Are bank mergers good news for shareholders?

The effect of bank mergers on client firm value*

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Abstract

This study investigates the effects of bank mergers on client firm valuation using a matched sample of main bank–client firm data from Japan. On average, client firms of merging banks lose equity value around announcement of a merger event, but there is significant heterogeneity. Equity value losses are significantly larger for clients of the target bank in the merger. Size of the merger also matters, and client firms of banks merging into a mega-bank experience significantly negative losses of equity value than client firms of banks merging into a regular-sized bank. These negative effects, however, disappear following 1 year of announcement. Health of the client firms and merging banks do not seem to matter in the short-run, but unhealthy client firms underperform than healthy client firms in the long-run.

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Keywords: mergers and acquisitions, event study, bank, bank-firm relationships

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