Australia was +2.07% and for the UK +1.62%, which is similar to that of Eyssell (1989), +1.738%. On the other hand, Mikkelson and Ruback (1985) and Rosenstein (1989) provide quite different results, where the average return for the same period is +0.34% and +0.17% respectively.

On the other hand the CAR of this paper for the UK and Australia for a two day event period inclusive of the day prior to, and the announcement date (-1, 0) are comparable. A study by Choi (1991) shows a CAR for the two-day event period of +2.2%, compared to the results in this paper of +3.06% for Australia and 2.24% for the UK. Studies by Rosenstein (1989), and Mikkelson and Ruback (1985) show a CAR of 2.6% and 2.88% respectively, which is also consistent with the results in this paper.

Figure 3 provides a graphic comparison of the results of this study with those provided by Eyssell (1989). The figure indicates a positive return to shareholders around the announcement date of a partial acquisition. Eyssell's CAR appears to peak at four days after the announcement at 11.977%, whereas the results of this paper peak at ten days and thirteen days after the announcement. All three results show a gradual decline in the CAR through to day thirty.

Figure 3 – Comparison of CAR of Partial Acquisitions for Target Firms

In summary, the results provide evidence that partial acquisitions have a positive wealth effect on the shareholders of a target firm. However, the majority of international literature on partial acquisitions examines CAR based on a relatively small data sample with a number of studies using different methodologies. Despite these necessary qualifications the comparisons seem useful for an effort to extend the knowledge on partial acquisitions.

Cumulative Abnormal Returns for Shareholders of Successful Acquirers

The daily average returns (AR) and the cumulative average returns (CAR) to shareholders of the acquiring firm for a 61-day period for Australia and the UK are presented in Table 3 and 4, and plotted in Figure 4. Figure 4 shows a graphical representation of the cumulative abnormal returns for the sample of 97 acquiring Australian firms, and 56 acquiring UK firms.

Figure 4 indicates a gain to Australian shareholders upon the announcement of a partial acquisition. However, for UK shareholders this is not the case. An examination of CAR indicates that approximately fourteen days before the announcement of a bid, negative returns are experienced by Australian shareholders. UK shareholders experience negative CAR's for a greater period, from thirty days before the announcement to four days after (-30, +4). A comparison of the two sets of data suggests that the UK data is not significantly different from zero, whereas the Australian data suggests a small positive return, which peaks as +3.13%, five days after the announcement.

Figure 4 – CAR for Acquiring Shareholders

Table 3 and 4 indicates that a very small positive average return of +0.25% is earned by acquiring shareholders from Australia, compared +0.48% for the UK upon the announcement of a partial acquisition. For the period leading up to the announcement (-30, -1), the CAR of acquiring firms is +1.50% and -0.71% for Australia and the UK respectively. For the three-day period around the announcement (-1, +1), the CAR is +0.58% for Australia, and +0.76% for the UK. While the period following the announcement (+1, +30) shows a CAR of -1.25% for Australia, and +0.02% for the UK. The cumulative abnormal return for the entire event period (-30, +30) is +0.47% for Australia and -0.23% for the UK.

Table 3: Summary of Average Daily Returns and Cumulative Abnormal Returns for Acquiring Firms, 1990-1999 - Australia					
		Successful Acquirers - 97 Firms			
Day		Average Return			CAR
			(%)		(%)
-30		-0.00089	0.01		0.00012775 0.01
-29		0.001751	0.30		0.00314253 0.31
-28		-0.00065	-0.27		0.00044618 0.04
-27		-0.00081	-0.46		-0.0041804 -0.42
-26		-0.00268	-0.55		-0.00969207 -0.97
-25		-0.00164	-0.04		-0.0101177 -1.01
-24		0.00053	-0.10		-0.01107123 -1.11
-23		0.002433	0.01		-0.01101673 -1.10
-22		0.003013	0.39		-0.00715519 -0.72
-21		0.001128	0.07		-0.00640741 -0.64
-20		-0.00244	-0.38		-0.01022919 -1.02
-19		-0.00193	-0.06		-0.0108165 -1.08
-18		-0.0029	0.38		-0.00698486 -0.70
-17		0.003391	-0.12		-0.0082043 -0.82
-16		0.003003	0.26		-0.00563693 -0.56
-15		0.004845	0.18		-0.00387053 -0.39
-14		-0.00258	0.57		0.00186067 0.19
-13		-0.00199	0.07		0.00253903 0.25
-12		0.003877	0.60		0.00853513 0.85
-11		0.000594	-0.16		0.00698282 0.70
-10		-0.00105	0.43		0.01132501 1.13
-9		0.000964	0.54		0.01676321 1.68
-8		0.000119	-0.04		0.01638332 1.64
-7		-0.00262	0.40		0.0203339 2.03
-6		-0.00595	-0.06		0.01971814 1.97
-5		0.012609	-0.19		0.01782353 1.78
-4		-0.00658	0.36		0.02144093 2.14
-3		-0.00042	0.03		0.02170545 2.17
-2		-0.00264	-0.24		0.01927462 1.93
-1		0.006178	-0.43		0.01496251 1.50
0		0.016213	0.25		0.017434 1.74

1		0.010603	0.76		0.02504546	2.50
2		0.004322	-0.02		0.02484878	2.48
3		0.006563	0.42		0.0290005	2.90
4		0.001361	0.02		0.02918095	2.92
5		0.005361	0.21		0.03131357	3.13
6		-0.00146	-0.11		0.03018671	3.02
7		0.003224	-0.28		0.02741862	2.74
8		-0.00324	-0.07		0.02672626	2.67
9		-0.00708	-0.06		0.02617562	2.62
10		0.008632	-0.35		0.02270997	2.27
11		0.000845	-0.11		0.0216537	2.17
12		0.001457	-0.10		0.02064834	2.06
13		0.001332	-0.30		0.01762303	1.76
14		-0.00608	-0.30		0.01461087	1.46
15		-0.0036	0.10		0.01559492	1.56
16		-0.00169	-0.33		0.01234098	1.23
17		0.002325	-0.14		0.01092963	1.09
18		0.002765	-0.42		0.00672519	0.67
19		-0.00164	-0.11		0.00560048	0.56
20		0.000153	0.12		0.0067783	0.68
21		-0.00047	0.06		0.00735885	0.74
22		0.000412	-0.10		0.00633357	0.63
23		-0.00147	-0.29		0.00339378	0.34
24		-0.00446	0.19		0.00524434	0.52
25		0.000401	-0.55		-0.00030209	-0.03
26		-0.00065	0.54		0.00504882	0.50
27		0.001666	-0.50		1.6229E-05	0.00
28		-0.00573	0.15		0.00152522	0.15
29		-0.00132	0.14		0.00288655	0.29
30		-0.00688	0.18		0.00467953	0.47

Table 4: Summary of Average Daily Returns and Cumulative Abnormal Returns for Successful Acquirers, 1990-1999 - UK

		Successful Acquirers - 56 Firms			
Day		Average Return			CAR
			(%)		(%)

-30	-0.0034968	-0.35%	-0.0034968	-0.35%
-29	-0.0026551	-0.27%	-0.006152	-0.62%
-28	-0.0010414	-0.10%	-0.0071934	-0.72%
-27	0.0012408	0.12%	-0.0059526	-0.60%
-26	-0.0005392	-0.05%	-0.0064918	-0.65%
-25	-0.000799	-0.08%	-0.0072908	-0.73%
-24	0.0026863	0.27%	-0.0046045	-0.46%
-23	0.0024582	0.25%	-0.0021464	-0.21%
-22	0.0024658	0.25%	0.0003194	0.03%
-21	-0.0015538	-0.16%	-0.0012344	-0.12%
-20	-0.0017668	-0.18%	-0.0030012	-0.30%
-19	0.0006359	0.06%	-0.0023653	-0.24%
-18	-0.0033513	-0.34%	-0.0057165	-0.57%
-17	-0.0010903	-0.11%	-0.0068068	-0.68%
-16	0.0033856	0.34%	-0.0034213	-0.34%
-15	0.0016451	0.16%	-0.0017761	-0.18%
-14	-0.0019719	-0.20%	-0.003748	-0.37%
-13	-0.002595	-0.26%	-0.006343	-0.63%
-12	-0.000417	-0.04%	-0.00676	-0.68%
-11	-0.0016415	-0.16%	-0.0084015	-0.84%
-10	-0.0039743	-0.40%	-0.0123758	-1.24%
-9	-0.0002555	-0.03%	-0.0126314	-1.26%
-8	-0.0031378	-0.31%	-0.0157692	-1.58%
-7	0.0033176	0.33%	-0.0124516	-1.25%
-6	0.0019963	0.20%	-0.0104553	-1.05%
-5	-0.0004035	-0.04%	-0.0108588	-1.09%
-4	-0.0017347	-0.17%	-0.0125935	-1.26%
-3	0.0007629	0.08%	-0.0118306	-1.18%
-2	0.0020453	0.20%	-0.0097853	-0.98%
-1	0.0027088	0.27%	-0.0070765	-0.71%
0	0.0047791	0.48%	-0.0022974	-0.23%
1	6.058E-05	0.01%	-0.0022369	-0.22%
2	-0.0012477	-0.12%	-0.0034845	-0.35%
3	0.0022224	0.22%	-0.0012621	-0.13%
4	0.0003107	0.03%	-0.0009514	-0.10%
5	0.0032592	0.33%	0.0023078	0.23%
6	0.0001401	0.01%	0.0024479	0.24%

7	-0.001567	-0.16%	0.000881	0.09%
8	-0.0002396	-0.02%	0.0006413	0.06%
9	-0.0002229	-0.02%	0.0004184	0.04%
10	-0.0004163	-0.04%	2.142E-06	0.00%
11	1.866E-05	0.00%	2.08E-05	0.00%
12	0.0024273	0.24%	0.0024481	0.24%
13	0.0020038	0.20%	0.0044519	0.45%
14	0.0004519	0.05%	0.0049038	0.49%
15	6.694E-05	0.01%	0.0049707	0.50%
16	-0.0021292	-0.21%	0.0028415	0.28%
17	0.0010461	0.10%	0.0038877	0.39%
18	-0.0016115	-0.16%	0.0022762	0.23%
19	0.0027719	0.28%	0.0050481	0.50%
20	0.0004599	0.05%	0.0055079	0.55%
21	-0.0002869	-0.03%	0.0052211	0.52%
22	-0.0012948	-0.13%	0.0039262	0.39%
23	-0.0024153	-0.24%	0.001511	0.15%
24	-0.0008198	-0.08%	0.0006911	0.07%
25	0.0015819	0.16%	0.002273	0.23%
26	-0.0019371	-0.19%	0.000336	0.03%
27	-6.192E-05	-0.01%	0.000274	0.03%
28	0.0008831	0.09%	0.0011571	0.12%
29	-0.0024981	-0.25%	-0.001341	-0.13%
30	-0.0009747	-0.10%	-0.0023157	-0.23%

According to Jensen and Ruback's (1983) study on full takeovers, positive returns are earned by shareholders of successful bidders in tender offers and zero returns are earned by successful bidding firms in mergers. Therefore, Jensen and Ruback conclude that bidding firms do not lose. Alternatively, Mathur's (1989) study showed for acquiring firms a loss of -2.171% CAR over a 31-day event period (-15, +15). Contrary to both these studies, Franks and Harris (1989) study showed positive returns to bidding firms.

Figure 5 provides a comparison of the results of this paper and those of two other studies of acquirers involved in a merger acquisition. The two studies illustrated are from Dennis and McConnell (1986) and Asquith (1983).

Figure 5 – Comparison of CAR for Full and Partial Acquisitions (Acquiring Firms)

From the above figure we can see that during the pre-bid announcement period, all four studies experience some negative cumulative abnormal returns. However, approximately seven days before the actual announcement date, three of the four studies show a positive CAR. On the announcement date, it appears that the CAR data for Table 3-Australia, Dennis and McConnell, and Asquith reaches a similar point of around +1.6%. A similarity between Tables 3 and 4 also occurs near the end of the event periods, where the CAR oscillates around zero. There are however no further similarities between the four data samples, as all four studies follow quite distinct paths.

The literature on acquirers involved in partial acquisitions gives evidence that small positive returns can be earned by the shareholders of acquiring firms. For example, Rosenstein's (1989) results indicate an average return on the announcement date of +0.82% and for the two-day announcement period (-1, 0) a CAR of +1.26%.

The study by Mikkelsen and Ruback (1985) showed similar results to that of Rosenstein, where the average return for the announcement date was +0.58%, and the CAR for the two-day period (-1, 0) was +1.17%. The results outlined in Tables 3 and 4, indicate an average return of +0.25% and +0.48% on the announcement date and for the two-day period (-1,0) a CAR of +0.18% and +0.75%, for Australia and the UK respectively.

In summary, the results of this study are similar to those of other literature relating to partial acquisitions outlined in the literature review. In general the cumulative abnormal return and the average return is slightly positive or not substantially different from zero. Therefore, it would appear that there is no significant wealth effect to the shareholders of an acquiring firm

involved in a partial acquisition. In relation to the evidence of full takeovers, little comparison can be drawn between the results of this paper. The results simply add to the mixture of results that currently exist in the finance literature on acquiring firms.

Results of Subsequent Acquisitions in Australia

Table 5 outlines the number of subsequent bids in Australia, which followed on from partial offers where the target and the acquiring firms remain the same for each bid. Of the initial 199 successful and unsuccessful partial bids (see Data and Sample section), 47 of those partial bids involved a subsequent offer, where 46 of those were successful and 1 was unsuccessful.

Table 5 – Subsequent Bids Involving the Same Acquirer and Target Firm

Initial Bid	Number	Second Bid		Third Bid	
		<u>No. of Full</u>	<u>No. of Partial</u>	<u>No. of Full</u>	<u>No. of Partial</u>
Partial	47	31	16	3	6

The results in Table 5 indicate that 47 (23.62%) of the 199 partial bids studied were followed by a subsequent offer, where the target and the acquiring firm are the same. Of these partial bids with a subsequent offer, approximately 66% of the initial bids were for 14% or more of the target's shares. In other words, acquiring firms who purchased 14% or more of the target in the initial bid were more likely to make a subsequent offer on the target. Of the second bids shown in Table 5 there is approximately a 19% possibility of a third bid being made by the same acquirer.

Table 6 below outlines subsequent bids where the takeover target is the same however the acquirer is not. In other words, the second bid was made by a third party and not by the original bidder. Of the 19 partial initial bids, 18 of those were successful and one was withdrawn.

Table 6 – Secondary Bids Involving the Same Target and a Third Party Acquirer

Initial Bid	Number	Second Bid	
		<u>No. of Full</u>	<u>No. of Partial</u>
Partial	19	11	8

The results in Table 6 show that 19 (9.5%) of the total number of partial offers (199) are followed by secondary bid by a third party acquirer. Of 19 initial bids, 63.14% involved the third party acquirer purchasing 10% or less of the targets shares. These results are in

contrast to those of second bids where the target and the acquirer are the same as the initial bid.

By aggregating the results in Tables 5 and 6, we find of the 199 partial bids, 66 bids were followed by a subsequent offer either by the original acquirer or by a third party. In other words, 66 (33.16%) of the total number of initial partial bids (199) were followed by a subsequent bid. Of these 66 initial bids, 57.57% involved the acquirer purchasing 14% or more of the target shares. These results contrast with those of Holderness and Sheehan's (1985) study of six controversial corporate raiders, which showed that approximately 90% of the initial bids were for less than 12 percent.

The results in this paper suggest that partial bids in Australia are followed by subsequent offers. They're few Australian studies investigating the phenomena of subsequent acquisitions. However one study by the Commonwealth Government (Treasury Economic Paper, 1986), states that failed takeovers are often followed by a successful takeover bid for the target firm. The paper also suggests that these subsequent takeover bids occur within a relatively short time period after the original takeover. In addition, Loton (1986), the former managing director of BHP, stated that partial bids can be precursors to full bids. However he provided no statistical data to support this contention.

International studies by Mikkelson and Ruback (1985) and Subarsanam (1996) have investigated the phenomena of subsequent acquisition. The two studies show similar results to those in this paper. Mikkelson and Ruback (1985) indicate that of the 13D filings (partial bids), which were not previously associated with an outstanding takeover proposal, there is a 30% chance of a subsequent takeover offer of 13D filings.

The article by Subarsanam (1996) provides similar statistics to those of Mikkelson and Ruback. Subarsanam's results showed there is a 36.33% likelihood that a partial acquisition will be followed by a takeover bid. His results also showed that the larger the block of shares purchased in the initial acquisition the more likely it is that a further takeover bid will take place.

A study by Choi (1991) on subsequent bids contrasts with the two studies outlined above. While Choi provides evidence that subsequent bids follow partial initial acquisitions, the likelihood is far less than that suggested by Mikkelson and Ruback (1985), and Subarsanam (1996). According to Choi of the 13D filings between 1982 and 1985, only 16.1% of the 52 firms were followed by subsequent takeovers. Choi notes that this ownership change usually occurred within one year after the initial filing.

Summary and Recommendations

The evidence presented in this paper supports the notion that the announcement of a partial takeover results in a positive increase in the wealth of target firm shareholders in Australia and the UK. This evidence is consistent with the research on takeover activity pertaining to full takeovers and other studies on partial acquisitions. In summary, partial takeovers result in positive returns to target shareholders, however, not to the degree received from full takeovers.

The evidence pertaining to an acquiring firm's shareholder return is mixed. The results in this paper suggest small positive returns around the announcement of a partial takeover. However, for the entire short run period there were no notable returns earned by the acquiring shareholders. In other words, the shareholders did not lose. The majority of literature examined also provides mixed evidence on the returns to acquiring shareholders from a partial or full takeover bid.

Apart from the evidence pertaining to the wealth effect of partial acquisitions, this paper examined the likelihood of a subsequent bid being made in Australia by the original or third party acquirer, where the target firms remains the same. The results indicate there is a 33% likelihood of a partial acquisition being followed by a subsequent offer. This allows for a trading strategy of buying into a partial takeover once it has been announced that would result in abnormal profits. The strategy suggested by the results is to buy on announcement and sell within 4 to 5 days. Missing this window of opportunity would not result in any loss but at worst a break even return of your investment. This eliminates any trading risk which is an attractive proposition for any trader.

An extension of the event period would provide more information on the wealth effect over a longer period, that is, long run returns for the target and acquirer. Furthermore, the wealth effect on target shareholders from the announcement of a subsequent bid could also be examined. Extensions on this study could also investigate the method of payment used to purchase the target, for example, stock swap, on-market, or tender offer, and whether they have an impact on the wealth of shareholders.

Partial takeovers could represent profitable opportunities long overshadowed by the more glamorous field of full merger and takeover activity. Ultimately further study in this area should be directed towards the development of possible investment strategies. The high proportion of partial acquisitions being followed by further offers means that potential partial targets could be more predictable. So while the returns associated with partial takeovers are not as great they could still form the basis of a promising investment strategy.

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Partial Takeovers: An Empirical Comparison of the UK and Australian Markets (part 2)

Figure 3 – Comparison of CAR of Partial Acquisitions for Target Firms

In summary, the results provide evidence that partial acquisitions have a positive wealth effect on the shareholders of a target firm. However, the majority of international literature on partial acquisitions examines CAR based on a relatively small data sample with a number of studies using different methodologies. Despite these necessary qualifications the comparisons seem useful for an effort to extend the knowledge on partial acquisitions.

Cumulative Abnormal Returns for Shareholders of Successful Acquirers

The daily average returns (AR) and the cumulative average returns (CAR) to shareholders of the acquiring firm for a 61-day period for Australia and the UK are presented in Table 3 and 4, and plotted in Figure 4. Figure 4 shows a graphical representation of the cumulative abnormal returns for the sample of 97 acquiring Australian firms, and 56 acquiring UK firms.

Figure 4 indicates a gain to Australian shareholders upon the announcement of a partial acquisition. However, for UK shareholders this is not the case. An examination of CAR indicates that approximately fourteen days before the announcement of a bid, negative returns are experienced by Australian shareholders. UK shareholders experience negative CAR's for a greater period, from thirty days before the announcement to four days after (-30, +4). A comparison of the two sets of data suggests that the UK data is not significantly different from zero, whereas the Australian data suggests a small positive return, which peaks as +3.13%, five days after the announcement.

Figure 4 – CAR for Acquiring Shareholders

Table 3 and 4 indicates that a very small positive average return of +0.25% is earned by acquiring shareholders from Australia, compared +0.48% for the UK upon the announcement of a partial acquisition. For the period leading up to the announcement (-30, -1), the CAR of acquiring firms is +1.50% and -0.71% for Australia and the UK respectively. For the three-day period around the announcement (-1, +1), the CAR is +0.58% for Australia, and +0.76% for the UK. While the period following the announcement (+1, +30) shows a CAR of -1.25% for Australia, and +0.02% for the UK. The cumulative abnormal return for the entire event period (-30, +30) is +0.47% for Australia and -0.23% for the UK.

Table 3: Summary of Average Daily Returns and Cumulative Abnormal Returns for Acquiring Firms, 1990-1999 - Australia					
		Successful Acquirers - 97 Firms			
Day		Average Return			CAR
			(%)		(%)
-30		-0.00089	0.01		0.00012775 0.01
-29		0.001751	0.30		0.00314253 0.31
-28		-0.00065	-0.27		0.00044618 0.04
-27		-0.00081	-0.46		-0.0041804 -0.42
-26		-0.00268	-0.55		-0.00969207 -0.97
-25		-0.00164	-0.04		-0.0101177 -1.01
-24		0.00053	-0.10		-0.01107123 -1.11
-23		0.002433	0.01		-0.01101673 -1.10
-22		0.003013	0.39		-0.00715519 -0.72
-21		0.001128	0.07		-0.00640741 -0.64
-20		-0.00244	-0.38		-0.01022919 -1.02
-19		-0.00193	-0.06		-0.0108165 -1.08
-18		-0.0029	0.38		-0.00698486 -0.70
-17		0.003391	-0.12		-0.0082043 -0.82
-16		0.003003	0.26		-0.00563693 -0.56
-15		0.004845	0.18		-0.00387053 -0.39
-14		-0.00258	0.57		0.00186067 0.19
-13		-0.00199	0.07		0.00253903 0.25
-12		0.003877	0.60		0.00853513 0.85
-11		0.000594	-0.16		0.00698282 0.70
-10		-0.00105	0.43		0.01132501 1.13
-9		0.000964	0.54		0.01676321 1.68
-8		0.000119	-0.04		0.01638332 1.64
-7		-0.00262	0.40		0.0203339 2.03
-6		-0.00595	-0.06		0.01971814 1.97
-5		0.012609	-0.19		0.01782353 1.78
-4		-0.00658	0.36		0.02144093 2.14
-3		-0.00042	0.03		0.02170545 2.17
-2		-0.00264	-0.24		0.01927462 1.93
-1		0.006178	-0.43		0.01496251 1.50
0		0.016213	0.25		0.017434 1.74

1		0.010603	0.76		0.02504546	2.50
2		0.004322	-0.02		0.02484878	2.48
3		0.006563	0.42		0.0290005	2.90
4		0.001361	0.02		0.02918095	2.92
5		0.005361	0.21		0.03131357	3.13
6		-0.00146	-0.11		0.03018671	3.02
7		0.003224	-0.28		0.02741862	2.74
8		-0.00324	-0.07		0.02672626	2.67
9		-0.00708	-0.06		0.02617562	2.62
10		0.008632	-0.35		0.02270997	2.27
11		0.000845	-0.11		0.0216537	2.17
12		0.001457	-0.10		0.02064834	2.06
13		0.001332	-0.30		0.01762303	1.76
14		-0.00608	-0.30		0.01461087	1.46
15		-0.0036	0.10		0.01559492	1.56
16		-0.00169	-0.33		0.01234098	1.23
17		0.002325	-0.14		0.01092963	1.09
18		0.002765	-0.42		0.00672519	0.67
19		-0.00164	-0.11		0.00560048	0.56
20		0.000153	0.12		0.0067783	0.68
21		-0.00047	0.06		0.00735885	0.74
22		0.000412	-0.10		0.00633357	0.63
23		-0.00147	-0.29		0.00339378	0.34
24		-0.00446	0.19		0.00524434	0.52
25		0.000401	-0.55		-0.00030209	-0.03
26		-0.00065	0.54		0.00504882	0.50
27		0.001666	-0.50		1.6229E-05	0.00
28		-0.00573	0.15		0.00152522	0.15
29		-0.00132	0.14		0.00288655	0.29
30		-0.00688	0.18		0.00467953	0.47

Table 4: Summary of Average Daily Returns and Cumulative Abnormal Returns for Successful Acquirers, 1990-1999 - UK

		Successful Acquirers - 56 Firms			
Day		Average Return			CAR
			(%)		(%)

-30	-0.0034968	-0.35%	-0.0034968	-0.35%
-29	-0.0026551	-0.27%	-0.006152	-0.62%
-28	-0.0010414	-0.10%	-0.0071934	-0.72%
-27	0.0012408	0.12%	-0.0059526	-0.60%
-26	-0.0005392	-0.05%	-0.0064918	-0.65%
-25	-0.000799	-0.08%	-0.0072908	-0.73%
-24	0.0026863	0.27%	-0.0046045	-0.46%
-23	0.0024582	0.25%	-0.0021464	-0.21%
-22	0.0024658	0.25%	0.0003194	0.03%
-21	-0.0015538	-0.16%	-0.0012344	-0.12%
-20	-0.0017668	-0.18%	-0.0030012	-0.30%
-19	0.0006359	0.06%	-0.0023653	-0.24%
-18	-0.0033513	-0.34%	-0.0057165	-0.57%
-17	-0.0010903	-0.11%	-0.0068068	-0.68%
-16	0.0033856	0.34%	-0.0034213	-0.34%
-15	0.0016451	0.16%	-0.0017761	-0.18%
-14	-0.0019719	-0.20%	-0.003748	-0.37%
-13	-0.002595	-0.26%	-0.006343	-0.63%
-12	-0.000417	-0.04%	-0.00676	-0.68%
-11	-0.0016415	-0.16%	-0.0084015	-0.84%
-10	-0.0039743	-0.40%	-0.0123758	-1.24%
-9	-0.0002555	-0.03%	-0.0126314	-1.26%
-8	-0.0031378	-0.31%	-0.0157692	-1.58%
-7	0.0033176	0.33%	-0.0124516	-1.25%
-6	0.0019963	0.20%	-0.0104553	-1.05%
-5	-0.0004035	-0.04%	-0.0108588	-1.09%
-4	-0.0017347	-0.17%	-0.0125935	-1.26%
-3	0.0007629	0.08%	-0.0118306	-1.18%
-2	0.0020453	0.20%	-0.0097853	-0.98%
-1	0.0027088	0.27%	-0.0070765	-0.71%
0	0.0047791	0.48%	-0.0022974	-0.23%
1	6.058E-05	0.01%	-0.0022369	-0.22%
2	-0.0012477	-0.12%	-0.0034845	-0.35%
3	0.0022224	0.22%	-0.0012621	-0.13%
4	0.0003107	0.03%	-0.0009514	-0.10%
5	0.0032592	0.33%	0.0023078	0.23%
6	0.0001401	0.01%	0.0024479	0.24%

7		-0.001567	-0.16%		0.000881	0.09%
8		-0.0002396	-0.02%		0.0006413	0.06%
9		-0.0002229	-0.02%		0.0004184	0.04%
10		-0.0004163	-0.04%		2.142E-06	0.00%
11		1.866E-05	0.00%		2.08E-05	0.00%
12		0.0024273	0.24%		0.0024481	0.24%
13		0.0020038	0.20%		0.0044519	0.45%
14		0.0004519	0.05%		0.0049038	0.49%
15		6.694E-05	0.01%		0.0049707	0.50%
16		-0.0021292	-0.21%		0.0028415	0.28%
17		0.0010461	0.10%		0.0038877	0.39%
18		-0.0016115	-0.16%		0.0022762	0.23%
19		0.0027719	0.28%		0.0050481	0.50%
20		0.0004599	0.05%		0.0055079	0.55%
21		-0.0002869	-0.03%		0.0052211	0.52%
22		-0.0012948	-0.13%		0.0039262	0.39%
23		-0.0024153	-0.24%		0.001511	0.15%
24		-0.0008198	-0.08%		0.0006911	0.07%
25		0.0015819	0.16%		0.002273	0.23%
26		-0.0019371	-0.19%		0.000336	0.03%
27		-6.192E-05	-0.01%		0.000274	0.03%
28		0.0008831	0.09%		0.0011571	0.12%
29		-0.0024981	-0.25%		-0.001341	-0.13%
30		-0.0009747	-0.10%		-0.0023157	-0.23%

According to Jensen and Ruback's (1983) study on full takeovers, positive returns are earned by shareholders of successful bidders in tender offers and zero returns are earned by successful bidding firms in mergers. Therefore, Jensen and Ruback conclude that bidding firms do not lose. Alternatively, Mathur's (1989) study showed for acquiring firms a loss of -2.171% CAR over a 31-day event period (-15, +15). Contrary to both these studies, Franks and Harris (1989) study showed positive returns to bidding firms.

Figure 5 provides a comparison of the results of this paper and those of two other studies of acquirers involved in a merger acquisition. The two studies illustrated are from Dennis and McConnell (1986) and Asquith (1983).

Figure 5 – Comparison of CAR for Full and Partial Acquisitions (Acquiring Firms)

From the above figure we can see that during the pre-bid announcement period, all four studies experience some negative cumulative abnormal returns. However, approximately seven days before the actual announcement date, three of the four studies show a positive CAR. On the announcement date, it appears that the CAR data for Table 3-Australia, Dennis and McConnell, and Asquith reaches a similar point of around +1.6%. A similarity between Tables 3 and 4 also occurs near the end of the event periods, where the CAR oscillates around zero. There are however no further similarities between the four data samples, as all four studies follow quite distinct paths.

The literature on acquirers involved in partial acquisitions gives evidence that small positive returns can be earned by the shareholders of acquiring firms. For example, Rosenstein's (1989) results indicate an average return on the announcement date of +0.82% and for the two-day announcement period (-1, 0) a CAR of +1.26%.

The study by Mikkelson and Ruback (1985) showed similar results to that of Rosenstein, where the average return for the announcement date was +0.58%, and the CAR for the two-day period (-1, 0) was +1.17%. The results outlined in Tables 3 and 4, indicate an average return of +0.25% and +0.48% on the announcement date and for the two-day period (-1,0) a CAR of +0.18% and +0.75%, for Australia and the UK respectively.

In summary, the results of this study are similar to those of other literature relating to partial acquisitions outlined in the literature review. In general the cumulative abnormal return and the average return is slightly positive or not substantially different from zero. Therefore, it would appear that there is no significant wealth effect to the shareholders of an acquiring firm

involved in a partial acquisition. In relation to the evidence of full takeovers, little comparison can be drawn between the results of this paper. The results simply add to the mixture of results that currently exist in the finance literature on acquiring firms.

Results of Subsequent Acquisitions in Australia

Table 5 outlines the number of subsequent bids in Australia, which followed on from partial offers where the target and the acquiring firms remain the same for each bid. Of the initial 199 successful and unsuccessful partial bids (see Data and Sample section), 47 of those partial bids involved a subsequent offer, where 46 of those were successful and 1 was unsuccessful.

Table 5 – Subsequent Bids Involving the Same Acquirer and Target Firm

Initial Bid	Number	Second Bid		Third Bid	
		<u>No. of Full</u>	<u>No. of Partial</u>	<u>No. of Full</u>	<u>No. of Partial</u>
Partial	47	31	16	3	6

The results in Table 5 indicate that 47 (23.62%) of the 199 partial bids studied were followed by a subsequent offer, where the target and the acquiring firm are the same. Of these partial bids with a subsequent offer, approximately 66% of the initial bids were for 14% or more of the target's shares. In other words, acquiring firms who purchased 14% or more of the target in the initial bid were more likely to make a subsequent offer on the target. Of the second bids shown in Table 5 there is approximately a 19% possibility of a third bid being made by the same acquirer.

Table 6 below outlines subsequent bids where the takeover target is the same however the acquirer is not. In other words, the second bid was made by a third party and not by the original bidder. Of the 19 partial initial bids, 18 of those were successful and one was withdrawn.

Table 6 – Secondary Bids Involving the Same Target and a Third Party Acquirer

Initial Bid	Number	Second Bid	
		<u>No. of Full</u>	<u>No. of Partial</u>
Partial	19	11	8

The results in Table 6 show that 19 (9.5%) of the total number of partial offers (199) are followed by secondary bid by a third party acquirer. Of 19 initial bids, 63.14% involved the third party acquirer purchasing 10% or less of the targets shares. These results are in

contrast to those of second bids where the target and the acquirer are the same as the initial bid.

By aggregating the results in Tables 5 and 6, we find of the 199 partial bids, 66 bids were followed by a subsequent offer either by the original acquirer or by a third party. In other words, 66 (33.16%) of the total number of initial partial bids (199) were followed by a subsequent bid. Of these 66 initial bids, 57.57% involved the acquirer purchasing 14% or more of the target shares. These results contrast with those of Holderness and Sheehan's (1985) study of six controversial corporate raiders, which showed that approximately 90% of the initial bids were for less than 12 percent.

The results in this paper suggest that partial bids in Australia are followed by subsequent offers. They're few Australian studies investigating the phenomena of subsequent acquisitions. However one study by the Commonwealth Government (Treasury Economic Paper, 1986), states that failed takeovers are often followed by a successful takeover bid for the target firm. The paper also suggests that these subsequent takeover bids occur within a relatively short time period after the original takeover. In addition, Loton (1986), the former managing director of BHP, stated that partial bids can be precursors to full bids. However he provided no statistical data to support this contention.

International studies by Mikkelson and Ruback (1985) and Subarsanam (1996) have investigated the phenomena of subsequent acquisition. The two studies show similar results to those in this paper. Mikkelson and Ruback (1985) indicate that of the 13D filings (partial bids), which were not previously associated with an outstanding takeover proposal, there is a 30% chance of a subsequent takeover offer of 13D filings.

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Summary and Recommendations

The evidence presented in this paper supports the notion that the announcement of a partial takeover results in a positive increase in the wealth of target firm shareholders in Australia and the UK. This evidence is consistent with the research on takeover activity pertaining to full takeovers and other studies on partial acquisitions. In summary, partial takeovers result in positive returns to target shareholders, however, not to the degree received from full takeovers.

The evidence pertaining to an acquiring firm's shareholder return is mixed. The results in this paper suggest small positive returns around the announcement of a partial takeover. However, for the entire short run period there were no notable returns earned by the acquiring shareholders. In other words, the shareholders did not lose. The majority of literature examined also provides mixed evidence on the returns to acquiring shareholders from a partial or full takeover bid.

Apart from the evidence pertaining to the wealth effect of partial acquisitions, this paper examined the likelihood of a subsequent bid being made in Australia by the original or third party acquirer, where the target firms remains the same. The results indicate there is a 33% likelihood of a partial acquisition being followed by a subsequent offer. This allows for a trading strategy of buying into a partial takeover once it has been announced that would result in abnormal profits. The strategy suggested by the results is to buy on announcement and sell within 4 to 5 days. Missing this window of opportunity would not result in any loss but at worst a break even return of your investment. This eliminates any trading risk which is an attractive proposition for any trader.

An extension of the event period would provide more information on the wealth effect over a longer period, that is, long run returns for the target and acquirer. Furthermore, the wealth effect on target shareholders from the announcement of a subsequent bid could also be examined. Extensions on this study could also investigate the method of payment used to purchase the target, for example, stock swap, on-market, or tender offer, and whether they have an impact on the wealth of shareholders.

Partial takeovers could represent profitable opportunities long overshadowed by the more glamorous field of full merger and takeover activity. Ultimately further study in this area should be directed towards the development of possible investment strategies. The high proportion of partial acquisitions being followed by further offers means that potential partial targets could be more predictable. So while the returns associated with partial takeovers are not as great they could still form the basis of a promising investment strategy.

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