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Financial vs. Strategic Acquirers in M&A: The Impact of Buyer Type on Short-Term Stock Market Reactions

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ABSTRACT:
The purpose of this study is to examine the significance of buyer type in the short-term stock market reactions in the context of M&A. The aim of the study is to explore whether the market treats strategic and financial buyers differently and how the value creation mechanisms of these buyer groups are reflected in investor expectations. The focus of the examination of stock market reactions is on the analysis of cumulative abnormal returns (CARs).

Mergers and acquisitions are a key research topic in finance, as they are related to both companies' growth targets and investor value creation. Previous research has shown that target companies' stocks generate positive abnormal returns on average at the time of announcements, while the reactions of acquiring companies are often more mixed or negative. Strategic buyers are generally viewed more favorably in the market due to synergy expectations, while financial buyers are associated with uncertainties related to debt leverage and exit strategies. However, the research results are not entirely consistent, which makes it important to examine the different types of buyers.

The study also includes an empirical analysis based on corporate acquisitions of listed European target companies between 2015 and 2025. Event study and regression analysis are used to assess whether the identity of the buyer affects the short-term stock returns of the target companies. The empirical part complements the literature review, but the main focus of the study is on theoretical examination and analysis of previous studies.

KEYWORDS: Mergers & acquisitions, M&A announcements, Strategic buyer, Financial buyer, Abnormal returns, Stock market reactions

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TIIVISTELMÄ:
Tämän tutkielman tarkoituksena on tarkastella ostajatyypin merkitystä lyhyen aikavälin osakemarkkinareaktioihin yrityskauppojen yhteydessä. Tutkimuksen tavoitteena on selvittää, kohteleeko markkina strategisia ja rahoituksellisia ostajia eri tavalla, ja miten näiden ostajaryhmien arvonluontimekanismit heijastuvat sijoittajien odotuksiin. Osakemarkkinareaktioiden tarkastelun painopisteenä on kumulatiivisten epänormaaleiden tuottojen analysointi.

Yrityskaupat muodostavat keskeisen tutkimuskohteen rahoituksessa, sillä ne liittyvät sekä yritysten kasvutavoitteisiin että sijoittajien arvonluontiin. Aiempi tutkimus on osoittanut, että kohdeyritysten osakkeet tuottavat keskimäärin positiivisia epänormaaleja tuottoja ilmoitusten yhteydessä, kun taas ostajayritysten reaktiot ovat usein maltillisempia tai negatiivisia. Strategisiin ostajiin suhtaudutaan markkinoilla yleisesti paremmin synergiaodotusten vuoksi, kun taas rahoituksellisiin ostajiin liittyy epävarmuuksia, jotka liittyvät velkavivutukseen ja irtautumissuunnitelmiin. Tutkimustulokset eivät kuitenkaan ole täysin yksiselitteisiä, mikä korostaa ostajatyyppien erottelun merkitystä.

Tutkielma sisältää lisäksi empiirisen analyysin, jossa hyödynnetään eurooppalaisiin pörssiyhtiöihin kohdistuneita yrityskauppoja vuosilta 2015–2025. Tapahtumatutkimuksen (event study) ja regressioanalyysin avulla arvioidaan, vaikuttaako ostajatyypin identiteetti kohdeyritysten lyhyen aikavälin osaketuottoihin. Empiirinen osuus täydentää kirjallisuuskatsausta, mutta tutkielman pääpainona on teoreettinen tarkastelu ja aiempien tutkimusten analysoiminen.

AVAINSANAT: Yrityskaupat, Yrityskauppailmoitukset, Strateginen ostaja, Rahoituksellinen ostaja, Epänormaalit tuotot, Osakemarkkinareaktiot

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1 Introduction

Mergers and Acquisitions (M&A) have a long history as a central theme in corporate finance, serving as an important mechanism for company growth, restructuring, and building competitive advantage. Companies make acquisitions to expand into new geographical areas, gain access to strategic resources such as technology or distribution networks, and achieve efficiency gains that would be difficult to realize organically. Moreover, M&A transactions reshape industries by changing the competitive dynamics, restructuring market power, and influencing innovation. As Martynova & Renneboog (2008) note, the importance of M&A extends beyond individual companies, since transactions also reflect broader economic trends, the state of financial markets, and strategic responses to changing conditions. However, M&A decisions always involve considerable risk, because transactions can either create or destroy shareholder wealth depending on the acquirer's ability to generate short- and long-term value. For investors, acquisitions are therefore major events, since valuations often change rapidly when markets reassess risks, synergies, and strategic impacts. For this reason, stock market reactions are a widely used and effective way to measure how investors evaluate the impact of M&A transactions (Andrade et al., 2001).

Researchers and financial markets have a strong interest toward M&A transactions, because of their strategic and economic significance. Prior studies show that short-term announcement returns offer valuable insights into investor expectations and market efficiency. Target companies typically benefit from significant positive abnormal returns, while results for acquirers' stock price changes are more variable and dependent on specific characteristics of the transaction (Goergen & Renneboog, 2004). These findings highlight the importance of examining stock market reactions, as they show how quickly and efficiently markets process new information, reassess synergy potential, and adjust valuations. Short-term returns are especially informative, since they reflect investors' immediate expectations before long-term integration results or broader market conditions affect the outcome.

A particularly significant difference in M&A research is between financial and strategic buyers. Financial buyers, referred to in this thesis as private equity firms, generally acquire companies with the aim of improving performance and exiting at a profit within a certain time horizon. Strategic buyers, on the other hand, are established companies that seek to strengthen their long-term competitive position, realize synergies, enter new markets and gain resources through acquisitions (Seth, 1990). These differences in motives, investment horizons, and integration strategies influence both deal structures and investors' reactions. Whereas strategic buyers often pursue integration and long-term growth, financial buyers focus on restructuring and eventual divestment, which leads to different market expectations at the time of announcement.

1.1 Purpose of the Study

This study examines the impact of buyer type on stock market reactions with the focus being on how investors form beliefs based on buyer type. While M&A announcements are widely studied in finance, relatively few studies have specifically focused on the outcomes between strategic and financial buyers (Andrade et al., 2001; Goergen & Renneboog, 2004). This difference is important because the underlying motives, financing structures, and integration approaches of these buyer groups are significantly different, and these differences affect how investors reassess the value of the company at the time of the announcement. By addressing this gap, the study aims to clarify how buyer identity influences investors' understanding of value creation.

Short-term market reactions are the focus in this study, since they reflect investors' immediate evaluation of expected synergies, risks, and managerial intentions at the time of announcement. Strategic acquisitions are often presented as opportunities to achieve operational improvements, market expansion, and long-term competitiveness, which provides a more transparent rationale for value creation (Seth, 1990). Based on this reasoning, the first hypothesis is formulated as follows:

H_1: Strategic buyers are expected to generate stronger positive stock market reactions than financial buyers, due to expected synergies and longer-term value creation.

In contrast, financial buyers' value creation includes leveraged financing, governance changes, and exit-oriented strategies, which are less transparent to outside investors at the time of announcement (Kaplan & Strömberg, 2009). Since these mechanisms are harder to observe and rely more on financial engineering than on operational synergies, investors may view such deals with greater uncertainty. Therefore, the second hypothesis is as follows:

H_2: Financial buyers are expected to generate weaker or unclear market reactions, as their value creation strategies are less transparent and more dependent on financing structures than on observable synergies.

These hypotheses are built on previous M&A research while addressing the important role of buyer identity in shaping investor reactions. By focusing on the differences between financial and strategic buyers, the study aims to clarify how different motives, investment horizons, and deal structures affect stock market reactions.

1.2 Structure of the Study

The first chapter introduces the topic, describes the purpose of the study, and presents the hypotheses. Following this, the second chapter explains the theoretical background by discussing relevant concepts and frameworks related to mergers and acquisitions. The third and fourth chapters review the existing literature, focusing first on market reactions to M&A announcements and then on contextual factors that influence these results. The fifth chapter concludes the literature review section. The sixth chapter presents the empirical analysis, including data, research design, and results, followed by a discussion. Finally, the seventh chapter concludes the thesis by summarizing the key findings, highlighting theoretical and practical relevance, and suggesting directions for future research.

2 Theoretical Background

The theoretical framework provides a basis for analyzing mergers and acquisitions by focusing on how the identity of the buyer influences short-term stock market reactions. The central idea is that financial and strategic buyers pursue different objectives, which shape both the structure of transactions and how investors view these deals. By examining motives, investment horizons, control mechanisms, and behavioral factors, the framework highlights the ways in which acquisitions can either create or destroy value. This perspective links corporate decision-making to investor expectations and provides a basis for why market reactions may vary depending on the buyer type.

2.1 Buyer Types in Mergers and Acquisitions

The buyer type plays a key role in mergers and acquisitions, as it affects the motives behind the deal and how investors evaluate its potential for value creation. In the literature, buyers are typically divided into two categories, financial buyers and strategic buyers. Each group approaches acquisitions with different objectives, resources, and timelines, which therefore shapes the structure of the transaction and market expectations. The following sections discuss these two buyer groups in detail, starting with financial buyers, followed by strategic buyers.

2.1.1 Financial Buyers

Financial buyers are investors who acquire companies primarily to generate a return on investment rather than integrating operations or creating strategic synergies. These buyers are typically private equity firms, with a main objective to improve the financial performance of target companies through strategic, managerial, or financial restructuring and eventually exit the investment at a profit (Kaplan & Strömberg, 2009). Their strategy often involves identifying undervalued or underperforming companies with the

potential for stronger cash flow or a turnaround in their business. Gompers et al. (2016) point out that private equity firms use screening models focused on internal rate of return (IRR) and multiple of invested capital (MOIC) when evaluating potential investments. They further note that the target IRR for private equity investors is typically around 20-25 %. Moreover, potential target companies often have characteristics such as stable cash flows, underutilized assets, or unrealized efficiency gains that can be optimized to improve company performance and valuation (Kaplan & Strömberg, 2009; Guo et al., 2011).

Financial buyers raise capital through closed-end private equity funds, structured as limited partnerships, where general partners (GPs) make investment decisions and limited partners (LPs), such as pension funds and foundations, provide the capital for the fund. According to Kaplan & Strömberg (2009) these funds generally have a 10-year lifecycle, divided into investment and divestment phases. Within this framework, the expected holding period for portfolio companies is typically three to seven years, which creates a strict performance timeline and encourages fund managers to execute rapid, measurable improvements and prepare exits well before the fund's maturity (Kaplan & Strömberg, 2009; Metrick & Yasuda, 2011). The fund structure creates strict performance targets that not only guide operational decisions but can also influence how investors evaluate financial acquisitions at the time of announcement, as private equity firms' value creation depends on future exit opportunities.

After acquisitions, private equity firms tend to focus on centralized and control-focused ownership structures. For instance, in buyouts, private equity firms acquire a majority or full ownership stake in the target company, which gives them strong influence over strategic decisions, daily operations, and the composition of the board (Kaplan & Strömberg, 2009). According to Jensen (1989), concentrated ownership is usually paired with governance models that prioritize performance tracking, cost efficiency, and active board involvement, which together aim to align the interests of owners and managers. For

outside investors, this can be seen either as a sign of stronger discipline or as a source of uncertainty if performance targets appear too short-term.

Rather than using only their own capital, financial buyers frequently turn to debt to complete acquisitions. This approach, known as a leveraged buyout (LBO), is common in private equity deals, where a large part or the entire price of the acquisition is financed with debt rather than paid completely with equity (Kaplan & Strömberg, 2009). While the detailed mechanics of LBOs are discussed in section 2.2, it is important to note that financial buyers use leverage not only to increase return on their own invested capital but also to promote financial discipline within the company. Axelson et al. (2013) point out that private equity firms carefully design the capital structures of these deals to balance risk with repayment capacity, which ensures that interest payments can be met while operations remain sustainable. However, high leverage may also raise investor concerns if the target company's cash flows fail to meet expectations.

The goal for financial buyers in acquisitions is to seek profitable exit opportunities, typically planning divestment scenarios already at the time of the acquisition. These exits include initial public offerings (IPOs), secondary buyouts, or sales to strategic buyers (Kaplan & Strömberg, 2009). This exit-driven model encourages private equity funds to make fast and meaningful performance improvements in portfolio companies, as fund managers operate under strict time and return expectations. For investors, these features highlight both the upside potential of value creation through active ownership and the downside risks related to leverage and short-term performance horizons.

2.1.2 Strategic Buyers

Strategic buyers are large corporations that acquire companies to strengthen their competitive position, achieve long-term growth, or realize operational synergies (Seth, 1990). Unlike financial buyers, who see acquisition as an investment that generates a return through an eventual exit, strategic buyers often intend to integrate the target company

into their existing operations. According to Seth (1990), these acquisitions are usually executed when the acquirer is looking for market expansion, diversification, technological advancements, or access to new customer segments.

Capron & Pistre (2002) argue that the reasoning for acquisitions with strategic buyers is essentially to create long-term value through the realization of synergies. The value from such acquisitions often depends on successful post-acquisition integration, where the acquiring firm leverages existing resources and capabilities to improve the performance of the combined entity (Capron & Pistre, 2002). Because many of these synergies are firm-specific and difficult to quantify, strategic acquisitions are more complex but potentially more valuable in the long run.

According to Martynova & Renneboog (2008), strategic acquisitions are usually financed by using internal cash resources or issuing equity or debt, depending on the acquirer's capital structure and strategic priorities. Strategic buyers do not rely on closed-end fund structures and thus are not constrained by fixed investment horizons or exit pressures, which gives them flexibility to pursue targets that require longer integration periods or extensive restructuring. Fidrmuc et al. (2012) state that strategic acquirers also often pay higher acquisition premiums compared to financial buyers, as they are typically motivated by long-term value creation through operational and strategic synergies. The higher upfront price is justified by the fact that synergies are expected to generate value beyond what is apparent in the financial figures of the target company (Fidrmuc et al., 2012). For investors, these premiums can be a strong sign of confidence in value creation, which can influence immediate market reactions.

A key difference between strategic and financial buyers in post-acquisition behavior is their contrasting approaches to governance and organizational control. Integration in strategic acquisitions may involve business unit restructuring, operational efficiency improvements, or aligning managerial practices and organizational culture. Cording et al. (2008) emphasize that the success of strategic acquisitions depends on the strategic goal,

cultural fit, and the quality of the managerial relationship between the acquirer and the target firm.

As mentioned before, long-term perspective allows strategic buyers to pursue targets that require extended integration periods or substantial restructuring while aiming to enhance competitiveness and shareholder value over time (Seth, 1990; Capron & Pistre, 2002). This ensures that short-term underperformance is less of a concern, since their long-term perspective shapes the entire deal process, including valuation, synergy assessment, resource allocation, and post-merger integration (Seth, 1990). From a market perspective, this focus can make strategic acquisitions more credible in value creation activities, which may generate positive stock market reactions at the time of the transaction announcement.

2.2 Leveraged Buyouts

A leveraged buyout refers to an alternative approach in corporate acquisitions where a significant portion of the purchase price is financed through debt, with the remainder typically funded with the acquiring firm's equity. Buyers can gain control of the acquired business while committing a relatively small amount of their own capital, since the acquired company's own assets and future cash flows are used as collateral to secure the debt and cover interest and principal repayments over time (Smith, 1990). As Kaplan & Strömberg (2009) note, private equity buyout transactions are often carried out by LBOs and have been widely used since the 1980s as a method for acquiring targets with potential for higher profit. The use of leverage increases the returns on equity, but at the same time it creates greater financial risk, especially when the acquired company underperforms or when economic conditions are poor.

The capital structure of leveraged buyout transactions is intentionally designed with a high proportion of debt, usually ranging from 60 % to 90 % of the total purchase price, depending on the market conditions and target firm's characteristics (Kaplan &

Strömberg, 2009). The structure minimizes the equity contribution from the acquirer, which enables higher return on equity through financial leverage. Kaplan & Strömberg (2009) state that one of the main motivations for debt usage is the tax deductibility of interest payments, which creates a tax shield and improves after-tax cash flow. In addition, the obligation to service debt will force management to exercise financial discipline, thereby promoting cost efficiency and value creation (Jensen, 1986). In most LBOs, the debt is serviced using the target company's internally generated cash flows, making the stability and predictability of these flows critical to the execution of the acquisition (Guo et al., 2011). If the target company's cash flows prove to be less stable or predictable than expected, its ability to service the debt may be severely compromised. A well-known example of this is one of the largest leveraged buyouts ever done, where Goldman Sachs, KKR & Co., and TPG Capital acquired Energy Future Holdings in 2007, which included debt financing for around 45 billion USD (Specter, 2014). Changes in energy prices led to lower revenues and cash flow shortfalls, and the failure to service debt obligations led to the bankruptcy of Energy Future Holding, causing the acquirers to lose their invested capital (Specter, 2014).

Although leverage enables potential for higher returns, its success depends on selecting the right type of target company. Private equity investors look for companies that meet several key criteria beyond just predictable cash flows. Guo et al. (2011) state that stable revenue streams, limited exposure to economic volatility, and mature industries are characteristics often found in companies targeted by LBOs. Axelson et al. (2013) add that minimal existing leverage in a target company is preferred, since it offers more room for acquisition debt without violating solvency limits. Another common screening factor is the quality and flexibility of the firm's governance. Companies with underperforming management or a lack of strategic direction may be seen as ideal candidates if the acquirer has a clear turnaround strategy or the ability to install new leadership into the acquired company (Acharya et al., 2009). Rather than only looking into companies' financials, acquirers aim to identify firms where value creation may happen through

changes in strategy, operations, or governance, which may justify the use of leverage and lead to enhanced return on equity.

In conclusion, leveraged buyouts are complex transactions that combine financial engineering with strategic decision-making. While the primary goal is to generate high return through leverage, the actual success of an LBO depends on post-acquisition value creation and the ability to enhance the target company's performance. From an investor perspective, high indebtedness also causes uncertainty, as the market may question whether the expected cash flows and operational improvements will be enough to maintain the financial structure. Leverage, therefore, makes LBOs appear riskier compared to strategic acquisitions and can influence how stock markets react at the announcement window. As a result, LBOs are not suitable for all firms, and it is essential for acquirers to conduct careful analyses of target selections to achieve the best possible financial outcome.

2.3 Efficient Market Hypothesis

To evaluate how financial and strategic acquisitions influence company value, it is essential to understand how markets process and reflect information about these transactions. According to Fama (1970), stock prices in an efficient market fully reflect all available information at any given time. The hypothesis suggests that when a transaction is announced, the market should immediately incorporate the expected impact of the acquisition into both the target's and the acquirer's stock prices. Moreover, investors' expectations and firm valuations may vary significantly, since M&A transactions often involve substantial premiums, ownership changes, and strategic realignments, all of which an efficient market integrates into stock prices.

Fama (1970) defines three levels of market efficiency that are categorized based on the information availability in the market. The weak form asserts that stock prices fully reflect all historical information, such as past prices and trading volumes. The semi-strong

form states that stock prices adjust quickly to all publicly available information, including corporate announcements and financial reports. Lastly, the strong form of market efficiency claims that stock prices incorporate all information, both public and private, including insider knowledge. However, Fama (1970) notes that the strong form is mostly a hypothetical scenario, since not all information is equally accessible for all market participants and insider knowledge often remains private.

In the context of corporate transactions such as mergers and acquisitions, market reactions to public announcements typically reflect the semi-strong form of efficiency. Since M&A announcements are often made public, capital markets are expected to react rapidly and adjust valuations correctly. This framework provides the theoretical basis for examining whether market reactions differ between financial and strategic buyers, even though the efficient market hypothesis suggests that both types of announcements should be processed with equal efficiency.

2.4 Synergy Theory

Synergy theory provides a central explanation for why strategic acquirers engage in mergers and acquisitions. It suggests that the post-acquisition combined entity can create more value than the individual companies operating separately. The theory helps to explain the rationale behind many M&A transactions, particularly those that aim at achieving long-term strategic and financial gains. The core idea is that certain benefits can be unlocked through integration, which would not be possible without the transaction itself (Damodaran, 2005).

Synergies in mergers and acquisitions are categorized into three main types, which are operational, financial, and managerial. Operational synergies emerge when the merger allows for more efficient use of resources, which often happens through economies of scale, streamlined production, or shared distribution. These in turn lead to cost reductions and enhanced productivity across the combined entity (Trautwein, 1990). Leland

(2007) notes that financial synergies, on the other hand, can be reached from factors such as lower cost of capital, tax benefits from increased leverage, or improved internal capital allocation. However, Trautwein (1990) points out that financial synergies have attracted criticism, since claims of reduced risk or superior internal capital markets often lack empirical backing and may conflict with the principles of market efficiency. Lastly, managerial synergies occur when the acquirer brings superior governance practices, strategic direction, or leadership capabilities that enhance the performance of the acquired company (Trautwein, 1990). Although these categories are analytically separate, in practice they often interact with each other and together influence the total value of the transaction.

Leland (2007) examined the conditions under which financial synergies contribute positively to value creation and found that when cash flows between firms are not perfectly correlated, bankruptcy risk can be reduced while debt capacity increases, thereby generating tax benefits. Liu et al. (2022) show that synergies may also appear through reduced redundant expenditures, particularly in competitive markets where firms overlap in customer targeting or product positioning. They further note that similarly, economies of scale and scope can be realized when fixed costs are spread across a larger revenue base.

Although synergy benefits are an attractive reason for strategic acquisitions, studies show that the actual achievement of synergy benefits depends largely on competition between bidders. Barney (1988) argues that abnormal returns for the acquirer's shareholders arise mainly when the synergies are unique to that bidder, which result from resources or capabilities that are difficult for competitors to replicate, such as proprietary technologies, organizational culture, or unique strategic fit. Barney (1988) further states that when potential synergies are widely known and replicable, competing bidders can incorporate them into their own valuations, which leads to higher target prices and leaves little excess profit for the buyer. Therefore, the realization of synergies is not

guaranteed but depends on the uniqueness of the combined strengths and the dynamics of the acquisition process itself.

2.5 Agency Theory

In corporate transactions, decision-making and ownership are often separated from each other, which creates potential conflicts between the interests of shareholders and company executives. This separation may result in situations where managerial decisions are not fully aligned with the goal of maximizing shareholders wealth. These conflicts are especially relevant when evaluating the motives behind company acquisitions, which may involve substantial capital allocation and long-term strategic shifts.

Jensen & Meckling (1976) introduced agency theory to formalize the relationship between principals, such as shareholders, and agents, such as company executives. According to the theory, agents are expected to act in the best interests of principals. However, conflicts may arise if the agent's personal goals differ from shareholder value maximization. This misalignment is most often the cause of agency problems, which can lead to inefficient capital allocation, underinvesting or overinvesting in projects, and value-destroying acquisitions driven by managerial motives rather than firm-level benefits (Jensen, 1986).

According to Shleifer & Vishny (1997), companies use various corporate governance mechanisms to mitigate agency problems, such as performance-based compensations, oversight by boards of directors, and equity structures that align agents' and principals' incentives. Similarly, Eisenhardt (1989) highlights that formal contracts and informal relational governance can cause opportunistic behavior, leading to decisions that better serve the long-term goals of the company. As a result, the effectiveness of these mechanisms not only reduces agency problems but also influences the success and long-term financial performance of M&A.

Therefore, agency theory provides a theoretical basis for understanding how internal incentives and control mechanisms affect firms' decision-making. It illustrates how governance tools can influence managerial behavior and shape the outcomes of acquisition decisions. Agency theory also helps to explain why financial buyers, through concentrated ownership and strong governance mechanisms, may be more effective in aligning managerial decisions with shareholder interests and thereby improving value creation.

2.6 Hubris Hypothesis

The hubris hypothesis, originally proposed by Roll (1986), gives a behavioral explanation for why some mergers and acquisitions take place even when they do not create value. According to the theory, managers' overconfidence plays a key role in acquisition decisions. Instead of basing deals purely on rational expectations of synergies or financial profits, managers may overestimate their ability to improve the target company's performance or realize value that others do not see. Roll (1986) notes that this exaggerated belief in managers' judgment leads them to pursue acquisitions at prices higher than the target company's true value, believing that they can manage the assets more efficiently than before. He further argues that even if there are no real synergy benefits, managers continue to make acquisitions under the illusion that their assessment is more accurate than the market's, which reflects cognitive bias rather than strategic rationale.

Empirical studies have provided mixed support for the hubris hypothesis. Several studies support the view that managers' excessive self-confidence can lead to value-destroying acquisitions, particularly through overpricing. Hayward & Hambrick (1997) find that self-confident CEOs who are visible in the media are more likely to overestimate their ability to manage target companies, which often leads to poor post-acquisition results. Similarly, Malmendier & Tate (2005) show that overconfident CEOs are significantly more likely to make acquisitions even if they are value-destroying, since they tend to overestimate potential returns. However, other studies argue that arrogance alone does not fully explain the failure of mergers and acquisitions, as structural or strategic mismatches may be

equally important factors (Aktas et al., 2009). Furthermore, the effect of overconfidence can be influenced by market conditions, deal size, and the manager's past success. For instance, CEOs with a track record of favorable results may develop a false sense of infallibility, which further strengthens overconfidence (Billett & Qian, 2008).

These factors emphasize that although the hubris hypothesis offers a compelling explanation for managerial behavior, its predictive power depends on the interaction between individual psychology and broader situational factors. In some cases, managers' confidence can lead to risky strategic moves that succeed, which makes it difficult to separate justified optimism from destructive overconfidence. This uncertainty is also reflected in market reactions, as acquisitions that are considered overpriced or insufficiently justified often receive weaker short-term stock market reactions.

3 Buyer Type and Market Reactions in M&A

The short-term reaction of the stock market to M&A announcements is one of the most studied outcomes in corporate finance, since it directly reflects investors' immediate view of expected value creation or destruction. Target companies typically benefit from significant acquisition premiums, but evidence for acquirers is more mixed and depends on several factors. To understand these differences, this chapter first examines the general market reactions of target and acquirer stock prices before moving on to examine how the buyer's identity affects market outcomes. The literature provides insights into investor perceptions by separating strategic and financial buyers and therefore helps explain why markets may react differently depending on the buyer type.

3.1 Stock Market Reactions to M&A Announcements

3.1.1 Target Companies

Broad empirical research has shown that shareholders of target companies consistently receive significant positive abnormal returns in context of M&A announcements. Andrade et al. (2001) studied M&A announcements in the United States, examining nearly 3,700 mergers involving publicly traded companies between 1973 and 1998. Their study found that target company shareholders received an average abnormal return of 16 % during the three-day announcement window, with the return rising to 24 % when considering a longer event horizon. These gains are mainly explained by the acquisition premium paid by bidders to secure control, which also shows that the immediate wealth effects of acquisitions flow to the target companies. Andrade et al. (2001) also emphasize that these returns are stable across industries and deal types, suggesting that acquisition premiums are a structural feature of the M&A market rather than the result of individual cases. Moreover, industry changes such as deregulation in the airline, telecommunications, and financial sectors often trigger merger waves, which result in a continuing stable trend of positive announcement returns (Andrade et al., 2001).

Comparable evidence is also found in European markets. Goergen & Renneboog (2004) studied domestic and cross-border takeover bids from 1993 to 2000, with a focus on large transactions exceeding 100 million USD and where at least one party was publicly listed. Their study found out that European target companies earned an abnormal return of 9 % on the announcement day and up to 23 % calculated with cumulative returns in a two-month period. These increases are often linked to information leaks or takeover rumors, suggesting that shareholders of target companies may benefit even before official announcements are made (Goergen & Renneboog, 2004). The study also pointed out that hostile bids generated the highest abnormal returns, since investors expected competitive bids or higher adjusted bids, while friendly takeovers and mergers generated lower returns. Regional differences are also evident, with premiums being significantly higher in the United Kingdom than in continental Europe, reflecting a more competitive M&A market and a higher frequency of hostile takeovers (Goergen & Renneboog, 2004).

More recent evidence confirms that the positive announcement effects for target companies still exist. Alexandridis et al. (2012) studied mergers during the sixth merger wave and reported that, despite changes in deal structures and financing methods, target company shareholders continued to earn significant abnormal returns. The findings are consistent with the conclusion of Andrade et al. (2001) and Goergen & Renneboog (2004), who also reported that target firms consistently receive the majority of short-term capital gains from M&A announcements, regardless of transaction type or period (Alexandridis et al., 2012).

3.1.2 Acquiring Companies

Although target companies reliably generate significant abnormal returns, the situation is less clear when focusing on acquirers' stock reactions. Andrade et al. (2001) reported that in the U.S., acquiring companies' shareholders earned an average abnormal return of -0.7 % within the three-day announcement window and 3.8 % over the longer term, but neither of these was statistically significant. This implies that acquiring firms are not

consistently destroying value, but they also fail to capture the gains that target companies' shareholders get. Myers & Majluf (1984) studied the financing method's effect on acquirers' stock prices and found that stock-financed mergers often trigger negative announcement effects, reflecting the market's suspicion that shares are being issued when managers consider them overvalued. In this sense, buyers may appear to support the shareholders of the target company, since the premiums paid benefit the target companies while the market discounts the acquirer's value. Goergen & Renneboog (2004) reported similar results in the European M&A market, showing that acquirer announcement effects vary depending on deal characteristics such as payment method, deal size, and whether the transaction is domestic or cross-border. Their results confirm that while target firms benefit systematically, acquirer stock outcomes are much more mixed, often being close to zero but turning negative under certain circumstances, such as in stock-financed or hostile transactions.

Recent studies suggest that the performance of acquirers' stock prices has improved to some extent, particularly in the aftermath of the financial crisis. Alexandridis et al. (2017) studied mergers and acquisitions in the United States between 2010 and 2015 and reported statistically significant cumulative abnormal returns of 1.05 % over the three-day event period, representing a turnaround from the historically neutral or negative returns of previous decades. They see this improvement as a result of stronger governance, more effective incentive structures, and an increased focus on risk management in the aftermath of the financial crisis. These mixed results suggest that short-term market reactions cannot be fully explained without considering who the acquirer is, since investor expectations differ depending on whether the bidder is a strategic or a financial buyer.

3.2 Investor Reactions by Buyer Identity

A central question in M&A research is whether the stock market reacts differently depending on the identity of the buyer. Although existing evidence shows that the shareholders of target companies benefit consistently and the results for buyers are more

variable, a deeper understanding of the mechanisms that shape these reactions can be achieved when separating strategic and financial buyers. This section examines how these differences are reflected in investors' reactions at a time of deal announcement.

3.2.1 Evidence on Acquisitions by Strategic Buyers

When strategic buyers make acquisitions, the short-term reactions of the stock market often depend on how credible investors consider the expected synergy benefits and growth opportunities. Several studies show that strategic buyers can generate slightly positive abnormal returns at the time of the announcement, especially when the transactions are related to the buyer's core business and the synergy benefits are easy to identify (Seth, 1990). Alexandridis et al. (2017) found that in the post-crisis period, U.S. buyers earned a statistically significant cumulative abnormal return of approximately +1 % over a three-day period, suggesting that investors rewarded deals with improved governance and incentive structures. Similar patterns have been observed in Europe, where cash-financed acquisitions and cross-border transactions aimed at strengthening market position often led to more favorable reactions (Goergen & Renneboog, 2004).

Yet, these positive reactions are not at all common. Moeller et al. (2004) show that large strategic buyers often destroy shareholder value overall. They analyzed 12,000 U.S. corporate acquisitions between 1980 and 2001 and found that although the percentage losses of large buyers are relatively small, the absolute dollar losses are significant in terms of the scale of the transactions, resulting in a total value of over 200 billion USD in shareholder wealth destroyed during their sample period. The impact of company size suggests that agency problems, overpayment, and managerial hubris are particularly relevant for larger acquirers. Roll (1986) argues that managers often overestimate their ability to exploit synergies, leading to excessive premiums, and Hayward & Hambrick (1997) provide empirical evidence that CEO overconfidence is positively associated with merger premiums and negatively associated with acquirer returns. Moreover, Barney (1988) found out that while acquisitions within the same industry are generally seen as

value-creating, cross-industry deals often generate weaker or negative reactions because they raise concerns about complexity and a loss of focus. Together, these studies warn that even strategically justified acquisitions can destroy shareholder value if the credibility of the promised synergies is weak or if managers' biases dominate decision-making.

In addition to these general models, several random factors influence investors' reactions to strategic acquisitions. Capron & Pistre (2002) argue that value creation depends largely on the buyer's ability to transfer resources and capabilities across companies, with unique abilities generating stronger abnormal returns. Liu et al. (2022) confirm that bidder-target relatedness, in terms of unique assets, predicts synergy realization and positive market reactions better than overlapping industry M&A transactions. Cording et al. (2008), for instance, found that buyers who set clear milestones, reduce the uncertainty of cause-and-effect relationships and improve performance, which investors may recognize at announcement. Moreover, investors' estimates are influenced by external factors such as the timing of the transactions within a merger wave and prevailing capital market valuations. For instance, when stock prices are high or mergers are frequent, announced acquisitions may be viewed with greater skepticism, as the market suspects overly optimistic assumptions or pressure to participate in the "bandwagon" behavior (Damodaran, 2005; Martynova & Renneboog, 2008). In summary, these findings emphasize that the stock market reactions to strategic buyers are not uniform but depend on the buyer's ability to demonstrate credible, context-specific value creation mechanisms.

3.2.2 Evidence on Acquisitions by Financial Buyers

Since most financial buyers are private companies, their own stock price reactions are not observable. As a result, research on short-term announcement effects focuses either on the stock performance of the target companies acquired by private equity funds or, in rare cases, on the listed large private equity firms themselves. This methodological

limitation is important to acknowledge because it separates the evidence available when focusing on strategic buyers compared to financial buyers.

Empirical evidence shows that acquisitions led by financial buyers tend to generate weaker or less clear short-term market reactions than strategic acquisitions. One reason is that the sources of value creation in buyouts, such as high leverage, tighter governance, or operational restructuring, are less transparent at the announcement stage. According to Kaplan & Strömberg (2009) private equity value creation mechanisms typically occur in the medium to long-term, which makes it difficult for outside investors to assess the impact immediately at the time of announcement. However, the abnormal returns on targets acquired by private equity investors are often positive due to the purchase premiums offered, but the buyer-related reactions are close to zero. For instance, Guo et al. (2011) analyzed leveraged buyouts and reported that short-term market reactions to deals led by private equity investors are muted compared to acquisitions by strategic buyers, although in the long term, improved operational performance can be seen. Another common empirical finding is that financial buyers may even cause negative investor reactions, especially when transactions are seen as highly leveraged or speculative. Acharya et al. (2013) note that the use of debt financing in acquisitions increases financial risk, which may raise concerns about insolvency or aggressive cost-cutting measures that weaken long-term stability. This skepticism may be reflected in cautious or negative announcement returns, especially when credit conditions are poor. Furthermore, because private equity firms are expected to exit their investment within a certain time horizon, markets may underestimate the stability of value creation at the time of the announcement, which may lead to weaker short-term reactions (Kaplan & Strömberg, 2009; Metrick & Yasuda, 2011).

However, investors' reactions to financial buyouts are not always negative. Empirical evidence suggests that factors such as the reputation of the private equity investor, current credit market conditions, and the size of the transaction can significantly change market reactions. Axelson et al. (2013) show that acquisitions made during periods of cheap

credit, receive higher valuations, while according to Gompers et al. (2016), reputable private equity firms with strong track records can signal credible value creation strategies to investors. This shows that even if average market reactions to financial acquisitions are seen as neutral or slightly negative, the characteristics of the deal and the reputation of the acquirer play a key role in shaping investor expectations.

4 Moderators and Contextual Influences

It is important to understand that buyer type by itself does not fully explain M&A announcement returns and that return effects are also influenced by other broader factors. The way investors see M&A transactions made by strategic or financial buyers is closely linked to the environment in which the transactions take place. One important contextual factor is whether transactions are domestic or cross-border, as geographical scope affects expected synergies and integration risks. Macroeconomic and credit conditions determine how realistic and credible debt-financed acquisitions appear, which is particularly relevant for private equity investors who are heavily dependent on leverage. Similarly, the regulatory and institutional framework affects how confident shareholders are about the protection of their rights, which in turn affects whether strategic or financial buyers are considered more credible. Finally, the information environment, including rumors and advance announcements, affects buyer identity by often making the motives of strategic buyers more transparent than financial buyers. These external factors moderate the relationship between buyer type and abnormal returns, which helps explain why market reactions to M&A announcements vary across situations.

4.1 Domestic vs. Cross-Border M&A

The difference between domestic and cross-border M&A has been an important topic in research, since the geographical scope of the transactions is directly in line with investors' expectations. Domestic acquisitions are generally considered to be more straightforward and less risky because both participants operate in the same institutional, regulatory, and cultural context (Goergen & Renneboog, 2004). Investors often consider these deals easier to execute because there are fewer uncertainties related to integration, governance, or market unfamiliarity. According to Goergen & Renneboog (2004), domestic bids between 1993 and 2000 generated an average cumulative abnormal return of approximately +0.7 % for buyers, while targets received much higher returns, which is consistent with previous findings.

Cross-border acquisitions, on the other hand, bring a wider range of uncertainties that investors often consider in the short term. Feito-Ruiz & Menéndez-Requejo (2010) argue that international integration usually brings challenges such as cultural and institutional differences, as well as legal complexity. All of these can increase the risk of overpaying or post-merger inefficiencies. Their study on European cross-border mergers shows that outcomes were more favorable when buyers came from countries with stronger shareholder protection. In such cases, cross-border deals generated CARs in the range of +1-2 %, while mergers flowing in the opposite direction generated weaker or even negative announcement effects. This shows that the buyer's institutional origin is important and that the market weighs heavily on the credibility of governance when evaluating cross-border deals.

Studies in the U.S. emphasize that cross-border deals can sometimes generate stronger signaling effects than domestic deals, especially when the deals provide access to fast-growing markets. Chari et al. (2010) studied a sample of U.S. companies that acquired targets in emerging markets and reported an average three-day CAR of +1.16 %, which reflects investor optimism about the opportunities offered by rapidly growing economies. However, they also reported that positive effects were highly uneven, with results being stronger in countries with better investor protection and weaker in markets considered politically or economically unstable. This reinforces the conclusion that investors do not see cross-border acquisitions as value destructive, but they place a high value on institutional quality.

When focusing on cross-border and domestic deals from the buyer's perspective, the differences between financial and strategic buyers become even more clear. Strategic buyers often pursue cross-border transactions to expand into new countries, gain access to new customer bases, or acquire technological and organizational capabilities that are not available domestically. Investors respond positively to these moves when the strategic rationale is clear and the synergies are convincing, even though the risk of overpricing remains significant (Goergen & Renneboog, 2004). In contrast, financial buyers face

greater skepticism in cross-border deals. Humphery-Jenner et al. (2017) provide evidence that private equity funds' cross-border acquisitions can generate positive market reactions, if investors believe that they bring strong management and control capabilities to the transaction. However, they further emphasize that such deals are often considered riskier because they are dependent on high leverage and the divestment occurs in a less familiar institutional environment. As a result, the short-term announcement returns of cross-border transactions backed by private equity investors tend to be weaker or more mixed compared to strategic transactions.

4.2 Macroeconomic and Credit Conditions

Mergers and acquisitions rarely occur in isolation from the broader economic environment. Numerous studies have documented how merger wave activity correlates closely with variations in credit markets and general macroeconomic conditions (Martynova & Renneboog, 2008). Axelson et al. (2013) emphasize that when debt is cheap and liquidity levels are high, buyers, particularly private equity investors, are more willing to make large deals and often make aggressive bids for their targets. They further note that in contrast, during high-interest rate periods or credit crises, the interest in debt-financed transactions declines, which leads to a fall in overall volume in M&A transactions and a more cautious response from investors. Their study supports this with empirical evidence, reporting that buyouts completed in times of easy credit were executed at enterprise value to EBITDA multiples around 20 % higher compared to deals in tighter credit conditions. However, abundant credit conditions do not always lead to positive market reactions, since easy financing often encourages aggressive bidding and high indebtedness, which can raise investors' concerns about overpricing and the resilience of value creation. Acharya et al. (2013) show that highly leveraged acquisitions are vulnerable when credit conditions are weakening, which highlights how debt-driven deals can undermine long-term value, even if the target company receives a significant premium at announcement. This cyclical effect means that the returns on announcements not only

depend on the identity of the buyer, but also largely on prevailing macroeconomic conditions.

Guo et al. (2011) examined U.S. leveraged buyouts between 1981 and 2006 and reported that although private equity backed acquisitions carried out in favorable credit environments generated significant operational gains over time, their average three-day cumulative abnormal returns at announcement were close to zero. Other studies show that when liquidity is abundant, stock markets may react skeptically first, as investors suspect that easy access to financing will enable buyers to overpay for targets or make acquisitions to build large entities rather than increase shareholder value (Moeller et al., 2004). Instead, when credit conditions are poor, the market might be more positive about acquisitions if management confidence and disciplined capital allocation are transparent, even though overall M&A deal volume usually declines. Taken together, these findings suggest that credit conditions systematically moderate investor reactions to acquisitions and strengthen the differences between strategic and financial buyers, depending on whether financing is seen as value creating or risk generating.

It is also important to note that macroeconomic uncertainty moderates market reactions to M&A announcements. Alexandridis et al. (2012) show that during the 2007-2009 financial crisis, acquirers earned significantly negative CARs of -1.0 % to -1.5 % in the three-day event window, regardless of the buyer type. These returns suggests that in macroeconomically uncertain times, the market prioritizes risk avoidance over potential value creation. In contrast, Alexandridis et al. (2017) report that in the post-crisis period of 2010-2015, average acquirer announcement returns turned positive, reaching +1.05 % over the three-day window. They link this improvement to stronger governance, more disciplined deal-making, and increased risk awareness among buyers. These results emphasize that although buyer identity influences investor reactions, its impact depends largely on the broader economic environment. Financial buyers who are more dependent on debt financing are particularly sensitive to changes in credit cycles, whereas strategic buyers are evaluated more on their ability to create synergies between industries.

4.3 Regulatory and Institutional Environment

Institutional and regulatory frameworks have a significant impact on how markets react to M&A announcements, since strong investor protection laws generally promote M&A activity and strengthen confidence in the protection of shareholder rights. Porta et al. (1998) emphasize that countries with greater shareholder protection tend to have higher levels of external financing and business activity. They further state that, in contrast, weak governance systems and unclear rules can increase skepticism about whether M&A creates shareholder value. Institutional differences therefore help explain why announcement returns differ significantly across markets and between buyer types.

Goergen & Renneboog (2004) analyzed European takeover bids and showed that U.K. targets received higher abnormal returns than continental Europe. They emphasize this difference by the UK's clearly defined takeover rules, stricter disclosure requirements, and greater frequency of hostile bids, which often result in higher premiums. In continental European markets, target companies' returns are generally lower because investors expect less competition in bidding and weaker protection for minority shareholders. Rossi & Volpin (2004) extend this evidence by noting that stronger shareholder protection in different countries correlates not only with higher merger activity but also with higher value creation. These findings point out that institutional quality plays a key role when investors assess both the probability of deals going through and the expected profit allocation.

Regulatory developments in integrated markets also have an impact on short-term reactions. Goergen et al. (2005) discuss the adoption of the European Union's Takeover Directive, which was aimed at aligning policies across member states. Although the directive's implementation has been inconsistent, it has increased transparency and provided a more predictable environment for cross-border acquisitions. By reducing uncertainty about foreign acquisitions, investors' confidence may rise, since they believe that the transactions will meet with common standards (Rossi & Volpin, 2004). The institutional environment also affects how the identity of buyer is viewed. For instance, private

equity transactions are often monitored more closely in jurisdictions with weaker disclosure requirements, because investors fear opportunism or excessive indebtedness (Acharya et al., 2013). In contrast, in markets with strong regulatory oversight, private equity investors may be viewed more favorably, as their active management role is expected to complement shareholder protection (Porta et al., 1998). Overall, the regulatory framework shapes both the market efficiency and investor perception of buyer types. Private equity firms face greater monitoring due to leverage and exit incentives, whereas strategic acquirers are primarily evaluated through disclosure and compliance standards.

4.4 Information Environment and Rumors

Increasing evidence shows that stock price changes often begin before announcements, which reflects the role of rumors, information leaks, and insider trading. According to Keown & Pinkerton (1981), stock prices of target companies often rise significantly in the weeks prior to the announcement, with about half of the abnormal returns being realized during the upturn. They argue that pre-announcement returns are caused by insider trading and information leaks, suggesting that the efficient market hypothesis does not fully apply to M&A deals. These pre-announcement effects make it difficult to measure abnormal returns, since investors may have already priced in some of the premium. Keown & Pinkerton (1981) analyzed 194 public tender offer announcements in the United States between 1975 and 1978 and showed that the cumulative abnormal returns in the month preceding the announcement was around 6 %. Their study has since become a benchmark for understanding how rumors and information leaks affect investor behavior.

Recent studies have confirmed and expanded these findings. Goergen & Renneboog (2004) documented that in European markets, target companies earned CARs of approximately 23 % in the two months prior to the bid, again suggesting that information was leaking prior to official announcements. Jarrell & Poulsen (1989) further emphasize the structural nature of pre-bid price increases and argue that they reflect not only illegal

insider trading but also investors' rational speculation about market signals such as unusual trading volumes or media reports. Similarly, Kellner (2024) highlighted that even small, statistically significant price changes prior to announcement may indicate either information leaks or anticipation effects, which makes it difficult to predict short-term stock market reactions.

Based on this, pre-announcement price dynamics differ significantly between deal types. Rumors about strategic acquisitions usually cause stronger upfront market reactions than private equity acquisitions, because the market considers strategic motives and expected synergy benefits to be more transparent and credible. Humphery-Jenner et al. (2017) show that in some cases, up to a third of the total strategic acquisition premiums are already incorporated into the target's stock price prior to the official announcement. This effect reflects investor expectations of operational integration or market expansion benefits. Private equity deals, on the other hand, often generate weaker effects prior to the bid, since value creation mechanisms such as leverage and management restructuring are less visible for investors. According to Goergen & Renneboog (2004), markets may underestimate private equity investments' potential gains due to the fixed exit schedule. They also note that cross-border bids in European markets, often associated with private equity funds, show more volatile pre-announcement returns, which highlights the importance of information asymmetry when buyers operate in foreign jurisdictions. This illustrates that the transparency of motives and information asymmetries strengthens the differences in how markets view acquisitions by strategic versus financial buyers.

4.5 Conceptual Framework

The previous discussions show that short-term stock market reactions do not only depend on the identity of the buyer. Instead, the relationship between strategic and financial acquisitions and the effects of their disclosure depends on several contextual factors. Favorable credit markets, strong regulatory environments, transparent information flow,

and the specific characteristics of the transaction can either strengthen or weaken investor confidence in the credibility of the buyer's value creation mechanisms.

Figure 1 below summarizes the key conceptual relationships presented in this chapter. Strategic and financial buyers differ in their primary approaches to value creation, but broader market and institutional conditions influence how these mechanisms affect short-term market reactions. This visual framework combines the moderating role of contextual factors and provides a structured basis for understanding the reasons for different market reactions.

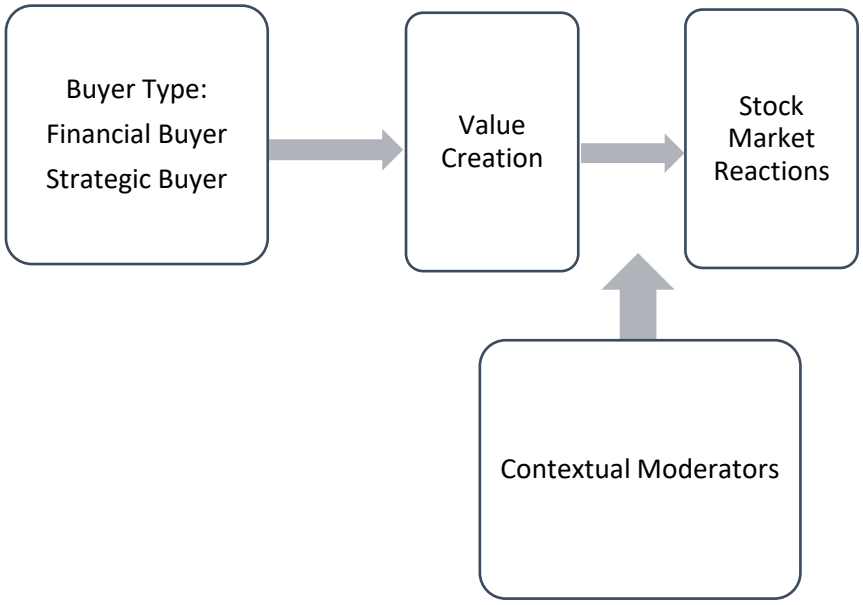

Figure 1. Conceptual Framework of Buyer Type and Market Reactions.

5 Literature Review Conclusions

The literature consistently shows that mergers and acquisitions are the most significant corporate events in terms of their immediate impact on the stock market. Target companies almost without exceptions receive significant positive abnormal returns around announcement dates. Acquisition premiums and expectations of value creation are seen as the main drivers of this. For acquiring companies, the situation is more complex, since some companies achieve neutral or slightly positive results, while others face negative reactions as investors question the premium, integration risks, or management incentives. Within this general context, the identity of the buyer emerges as a critical factor, as the distinction between financial and strategic buyers determines how investors see motives, assess value creation potential, and ultimately adjust stock prices in the short term.

Strategic buyers are generally viewed more positively in the market because their acquisitions are based on motives that are easily understood by investors, such as synergy benefits, market expansion, or technological development. According to the literature, these deals often receive more favorable short-term reactions because the value creation mechanisms are visible and consistent with long-term competitiveness. At the same time, evidence warns that such gains may be undermined if premiums are too high or if managers fall into excesses of hubris by overestimating their ability to benefit from synergies. Nevertheless, the pattern is clear, and compared to other types of buyers, strategic buyers are rewarded more consistently at the announcement stage, which strongly supports the first hypothesis that their deals are associated with stronger cumulative abnormal returns. On the other hand, financial buyers are viewed with greater caution. Their acquisitions are based on debt, governance changes, and exit strategies, which all may prove effective but are less transparent to outside investors at the time of announcement. Since the benefits of financial engineering or managerial restructuring are only realized over time, markets often react with muted or mixed abnormal returns in the short term. This does not mean that value creation is not taking place, as many studies highlight the operational improvements achieved during the holding period, but

rather reflects when such gains become visible. The literature therefore supports the second hypothesis that short-term stock market reactions to financial buyers are weaker or less clear than reactions to strategic buyers, even though long-term results may later prove to be successful.

At the same time, the review makes it clear that the buyer type alone cannot fully explain the announcement effects, as contextual factors have a strong influence. Geographical scope of the deals, credit market and macroeconomic conditions, regulatory and institutional frameworks, and information environments shape investor expectations of both strategic and financial transactions. Periods of abundant liquidity can increase skepticism toward aggressive bids by financial buyers, while strong shareholder protections and transparent M&A regulation can strengthen confidence in cross-border transactions. Information leaks and rumors further complicate the situation, as stock prices often change even before official announcements are made.

In addition to theoretical findings, the literature also highlights important practical implications. For investors, understanding how markets react to different types of buyers can provide insights into trading strategies and risk management, as M&A announcements often lead to rapid and significant price changes. For corporate executives and boards, the findings emphasize the importance of credibility in communicating the motives behind M&A transactions, as the market generally rewards deals with transparent and convincing value creation logics and punishes deals that appear to be driven by overconfidence or unclear financial engineering. For policymakers and regulators, the information on pre-announcement price changes and information leaks highlights the importance of strict disclosure rules and market surveillance in maintaining investor confidence. These perspectives show that examining the identity of the buyers is not only academically interesting but also has broader implications for financial market decision-making and corporate strategy. Overall, by clarifying how strategic and financial buyers are viewed at the announcement stage, the literature provides a basis for further empirical analysis.

Future research could deepen these findings by examining how industry differences, market conditions, and regulatory environments affect reactions to different buyer types. Furthermore, examining whether short-term market reactions are consistent with long-term M&A outcomes would provide a more comprehensive picture of how effectively markets price the value creation potential of strategic and financial buyers at the announcement stage.

6 Empirical Research

This chapter presents the empirical part of the thesis, which complements the literature review by providing evidence on how financial and strategic buyers are seen in European M&A markets. The goal is to investigate whether returns on announcements differ systematically in the context of buyer type and transaction characteristics. To achieve this, the chapter first describes the data collection process and key variables, followed by a discussion of data limitations and descriptive statistics. Next, a methodological framework combining event study and regression analysis is presented. Finally, the results of empirical tests are presented with discussion.

6.1 Data

The empirical analysis is based on a manually collected dataset containing M&A events with European target companies announced between 2015 and 2025. The sample includes both strategic buyers (corporate) and financial buyers (private equity funds), which allows for a direct comparison of the stock market reactions between these two types. The data only includes transactions involving publicly listed target companies, since reliable stock price data is needed to measure short-term market reactions.

All transactions have been identified and confirmed from official sources, such as company press releases, stock exchange announcements, and the investor relations websites of the companies involved. In addition, the financial details of the size and characteristics of the transactions have been verified using financial news sources and company announcements, where available. This manual collection process ensured that only confirmed transactions with enough information were included in the final dataset. While this approach was more time-consuming than using a commercial database, it ensured consistency and transparency in the selection process. For each transaction, daily stock prices of the target company around the announcement date, together with the corresponding values of the EURO STOXX 600 index, were collected from Investing.com using

historical data. Using a broad European market index as a benchmark provides a consistent comparison across countries and industries, and it ensures that exceptional returns reflect company-specific reactions rather than general market movement. Unlike studies that compare local indexes for each country, this approach makes the result more comparable across the sample.

The final dataset contains 76 transactions, of which 38 are financial acquisitions and 38 are strategic acquisitions. Additional variables were used to capture the relevant characteristics of the deal. These include the type of payment (cash, stock, mixed), the geographical scope of the transaction (cross-border within Europe, cross-border outside Europe, domestic), and the size of the transaction in millions of USD. The size of the transaction was converted into USD based on the exchange rates at the time of announcement to allow for comparison between different currencies. For the purposes of regression analysis, the deal size was further converted to logarithmic form to reduce the impact of extremely large outliers.

6.1.1 Data Limitations

Overall, the data provides a structured overview of recent European M&A activity, but it does have certain limitations. The use of publicly available company announcements means that some transactions, particularly smaller ones, may have been excluded. In addition, the focus on listed targets naturally biases the sample toward larger firms, as most private acquisitions do not generate measurable reactions in the stock market. Also, the sample size is still modest compared to studies with large samples, which must be considered when analyzing the regression results. Moreover, the dataset does not include acquisition premiums, even though they often have a decisive impact on market reactions to M&A announcements. The absence of this variable means that the analysis only describes the immediate reaction of stock prices and does not fully consider the valuation effects included in the offered purchase price. However, the dataset is large enough to conduct an event study of short-term market reactions to M&A

announcements. It offers a unique perspective by combining carefully verified transactions with detailed transaction-level variables, enabling empirical analysis to test whether the type of buyer and transaction characteristics systematically affect cumulative abnormal returns.

6.1.2 Descriptive Statistics

Table 1 presents descriptive statistics for the 76 M&A transactions included in the sample data. These statistics provide an overview of the most important variables used in the empirical analysis and help to illustrate the structure of the data. By presenting the mean, median, standard deviation, minimum, and maximum values, the table provides an understanding of central tendency and the variation of the variables. This makes it possible to assess how balanced the sample is between financial and strategic buyers, how common different payment methods are, and how much the transactions vary in terms of geographical scope and deal size. Presenting these characteristics is important because they provide context for analyzing the regression result and ensure that the structure of the data is understandable.

Table 1. Descriptive Statistics for Variables.

	Mean	Median	Std. Dev.	Min	Max
CAR	0.21	0.16	0.17	-0.05	0.95
Buyer Type (Financial = 1)*	0.50	0.50	0.50	0	1
Cash Payment*	0.84	1	0.38	0	1
Stock Payment*	0.04	0	0.20	0	1
Cross-Border EU*	0.24	0	0.43	0	1
Cross-Border Non-EU*	0.51	1	0.50	0	1
Deal Size (ln)	8.34	8.28	1.20	5.16	11.16

* *Dummy variables, taking the value 1 if the condition is met and 0 otherwise.*

The results show that the mean for cumulative abnormal return (CAR) in the dataset is 0.21 and the median is 0.16. The values range from a minimum of -0.05 to a maximum of 0.95, indicating that while some transactions were met with small or even slightly negative reactions in the stock market, others led to exceptionally large positive reactions. The standard deviation of 0.17 suggests that there is moderate variation in the short-term market reactions in the sample.

The mean value of the buyer type dummy variable of 0.50 confirms that the sample is evenly distributed between financial buyers and strategic buyers. In terms of payment structure, the data shows that the majority of transactions were financed in cash (84 %), while stock payments were rare (4 %). The baseline category, representing mixed payment structures, is therefore presenting only a few cases.

In terms of geographical scope, 25 % of transactions were cross-border within Europe, and 51 % were cross-border outside Europe, with 25 % of the sample being purely domestic transactions. This distribution shows that more than three-quarters of all corporate acquisitions involved a cross-border element in the sample, highlighting the international nature of M&A activity in Europe.

The average logarithm of the transaction size is 8.34, and the median is 8.28, with values ranging from 5.16 to 11.16. This represents a wide range of deal sizes, from a few hundred million dollars to some of Europe's largest acquisitions exceeding over 10 billion USD. The relatively high standard deviation of 1.20 reflects the large variation in transaction values, which justifies the use of a logarithmic transformation to reduce the impact of extreme outliers in the regression analysis.

Although the sample includes deals from various industries and years, more detailed breakdowns could offer additional information into how sample structure influences announcement reactions, which is suggested as an addition for future research.

6.2 Methodology

This section describes the methodological framework used in the empirical analysis. The approach combines event study, which is used to measure short-term stock market reactions to the announcement of M&A transactions, with a regression model that examines whether the type of buyer and the characteristics of the transaction systematically affect cumulative abnormal returns (CARs).

6.2.1 Event Study Approach

The main methodological framework of this study is event study, which has been widely used in finance to measure how stock markets react to new information. In efficient markets, announcement effects of corporate acquisitions should be rapidly incorporated into the target companies' stock prices. Therefore, studying stock price reactions around the announcement date allows us to measure market expectations of the value creation of the deal (MacKinlay, 1997).

The event study method is particularly well suited to M&A research, since corporate acquisitions are typically high-profile corporate events that attract significant market attention. Announcement dates are clearly identifiable through press releases, stock exchange announcements, and company announcements, which makes it possible to align price data across different companies. In addition, event studies focus on short periods of time, which helps to separate the impact of corporate acquisition news from other, unrelated market movements.

In this study, the event period is defined using a three-day event window [-1, 1], which includes the day before the announcement (t-1), the day of the announcement (t=0), and the day after the announcement (t+1). In the three-day event window, cumulative abnormal returns are calculated for all target companies. This short window covers possible information leaks prior to the announcement and delayed corrections after the

announcement, while minimizing the risk of confounding events that may affect the stock price in the longer term (Andrade et al., 2001).

6.2.2 Calculations in the Event Window

In general, various approaches can be used to calculate expected returns during the event period. A common option in event studies is to use the Capital Asset Pricing Model (CAPM), which considers both the risk-free rate and the systematic risk of each stock. However, this study uses a simpler market-adjusted model, in which the return on the EURO STOXX 600 index is subtracted from the return on the stock. The main reason for this choice is that it provides a consistent and transparent benchmark for all transactions while avoiding the challenges associated with estimating beta coefficients and risk-free interest rates.

Daily stock returns of the target companies are calculated as follows:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}} \quad (1)$$

Where $R_{i,t}$ denotes the return of stock i on trading day t, and $P_{i,t}$ is the closing price of the stock on day t. Similarly, daily returns for the market index are calculated as follows:

$$R_{m,t} = \frac{I_t - I_{t-1}}{I_{t-1}} \quad (2)$$

Where $R_{m,t}$ denotes the return of index m on trading day t, and I_t is the closing value of the EURO STOXX 600 on day t. Therefore, the abnormal returns are calculated with the following formula:

$$AR_{i,t} = R_{i,t} - R_{m,t} \quad (3)$$

Where $AR_{i,t}$ represents the abnormal return of company stock i at day t. Abnormal returns capture the deviation of a stock's performance from the general market movement on a given day and reflect the impact of the specific M&A announcement. Since market reactions may occur both immediately and with a short delay, it is not sufficient to examine abnormal returns on a single day only.

Cumulative abnormal returns (CARs) are then derived by summing abnormal returns over the three-day event window:

$$CAR_i = \sum_{t=-1}^{+1} AR_{i,t} \quad (4)$$

This measure captures the overall short-term stock market reaction for each transaction.

6.2.3 Empirical Hypothesis

The empirical test focuses on whether the type of buyer influences announcement returns for target company shareholders. The null hypothesis is formulated as follows:

H_0: Buyer type has no statistically significant effect on cumulative abnormal returns of target companies' stocks around the announcement date.

This hypothesis applies specifically to the empirical part of the thesis and is tested against the alternative that buyer type does have a significant effect.

6.2.4 Regression Model

To test whether buyer type systematically affects announcement returns, an ordinary least squares (OLS) regression model is applied. The model is specified as follows:

$$CAR_i = \beta_0 + \beta_1 Buyer_i + \beta_2 Cash_i + \beta_3 Stock_i + \beta_4 CrossBorderEU_i + \beta_5 CrossBorderNonEU_i + \beta_6 DealSize_i + \varepsilon_i \quad (5)$$

Where:

CAR_i: Cumulative abnormal return for transaction i over the three-day event window [-1, 1]. The variable is computed for all transactions in the sample.

Buyer: Dummy variable equal to 1 if the acquirer is a financial buyer (private equity fund), and 0 if it is a strategic buyer (corporate).

Cash: Dummy variable equal to 1 if the deal was financed purely in cash.

Stock: Dummy variable equal to 1 if the deal was financed purely in stocks.

CrossBorderEU: Dummy variable equal to 1 if the deal is cross-border within Europe.

CrossBorderNonEu: Dummy variable equal to 1 if the deal is cross-border with the acquirer outside of Europe.

DealSize: Natural logarithm of the deal value in USD, included to control for scale effects and reduce the influence of extreme outliers.

ε_i: Error term.

The intercept (β_0) captures the average CAR for the baseline case, which in this specification corresponds to a domestic, mixed-payment, strategic acquisition of average deal size.

This structure allows the marginal effect of each variable to be separated from its baseline category in the regression. For example, the buyer coefficient shows how returns on listings differ between private equity investors and corporate buyers when other factors are held constant.

Including financial performance controls such as leverage, profitability, or Tobin's Q could potentially improve the model's ability to isolate buyer-type effects, but such data were not consistently available for the companies in the dataset. Therefore, these firm-level controls are left for future research.

6.3 Results

The regression analysis examines whether buyer type and transaction characteristics systematically affect cumulative abnormal returns in connection with M&A announcements. The results are presented in two parts. First, in table 2, general statistical information about the model is reported to assess its explanatory power and significance. Second, in table 3, the regression coefficients are discussed in detail and interpreted in terms of the significance of each variable in relation to theoretical expectations and previous literature.

Table 2. Regression Model Statistics.

Statistic	**Value**
R^2	0.116
Adjusted R^2	0.039
F-Statistic	1.50
Significance F	0.190
Observations	76

The regression model achieves an R^2 value of 0.116, which means that approximately 11.6 % of the variation in cumulative abnormal returns can be explained by the independent variables included in the specification. This is a relatively low explanatory power, but it is not unusual in event studies, where short-term abnormal returns are influenced by numerous company-specific and market-specific factors that are difficult to fully capture. The adjusted R^2, which penalizes the model for additional explanatory variables, is even lower, at 0.039. This indicates that after controlling for the number of variables, the model adds only limited explanatory power.

The total F-statistic is 1.50, and the significance is 0.19, which means that the model is not statistically significant at conventional levels. In other words, there is no strong evidence that the set of explanatory variables explains CAR better than a model with no

predictors. This does not necessarily invalidate the model, but it highlights the exploratory and illustrative nature of the analysis in this thesis.

Table 3. Regression Analysis Results for Cumulative Abnormal Returns (CARs).

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Intercept	0.4213	0.1888	2.23	0.029**
Buyer Type (Financial = 1)	-0.0287	0.0474	-0.61	0.547
Cash	0.0871	0.0697	1.25	0.216
Stock	-0.0055	0.1227	-0.04	0.964
Cross-Border EU	-0.0024	0.0644	-0.04	0.971
Cross-Border Non-EU	-0.0380	0.0486	-0.78	0.436
Deal Size (ln)	-0.0305	0.0187	-1.63	0.108

** *Statistically significant at 5 % level*

Table 3 shows the coefficients for every variable used in the regression. The intercept is positive, achieving a coefficient of 0.4213, and it is statistically significant at the 5 % level. This represents the expected CAR value in the baseline case, where the transaction is domestic, the payment method is mixed, the buyer type is strategic, and the transaction is average size. The fact that the baseline return is significantly above zero indicates that, on average, M&A announcements in the sample are associated with positive short-term abnormal returns. This finding is broadly consistent with prior event studies, which often report that target shareholders benefit from M&A announcements, although the coefficient is larger than in many previous studies.

The buyer type dummy, which equals 1 for financial buyers and 0 for strategic buyers, has a negative coefficient of -0.0287. This means that, on average, acquisitions made by private equity firms generate slightly lower CAR than acquisitions made by strategic buyers. However, the effect is small and statistically insignificant ($p = 0.55$). This result suggests that, in this sample, financial buyers do not systematically differ from strategic

buyers in terms of market reactions. The lack of a significant effect differs from some studies that report higher returns on announcements by strategic buyers due to expected synergies (Bradley et al., 1988). On the other hand, other studies emphasize that private equity investors may sometimes face skepticism due to their indebtedness and shorter investment horizons (Kaplan & Strömberg, 2009). The insignificant result obtained in this study may indicate that the market treats both types of buyers relatively similarly in recent European transactions, or alternatively that the small sample size and lack of premiums from the data make it difficult to detect significant differences.

Two dummy variables, cash and stock, explain the method of payment. The baseline is a mixed payment method. The coefficient for cash-financed transactions is positive, receiving 0.0871, suggesting that acquisitions financed entirely with cash generate a higher CAR value than mixed payment transactions. The result is consistent with the signaling theory of M&A transactions, according to which cash payments signal the buyer's confidence in the value of the transaction (Travlos, 1987). However, the effect is not statistically significant ($p = 0.22$). The coefficient for stock-financed transactions is close to zero (-0.0055) and clearly insignificant ($p = 0.96$). This suggests that there is no systematic difference between stock-financed and mixed payment transactions in the sample. Taken together, these results show that the payment method does not have a statistically significant impact on short-term market reactions in this dataset, even though cash payments are generally associated with slightly higher positive returns.

The analysis also includes two dummy variables for cross-border transactions, which are within Europe and outside Europe, with domestic transactions serving as the baseline category. Neither coefficient is statistically significant. Cross-border transactions within Europe have a near-zero effect, achieving a coefficient of -0.0024, while cross-border transactions with buyers outside of Europe have a negative coefficient of -0.0380. The second variable suggests that non-European acquirers may generate slightly weaker announcement returns for European targets, but the effect is not significant ($p = 0.44$). This result suggests that geographical scope is not a decisive factor for market reactions in

the short term. However, the finding may also be driven by the size of the sample, as many of the larger transactions in the dataset are cross-border, which may hide differences.

The natural logarithm of deal size has a negative coefficient of -0.0305, suggesting that larger transactions generate lower announcement returns for target companies. While this relationship is not statistically significant at the 5 % level ($p = 0.11$), the coefficient is close to significance at the 10 % level. This negative relationship is consistent with previous literature, which often reports that smaller transactions generate higher abnormal returns because integration is easier and implementation risks are lower. The weak significance suggests that the size of the transaction may be somewhat relevant, but the dataset is not large enough to draw definite conclusions.

Overall, the regression results show that none of the transaction characteristics or buyer types have a statistically significant effect on cumulative abnormal returns at the 5 % level. The only significant coefficient is the intercept, which indicates that the shareholders of the target company generally receive positive abnormal returns when M&A transactions are announced. Although the type of buyer, payment method, cross-border nature, and size of the transaction all show coefficients that are consistent with theoretical expectations, the effects are not strong enough to achieve statistical significance in this dataset. The results therefore do not provide evidence to reject the null hypothesis. This does not necessarily mean that the type of buyer is never important. Instead, it emphasizes that in this sample of 76 transactions, market reactions are influenced by other factors not included in the model, such as acquisition premiums, target company characteristics, or market conditions. A robustness check using a CAPM-based return expectation could further validate the results, but the market-adjusted model was considered sufficient for the scope of this thesis.

7 Discussion & Final Remarks

This study examined how the identity of the buyer affects short-term stock market reactions in M&A announcements. The literature review emphasizes that strategic buyers tend to receive a more positive response at the announcement stage because synergy motives and long-term competitiveness are more clearly visible, whereas financial buyers are often associated with greater uncertainty because their value creation mechanisms are based on leverage, management changes, and exit plans that are realized in the long term. This aligns with the findings of Seth (1990) and Goergen & Renneboog (2004), who show that investors generally reward visible and strategy-related value creation signals more than financial engineering.

However, the empirical results of this study suggest that the difference between buyer types has recently become less clear in the European context. Although the regression analysis results showed that the target company's shareholders benefit on average from positive abnormal returns, no statistically significant difference was found in the sample between financial and strategic acquisitions. This differs from earlier evidence such as Bradley et al. (1988), who documented more positive announcement returns for strategic buyers. However, the result is consistent with more recent research suggesting that stronger governance practices and increased transparency in private equity transactions have narrowed risks (Kaplan & Strömberg, 2009). At the same time, the results emphasize that the identity of the buyer alone does not determine market outcomes. Contextual factors such as credit market conditions, institutional frameworks, and information environments have a significant impact on outcomes, which is in line with discussions in the literature review. The insignificant coefficients for deal size, payment methods, and cross-border status in this study highlight how complex investor reactions are and how quickly external conditions can reduce the impact of buyer type.

Another important factor is the temporal dimension of value creation. The synergy benefits of strategic buyers are often visible in the short term, while the effects of financial buyers' strategies usually occur over time through operational improvements and

divestment strategies. The lack of significant differences in the short-term results of this study is not necessarily inconsistent with previous findings, but it highlights methodological limitations resulting from the focus on narrow event windows. This is consistent with findings such as Alexandridis et al. (2017), who emphasize that short-term event studies may fail to capture delayed value creation associated with leveraged buyouts. Future analyses that consider medium- and long-term perspectives could provide a more comprehensive picture of how buyer identity affects outcomes.

The results of this study must be viewed considering the limitations. In addition to the small sample size, the data lacked acquisition premiums and firm-level financial characteristics, both of which are important factors in terms of announcement profits. In future studies, expanding the dataset, including new transaction characteristics, and analyzing a longer time period would allow for a more comprehensive picture of how buyer identity affects investor reactions. In addition, using CAPM for calculating abnormal returns could provide more precise results in future research.

In conclusion, this study shows that M&A announcements continue to generate positive abnormal returns for targets. The study also shows that strategic buyers generate higher cumulative abnormal returns than financial buyers, but the explanatory power of buyer type alone is limited. The interaction between strategic motives, financing arrangements, and the market environments remains central to understanding investor behavior. For practitioners, these findings highlight the need to clearly communicate the logic of value creation in transactions, regardless of the buyer's identity. For investors, the insignificant differences between buyer types in this sample suggest that trading solely based on the acquirer's identity is unlikely to generate consistent abnormal returns in the short term. For future research, examining how buyer type interacts with industry characteristics, market cycles, and governance structures could further clarify how investor expectations evolve in M&A markets.

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