

Essays on Acquisitions in Australia

by **Wei Hu**

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Lam, and Prof. Peter Wells.

University of Technology Sydney
Faculty of Business

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Certificate of Original Authorship

I, Wei Hu, declare that this thesis is submitted in fulfilment of the requirements for the award of Doctor of Philosophy in the UTS Business School at the University of Technology Sydney. This thesis is wholly my own work unless otherwise referenced or acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

This document has not been submitted for qualifications at any other academic institution. This research is supported by the Australian Government Research Training Program.

Signature:

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Abstract

This thesis consists of three stand-alone essays investigating the topics of deal contracting and fair value accounting in acquisitions. The first essay investigates how acquirers structure transaction terms to reduce political uncertainty-related cost. Utilizing a large hand-collected sample of 3,283 project acquisitions by Australian mining exploration entities over 1998-2017, I find that acquirers tend to structure transactions in stages in response to high political uncertainty. In addition, the stock market reacts more favourably to staged acquisitions than non-staged acquisitions when higher political uncertainty is observed. Further, I identify three potential mechanisms through which staged acquisitions help acquirers reduce the negative consequences of political uncertainty: low abandonment costs, the securing of overseas targets, and long contract duration. These findings underscore the importance of staged deal structure as an effective tool that helps mitigate uncertainty in acquisitions.

The second essay examines abandoned deals. Specifically, I investigate how policy uncertainty affects both the acquisition process during the post-announcement period and acquisition outcomes. Three main results are presented. First, rising policy uncertainty after initial acquisition announcements is associated with longer time to close deals. Second, prolonged high policy uncertainty plays a critical role in triggering acquisition abandonment. Third, the stock market reacts negatively to deal abandonment, but to a lesser extent if the abandonment decision is made amid protracted policy uncertainty. The muted market reactions are also associated with managers' explanations for deal abandonment decisions. Consistent with anecdotal

observations, the results in the second essay imply that policy uncertainty is an important “deal-breaker” in acquisitions.

In the third essay, I explore the economic consequences of fair valuing earnouts or contingent consideration in acquisitions required by IFRS 3 (2008). Using a sample of completed acquisitions by Australian firms over 2001–2017, I find evidence of managerial opportunism in earnout accounting. Acquirers are likely to overstate earnout liabilities under IFRS 3 (2008), with a reversal of unpaid earnout liability recorded as a fair value gain over the earnout period. As a result, the enactment of IFRS 3 (2008) leads to a significant increase in the frequency and magnitude of earnouts in public acquirers’ transactions. Moreover, as expected, high-quality auditors help curtail managerial reporting discretion in fair valuing earnouts. Further, there is no mechanical relation between reversals of earnout liabilities and the recognition of goodwill impairment losses. These findings highlight an unintended consequence of fair value accounting with respect to earnout contracting and acquirers’ financial reporting.