

Report on Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

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|-----------------------------|--|
| Student: | Bc. Robert Kaplan |
| Advisor: | Jiří Novák M.Sc., Ph.D. |
| Title of the thesis: | The Impact of Mergers and Acquisition Activity on the Time Series Variation in the Stock Size Premium |

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Contribution

The contribution of the thesis is in analysing a link between takeover activity and the so-called size premium, i.e. a difference in stock return between small and big companies. The main hypothesis claims that as takeover activity goes through cycles over time, so does the size premium, as the size premium depends on the takeover activity.

This is an important contribution, but the author should explicitly state in the introduction whether this is indeed the main contribution and how does this research differ from other existing papers on similar topics (one can find a few remarks along this throughout the thesis, but ideally this should be stated at the beginning).

Methods

The author is using a simple OLS regression analysis between the size premium and merger activity, in various modifications (various frequencies and horizons used), including using a predicted rather than real merger activity (2-stage approach).

While the method is appropriate, it is somewhat too simple, acknowledging that the specified and estimated equation does not have any additional control variables – to my surprise, as the review of literature discussed papers that explored a number of various factors behind the size premium. The thesis should thus quote in the Method section what other papers in this area have used this simple method. In general, not using any control variables could result in biased estimates of the coefficients.

The thesis should also mention the preconditions/obligatory tests needed for using simple OLS (homoscedasticity, no autocorrelation etc. – the author mentions some of those on p. 42 and thereafter, but only sometimes the statistics are provided; in the regression, robust standard errors are also used in one specification, but no data provided in the tables; moreover, this should be mentioned at the beginning in the section Methods).

The data description should also have more discussion of the dependent variable SMB (perhaps alternative constructions as robustness checks – not only the top and bottom deciles, but perhaps 1-2 other suitable percentiles such as 5% or 15%), including references to other papers that worked with SMB estimate in this form.

On p. 45, the fit of the predictive model should be shown in a chart (fitted versus observed), in addition to just showing the R-squared. Using the prediction of takeovers is an important value added of the thesis, so maximum information should be given about how the model performs.

Literature

The literature review section is extensive and covers all relevant areas. The author structures it well and links the various fields of research nicely with the thesis' focus. It is perhaps slightly on the longer side and moreover, the 8-page introduction to the thesis also quotes relevant literature, contributing to a certain overlap between the two sections. The introduction should have been more concise (1-2 pages), without charts, quoting only the key 3-4 papers behind the motivation and perhaps the research methods of this thesis, with all other literature being discussed in the review section.

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Manuscript form

The thesis is properly structured and formatted, although the language of the thesis would benefit from a review by a native speaker (missing articles etc.). Also, the thesis should ideally include more descriptive charts and tables in the form of stylized facts, telling a story with the data used. The format of the figures could be more elaborated (academic-style) and a story with economic background should complement each chart.

Summary and suggested questions for the discussion during the defense

In general, this is an interesting and well written master thesis, fulfilling all the necessary conditions for a successful defense. Due to the various issues mentioned above, I propose the grade B.

For the discussion during the defense, the author could elaborate on the two following questions:

1. What other factors (apart from the takeover activity) could have influenced the size premium in the US markets studied by the thesis, and would they possibly be worth including into the regression as control variables?
2. What has been driving the mergers and acquisitions in the sample analyzed? Which important deals have been included that would anecdotically illustrate the focus of the thesis, i.e. an increase in returns of the (small) firm being taken over by a big one?

SUMMARY OF POINTS AWARDED (for details, see below):

| CATEGORY | POINTS |
|---|-----------|
| <i>Contribution (max. 30 points)</i> | 25 |
| <i>Methods (max. 30 points)</i> | 25 |
| <i>Literature (max. 20 points)</i> | 18 |
| <i>Manuscript Form (max. 20 points)</i> | 15 |
| TOTAL POINTS (max. 100 points) | 83 |
| GRADE (A – B – C – D – E – F) | B |

NAME OF THE REFEREE: Doc. Adam Gersl

DATE OF EVALUATION: 28.5.2018



Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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.*

| | | |
|---------------|----------------|-------------|
| <i>Strong</i> | <i>Average</i> | <i>Weak</i> |
| 30 | 15 | 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.*

| | | |
|---------------|----------------|-------------|
| <i>Strong</i> | <i>Average</i> | <i>Weak</i> |
| 30 | 15 | 0 |

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

| | | |
|---------------|----------------|-------------|
| <i>Strong</i> | <i>Average</i> | <i>Weak</i> |
| 20 | 10 | 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.*

| | | |
|---------------|----------------|-------------|
| <i>Strong</i> | <i>Average</i> | <i>Weak</i> |
| 20 | 10 | 0 |

Overall grading:

| TOTAL | GRADE |
|----------|-------|
| 91 – 100 | A |
| 81 - 90 | B |
| 71 - 80 | C |
| 61 – 70 | D |
| 51 – 60 | E |
| 0 – 50 | F |