

## Active media management leads to reduced acquisition costs

**Active media management cuts the cost of acquisition negotiations. This was the finding of a study that analysed the media work associated with around 500 transactions.**

Financial media are considered the most important channel when it comes to distributing price-relevant information. This can be of significance when companies conduct negotiations about acquisitions. Kenneth R. Ahern and Denis Sosyura, from the University of Southern California and the University of Michigan respectively, have quantified these statements in a study. In their paper *“Who writes the news? Corporate press releases during merger negotiations”* they examined the performance of stock prices during mergers.

Between 2000 and 2008 Ahern and Sosyura analysed 507 transactions involving US listed corporations. Stock price performances as well as the content of press releases published by the companies were examined. These were quantified by attributing individual positive terms to them pursuant to the Harvard Dictionary such as “remarkable”, “confident”, “strong” as well as negative terms such as “questionable”, “uncertain” or “weak”.

The study reached the following conclusions:

- Bidding companies communicate significantly more immediately following the launch of acquisition negotiations, although before a public announcement has been made. This strategy generates a short-term rise in the stock price of the offering company during the negotiations, and has a significant impact on the price of the acquisition target.
- Companies conducting negotiations about acquisitions with a fixed equity ratio increased the number of press release by an average of 10% between the start of the negotiations and the public announcement. It is essentially the case that the number of articles published on the subject rose, while at the same time there were fewer negatively-burdened attributions during the course of acquisition evaluations.
- Active media management made it possible to reduce the acquisition costs of the 507 transactions by 5-12%.

Source: NZZ of 10 March 2014 and study: *“Who writes the news? Corporate press releases during merger negotiations”* by K. Ahern and D. Sosyura, 2014