FACULTY
OF SOCIAL SCIENCES
Charles University

Thesis Evaluation Report

Author:	Nela Gábrišová
Advisor:	Evžen Kočenda
Title:	Effects of the acquisition-based majority ownership: Evidence from the Czech firms
Opponent:	Jiří Novák

Assessment

Summary

The author analyses how changes in ownership in Czech firms affect their performance. She claims that she contributes to the literature by focusing on the Czech market for mergers and acquisitions (M&A) that has been under-investigated so far. Due to the simple methodology the author herself claims that the documented differences in performance cannot be attributed to the M&A types.

Major Points

Research Question

I believe that research questions shall be motivated by a theoretical prediction or a conceptual argument explaining why the association the author envisages should hold. I am afraid I lack such a motivation in this thesis. In general it is very hard to provide a priori arguments why one owner should induce better performance than another owner. Why should a Company X be more profitable when it is owned by Mary rather than John or vice versa? Therefore on this very general level it is almost impossible to suggest some directional predictions about what changes should lead to performance improvements or declines.

"This thesis aims to cover the gap in Czech research and analyse how a change of the majority shareholder <u>*resulting from whatever transaction reason*</u> *affect operating performance of acquired companies."* (p. 1)

To be sure, I certainly acknowledge that there may be changes in ownership of a particular kind that could be associated with performance changes. For example, in cases when the original founder of the company first sells it, a change in ownership from a local to an international owner, or a change from a financial owner to a strategic owner I can imagine directional predictions substantiated with conceptual arguments. However, the author lumps all ownership changes together (see the quote above) which makes conceptual analysis problematic. Therefore, it is very difficult for me to see how investigation of such a broad question can help us understand the phenomenon of ownership changes. This may also be one of the reasons why the author does not find any significant results (see the quote below).

"No evidence is found for a significance of a deal categorisation to horizontal, vertical, and financial acquisitions, nor for acquisitions realised by natural persons. Classification of target accounting units to micro and small, and medium and large is also concluded insignificant for the post-acquisition performance." (p. 54)

Methodology
The second challenge for the author comes from selecting appropriate methodology capable of producing convincing empirical results relevant for answering the research question. In this respect the author faces a significant challenge because the choice to sell the company or to buy the company is highly endogenous and in may easily be affected by expected future performance or performance changes. I appreciate that the author is aware of this fact and she explicitly acknowledges it in the quote below.

"It is essential to understand that some companies are more likely to become acquisition targets than others. This probability issue would be a cause of selection bias, if only acquired companies were examined and hypotheses about the impact of acquisition were to be tested." (p. 11)

Despite of the author's awareness of this issue I am not convinced that she has addressed it well. Even if the empirical analysis yielded significant results it would be very hard to tease out any causal relationship, i.e. to demonstrate that a change in ownership caused changes in performance rather than simply coincide with it.

In fact I believe that given the above the author should at least use some matched sample of companies and perform a difference in difference analysis. The author does not use this methodological approach for reasons that she specifies in her introduction (see the quote below).

"Comparison of acquisition targets to companies that did not go through the change of majority shareholder will not be included as a research topic, because the data for execution of such analysis using either Heckman two-step model or the difference in difference technique are hard to retrieve from any accessible database." (p. 1)

The quote below shows that the author understands that she cannot make any claims about the main relationship. On one hand, I appreciate that the author is aware of the weaknesses of her work. On the other hand, it is hard for me to understand why she did not narrow the research question down by for example focusing on a specific type of ownership change, for which directional predictions can be made. Then she could have hand collected information on a limited number of control matched firms.

"A caveat of this work, therefore, is that no conclusions can be made about an effect of the act of acquisition itself." (p. 1)

Minor Points
I appreciate the author reviews a number of relevant papers in the area. Nevertheless, I lack some conclusion at the end of the literature review section that would lead up to the formulation of the author's own research question. In other words, it is not clear to me how the author benefits from understanding the literature in her own research and how her research extends prior research.

I do not think that analyzing specifically the Czech market can be seen as a reason for the author's contribution unless she provides an argument for why the specific institutional characteristics of this specific market make it suitable for her analysis. Absent such a motivation I would argue that the Czech market is small, illiquid and riddled with institutional deficiencies which are hardly characteristics that would make it suitable for analyzing economic determinants consequences of ownership changes.

The author does not provide a convincing argument why she uses EBITDA margin as the key measure of performance. First, conceptually return on net operating assets (ROA) defined as the ratio of EBIT to net operating assets is the measure of operating performance. I have not found in the thesis how the author defines the EBITDA margin (which is not good), but I assume that she scales EBITDA by net sales. Such a measure ignores the effect of asset turnover on operating profitability which is in my opinion is not desirable. Second, EBITDA excludes depreciation and amortization costs. This makes it unsuitable for comparison of companies that produce in-house and that outsource. For example, a company that produces products in house owns and depreciates its machinery. A comparable company that uses semi-finished products supplied by subcontractors recognizes no depreciation but it will recognize higher operating expenses (cost of goods sold, COGS) that will reflect higher cost of raw material. Using EBITDA rather than EBIT makes a false impression that the second company is more profitable than the first even though the underlying economics of the two firms may be comparable.[1] Third from the definition below it is not clear to me if the author subtracts amortization of intangible assets from EBITDA.

"EBITDA is calculated as Operating result (row 30) minus amortisation and depreciation of fixed assets (row 18). EBITDA margin is a key ratio of operating profitability regardless of means of financing operations. Martynova (2006) uses it along with EBITDA to assets ratio as a performance indicator." (p. 37)

From the thesis I do not understand how the author handles the situation when the new owner obtains a dominant ownership of the target and starts consolidating financial statements with its own. In such a case measures for the acquired target may not be available after the acquisition.

In my opinion the thesis is written in good English and it is well formatted. Nevertheless, I would appreciate greater adherence to the academic style of writing without the use of bullet points and lengthy exposition of textbook-like material. I have doubts about the relevance of sections 2.1 and 2.2.

The format of the tables could be improved. The tables lack explanatory notes. It is common to refer to "t-statistics" rather than to "t-ratios".

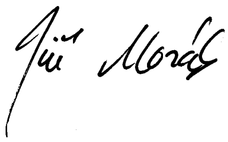
Conclusion

Overall, I find most of the empirical analysis fairly simple and not necessarily appropriate for the analysis of the research question. I believe the thesis feels more like a Bachelor's Thesis than a Master's Thesis. Therefore, I recommend the examination committee to consider grades between C and D depending on how well the author presents the thesis and addresses the raised issues at the oral defense.

[1] See for example Koller, Goedhart, Copeland, Wessels (2005) Valuation: Measuring and Managing the Value of Companies. 4. Hoboken, N.J.: John Wiley & Sons Inc.

Awarded Points and Grade

Contribution (max 30)	19
Methods (max 30)	18
Literature (max 20)	16
Form (max 20)	18
Total (max 100)	**71**
Grade (A – B – C – D – E – F)	**C**



Digitally signed by
Jiri Novak
Date: 2018.05.22
17:55:41 +02'00'

Referee's Signature

May 22, 2018

Evaluation Date

Jiří Novák

Referee's Name

Grading Scale

LITERATURE REVIEW: The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.

Strong	Average	Weak
20	10	0

METHODS: The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.

Strong	Average	Weak
30	15	0

CONTRIBUTION: The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.

Strong	Average	Weak
30	15	0

MANUSCRIPT FORM: The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.

Strong	Average	Weak
20	10	0

OVERALL GRADING:

Total Points	**Grade**
91 – 100	A
81 – 90	B
71 – 80	C
61 – 70	D
51 – 60	E
0 – 50	F