White Knights or Machiavellians?
Understanding the motivation for reverse takeovers in Singapore and Thailand

discussed by

Manapol Ekkayokkaya
Chulalongkorn University

PIER RESEARCH WORKSHOP
JULY 18-19, 2019

overview

RTOs: rare species and largely unknown to finance academics

Conventionally viewed as an alternative to an IPO

Findings: positive market reaction to target firms (listed shells)

positive 1-year post-merger excess return

accounting performance measures also improve post-merger

results stronger for distressed firms than non-distressed firms

Given that RTO targets are firms in a bad shape

results in line with killing two birds with one stone

private acquirer gets the listing and listed shell gets the needed financing

key features (👍)

Sharp regulatory setting

in TH and SG: RTOs and IPOs face the same listing requirements

{ leading to comparable transaction costs ?? ? }

{ RTOs proportionately more/less frequent in TH and SG than in US or CN ? ?? }

Clear contrast to the U.S. setting

but, how different or similar to the Chinese setting ?? ?

{ we now know a bit about RTOs in China (Lee et al 2019JCF) }

potentials and possibilities (1/2)

Focused research Qs and theoretically developed Hs will go a long way

{ why interested in distress given that shells are typically in a bad shape ? }

{ just a matter of how bad }

Who are the acquirers ? ??

their characteristics? well established? profitable? foreign vs. domestic?

subsidiary of foreign parents? etcetera . ..

Do acquirers actually take absolute control after their RTO ?? ?

supermajority of stakes in shell acquired ??

potentials and possibilities (2/2)

ex ante measures of performance

- analyst coverage (initiation); changes in analyst forecast
- investment policy
- post-merger capital raising activities (can come back to cap market ??)

{ ex post measures are affected by shocks }

{ avoid cross-sectional analysis – tricky due to small 'n' }

Benchmark RTOs against IPOs – if feasible

a larger df for regression analysis

importantly, extant literature hinges on comparison to IPOs

the paper also gives a lot of discussion in relation to IPOs

standard event-study methodology

Great care generally must be taken when executing and interpreting results

e.g., announcement $\equiv$ surprise (not anticipated)

Market reaction to an announcement can reflect of a lot of things

e.g., target return simply a proxy for the premium paid | *pr*(success)

“ . .. the analysis of long-run abnormal returns is *treacherous* ”.

(Lyon, Barber, Tsai, 1999JF)

choice of return benchmark . .. ???

choice of test window . .. ???

size of point estimates often hard to swallow

Long-term abnormal return test as one of the several tests, *not* the main show