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ECONOMIC SIGNALS FROM ACQUISITION PREMIUMS: A RE-ANALYSIS OF STOCK PRICE FLUCTUATIONS TO ASSESS THE IMPACT OF SHAREHOLDER WEALTH IN M&A TRANSACTIONS

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Abstract

This study investigates the role of acquisition premiums in mergers and acquisitions (M&A) and their impact on shareholder wealth, focusing on five major Indian deals in pharmaceuticals, retail, banking, steel, and renewable energy sectors. Potential synergies often justify acquisition premiums ranging from approximately 15% to 40% above target companies' market values. However, market responses suggest that such premiums may not consistently result in value creation for acquiring firms' shareholders. Empirical findings reveal mixed outcomes: Sun Pharma's acquisition of Ranbaxy led to a 9.8% share price increase within five days, while Tata Steel's high-premium acquisition of Bhushan Steel saw only a 1.7% gain. In contrast, deals like Reliance–Future Retail and Tata Power–Welspun Power showed minimal or negative returns, despite sizable premiums. These patterns indicate that premium size alone is not a reliable predictor of post-deal shareholder wealth creation. The study concludes that M&A success depends more on strategic fit, market timing, and sectoral dynamics than on the premium offered. This analysis contributes to the broader M&A discourse by offering evidence-based insights into how premium valuations can either maximise or dilute shareholder value, aiding investors, corporate strategists, and policy analysts in deal assessment.

Keywords: *Mergers & Acquisitions, Premiums, Shareholder Wealth.*

1. INTRODUCTION

Mergers and acquisitions (M&A) are pivotal to corporate growth, but their impact on shareholder value is often debated. Share price movements around M&A announcements provide critical insight into investor sentiment and perceived value creation. A key element in this assessment is the acquisition premium the amount paid above the target firm's market value.

While premiums can reflect expected synergies or strategic benefits, they may also signal overpayment, potentially harming the acquiring firm's shareholders. This study examines whether acquisition premiums serve as reliable indicators of shareholder wealth gains or losses by analysing abnormal stock returns around deal announcements. It also

considers deal characteristics and market conditions to better understand when and why premiums align with shareholder value creation.

LITERATURE REVIEW

The payment of acquisition premiums in mergers and acquisitions (M&A) represents a critical strategic decision that directly impacts shareholder wealth creation or destruction. This literature review examines the complex relationship between M&A premiums and shareholder value, drawing on theoretical frameworks and empirical evidence from global markets. The discussion focuses on three key dimensions: (1) the determinants of optimal premiums, (2) the wealth effects of premium payments, and (3) contextual factors influencing premium outcomes.

Game theory provides important insights into premium determination, with Sanguino Galvis (2021) demonstrating that acquirers should target a strategic optimal premium rather than simply maximising payments to targets. Their model suggests stock payments can enhance acquirer gains when premiums are properly calibrated, though real-world complexities often deviate from theoretical predictions. This aligns with Alexandridis et al.'s (2013) finding of an inverse relationship between target size and premiums in U.S. deals, where acquirers pay proportionally less for larger targets due to reduced overpayment risk. However, their research paradoxically shows that large deals tend to destroy more acquirer value around announcements, suggesting size-related integration challenges may offset any premium advantages.

The wealth effects of premiums reveal significant variations across deal characteristics. Yousef's (2016) comprehensive study establishes that payment method mediates premium outcomes, with stock payments for private targets generating superior returns compared to cash transactions. This finding is particularly relevant given Yang et al.'s (2017) evidence from China that cash-rich firms pursuing acquisitions often underperform in both the short and long term. Dionne et al. (2014) further enrich our understanding by examining information asymmetry's role, showing that informed bidders (like blockholders) pay lower premiums, suggesting that premium levels reflect the quality of due diligence.

Cross-border transactions introduce additional complexity to premium dynamics. Wen (2017) demonstrates how cultural factors influence premium negotiations, with collectivist cultures in target countries correlating with lower premiums. Conversely, Maung et al. (2018) find that strong institutional environments in target nations command higher premiums, as acquirers value reduced synergy risks. These international findings complement Arık and Kutan's (2015) emerging market evidence of positive target abnormal returns, particularly for cash deals and larger relative target size.

Industry-specific studies provide nuanced perspectives on premium effectiveness. In the energy sector, Niemczyk et al. (2022) document shifting premium motivations post-Paris Agreement, with green transition strategies altering traditional valuation approaches. Kishimoto et al. (2017) show how deregulation in utilities created unique premium justifications through operational synergies. Meanwhile, Naaz and Gupta's (2023) Indian banking analysis reveals how regulatory environments can constrain premium-related value creation.

The shareholder wealth implications of premiums are further mediated by governance factors. Brooks et al. (2017) highlight how institutional cross-ownership reduces

premiums while improving long-term performance, suggesting that shareholder alignment moderates premium effects. Clarke et al. (2018) critique the shareholder primacy model's influence on premium decisions, linking excessive focus on short-term value to inequality and distorted incentives. These governance concerns are particularly relevant given Giannopoulos et al.'s (2023) findings of value destruction during crisis-period M&A in Greece.

Synergy realisation emerges as a critical factor in determining whether premiums ultimately create or destroy value. Fiorentino and Garzella (2015) identify three key synergy pitfalls - mirage, gravity hill, and amnesia - that frequently undermine premium justification. Their framework helps explain why Murray et al. (2017) find mixed wealth transfer effects in premium payments, with signalling quality varying significantly across deals.

The COVID-19 pandemic introduced new premium considerations, as Giersberg et al. (2020) advocate for "through-cycle" M&A strategies where premiums reflect long-term positioning rather than short-term market conditions. This perspective challenges traditional premium models and suggests crisis environments may require fundamentally different valuation approaches.

Emerging research continues to refine our understanding of premium effects. Musalekar (2022) specifically examines the acquirer return-premium relationship, while Puneeth (2024) provides updated evidence on wealth effects in contemporary markets. These studies collectively suggest that the premium- shareholder wealth relationship remains context- dependent, with no universal optimal strategy.

This review reveals several critical insights about M&A premiums: (1) their wealth effects are highly contingent on deal characteristics and market conditions, (2) optimal premium strategies vary across industries and jurisdictions, and (3) the relationship between premiums and shareholder value is mediated by numerous organisational and environmental factors. The literature consistently demonstrates that premiums can both maximise and dilute shareholder wealth depending on strategic implementation, due diligence quality, and post-merger integration effectiveness. These findings highlight the need for nuanced, context-sensitive approaches to premium determination in M&A transactions.

RESEARCH METHODS

This study uses a descriptive quantitative approach, which aims to analyze the influence of financial literacy and lifestyle on the financial behavior of Generation Z in Makassar City in 2024. The variables analyzed are Financial Literacy as the independent variable, Lifestyle as the moderating variable, and Financial Behavior as the dependent variable. The data used in this study are primary data in the form of a questionnaire through a list of questions that have been systematically compiled. The questionnaire technique was chosen to allow researchers to collect data from many respondents in a relatively short time. In addition, data collected through questionnaires are generally easy to process and analyze using various statistical techniques. The secondary data in the form of financial data that supports the research. The population in this study is all Generation Z in Makassar City. The sampling technique is through purposive sampling. The sample of this study is Generation

Z in Makassar City with an age range of 18-27 years. This study is a quantitative study that uses a questionnaire to collect primary data. The sampling technique used is a side purposive. Data analysis is Moderated Regression Analysis (MRA) with SPSS.

SEARCH RESULT

Validity Test Results

1. Financial Literacy

Table 1. Validity Test of Financial Literacy Variable (X)

Correlations

		X1	X2	X3	X4	X5	LITERASIKEUANGA
X1	Pearson Correlation	1	.106	.118	.118	.228*	.577**
	Sig. (2-tailed)		.319	.268	.269	.031	.000
	N	90	90	90	90	90	90
X2	Pearson Correlation	.106	1	.276**	.327**	.314**	.642**
	Sig. (2-tailed)	.319		.008	.002	.003	.000
	N	90	90	90	90	90	90
X3	Pearson Correlation	.118	.276**	1	.189	-.103	.563**
	Sig. (2-tailed)	.268	.008		.075	.335	.000
	N	90	90	90	90	90	90
X4	Pearson Correlation	.118	.327**	.189	1	.190	.589**
	Sig. (2-tailed)	.269	.002	.075		.073	.000
	N	90	90	90	90	90	90
X5	Pearson Correlation	.228*	.314**	-.103	.190	1	.533**
	Sig. (2-tailed)	.031	.003	.335	.073		.000
	N	90	90	90	90	90	90
LITERASI KEUANGAN	Pearson Correlation	.577**	.642**	.563**	.589**	.533**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	90	90	90	90	90	90

Source: Processed data, 2025

All questions (X1, X2, X3, X4, and X5) for the Financial Literacy variable are declared valid. In terms of significance, all Sig. values (2-tailed) are 0.000, which is smaller than the significance level of 0.05. This indicates that the correlation between item scores and the total score of the variable is significant. In addition, all Pearson Correlation values are greater

than r table (0.207). Thus, this research instrument for measuring Financial Literacy is adequate and can be used for the next stage of data analysis, because each question item has a significant correlation with the total score of the Financial Literacy variable.

Lifestyle

Table 3. Validity Test of Lifestyle Variables (Z)
Correlations

		Z1	Z2	Z3	GAYAHIDUP
Z1	Pearson Correlation	1	.495**	.486**	.813**
	Sig. (2-tailed)		.000	.000	.000
	N	90	90	90	90
Z2	Pearson Correlation	.495**	1	.563**	.843**
	Sig. (2-tailed)	.000		.000	.000
	N	90	90	90	90
Z3	Pearson Correlation	.486**	.563**	1	.809**
	Sig. (2-tailed)	.000	.000		.000
	N	90	90	90	90
GAYA HIDUP	Pearson Correlation	.813**	.843**	.809**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	90	90	90	90

**. Correlation is significant at the 0.01 level (2-tailed).

Source: ***Processed data, 2025***

All question items (Z1, Z2, and Z3) for the Lifestyle variable (Moderation Variable) are declared Valid. In terms of significance, all Sig. values (2-tailed) are 0.000, which is smaller than the 0.05 significance level. This indicates that the correlation between item scores and the total score of the variable is significant. In addition, all Pearson Correlation

values are greater than the r table (0.207). Thus, your instrument for measuring the Lifestyle variable has been tested for validity, and the items (Z1, Z2, Z3) can be used to represent and measure the variable in further regression analysis.

Financial Behavior

Table 4. Validity Test of Financial Behavior Variables (Y)

Correlations						
		Y1	Y2	Y3	Y4	PERILAKUKEUANGAN
Y1	Pearson Correlation	1	.275**	.623**	.552**	.740**
	Sig. (2-tailed)		.009	.000	.000	.000
	N	90	90	90	90	90
Y2	Pearson Correlation	.275**	1	.494**	.365**	.745**
	Sig. (2-tailed)	.009		.000	.000	.000
	N	90	90	90	90	90
Y3	Pearson Correlation	.623**	.494**	1	.679**	.868**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	90	90	90	90	90
Y4	Pearson Correlation	.552**	.365**	.679**	1	.791**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	90	90	90	90	90
PERILAKU KEUANGAN	Pearson Correlation	.740**	.745**	.868**	.791**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	90	90	90	90	90

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Processed data

All questionnaire items (Y1, Y2, Y3, and Y4) for the Financial Behavior variable were declared valid. All Sig. values (2-tailed) were 0.000, indicating that the correlation of the items with the total score of the variable was significant because the value was less than 0.05. In addition, all Pearson Correlation values were greater than the r table (0.207). Thus, the research instrument for the Financial Behavior variable was valid and could be used in further statistical analysis.

Reliability Test

Table 5. Reliability Test

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.818	.832	12

Source: Processed data

The Cronbach's Alpha value of 0.818 is greater than the minimum acceptable limit of 0.60. Thus, all research instruments are declared reliable.

Coefficient of Determination Test

Table 6. Determination Coefficient Test

Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.752 a	.566	.561	1,151

a. Predictors: (Constant), Financial Literacy

Source: Processed data, 2025

The Correlation Coefficient (R) value of 0.752 indicates a strong and positive relationship between Financial Literacy and Financial Behavior. This indicates that increased financial literacy tends to be followed by increased financial behavior. Furthermore, the R Square value of 0.566 indicates that 56.6% of the variation that occurs in the financial behavior variable can be explained or influenced by the financial literacy variable. Thus, the influence of financial literacy on financial behavior is quite significant, namely 56.1%, and 43.9% is influenced by other factors outside this regression model.

F test

Table 7. F Test

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	152,093	1	152,093	114,758	.000b
	Residual	116,629	88	1,325		
	Total	268,722	89			

a. Dependent Variable: Financial Behavior

b. Predictors: (Constant), Financial Literacy

Source: Processed data, 2025

Based on the F-test results, the Sig. value is less than 0.05, so Ha is accepted. Statistically, the Financial Literacy variable has a significant influence on Financial Behavior among Generation Z in Makassar City.

T-test

Table 8. T-test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.183	1.487		1.469	.146
	LITERASI KEUANGAN	.723	.068	.752	10.713	.000

a. Dependent Variable: PERILAKUKEUANGAN

Source: Processed data, 2025

The Financial Literacy variable (X) obtained a significance result of 0.00 and a calculated T of 10,713. The results of the data analysis above imply that financial literacy has a positive and significant influence on long-term financial plans because the calculated T value > T Table (1,662) and the significance value < 0.05 so that Ha in the study is accepted.

DISCUSSION

The analysis finds that acquisition premiums do not reliably predict short-term shareholder wealth in Indian M&A deals, with a near-zero correlation (–0.023) between premium size and stock performance. While cases like Sun Pharma–Ranbaxy showed positive returns, others like Tata Power–Welspun and Reliance–Future Retail did not, indicating that strategic fit and execution matter more than premium size.

Sectoral effects were significant (ANOVA F = 2.95, p = 0.0042), with Pharmaceuticals and Renewable Energy showing distinct return patterns, highlighting the importance of industry context in M&A outcomes.

Predictive models yielded mixed results: logistic regression achieved 60% accuracy with a weak premium effect, while decision trees performed worse (53.3%), revealing challenges in classifying deal outcomes. K-Means clustering offered clearer insights, grouping deals by performance profiles and aiding in deal risk assessment.

A T-test between positive and negative return deals showed a borderline significance (p = 0.0785), reinforcing the limited predictive power of premiums. Regularized regressions had inconsistent convergence, pointing to dataset limitations and model sensitivity. Overall, the study stresses the need for sector-aware, contextual approaches over reliance on premium size alone.

CONCLUSION

This study reveals that the correlation between premium size and stock performance is statistically negligible, challenging the long-held assumption that higher premiums signal stronger synergies or strategic conviction. Sectoral effects, however, significantly influence deal outcomes, underscoring the need for industry-specific strategies rather than one-size-fits- all premium models.

Clustering and logistic regression further show that deal context, acquirer characteristics, and premium calibration interact in complex, often unpredictable ways. While high-premium deals may offer upside potential, they also entail heightened risk. Conversely, conservative deals do not guarantee stability or returns. These findings advocate for a multi-dimensional, data-driven approach to M&A analysis— blending financial indicators with qualitative insights and market context.

Ultimately, this research contributes to a more nuanced understanding of how premiums function within the Indian market and provides actionable insights for investors, advisors, academics, and regulators seeking to optimise value and reduce risk in M&A decision- making.

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