Title of paper:

Mergers and Acquisitions in Sin industries

The value increasing deals for sin acquirer’s shareholders

Quyen Van¹a, Darren Duxburya, Yang Zhaoa, Dimitrios Gounopoulob

Short Abstract

This research investigates the market reaction of mergers and acquisitions (M&As) in the sin industries (i.e. tobacco, alcohol, and gambling). There is a few academic and practitional research in this area. In the M&A research universe, the abnormal return from this event for acquirer’s shareholder is not significantly positive. The value increasing and decreasing behaviors of acquirer’s manager is the key reason. However, the sin industries are different due to social norms. The manager of sin firm has an intention to do “good” thing to attract a wider investment and analyst coverage. Deeper research in this area could both benefit the academic research and sin industry stakeholders. Using the global sample, beside examining the abnormal return for sin acquirer’s shareholder in general, we also aim to see the difference in people attitude towards sin industries to the acquirer’s shareholder abnormal return. To achieve this research, we use the global M&A data from Thomson one, trading data from Datastream and human attitude from World Value Survey database. The result from the sample of 2,998 deals in sin industries and 11,179 deals in non-sin industries from 1993 to 2017 suggests the significantly positive abnormal return for sin acquirer’s shareholder. The gain for sin acquirer’s shareholder is enhanced when the sin acquirer is from the high social norm country. The result is robust with different event study properties (e.g. lengths of event windows), different set of WVS questions, and regression techniques (i.e. full sample and matching OLS regression).

Extended Abstract

This research investigates the market reaction of mergers and acquisitions (M&As) in the sin industries (i.e. tobacco, alcohol, and gambling). There is a few academic and practitional research in this area. In the M&A research universe, the abnormal return from this event for acquirer’s shareholder is not significantly positive. The value increasing and decreasing behaviors of acquirer’s manager is the key reason. However, the sin industries are different. Due to social norms², the sin company is neglected by investor and analyst, the manager of sin

¹ Corresponding author, v.h.quyen2@newcastle.ac.uk
² Social norms are the rules and standards that understood by members of a group or society. Social norms guide and constrain social behavior (Liu et al., 2014).
firm has an intention to do “good” thing to attract a wider investment and analyst coverage. Deeper research in this area, proving the better scenario in term of abnormal return from M&A of sin acquirer could both benefit the academic research and sin industry stakeholders. Moreover, using the global sample, we also aim to see the difference in people attitude towards sin industries to the acquirer’s shareholder abnormal return. This global sample and the assumption of variety of people attitude drives us to the wilder forest as most of the prior research assume this variety is constant.

Data
We employ the global data from the following sources: M&A information from Thomson One, trading data of sin companies from Datastream. We use the World Value Survey (WVS) database to classify countries into high and low social norm level. This classification is based on how people in each country respond to religious, environment, ethical questions. We develop this classification basing on the work of Fauver and McDonald (2014).

Method
We examine the abnormal return of M&A transaction using event study with OLS-Market model (Brown and Warner, 1980; Brown and Warner 1985). There are two techniques to compare the return to acquirer’s shareholder between deal relating to sinful firm and other. The first technique is including the deal in the relevant industry (i.e. tobacco industry compared with the food industry, alcohol compared with the soda industry, and casino industry compared with fun and meals industries). The second technique is using the propensity score matching to find a similar deal in the relevant industry in line with Beneish (2008).

Result
The result from the sample of 2,998 deals in sin industries and 11,179 deals in non-sin industries from 1993 to 2017 suggests the significantly positive abnormal return for sin acquirer’s shareholder. The gain for sin acquirer’s shareholder is enhanced when the sin acquirer is from the high social norm country. The result is robust with different event study properties (e.g. lengths of event windows), different set of WVS questions, and regression techniques (i.e. full sample and matching OLS regression). The out-performance of sin acquirer’s deal, especially when the acquirer from the high social norm country could be explained by the followings. First, the sin company is characterized as cash-rich. They could utilize this financial source in a good investment. Second, the motive of the sin acquirer is expected to be value-increasing. The reason is that the manager of the sin firm attempts to do “good” things to improve their firm’s image to attract a wider investment and analyst coverage. Third, the level of social norms (i.e. high or low) affecting to sin industries M&As. It is well documented in the literature that social norms affect financial decisions. In a high social norm country, people consider the sin industry badly and this norm affects to sin company’s manager and stakeholders. Whereas in the low social norm country, people do not criticize the sin industries much, as the result, we could expect the sin company in this country less different from the non-sin company.