

Abstract

This work studies whether intertemporal variation in future takeover activity explains intertemporal changes in stock size premium. Taking into account that takeover activity involves 2-9% of firms every year and building upon existing research stating that small firms are more likely takeover targets, receive 40% higher takeover premium than large firms, we argue that small firms benefit from high takeover activity more than large firms and size premium should be more pronounced in the time of high takeover activity. We study takeover activity as well as stock size premium on aggregate level and test whether size premium can be explained by the expected takeover activity, i.e. its change compared to past. We find that change in takeover activity in the next six months versus last six months is positively correlated with size premium. Additionally, we construct a simple predictive model for estimating future takeover activity. The relation between size premium and change in takeover activity remains significant when we use forecasted values given by the predictive model instead of true future values in the model.