WEALTH CREATION BY M&A ACTIVITIES
IN THE LUXURY GOODS INDUSTRY

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Abstract

This paper examines the value implications of mergers and acquisitions (M&A) conducted worldwide within the luxury goods industry over the period from 1993 to September 2005. The luxury goods industry embraces a few number of companies located in many different countries and largely operating internationally. This event study analysis with the intent of measuring the value created by luxury M&As includes 196 transactions over the last 13 years. Both market and risk adjustment reveal positive announcement effects and consequently can be interpreted as value creating. However, risk adjustment leads to conspicuously reduced and less statistically significant excess returns than market adjustment. The characteristics of both the industry per se and the sample considered require a very critical assessment of the results with regard to the respective methodology applied.

JEL classification: G14; G34

Keywords: luxury goods industry; event study; mergers and acquisitions; shareholder value

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1. Introduction

The luxury goods industry has undergone a considerable change of paradigms during the three elapsed decades. Luxury industry as a collective term for companies selling – besides high-quality products – principally status, emotional benefit, prestige and exclusivity as well as the dream of separation from the ordinary may be customary since the mid 1980s. Since that time, this conceptual term might have shaped both the self-conception of the industry and its perception by customers. Moreover, the mid 80s have been a phase of several luxury company formations and repositionings. In the early 1990s, market actors became aware of the tougher competitive situation inside the industry segment. This awareness marked the beginning of consolidation activities increasingly intensifying until the year 2000 when the number of transactions climaxed.¹ Transaction activity has been fundamentally dominated by four (thereof particularly two) giant luxury conglomerates in Europe that all emerged from the merger mania period with large, highly diversified product and brand portfolios and a strengthened market position.

Recently, in times of diminishing revenues and net losses, speculations on portfolio streamlining as well as on putative divestment intentions appear recurrently in the press.²

Some specific characteristics of the luxury industry imply already evidently inherent merger motives: gross margins are high, operating costs partially display substantial differences. Hence, the exploitation of obvious synergy potentials including the creation of common distribution and manufacturing networks, economies of scale and scope as well as attempts of market power enhancement appear to be fundamental stimuli of the consolidation activities observed during the last two decades.

The main concern of this paper consists in the analysis of value implications induced by M&A announcements in the luxury goods sector.

¹ For a detailed disquisition on the overall historical and conceptual development of the idea of luxury see Berry (1994).
² For example, several recurring press comments allege that Prada purposes the disposal of Jil Sander and Helmut Lang, two brands they had originally acquired in order to enhance their market power.
2. Prior Research and Theoretical Considerations

In recent years, mergers and acquisitions have been extensively investigated. In this context, numerous M&A event studies have been conducted and capital market reactions induced by M&A activities have been analyzed with respect to regional and industrial differences and focuses. Although an array of sectors has been already covered, up to now, there are no findings in the relevant literature on capital market implications and wealth effects of M&A announcements within the luxury industry.

Lane and Jacobson analyzed the stock market reactions to brand extension announcements in the food retail market and provided empirical evidence on the correlation between brand leveraging, brand attitude and familiarity on the one hand and stock market reaction on the other hand. They found out, that the market tends to respond positively, the higher esteemed and the more familiar a brand already is. Markets reacted positively as well in cases when both esteem and familiarity were low. Less favorable reactions were ascertained in cases of disproportional high customer familiarity compared to brand attitude and vice versa.

Hosken and Simpson also procure empirical evidence on mergers in the retail segment with their event study focused on the wealth effects of supermarket mergers. Thereby, they both investigate stock market reactions and effects of a potential increase in price-setting power and come to the conclusion that supermarket mergers were evaluated positively by the stock market and did not harm consumers in terms of higher retail prices.

If the results of the investigations cited above are also applicable to the luxury retail segment, this implies two possible assumptions concerning eventual capital market reactions: As luxury companies primarily tend to arouse wishes and desires among their clientele, one of their main concerns consists in the establishment and defense of an immaculate reputation. Thus, customer brand esteem might be very high as well as brand popularity. Analogically to the findings from Lane and Jacobson, positive announcement effects following luxury M&As would not be surprising as long as there is no significant discrepancy between attitude and familiarity. In addition, especially in Europe the dominance of the four giant luxury conglomerates LVMH, PPR, Richemont and Swatch causes an almost oligopolistic market structure. Transactions involving

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3 See Lane/Jacobson (1995).
these companies could be theoretically disapproved due to apprehensions concerning an exorbitant price-setting force. However, if luxury retail oligopolists act like non-luxury retailers and will not abuse their market power, this dread would be unsubstantiated.

To provide a profound theoretical background for mergers and acquisitions, Weston and Halpern distinguish between two classes of theories: The first class summarizes explanations referring to the overall non-profitability of M&As. These types of M&As are aiming at the growth of sales and control – and eventually emerging gains are supposed to be offset by transaction costs. The second category of theories encompasses all approaches attempting to explain different types of capital market reactions in consistence with the intention of value maximization: There are financial motivations meaning that the diversification effects induced by an acquisition reduces expected bankruptcy costs. Economic motivations include the expected exploitation of synergy potentials. Another motivation might be the attempt to take advantage of information asymmetries – in case the acquirer has information about the target firm other market actors have no access to. Finally, the corporate control hypothesis is cited, which requires a pre-event underperformance of the target equity and is applicable if the acquirer intends to benefit from simple control measures such as management replacements after deal completion.

These considerations could be completed by the citation of theoretical concepts referring to signaling effects. They argue that new information given to the market is evaluated positively by capital market actors, as these can make their investment decisions on an extended information basis, then.

In order to round off these theoretical considerations, additionally, some comments on the economic idiosyncrasy of luxury consumer goods as opposed to ordinary (i.e. non-luxury) consumer goods in the context of risk and return as equity value determinants: Ait-Sahalia, Parker and Yogo point out the completely different utility functions and resulting demand curves of luxury and ordinary consumer goods in the course of their disquisition on luxury goods and their implications for the equity premium puzzle. They remind of the disproportionately high income elasticity of demand for luxury goods and the resulting sensitivity to market shocks. On this basis, they deduce a higher volatility

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6 See Weston/Halpern (1983), p. 298-300 as an exemplary representative summary of theoretical concepts which might be of relevance to explain capital market reactions.
7 See also Eckbo et al. (1990).
8 See also Jensen (1986).
9 See Meyrs/Majluf (1984) for the fundamental theses or Ross (1978) and Blazenko (1987) for the detailed discussion of these concepts.
10 See Ait-Sahalia et al. (2004).
of luxury firm revenues. Presuming that is true, and shareholder value will be finally dependent on the remaining cash flows to be distributed, luxury equities are supposed to be equally more volatile. This implies that risk might be a crucial value determinant of luxury equity returns. Thus, eventual excess returns should be risk adjusted in order to reveal more reliable information on actual wealth effects.

3. Data Sample

The basic step preparing the quantitative empirical analysis consists in defining the relevant universe. Luxury *per se* is a very elastic term lacking a universal, generally valid definition. Several relevant companies are conglomerates comprising highly different businesses, which already hints at the difficulty of a unequivocal demarcation. The underlying definition of the data sample follows a product oriented approach: It comprises all companies manufacturing and retailing luxury products related to an individual’s apparel and life-style in terms of relatively spontaneous consumption. This implies the inclusion of all luxury consumer goods firms (as opposed to the ones offering luxury “investment goods” such as cars, private jets and yachts as well as the companies providing luxury services such as luxury traveling or shelter) which results in the consideration of six luxury sector categories: Designer Fashion and Haute Couture, Leather and Accessories, Jewelry, Perfume and Cosmetics, Crystals and Porcelain as well as Champagne, Wines and Spirits.\(^\text{11}\) This definition basically corresponds to the classification of “retailers of high-end luxury products” provided by Ait-Sahalia, Parker and Yogo, whereas these authors omit the Perfume and Cosmetics segment.\(^\text{12}\) In contrast to their approach, pure retail companies such as luxury department stores are excluded. The application of this classification approach leads to the identification of 42 luxury companies quoted on the stock exchange. Thereof 31 companies have been involved in at least one M&A transaction.\(^\text{13}\) The number of M&A transactions considered in the analysis amounts to 196. For 104 deals transaction values are available. Their aggre-\(^\text{11}\) Another, more conceptual approach of defining luxury good can be found in Berry (1994), p. 3-44.
\(^\text{12}\) See Ait-Sahalia/Parker/Yogo (2004), p. 296
\(^\text{13}\) Information on M&A activities as well as transaction details are based on company event information provided by the Reuters company information database.
gated transaction volume comes up to 34.94 bn GBP and averages out in total at approximately 336 m GBP per deal over the respected time period.\textsuperscript{14}

**Figure 1: Number of M&A transaction and average transaction value\textsuperscript{15} per year since 1993**

The event of interest is defined as the announcement of any M&A activity involving at least one luxury company. In a first analytical step the entire sample is included without differentiation between the roles taken in the deal. The event-induced excess returns of all acquirers as well as of any target are considered in the overperformance measurement. This assumption implies the consideration of originally 210 M&A events in the luxury industry.

In order to provide a first, overall picture, there are no criteria applied leading to the exclusion of several events. There are no requirements such as a minimum transaction volume, change in corporate control\textsuperscript{16} or effective deal closure. Initially, there is not differentiated between mergers planned and completed and the ones still pending or cancelled after their announcement. As long as their status is still “pending” instead of

\textsuperscript{14} Transaction value is denoted in GBP, as the majority of transaction prices have been disbursed in GBP. Transaction values not reported in GBP have been converted as of September 12, 2005 for simplicity and comparability reasons.

\textsuperscript{15} The declarative power of these figures is limited as the average transaction value refers to the number of published transaction prices which are not even available for half the deals.

\textsuperscript{16} That means, any type of reported transaction is considered, even if the acquiring firm purchases for example a 20\% stake in the target firm, only.
“cancelled”, there is assumed that deal completion must have been perceived as probable by capital market actors on the announcement date and during the immediate post-announcement period.

Data on returns on individual equities and market indices is taken from Thomson Financial DataStream. The market portfolio selection takes the geographical distribution of the firms of interest into account: In this analysis, the individual stock price performance is measured in comparison to the most appropriate principal local index.\textsuperscript{17} \textsuperscript{18} \textsuperscript{19}

An overview concerning the companies of interest and some relevant details is provided in the following table:

\begin{table}[h]
\centering
\begin{tabular}{|l|l|l|l|l|l|}
\hline
Company & Industry & Home Country & M&A Deal Involvements & Average Transaction Value (GBP) \\
\hline
LVMH & Luxury Conglomerate & France & 51 & - & 275,902,141 \\
PPR & Luxury Conglomerate & France & 36 & 1 & 565,817,749 \\
Richemont & Luxury Conglomerate & Switzerland & 6 & - & 1,607,500,000 \\
Swatch & Luxury Conglomerate & Switzerland & 6 & 1 & n.a. \\
Christian Dior & Fashion & France & 1 & 1 & 39,300,000 \\
Escada & Fashion & Germany & 2 & - & 10,800,000 \\
Etienne Aigner & Fashion & Germany & - & 2 & 6,561,847 \\
Gucci & Fashion & Italy\textsuperscript{20} & 19 & 19 & 961,064,771 \\
Hardy Amies & Fashion & United Kingdom & 1 & 2 & 743,400 \\
Hermès International & Fashion & France & 3 & - & 10,563,333 \\
\hline
\end{tabular}
\caption{Details on luxury companies involved in M&A transactions}
\end{table}

\textsuperscript{17} Information on the most appropriate principal local market index can be recalled from DataStream. Of course, the consideration of incorporating sector indices in the analysis seems to be expedient, as the luxury industry is supposed to be subject to different value determinants and reactions to market effects may deviate from the ones displayed by other industries. However, there are no luxury sector indices available and companies are – if at all – part of consumer goods, personal goods or clothing or leather goods sector indices, which generally only integrate a small number of firms, are very sensitive to outliers and not compulsively more appropriate or representative. Hence, the selection of a main market index as reference portfolio seems to be legitimate because of a lack of more representative existing benchmarks as well as for feasibility reasons.

\textsuperscript{18} The analysis includes seven different market indices: ATX-Index Wien (Wolford), Dax 30 (Escada, Etienne Aigner, Hugo Boss, Rosenthal), Milan COMIT (Ittiere Holding, Bulgari, Marzotto, Luxottica, Mariella Burani), S&P 500 (Gucci, Estée Lauder, Elizabeth Arden, Polo Ralph Lauren, Tommy Hilfiger, Tiffany, Waterford Wedgwood), SBF 120 (Christian Dior, Clarins, Taittinger, Hermès, PPR, L’Oréal, LVMH, Remy-Cointreau), Swiss Market Index (Richemont, Swatch), and Tokyo SE (TOPIX) (Shiseido).

\textsuperscript{19} This concept of using individual local market indices also refers to the market portfolio selection performed by Maede and Salkin (2000, p. 263).

\textsuperscript{20} Listed on the US Stock exchange and in the Netherlands, only.
4. Methodology

As already mentioned, this analysis is based on the methodological approach of event studies originally introduced by Fama, Fisher, Jensen and Roll in 1969.\footnote{See Fama et al. (1969) or Binder (1998).} It aims at identifying and quantifying announcement effects induced by the event of interest. Thereby, the method measures capital market efficiency as it reveals information of the length of the time period which elapses until new information is incorporated in stock prices. The Method aims at isolating the price effect exerted by the event announcement. Ideally, the abnormal return should reflect nothing but the price effect of the new information striking the market unexpectedly.\footnote{To meet this requirement, return indices adjusted for dividends, stock splits and capital increases are utilized in the analysis.} Equivalently, market efficiency implies that excess returns following M&A announcements should not significantly differ from zero – which constitutes the null hypothesis to be tested.

Fama applied continuous returns for his event studies with the reasoning of their statistical advantages and superiority as compared to discrete returns. Although this rationale
has been fiercely debated and criticized in the relevant literature in recent years, the subsequent analysis employs continuous daily returns in order to find preferably statistically reliable results. They rather fulfill the requirements of a normal distribution, which is an essential assumption of the regression analysis applied for the parameter estimation in the risk adjusted market model. Besides, particularly continuous returns on a daily basis display more symmetry as well as a higher stability of power moments than discrete returns.

The computation of excess returns is based on the application of two sub-types of the market model: In a first step, simply market adjusted abnormal returns are calculated:

$$AR_{it} = R_{it} - R_{mt}$$

$AR_{it}$ denotes the abnormal return of any security $i$ for each day $t$ of the event period, $R_{it}$ and $R_{mt}$ are the period-$t$ returns on security $i$ and the market portfolio, respectively.

Risk adjusted excess returns are detected by means of a variation of the prior methodology: The model incorporates the risk component by means of a linear regression conducted for every single security individually dependent of the respective selected market portfolio. The abnormal returns are equivalently to the market adjusted method calculated as:25

$$AR_{it} = R_{it} - \hat{\alpha}_i - \hat{\beta}_i * R_{mt}$$

In this analysis, the additional $\alpha$ and $\beta$ coefficients are estimated over the returns of an estimation period of 250 trading days. This implies one inevitable requirement reducing the original data sample: Four deals have to be excluded from the risk adjusted analysis as they have not been listed 251 days prior to the event. Consequently, there exists no sufficiently extended estimation period for these events.

For any analysis in this study, the event period comprises 41 days: The event day (day 0) as well as 20 trading days before and after the event date, respectively. The pre-

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23 For a discussion of the use of continuous returns in event studies see for example Dissanaike and Le Fur (2003), p. 1166-1169.
announcement period serves at ascertaining whether capital markets already reacted in advance due to anticipation effects and insider information.

All CARs are tested for statistical significance. With regard to the entire sample, the test is effected by means of a one-sample t-test. Since the quality and reliability of this test is highly dependent on normally distributed returns, the fulfillment of this demand is additionally controlled by the Kolmogorov-Smirnov (K-S) test for normal distribution. Barber and Lyon question the reliability of simple t-tests. They argue, with increasing length of the event window, the test can lead to misspecified results as the null hypothesis is not rejected with the appropriate frequency.26 For an event window of 41 days this problem seems to be neglectable. More relevant in this context are objections against the applicability of simple testing methods such as raised for example by Dodd and Warner, Mikkelson and Partch or Boehmer et al.:27 First, they recommend cross sectional standardization in cases when cross sectional dependence is suspected. As the sample includes many events involving only a limited number of companies, this type of dependence cannot be excluded.28 In addition, standardization is appropriate if the variance of excess returns is supposed to increase during the event period.29 Tests for the significant deviation of results calculated for different sub-samples are performed by means of the two-sample-t-test for mean comparison, completed by a non-parametric test procedure, the Wilcoxon test.

5. Results of the empirical analysis

The following part presents the detected excess returns in terms of figures and charts to illustrate the announcement effects of mergers and acquisitions in the luxury industry.

5.1. Results for the entire sample

As reported in Table 2, in an initial step, market adjusted cumulative abnormal returns (CARs) have been calculated.

26 See Barber/Lyon (1997), p. 343-349.
28 Moreover, event clustering cannot be denied for this sample, so that excess return standardization and the application of an adjusted testing method seems to be reasonable.
29 Boehmer et al. found out, that in this case the null hypothesis is rejected too often when it is true, meaning that excess return significance is overestimated by simple test procedures. See Boehmer et al. (1991).
Table 2: Market adjusted cumulative abnormal returns

<table>
<thead>
<tr>
<th>Event Window</th>
<th>CAR (in %)</th>
<th>Pos.</th>
<th>Neg.</th>
<th>t-statistic</th>
<th>p-value</th>
<th>Kolmogorov-Smirnov-z</th>
</tr>
</thead>
<tbody>
<tr>
<td>[-20; -1]</td>
<td>0.15</td>
<td>100</td>
<td>110</td>
<td>0.015</td>
<td>0.988</td>
<td>1.790 (a)</td>
</tr>
<tr>
<td>[-10; +10]</td>
<td>14.60</td>
<td>111</td>
<td>99</td>
<td>1.130</td>
<td>0.260</td>
<td>1.484 (b)</td>
</tr>
<tr>
<td>[-5; +5]</td>
<td>6.53</td>
<td>109</td>
<td>101</td>
<td>0.956</td>
<td>0.340</td>
<td>1.518 (b)</td>
</tr>
<tr>
<td>[-1; 0]</td>
<td>0.51</td>
<td>105</td>
<td>105</td>
<td>0.423</td>
<td>0.673</td>
<td>1.268</td>
</tr>
<tr>
<td>[0; +1]</td>
<td>1.59</td>
<td>108</td>
<td>102</td>
<td>1.217</td>
<td>0.225</td>
<td>1.449 (b)</td>
</tr>
<tr>
<td>[0; +5]</td>
<td>8.19*</td>
<td>113</td>
<td>97</td>
<td>1.663</td>
<td>0.098</td>
<td>1.405 (b)</td>
</tr>
<tr>
<td>[0; +10]</td>
<td>14.59*</td>
<td>113</td>
<td>97</td>
<td>1.848</td>
<td>0.066</td>
<td>1.346</td>
</tr>
<tr>
<td>[0; +20]</td>
<td>35.26**</td>
<td>115</td>
<td>95</td>
<td>2.338</td>
<td>0.020</td>
<td>1.349</td>
</tr>
<tr>
<td>[-20; +20]</td>
<td>34.89</td>
<td>114</td>
<td>96</td>
<td>1.554</td>
<td>0.121</td>
<td>1.405</td>
</tr>
</tbody>
</table>

(*, **, *** significant at the 10%- , 5%, 1%-level)  
(a: significantly not normally distributed at the 10%-level)  
(b: significantly not normally distributed at the 5%-level)  

First of all, the results imply the information, that probably no information on the planned M&A announcements could penetrate the market prior to the official announcement dates: The extremely small excess return of 0.15% during the [-20; -1] pre-announcement period is not significant. Equivalently, all CARs for the event windows including any pre-announcement date period are insignificant. Although there are slight immediate announcement effects noticeable for the [0; +1] window, they are still not statistically significant. However, over a specific period of time the market reacts with an increasing intensity. The excess returns of 8.19% and 14.59% are significant at a 10%-level, the CARs even duplicate for the [0; +20] window and are significant on a 5%-level. According to the results of the K-S test normal distribution of CARs can be assumed for the instances of statistically significant overperformance.
As Figure 2 illustrates in combination with Table 2, returns on luxury firm stocks show an average minimal overperformance during the 20 trading days preceding the announcement of M&A activities. From the announcement date on, excess returns display a sharp and stable increase for the second half of the event window.

In this context, Figure 3 is intended to reveal some information on the adequacy of the selected market portfolio. In general, as already explained, the appropriateness of the home market indices as benchmarks for luxury stock performance might be questionable due to a putative lack of representativeness.
The cumulated pre-event overperformance compared to the market portfolio amounts to 4.16% during the estimation period. Nevertheless, as the aggregated return performance on the luxury firm portfolio during the 250 trading days preceding the event period does not substantially differ from the benchmark performance, the selected market indices seem to be an acceptable approximation of a representative reference portfolio.30

In a next step, risk adjusted abnormal returns have been computed. The results subsequently depicted in Table 3 and illustrated in Figure 4 corroborate the theoretically deferred hypothesis, risk should be a substantial factor in the return explanation of luxury firm equities.

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30 This also implies, that luxury firms cannot be classified as “glamour firms” in M&A context, meaning that they should have been highly outperforming the market in the run-up to an M&A transaction, wherefore managers and investors could overextrapolate the desirability of M&A activities. See for example Rau/Vermaelen (1998) and Sudarsanam/Mahate (2003).
### Table 3: Risk adjusted cumulative abnormal returns

<table>
<thead>
<tr>
<th>Event Window</th>
<th>CAR (in %)</th>
<th>Pos.</th>
<th>Neg.</th>
<th>t-statistic</th>
<th>p-value</th>
<th>Kolmogorov-Smirnov-z</th>
</tr>
</thead>
<tbody>
<tr>
<td>[-20; -1]</td>
<td>0.43</td>
<td>101</td>
<td>105</td>
<td>0.557</td>
<td>0.578</td>
<td>1.062</td>
</tr>
<tr>
<td>[-10; +10]</td>
<td>1.64**</td>
<td>124</td>
<td>92</td>
<td>2.102</td>
<td>0.037</td>
<td>1.128</td>
</tr>
<tr>
<td>[-5; +5]</td>
<td>1.13*</td>
<td>118</td>
<td>88</td>
<td>1.846</td>
<td>0.066</td>
<td>1.112</td>
</tr>
<tr>
<td>[-1; 0]</td>
<td>1.07***</td>
<td>108</td>
<td>98</td>
<td>2.779</td>
<td>0.006</td>
<td>1.996^a</td>
</tr>
<tr>
<td>[0; +1]</td>
<td>1.07***</td>
<td>124</td>
<td>82</td>
<td>3.342</td>
<td>0.001</td>
<td>1.795^a</td>
</tr>
<tr>
<td>[0; +5]</td>
<td>1.36**</td>
<td>117</td>
<td>89</td>
<td>2.470</td>
<td>0.014</td>
<td>1.562^b</td>
</tr>
<tr>
<td>[0; +10]</td>
<td>1.22**</td>
<td>114</td>
<td>92</td>
<td>2.146</td>
<td>0.033</td>
<td>1.340</td>
</tr>
<tr>
<td>[0; +20]</td>
<td>2.34***</td>
<td>116</td>
<td>90</td>
<td>3.278</td>
<td>0.001</td>
<td>1.195</td>
</tr>
<tr>
<td>[-20; +20]</td>
<td>2.24**</td>
<td>113</td>
<td>93</td>
<td>2.150</td>
<td>0.033</td>
<td>0.854</td>
</tr>
</tbody>
</table>

(*, **, *** significant at the 10%-., 5%, 1%-level)

|^a: significantly not normally distributed at the 10%-level|
|^b: significantly not normally distributed at the 5%-level|

Alternative non-parametric test methods, the binomial sign test as well as the Wilcoxon signed rank test indicate statistic significance of the CARs for the [0; +10] and the [0; +20] on a 10%-level, only.

As expected, excess returns shrink with the implementation of the risk factor as opposed to the simple market adjustment. Even the highest CARs for the [0; +20] event window are only a fraction of the market adjusted abnormal returns for the same period. In contrast to the market adjusted CARs, the risk adjusted CARs are entirely statistically significant according to the simple t-test with the only exception of the [-20; -1] period. However, the K-S test for normal distribution denies this assumption for the [-1;0], the [0; +1] and the [0; +5] window, which implies that the simple t-test may lead to misspecified results. Therefore, all CARs have been subjected to non-parametric test methods for result approval: Both the binomial sign as well as the Wilcoxon signed rank test indicate statistic significance for the [0; +10] as well as for the [0; +20] event window, only, which corresponds at large to the findings on the market adjusted sample.

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31 The application of supplementary non-parametric tests is necessary with regard to kurtosis values found for the distributions of the excess returns. Kurtosis measures range from −1.2 to 27.6 with an average of 2.2. That implies, that the quality of the results might be endangered by outliers. This problem can be mitigated by availing of supplementary non-parametric tests.

The results of the Durbin-Watson test for autocorrelation allow to assume that returns are not autocorrelated.
Figure 4 ascertains and emphasizes the picture of the excess returns: The overall structure of the overperformance development over time is similar to the one of the market adjusted sample. However, whilst the development of the market adjusted excess returns is smooth and stable, the risk adjusted excess returns tend to a much more volatile movement after the announcement date at a significantly lower value scale. Market adjusted returns jump up in a consistent upward trend subsequent to the M&A announcement, whereas risk adjusted excess returns are apparently influenced by an anticipation effect from two days prior to the announcement date on, ascend steeply on day 1 after the announcement, rise erratically until day 4, before they experience a little downturn until day 10 and then turn into a smooth upward trend again.

Overall, both market model applications indicate positive short-term announcement effects. The risk adjusted abnormal returns are with a maximum of approximately 2% substantially lower than the market adjusted excess returns.\textsuperscript{32} \textsuperscript{33}

\textsuperscript{32} It could be questioned in a continuative analysis, whether there will remain a positive excess return considering the subtraction of transaction costs.
\textsuperscript{33} In general, these results of positive announcement effects in terms of value creation are in general in line with many other M&A event studies in prior research, although these are concentrated on different industries: Mulherin/Boone (2000) report CARs of 3.56% on a diversified US sample, Houston et. al. (2001) find CARs from 0.14% to 3.11% dependent on the year of announcement for a US Banking sample, Beitel/Schiereck/Wahrenburg (2004) calculate an excess return of 1.29% on a European banking and insurance sample for a [-20; +20] event window, and Campa/Hernando (2004) compute an overall value effect of 1.04% for an [-1;+1] event window and an EU diversified sample.
However, although theoretical considerations argue for the implementation of the risk factor in the model, the results of the regression analysis do not allow accepting this model specification unquestioningly: First of all, the $\beta$ coefficients – even for one individual equity in the same year – do not display any consistence and stability over time. Moreover, the adjusted $R^2$ values for the individual regressions range between 0.02% and 43.6% and average out at 1% which indicates an extremely low declarative power of the entire model applied.

For that reason and owing to problems due to cross sectional dependence as well as event clustering, and an increase in variance over the event period, in a next step, excess returns are standardized and afterwards tested by means of an adjusted $z$-statistic according to the method introduced by Mikkelson and Partch.35

Table 4: Risk adjusted standardized cumulative abnormal returns

<table>
<thead>
<tr>
<th>Event Window</th>
<th>ASPE$_t$</th>
<th>SCAR$^{37}$ (in %)</th>
<th>Pos.</th>
<th>Neg.</th>
<th>$z$-statistic$^{38}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>[-20; -1]</td>
<td>0.0603</td>
<td>2.51$^{(*)}$</td>
<td>158</td>
<td>48</td>
<td>2.31$^{**}$</td>
</tr>
<tr>
<td>[-10; +10]</td>
<td>0.1627</td>
<td>3.55$^{(<em><strong>,</strong></em>)}$</td>
<td>157</td>
<td>49</td>
<td>2.33$^{***}$</td>
</tr>
<tr>
<td>[-5; +5]</td>
<td>0.1240</td>
<td>3.74$^{(<em><strong>,</strong></em>)}$</td>
<td>147</td>
<td>59</td>
<td>1.78$^{**}$</td>
</tr>
<tr>
<td>[-1; 0]</td>
<td>-0.0472</td>
<td>-3.34$^{(*)}$</td>
<td>121</td>
<td>85</td>
<td>-0.68</td>
</tr>
<tr>
<td>[0; +1]</td>
<td>-0.0161</td>
<td>-1.14$^{(***)}$</td>
<td>119</td>
<td>87</td>
<td>-0.23</td>
</tr>
<tr>
<td>[0; +5]</td>
<td>0.0437</td>
<td>1.78$^{(***)}$</td>
<td>138</td>
<td>68</td>
<td>0.63$^{*}$</td>
</tr>
<tr>
<td>[0; +10]</td>
<td>0.0464</td>
<td>1.40$^{(<em><strong>,</strong></em>)}$</td>
<td>141</td>
<td>65</td>
<td>0.67$^{*}$</td>
</tr>
<tr>
<td>[0; +20]</td>
<td>0.1968</td>
<td>4.29$^{(<em><strong>,</strong></em>)}$</td>
<td>157</td>
<td>49</td>
<td>2.82$^{***}$</td>
</tr>
<tr>
<td>[-20; +20]</td>
<td>0.1607</td>
<td>-1.35$^{(<em><strong>,</strong></em>)}$</td>
<td>206</td>
<td>0</td>
<td>-0.86</td>
</tr>
</tbody>
</table>

(*, **, *** significant at the 10%-., 5%, 1%-level)

(The $^*$ of the $z$-statistic-values indicate the excess return significance compared to the theoretical critical $z$-value deferred from the standard normal distribution, whereas the $^*$ of the SCAR-values symbolize statistical significance measured by the binomial sign test (the Wilcoxon signed rank test).

34 For all events, the average variance during the event period is significantly higher than during the estimation period.


36 ASPE$_t$ = The Average Standardized Prediction Error for the sample on day $t$.

37 SCAR = Standardized Cumulative Abnormal Return.

38 The standardization methodology introduced by Mikkelson and Partch suggests normally distributed excess returns. Since the adjusted observed $z$-statistic represents a two-tailed significance test statistic where the null hypothesis is: “The average standardized prediction error equals zero”, the theoretical test statistic, respectively the critical $z$-value can be deferred from the standard normal distribution. Dependent of the error probability $\alpha = (0.1, 0.5, 0.01)$ the results for $z_{crit}$ are 1.28155, 1.64485, and 2.32634. Skewness-adjustments are supposed to be superfluous, as normal distribution can be assumed for most of the cases. For implications of skewness and kurtosis and possible methodological adjustments see Corrado/Su (1997).
The results for strategic significance as opposed to the ones in the case of not standardized risk adjusted excess returns display an indefinite picture: According to the findings of Mikkelson and Partch and Boehmer, the z-statistic should tend to result in diminished significance for all event windows. However, this assumption is not asserted. Thus, for the following analysis significance is tested again by means of simple t- and non-parametric tests, as no substantial methodological improvement due to the standardization and modification of the test statistic can be noticed.

However, with regard to the extremely limited declarative power of the specified model, for continuative research, different model modifications and extensions might be considered.

For example, Park suggests the implementation of a world market model for industry analyses concerning sectors with a limited number of relevant companies that are located throughout the world. Therefore, he designs a multifactor market model incorporating in addition to the respective home indices a world market index as well as exchange rate effects.39

5.2. Analysis of different sub-samples

In the following part, the entire sample is categorized into several sub-samples that are subsequently analyzed individually and in mutual comparison in order to provide some detailed insight into eventual M&A performance determinants in the luxury industry.

Geographical Focus

First of all, the sample is divided into two sub-samples according to their geographical focus: Thereby, the sample is classified into all M&A transactions involving a European acquirer on the one hand and the remaining events including an Asian respectively US-American acquirer on the other hand. According to this geographical separation, 187 events are attributed to the European sample, whereas the remaining 19 transaction announcements are pooled in the Asian and US sample.40

Table 5 reports the results for both the individual samples and the results of the parametric and non-parametric tests for statistical significance.

40 As there is only one event including an Asian acquirer, a separate Asian sample does not make any sense in terms of comparability and statistical significance.
Table 5: CAR development related to geographical focus\textsuperscript{41}

<table>
<thead>
<tr>
<th>Event Window</th>
<th>N\textsubscript{1} = 187</th>
<th>N\textsubscript{2} = 19</th>
<th>2-Sample-t-statistic</th>
<th>Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td>[-20; -1]</td>
<td>0.09</td>
<td>0.119</td>
<td>3.74</td>
<td>-0.937</td>
</tr>
<tr>
<td>[-10; +10]</td>
<td>1.37*</td>
<td>1.670</td>
<td>4.36</td>
<td>-1.048</td>
</tr>
<tr>
<td>[-5; +5]</td>
<td>0.71</td>
<td>1.110</td>
<td>5.28**</td>
<td>-2.249**</td>
</tr>
<tr>
<td>[-1; 0]</td>
<td>0.51**</td>
<td>1.988</td>
<td>4.28*</td>
<td>-1.830*</td>
</tr>
<tr>
<td>[0; +1]</td>
<td>0.68**</td>
<td>2.448</td>
<td>4.90**</td>
<td>-2.389**</td>
</tr>
<tr>
<td>[0; +5]</td>
<td>0.79*</td>
<td>1.475</td>
<td>6.95**</td>
<td>-2.424**</td>
</tr>
<tr>
<td>[0; +10]</td>
<td>0.74</td>
<td>1.326</td>
<td>5.94**</td>
<td>-1.847*</td>
</tr>
<tr>
<td>[0; +20]</td>
<td>2.01**</td>
<td>2.746</td>
<td>5.53*</td>
<td>-1.589*</td>
</tr>
<tr>
<td>[-20; +20]</td>
<td>1.92*</td>
<td>1.740</td>
<td>5.44</td>
<td>-1.650*</td>
</tr>
</tbody>
</table>

(*, **, *** significant at the 10%-., 5%, 1%-level)

It is striking that the overperformance following the announcement of European luxury M&As turns out to be less positive as well as less significant. Besides, returns on these selected sub-sample deviate significantly from each other for most of the event windows – independent on the test procedure.

Figure 5: Differences in CAR development related to geographical focus

\textsuperscript{41} For all sub-sample result tables the * behind the two-sample-t- and Wilcoxon-statistics indicate the significance of expected differences between the respective sub-samples.
The Graph ascertains the results: The US and Asian M&As perform more positively and at a remarkably higher value level than the European M&As.

These results may be explicable against the background of the specific characteristics of the European luxury goods industry described and examined in the following paragraph.

**Excess returns for conglomerates and other luxury companies in Europe**

The European luxury firm landscape is characterized and decisively shaped by four luxury conglomerates almost representing an oligopolistic sector superiority in terms of brand portfolios and market share – LVMH, PPR, Richemont and Swatch.

More than half the M&A transactions in the European luxury industry have been conducted by these four companies, most of them by LVMH (51) and PPR (37), thereof 21 respectively 10 in the years 1999 and 2000. Due to the substantial differences in market position and power between these conglomerates and all remaining luxury goods companies considered in this analysis, virtually different capital market reactions to transaction announcements for both sub-samples would not be surprising.42

As already cited, signaling effects theories argue that new information given to the market is evaluated positively by capital market actors. Consequently, if a company is frequently involved in M&A transactions, that new information on enlargement of this (already large and powerful) industry giant may come along with a diminished marginal utility on the side of capital market actors. On the one hand, synergies and market power enhancement will not be estimated to be of utmost necessity for an already huge and widely diversified company. On the other hand, additional information whichever will not expand the information basis substantially for a company of that extent and related product and capital market importance. In contrast, when a smaller, hardly diversified and not eminently puissant company gets committed to M&A activities, investors might attach a remarkably higher value to that information: First, eventual synergy potentials will not have been exploited already and optional opportunities with including diversification effects and market power enhancement might be highly priced. Second, smaller and less established firms will be less covered by analysts and provide a relatively little information basis. Consequently, capital market reactions to mergers

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42 For a discussion on specific characteristics of conglomerate firms see Maksimovic/Phillips (2002).
involving the four luxury conglomerates should be less intense and less positive than on the events for the remaining sample.43

For testing this hypothesis the sample of the 187 European luxury M&As has been subdivided into two sub-samples: One sub-sample embraces all events involving the four luxury conglomerates, the other one comprises the remaining events.

Table 6: Stock market reaction to conglomerate and other companies’ M&A activities in Europe

<table>
<thead>
<tr>
<th>Event Window</th>
<th>N₁ = 101 Conglomerates CAR (%)</th>
<th>N₂ = 86 No Conglomerates CAR (%)</th>
<th>2-Sample-t-statistic</th>
<th>Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td>[-20; -1]</td>
<td>-0.19</td>
<td>2.44</td>
<td>1.507</td>
<td>-0.299</td>
</tr>
<tr>
<td>[-10; +10]</td>
<td>0.70</td>
<td>2.15*</td>
<td>1.788</td>
<td>-0.656</td>
</tr>
<tr>
<td>[-5; +5]</td>
<td>-0.04</td>
<td>1.59*</td>
<td>1.684</td>
<td>-1.024</td>
</tr>
<tr>
<td>[-1; 0]</td>
<td>0.09</td>
<td>0.295</td>
<td>0.99**</td>
<td>2.448</td>
</tr>
<tr>
<td>[0; +1]</td>
<td>0.04</td>
<td>0.135</td>
<td>1.43***</td>
<td>3.020</td>
</tr>
<tr>
<td>[0; +5]</td>
<td>-0.29</td>
<td>-0.409</td>
<td>2.05**</td>
<td>2.571</td>
</tr>
<tr>
<td>[0; +10]</td>
<td>0.07</td>
<td>0.095</td>
<td>1.53*</td>
<td>1.727</td>
</tr>
<tr>
<td>[0; +20]</td>
<td>1.60*</td>
<td>1.694</td>
<td>2.50**</td>
<td>2.174</td>
</tr>
<tr>
<td>[-20; +20]</td>
<td>1.47</td>
<td>-0.180</td>
<td>0.42</td>
<td>0.355</td>
</tr>
</tbody>
</table>

(*, **, *** significant at the 10%-*, 5%, 1%-level)

The results reported in Table 6 approve the theoretical hypothesis: The deals conducted by the four conglomerates display an only very little and partly even negative aggregated excess return which turns out to be not statistically significant with the exception of the [0; +20] window. A completely different picture arises for the excess returns induced by M&As for the sample purged of the conglomerate firms: For this sub-sample only positive and mainly statistically significant abnormal returns are reported. The two-sample t-test allows only for the [-1; 0], [0; +1] and [0; +5] windows the acceptance of the alternative hypothesis, the overperformance of both sub-samples differs significantly.44

43 In this context, a more in-depth analysis could also check for profound differences in performance according to deviations of size in terms of market capitalization.

44 In contrast, Maquieira et al. find for a [-60; +60] event window and a diversified US sample of 102 events a higher excess return (41.65%) for conglomerates than for non-conglomerates (39.08%).
Figure 6 illustrates and supports the figures: Whilst the pre-announcement performances of the individual samples are relatively alike, the post-announcement excess returns develop in a visibly different way: The non-conglomerates sample experiences a steep increase in excess returns during the first three days following the announcement and remains at a higher value level over the entire post-announcement event period, while the conglomerates display positive excess returns only from day +10 on.

**Overperformance related to announcement period**

An additional plausible sub-sample analysis is based on the consideration of luxury firm M&A activities against the background of the historical and recent development of the industry as well as M&A trends in general.

Therefore, the sample is divided into four sub-samples according to four periods: The first sub-group combines all M&As executed in the period from 1993 to 1997 – a phase of consolidation and strategic acquisitions. The second one embraces the M&A transactions during the *merger mania* period from 1998 to 2000. As regards transactions in this period, they may have been motivated by prevailing trends and may have tended to be an end in itself lacking the fundament of a thorough strategic rationale.
All transactions from the overall downturn trend of capital markets in the years 2001 and 2002 are attributed to the third sub-sample, whereas the remaining events from the years 2003 to 2005 are included in the fourth sub-sample.

The intuitive assumptions concerning the expected results are as follows:
The first sub-sample should display a positive performance due to consolidation and portfolio enlargement reasons signaling positive future trends. For the second sub-sample two different scenarios are thinkable: On the one hand, these events could be followed by a positive return development due to the generally positive evaluation of M&A activities at that time. One the other hand, M&A announcements occurred frequently during this period and may have been conceived as decreasingly meaningful and informative in terms of actual company value implications – depending on investors’ cognition and perception. During the downturn period M&A announcements are supposed to be appraised and handled with care and investors – and stock prices – are accordingly assumed to react cautiously. For the fourth sub-sample a slightly more intense and more positive reaction appears to be imaginable, as investors might provide new confidence in more reasonable and thoroughly measured transaction intentions.

<table>
<thead>
<tr>
<th>Event Window</th>
<th>T1</th>
<th>N1 = 30 1993-1997 CAR (%)</th>
<th>T2</th>
<th>N2 = 80 1998-2000 CAR (%)</th>
<th>2-sample-t-statistic Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td>[-20; -1]</td>
<td>1.94</td>
<td>1.338</td>
<td>0.764</td>
<td>-0.203</td>
<td>-0.031</td>
</tr>
<tr>
<td>[-10; +10]</td>
<td>2.49</td>
<td>1.343</td>
<td>0.157</td>
<td>-1.057</td>
<td>-0.730</td>
</tr>
<tr>
<td>[-5; +5]</td>
<td>1.79</td>
<td>1.326</td>
<td>0.951</td>
<td>-1.197</td>
<td>-1.203</td>
</tr>
<tr>
<td>[-1; 0]</td>
<td>0.73</td>
<td>1.506</td>
<td>0.559</td>
<td>1.072</td>
<td>-0.812</td>
</tr>
<tr>
<td>[0; +1]</td>
<td>1.03**</td>
<td>2.060</td>
<td>2.981</td>
<td>-1.085</td>
<td>-1.429</td>
</tr>
<tr>
<td>[0; +5]</td>
<td>1.04</td>
<td>0.850</td>
<td>1.936</td>
<td>-1.747*</td>
<td>-1.573</td>
</tr>
<tr>
<td>[0; +10]</td>
<td>1.57</td>
<td>1.213</td>
<td>0.347</td>
<td>-0.793</td>
<td>-0.545</td>
</tr>
<tr>
<td>[0; +20]</td>
<td>2.53*</td>
<td>1.727</td>
<td>0.386</td>
<td>-1.352</td>
<td>-1.080</td>
</tr>
<tr>
<td>[-20; +20]</td>
<td>3.86**</td>
<td>1.920</td>
<td>0.698</td>
<td>-1.422</td>
<td>-1.203</td>
</tr>
</tbody>
</table>
Although Figure 7 depicts substantial differences in time dependent M&A induced equity performance, the lack of almost any statistical significance contradicts the assumption of an essentially different development.

Figure 7: CARs related to time of announcement

Despite the statistical insignificance of all differences between the sub-sample performances, the graphical illustration corroborates the intuitive assumptions rudimentally: In fact, the performance of the presumably mostly strategically motivated M&A transactions in the periods 1993-1997 and 2003-2005 show the most positive performance. The
capital market reaction of the 1998-2000 sub-sample is less positive and indefinite. This hints at the presumption that either both theoretically thinkable influencing factors may have determinated the event induced performance in combination or that the merger mania phenomenon during the late 1990s might have played a comparably indecisive role for the luxury goods industry.

**Value implications of acquisitions versus disposals**

Against this background, another aspect – that also makes allowance for the development and fundamental changes of the luxury goods industry – seems to be worth examining: Several extremely strong market players shaping the overall brand and product landscape as well as hard-fought market shares make different capital market reactions to acquisitions and disposals expectable. First, diversification efforts and market share enlargement attempts could be rewarded by investors as long as they involve scarcely diversified companies with obvious synergy potentials. However, equivalently, the cession of market share and power could come along with negative stock price reactions. Second, though, in the case of already large, complex and widely diversified product and brand portfolios, acquisitions could entail negative or less positive reactions. In contrast, in the event of smaller, specialized companies that are probably incapable of coping with their stronger and much more powerful competitors, the involvement in a disposal might result in positive valuation effects. Therefore, the entire sample has been categorized according to the respective roles in the M&A transactions: One sample includes all acquiring firms, the second one comprises all targets and divesting firms.

**Table 8: CARs following investment versus divestment activities**

<table>
<thead>
<tr>
<th>Event Window</th>
<th>(N_1 = 174) Investments CAR (%)</th>
<th>(N_2 = 32) Divestments CAR (%)</th>
<th>(T_2)</th>
<th>2-sample-t-statistic</th>
<th>Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td>[-20; -1]</td>
<td>0.52</td>
<td>0.637</td>
<td>-0.07</td>
<td>-0.029</td>
<td>0.834</td>
</tr>
<tr>
<td>[-10; +10]</td>
<td>1.16</td>
<td>1.415</td>
<td>4.26*</td>
<td>1.849</td>
<td>-0.567</td>
</tr>
<tr>
<td>[-5; +5]</td>
<td>0.71</td>
<td>1.125</td>
<td>3.42*</td>
<td>1.779</td>
<td>-0.617</td>
</tr>
<tr>
<td>[-1; 0]</td>
<td>0.75**</td>
<td>2.289</td>
<td>1.42</td>
<td>1.638</td>
<td>-0.715</td>
</tr>
<tr>
<td>[0; +1]</td>
<td>0.92***</td>
<td>2.923</td>
<td>1.87</td>
<td>1.632</td>
<td>-0.608</td>
</tr>
<tr>
<td>[0; +5]</td>
<td>1.00*</td>
<td>1.816</td>
<td>3.32*</td>
<td>1.756</td>
<td>-0.936</td>
</tr>
<tr>
<td>[0; +10]</td>
<td>0.72</td>
<td>1.267</td>
<td>3.93*</td>
<td>2.059</td>
<td>-1.061</td>
</tr>
<tr>
<td>[0; +20]</td>
<td>1.82***</td>
<td>2.436</td>
<td>4.98**</td>
<td>2.380</td>
<td>-0.806</td>
</tr>
<tr>
<td>[-20; +20]</td>
<td>1.87*</td>
<td>1.658</td>
<td>4.27</td>
<td>1.548</td>
<td>0.079</td>
</tr>
</tbody>
</table>

(*, **, *** significant at the 10%-., 5%-., 1%-level)
As Table 8 depicts, the theoretically reasonable thesis, acquisitions had overall different value implications than disposals cannot be approved. Therefore, in a next step the thesis is modified and completed by the time aspect: The assumption, that M&A activities might have been more positively evaluated in times of consolidation and diversification, whereas in recent years – in times of managerial crises and increasingly declining revenues and profits – attempts to streamline the product and brand portfolio might be acknowledged and appreciated by investors, seems to be verisimilar.

### Table 9: CARs induced by acquisitions related to time of announcement

<table>
<thead>
<tr>
<th>Event Window</th>
<th>(N_1 = 98)</th>
<th>(N_2 = 76)</th>
<th>2-sample-t-statistic</th>
<th>Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td>[-20; -1]</td>
<td>0.88</td>
<td>0.05*</td>
<td>0.042</td>
<td>0.657</td>
</tr>
<tr>
<td>[-10; +10]</td>
<td>-0.16</td>
<td>2.87**</td>
<td>2.050</td>
<td>-1.382</td>
</tr>
<tr>
<td>[-5; +5]</td>
<td>0.40</td>
<td>1.11</td>
<td>0.986</td>
<td>-0.119</td>
</tr>
<tr>
<td>[-1; 0]</td>
<td>0.18</td>
<td>1.48**</td>
<td>2.338</td>
<td>-1.757*</td>
</tr>
<tr>
<td>[0; +1]</td>
<td>1.01***</td>
<td>3.460</td>
<td>1.313</td>
<td>0.615</td>
</tr>
<tr>
<td>[0; +5]</td>
<td>0.78</td>
<td>1.27</td>
<td>1.264</td>
<td>0.194</td>
</tr>
<tr>
<td>[0; +10]</td>
<td>-0.12</td>
<td>1.80*</td>
<td>1.863</td>
<td>-0.832</td>
</tr>
<tr>
<td>[0; +20]</td>
<td>0.21</td>
<td>3.91***</td>
<td>3.493</td>
<td>-1.291</td>
</tr>
<tr>
<td>[-20; +20]</td>
<td>1.00</td>
<td>2.98*</td>
<td>0.042</td>
<td>0.007</td>
</tr>
</tbody>
</table>

(*, **, *** significant at the 10%-, 5%, 1%-level)

### Table 10: CARs induced by divestments

<table>
<thead>
<tr>
<th>Event Window</th>
<th>(N_1 = 12)</th>
<th>(N_2 = 20)</th>
<th>2-sample-t-statistic</th>
<th>Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td>[-20; -1]</td>
<td>0.92</td>
<td>-2.50</td>
<td>-0.823</td>
<td>1.126</td>
</tr>
<tr>
<td>[-10; +10]</td>
<td>8.77*</td>
<td>1.56</td>
<td>0.578</td>
<td>0.869</td>
</tr>
<tr>
<td>[-5; +5]</td>
<td>7.38</td>
<td>1.04</td>
<td>0.626</td>
<td>0.814</td>
</tr>
<tr>
<td>[-1; 0]</td>
<td>1.75</td>
<td>1.23</td>
<td>1.060</td>
<td>-0.340</td>
</tr>
<tr>
<td>[0; +1]</td>
<td>2.42</td>
<td>1.55</td>
<td>1.022</td>
<td>-0.255</td>
</tr>
<tr>
<td>[0; +5]</td>
<td>7.26</td>
<td>0.95</td>
<td>0.584</td>
<td>0.843</td>
</tr>
<tr>
<td>[0; +10]</td>
<td>7.08</td>
<td>2.04</td>
<td>1.160</td>
<td>0.368</td>
</tr>
<tr>
<td>[0; +20]</td>
<td>7.33*</td>
<td>3.57</td>
<td>1.355</td>
<td>-0.157</td>
</tr>
<tr>
<td>[-20; +20]</td>
<td>9.91*</td>
<td>0.89</td>
<td>0.290</td>
<td>1.118</td>
</tr>
</tbody>
</table>

(*, **, *** significant at the 10%-, 5%, 1%-level)
However, the results do not allow the conclusion, that acquisitions and divestments aroused substantially different capital market reactions at any time – the additional adjustment for historical and current market, industry and overall M&A trends does not change or affect the insignificance of the results.\textsuperscript{45}

Figure 8: Investment and divestment induced CARs related to time of announcement

Figure 8 describes the excess return development of acquisitions and divestments corresponding to their respective announcement period. According to the graph, rather the opposite of the original thesis seems to shape up as true: For the 1993-2000 period, divestment activities perform at a higher value level than acquisitions. For the 2001-2005 period, the picture is vice versa. However, as statistical significance is not granted in any case, neither the original hypothesis nor the empirical findings allow any conclusion about the deterministic force of the type of M&A involvements combined with the respective phase of the M&A announcement.\textsuperscript{46}

\textsuperscript{45} Parametric and non-parametric tests for statistically significant differences between the investment and divestment sub-samples for the two time sub-samples, respectively, equivalently does not indicate significant differences between the sub-samples. That is why these result are not reported additionally.

\textsuperscript{46} Many M&A event studies find positive CARs for targets whereas the picture for acquirers is ambivalent. To give some examples: Mulherin/Boone (2000) report a [-1; +1] excess return of 21.2% for financial and non-financial targets and an abnormal return of -0.37% on the acquirers’ sub-sample. DeLong (2001) finds [-10; +1] abnormal returns of 16.61% for targets and of -1.68% for acquirers of a US banking sample. Beitel, Schiereck and Wahrenburg (2004) detect a [-20; +20] 16% abnormal return for their targets sample as well as a -0.2% abnormal return on their acquirers. However, Maquieira et al. (1998) and Doukas et al., for example, report positive excess returns for acquiring firms. For a detailed overview see Campa/Hernando (2004), p. 51-60.
6. Summary and Outlook

This paper primarily fulfills the function of an preliminary explorative pilot study on wealth effects of luxury firm mergers and acquisitions. The analysis provides additional empirical evidence and contributes to the overall research on M&A activities in the retail sector: The results of the event study already give a first insight into capital market reactions and value implications evoked by M&A transactions within the luxury goods industry. However, due to their standalone position in existent research, the results cannot be reasonably compared to findings in prior research. Positive announcement effects of M&A efforts aiming at the enlargement of market power and brand portfolios as well as the amelioration of firm efficiency are largely accordable with other authors’ conclusions on M&A studies respecting the ordinary consumer goods retail segment.

The sub-sample analysis allows the conclusion of significantly different value implications by European and non-European transactions. Moreover, the performance of European M&A transactions displays partly a significantly less favorable capital market reaction in cases when a luxury conglomerate is involved.

The idiosyncrasies of this industry obviously challenge the prevailing conventional methods of excess return measurement. Extensions, additional specifications and modifications of the models applied may lead to different and more meaningful results. Supplementary sub-samples should be analyzed to gain more detailed findings on virtual determinants of value creation in the context of luxury mergers and acquisitions and for completing and rounding off the overall picture.

To draw a conclusion: The results of this analysis indicate positive value implications from a capital market perspective. In general, these findings could be conceived as an impetus for further, advanced and in-depth research with regard to both theoretical and methodological aspects.
References


