



Valuation Effects of Private M&As in China

Louis T. W. Cheng^a, Danxiao Jiao^b

a School of Accounting and Finance, Hong Kong Polytechnic University, Hung Hom, Hong Kong, China

b School of Management, University of Chinese Academy of Sciences, Beijing, China

A B S T R A C T

We examine the valuation effects of Chinese M&As involving a listed acquirer and private target. Using public peers as benchmarks to generate valuation premium/discount for private targets, we show that initial equity ownership reduces acquisition premium. We argue that previous ownership serves as an effective strategy for acquirers to obtain privileged information to negotiate for a lower premium for the private target transactions. Next, using a two-stage model, our findings indicate that instrumented premium/discount and previous ownership negatively affect announcement abnormal returns. This finding is consistent with the first-stage results for acquisition premium.

©2017 IRABF All rights reserved.

Keywords: Mergers and acquisitions; Valuation premium and discount; Private targets

JEL classification: G14; G32; G34
