

Identifying Potential Acquisition Targets Using Accounting and Financial Data

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ABSTRACT

The purpose of this paper is to derive and test the significance of accounting and financial items in explaining the possibility of a firm becoming a target. The sample is drawn from U.K. acquisitions during the period 1987-2002 and the objective is to estimate statistical models for prediction of acquisition targets. The applied model is a binary-logit model, with variables expressed on firm level. The sample covers a broad cross section of firms of different sizes and in different industries. The results indicate that the targets are poor performance companies, with high leverage but high growth prospects. The last two years' accounting and financial figures, the percentage change between them, in combination with the P/E ratio are significant in estimating the financial status of the company and the possibility of a firm to be taken over. This study's results could be helpful for companies seeking to acquire other firms, providing a guide regarding the accounting and financial position of the possible targets.

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