Thirty Years Of M&A Activity in the Retail Sector

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The purpose of this paper is to identify any trends in M&A activity for Retail Trade Sectors and to see what type of returns the acquirer and the target shareholders have earned. We will also examine trends in deal values and other financial variables to determine if specific factors that go into the deal value have changed over time. The sample includes data for 12,390 retail mergers and acquisitions from the SDC Platinum Mergers & Acquisitions database for the period January 1, 1980 to December 31, 2009 and involves U.S. target firms who operate in the Retail Trade sector of the economy.

INTRODUCTION

The mergers and acquisitions (M&As) environment has changed significantly during the 1980s, 1990s, and 2000s decades. M&A activity increased during the 1980s relative to the 1970s due to the expanding economy, declining interest rates, deregulation of basic industries, higher stock prices, and the growth and development of the junk bond markets. The 1980s witnessed a growth in hostile takeovers, leveraged buyouts, the development of defensive strategies, and megadeals. Corporate raiders had an impact on the operations and management of publicly traded firms across multiple industries. M&A activity continued to grow during the 1990s as the economy expanded due to technology improvements around the personal computer, continued deregulation and consolidation across multiple industries, increased stock prices, the growing acceptance of multinational firms, and increased availability of financing. The 2000s decade started with a peak of M&A activity but declined significantly due to the terrorist attack on 9/11 and heightened awareness of increased geo-political risk, corporate scandals such as Enron, MCI, and Tyco, etc.,. By the middle of the decade, consumer confidence improved and stock prices and M&A activity increased. With relatively low interest rates and the availability of financing, the growth in private equity firms facilitated an increase in megadeals and the number of mergers. The financial difficulties in the U.S banking system in 2008 which led to the Great Recession adversely affected stock prices, the availability of financing and M&A activity during the latter part of the decade.

Retail trade has been shown over time to rank among the top ten industry groups in M&A activity in the United States in both the number and dollar value of transactions.[1] The urge to merge over the past thirty years shows no signs of slowing down with over 37% of the retail trade deals in our sample from 1980 to 2009 occurring during the last ten years of the sample. The purpose of this paper is to identify any trends in M&A activity for Retail Trade Sectors and to see what type of returns have begotten both the

acquirer and the target shareholders. We will also examine trends in deal values and other financial variables to determine if specific factors that go into the deal value have changed over time. The analysis will be done looking at two and three digit SIC codes within the retail trade sector comparing all deals in 2009s dollars.

PRIOR RESEARCH ON RETAIL MERGERS AND ACQUISITIONS

Mergers and acquisitions are common pathways to sales and asset growth in retailing. One of the principal motives for retail firms to pursue acquisitions is to achieve sales and asset growth and market presence more rapidly than by internal expansion while avoiding risks of internal start-ups (Kumar, Kerin, and Pereira 1991). However, judging from the available evidence, mergers and acquisitions appear to have a spotty record of success, at least when compared to the expectations of their promoters (Clark, Clark, and Verzilli 1985). Despite the popularity of M&A's as a corporate-level growth strategy, few research articles have focused specifically on the retailing industry. As a result, it is important to understand the characteristics that go into a successful retail merger.

Expansion and diversification resulting from internal growth and mergers and acquisitions produced many large-scale retailers in the 1970s, but the emergence of the large-scale retail enterprises can be traced back at least 50 years. More recently, empirical evidence shows that larger retailers, both in terms of market share and store units, are likely to be bidders which suggest a trend toward further consolidation of retail ownership in the retail industry (Kumar, Kerin, and Pereira 1991). For instance, similar to many other industries, retailing is experiencing a period of dramatic consolidation. This restructuring is not unique; rather, the industry is going down the same road being traveled by supermarkets, banks, drug stores, and other retail businesses (Balto 2001). Moreover, an important component of international retail activity is the widespread corporate restructuring largely associated with international retail M&A's (Palmer 2004). Indeed, retail markets around the world have become increasingly concentrated (Inderst and Saffer 2007).

Now corporate retailing executives are facing the same resource-allocation decisions that confront their counterparts in the manufacturing sector of the economy. Growth through acquisition of related businesses and internal expansion of existing business became commonplace in retailing. Diversification through acquisition is a popular pathway to growth because of previous modest income growth, weak and turbulent economies, an increasingly competitive marketplace, more market segmentation and fragmentation and more specifically defined consumer segments. However, the rapid expansion of sales and assets over the past half-century has had serious side effects, such as the need to manage far-flung divisions, issues with regard to staffing expanded divisions, depressed profit margins, real sales plateaus, bloated inventories, massive building programs and high debt burdens (Higgins and Kerin 1983).

Dong, Hershleifer, Richardson, and Teoh (2006), investigate the motivations for takeovers in all industries and sectors by documenting the empirical relations between the market valuations of firms and a comprehensive set of takeover characteristics. The authors review a sample of 2,922 successful and 810 unsuccessful acquisitions using the two valuation ratios of P/B and P/V where adjusted P/B ratio is used to test the Q hypothesis and adjusted P/B and P/V ratios are used to test the misvaluation hypothesis. Univariate results showed that bidder valuation ratios are higher on average than those of their targets. The bidder-target difference in valuations is on average greater among equity than cash offers, and among merger bids than among tender offers. Equity offers are associated with higher bidder and target valuations than cash offers. High target valuation is associated with greater use of equity as a means of payment, and less use of cash as a means of payment. Higher target valuation is associated with a less combative offer, a lower probability of hostility, a lower probability of tender offer rather than merger, and higher probability of offer success. Higher target P/B is associated with a lower bid premium, and a lower target announcement period return. Higher target valuation is associated with a lower bidder announcement period return. Higher bidder valuation is associated with greater use of equity, and less use of cash as a means of payment. Higher bidder valuation increases the likelihood of a merger bid than

tender offer. Higher bidder P/B is associated with higher bid premium and higher target stock returns and higher bidder valuation is associated with lower bidder announcement period returns. Multivariate differences from univariate results showed higher target valuation as indicated by higher P/V is associated with higher bid premium and lower target announcement period returns. The effect of target valuation on bidder returns showed no significant relation and high bidder P/B is not associated with higher target returns.

Inderst and Shaffer (2007), produce a theoretical argument to explain why retail mergers may increase buyer power and why they may lead to a socially inefficient reduction in product variety. Some of their conclusions were mergers may create an incentive for the retailer to reduce product variety by consolidating its supplier base. Suppliers sometimes have more bargaining power if they provide a product specific to the company's market. Suppliers can predict the likelihood of a merger to select product characteristics. Linear tariffs may be a countervailing effect as the more powerful retailer passes on lower prices to the consumer.

Kerin and Varaiya (1985) use a constant growth model to distinguish between profitable and unprofitable acquisition strategies for a sample of 18 different firms. As of the article's publishing in 1985, four characteristics of M&A activity in retailing were noteworthy because they illustrate the nature and scope of this phenomenon: (1) incidence and dollar value of transactions, (2) acquisitions by foreign corporations, (3) type of merger and (4) the premium prices paid by the acquiring firms. The results suggest that retailing acquisitions, given the distribution of premiums paid by acquirers, may not benefit stakeholders of the acquiring firm. This relates to previous research done on the manufacturing industry with similar results. The results also suggest that the rationale behind M & A may not exclusively focus on financial criteria and more specifically on creating shareholder wealth, but rather on strategy-related considerations and management interests.

Bjornson and Sykuta (2002), analyze whether the largest retailers (Albertson's Inc., Kroger Co., and Safeway Ince.) are realizing the promised financial rewards associated with their merger activity which has occurred over the latter 1990's. Overall, as of 1999 only modest evidence is found that the financial returns to the rapid growth strategies of the three largest food retailers have begun to be realized.

Many articles regarding retail M&A focus on sustainable growth (Higgins and Kerin (1983), Clark, Clark, and Verzilli (1985), Avila, Mass and Turchan (1995), Olson and Pagano (2005)). To test the consistency of a retailer's growth objectives and financial policies, Higgins and Kerin (1983), describes the concept of sustainable growth and demonstrates that sales growth objectives and financial policies of some retailers are mutually incompatible. They claim balancing sales growth and earnings is a difficult task and retailers that have overemphasized either one have stumbled. Higgins and Kerin (1) traces the emergency of large-scale retail enterprise and highlights why financial issues are becoming foremost considerations of executives, (2) introduces the concept of sustainable growth and offers suggestions on how retailers can manage growth under different conditions, (3) examines sustainable growth in five retailing sectors and (4) describes several case histories of how retailing companies have managed the growth-financial policy nexus in the 1970s. In the study, sample retailers did achieve growth rates in excess of sustainable rates by increasing their reliance on external capital markets. By far the single most important reason that sample retailers were able to grow faster than their sustainable growth rates was increased use of financial leverage. In every industry studied, the assets-to-equity ratio inexorably rises over the decade. Successful retailers come close to balancing actual sales growth with sustainable growth on an annual basis or over the course of a few years. A company's dividend policy, reflected in its retention ratio, also plays an important role, while the pathway to growth requires active emphasis on profit margin and asset turnover improvements.

Clark, Clark, and Verzilli (1985), build off Higgins and Kerin (1983) and argue that judging from the available evidence, mergers and acquisitions appear to have a spotty record of success, at least when compared to the expectations of their promoters. Therefore, a firm's objective should be to calculate a growth rate which can be sustained over the planning period, and in the process, identify the corporate adjustments necessary to maintain it. These may include changes in the debt/equity ratio, the dividend payout ratio, and asset and manpower productivity.

Avila, Mass and Turchan (1995) argue that achieving sustainable growth is a concern for senior managers; however their strategies often result in failure or short-lived wins followed by rapid deterioration. Growing too fast, or "boom and bust" growth, can lead to a vicious spiral of falling skill levels, flagging motivation sinking performance and compensation, lower customer retention and falling net worth. Investing heavily in new plant(s) and equipment to meet demand and grow market share can backfire if rivals drop prices and erode the predicted profit margins. Producing an overload of product can result in a "sludge" inventory if demand drops. These problems are related to secondary effects which must be considered, or by-products of strategy that confound its original intentions. The challenge for management is to find a growth rate that maximizes company value by striking a balance between growth drivers, such as skill levels and case size, and growth constraints, such as back-office overload and limited coaching capacity, by using dynamic analysis.

Olson and Pagano (2005), studies the mergers of U.S. publicly traded bank holding companies during 1987-2000 and finds that the acquiring firm's sustainable growth rate is an important determinant of the cross-sectional variation in the merged entity's long-term operating and stock performance. The most economically significant determinants of the merged bank's abnormal stock return performance are the acquiring bank's estimated sustainable growth rate prior to the acquisition, as well as post-acquisition changes in this growth rate, and the bank's dividend payout ratio.

Kumar, Kerin, and Pereira (1991) examines differences in finance-, marketing- and corporate-related variables across targets, bidders and firms not engaging in recent M & A activity. The investigation also proposes to determine the probability that certain retailers would be a target, bidder or non-merging firm based on variables previously identified as possible determinants of M & A activity. To examine the differences on the 12 variables of interest between bidder, targets and 'other' firms, an analysis of variance (ANOVA) was employed. Multinominal logit analysis (MNL) was used to predict the probability of a retailer being a target, bidder or 'other' firm. As expected, the target firms were relatively more undervalued than bidders and non-bidder/non-target firms. Target firms have higher sales growth rates (GR) than bidders and 'others.' However, the ANOVA results indicate that the differences in GR across the three groups are not significant. The results of the MNL analysis indicate that the probability of bidder relative to being a target increases with: higher market-to-book value, lower earnings per share, higher cash flow to total assets, lower debt to equity, lower sustainable growth rate to growth rate, larger number of stores, larger number of states the firm operates in, higher market share, larger extent of diversification and a larger number of previous acquisitions.

Cushman and Dyer (1995) analyzed a total of 49 retailing firms between the years 1973 to 1992 and found that the average M/B ratio is significantly higher for acquiring firms and joint venturing firms than for target firms. The average size of the joint venturing firms is significantly larger than the size of the acquiring firms and target firms. The average sustainable growth relative to actual growth is significantly higher for joint venturing firms than for acquiring firms and target firms. A higher growth average also exists between acquiring firms and target firms. The average P/E ratio was higher for joint venturing firms than for bidder or target firms though a statistically significant difference only existed between joint venturing and target firms and the average ROE, average leverage, and average EPS were not found to vary significantly between groups.

While financial characteristics are important components of successful M&A activity, Miller (1986), claims that due diligence requires looking non-financial aspects of the merger, as well as the numbers. Non-financial aspects include operations, staffing practices, management depth and philosophy, and product mix among others. Indeed, the challenge for management is to find a growth rate that maximizes company value by striking a balance between growth drivers, such as skill levels and case size, and growth constraints, such as back-office overload and limited coaching capacity, by using dynamic analysis. In order to create value-generating growth, companies must avoid these strategic portfolio-related pitfalls: an imbalance in growth drivers and bottlenecks that destroys value, overloaded initiatives with longer development cycles that reduce throughput and worsening results that trigger additional fixes (Avila, Mass, and Turchan 1995).

DATA SPECIFICATION

The sample includes data from the SDC Platinum Mergers & Acquisitions database for the period January 1, 1980 to December 31, 2009. The database was screened for mergers and acquisitions involving U.S. target firms who operate in the Retail Trade sector of the economy. The result is an initial sample of 12,390 retail mergers and acquisitions over the thirty year period. The value of the transaction, target financial characteristics, and target and acquirer returns are obtained from the SDC Platinum database. To address the issue of outliers distorting the interpretation of findings, dollar amounts and returns are Winsorized at the one percent level.

RESULTS

Table 1 shows the frequency by year and decade of Retail Trade merger and acquisition activity. From a total sample over the thirty year period of 12,390 mergers and acquisitions, we have 2,217 (17.89%) during the 1980s, 5,470 (44.15%) during the 1990s and 4,703 (37.96%) during the 2000s. The mean number of mergers and acquisitions per year is 413 with a standard deviation of 201. The 1980s are characterized by relatively low, but increasing Retail Trade M&A activity reflecting the weak economy during the early 1980s followed by the economic expansion for the remainder of the decade. Retail Trade M&As are generally increasing with the economy during the 1990s with the peak activity during the thirty year period occurring during the later part of the decade into 2000. The 2000s are characterized by less Retail Trade M&A activity during the early part of the decade reflecting a weak economy and increased geo-political risk followed by an increase in mergers and acquisitions and a stronger economy during the middle of the decade, and a decrease in activity during the later part of the decade as the economy was entering the Great Recession.

TABLE 1
FREQUENCY OF MERGERS AND ACQUISITIONS IN RETAIL TRADE
1980 TO 2009

Year	Number of Mergers and Acquisitions	Percent of Total	Decade	Number of Mergers and Acquisitions	Percent of Total
1980	13a	0.10%			
1981	76a	0.61%			
1982	111a	0.90%			
1983	188a	1.52%			
1984	252	2.03%			
1985	182a	1.47%			
1986	275	2.22%			
1987	316	2.55%			
1988	406	3.28%			
1989	398	3.21%	**1980s**	2,217	17.89%
1990	345	2.78%			
1991	300	2.42%			
1992	358	2.89%			
1993	414	3.34%			
1994	513	4.14%			
1995	544	4.39%			
1996	694b	5.60%			

1997	736b	5.94%			
1998	859c	6.93%			
1999	707b	5.71%	**1990s**	5,470	44.15%
2000	670b	5.41%			
2001	409	3.30%			
2002	354	2.86%			
2003	414	3.34%			
2004	479	3.87%			
2005	459	3.70%			
2006	512	4.13%			
2007	590	4.76%			
2008	480	3.87%			
2009	336	2.71%	**2000s**	4,703	37.96%
TOTAL	12,390	100.00%		12,390	100.00%
μ	413				
σ	201				
μ ± σ	212 - 614				

a = below one standard deviation from mean; b = above one standard deviation from mean; c = above two standard deviation from mean;

For classification purposes, industries are grouped into ten distinct divisions. Division G of the SIC codes refers to the Retail Trade sector of the economy and includes two digit SIC codes from 52 to 59. Industries grouped in Retail Trade include: Building Materials, Hardware, Garden Supply, and Mobile Home Dealers (52); General Merchandise Stores (53); Food Stores (54); Automotive Dealers and Gasoline Service Stations (55); Apparel and Accessory Stores (56); Home Furniture, Furnishings, and Equipment Stores (57), Eating and Drinking Places (58); and Miscellaneous Retail (59). Table 2 includes a description of the industries included in Retail Trade segmented into two and three digit SIC codes.

Table 3 presents the frequency for all two digit and three digit SIC codes in the Retail Trade industry for the period 1980 to 2009. The two digit SIC codes with the highest frequency of M&A activity in the Retail Trade sector involved target firms operating in the Miscellaneous Retail Group (59) and Eating and Drinking Places (58) with 3,651 and 2,721 transactions respectively. Classifying the merger activity into three digit SIC codes, we find within the Food Stores Group (54) that Grocery Stores (541) has the highest number of deals at 1,246 over the thirty year period. Within the Miscellaneous Retail Group (59), we find that Retail Stores Not Elsewhere Classified (599), Nonstore Retailers (596), and Miscellaneous Shopping Good Stores (594) have 895, 866, and 831 deals respectively over the thirty year period.

TABLE 2
TWO AND THREE DIGIT SIC CODES FOR DIVISION G - RETAIL TRADE

52 BUILDING MATERIALS, HARDWARE, GARDEN SUPPLY, AND MOBILE HOME DEALERS	
521	LUMBER & OTHER BUILDING MATERIALS DEALERS
523	PAINT, GLASS, AND WALLPAPER STORES
525	HARDWARE STORES
526	RETAIL NURSERIES, LAWN AND GARDEN SUPPLY STORES
527	MOBILE HOME DEALERS
53 GENERAL MERCHANDISE STORES	
531	DEPARTMENT STORES
533	VARIETY STORES
539	MISCELLANEOUS GENERAL MERCHANDISE STORES
54 FOOD STORES	
541	GROCERY STORES
542	MEAT & FISH (SEAFOOD) MARKETS, INCLUDING FREEZER PROVISIONERS
543	FRUIT AND VEGETABLE MARKETS
544	CANDY, NUT, AND CONFECTIONERY STORES
545	DAIRY PRODUCTS STORES
546	RETAIL BAKERIES
549	MISCELLANEOUS FOOD STORES
55 AUTOMOTIVE DEALERS AND GASOLINE SERVICE STATIONS	
551	MOTOR VEHICLE DEALERS (NEW AND USED)
552	MOTOR VEHICLE DEALERS (USED ONLY)
553	AUTO AND HOME SUPPLY STORES
554	GASOLINE SERVICE STATIONS
555	BOAT DEALERS
556	RECREATIONAL VEHICLE DEALERS
557	MOTORCYCLE DEALERS
559	AUTOMOTIVE DEALERS, NOT ELSEWHERE CLASSIFIED
56 APPAREL AND ACCESSORY STORES	
561	MEN'S AND BOYS' CLOTHING AND ACCESSORY STORES
562	WOMEN'S CLOTHING STORES
563	WOMEN'S ACCESSORY AND SPECIALTY STORES
564	CHILDREN'S AND INFANTS' WEAR STORES
565	FAMILY CLOTHING STORES
566	SHOE STORES
569	MISCELLANEOUS APPAREL AND ACCESSORY STORES
57 HOME FURNITURE, FURNISHINGS, AND EQUIPMENT STORES	
571	HOME FURNITURE AND FURNISHINGS STORES
572	HOUSEHOLD APPLIANCE STORES
573	RADIO, TELEVISION, CONSUMER ELECTRONICS, AND MUSIC STORES
58 EATING AND DRINKING PLACES	
581	EATING AND DRINKING PLACES
59 MISCELLANEOUS RETAIL	
591	DRUG STORES AND PROPRIETARY STORES
592	LIQUOR STORES
593	USED MERCHANDISE STORES
594	MISCELLANEOUS SHOPPING GOODS STORES
596	NONSTORE RETAILERS
598	FUEL DEALERS
599	RETAIL STORES, NOT ELSEWHERE CLASSIFIED

TABLE 3
FREQUENCY OF MERGERS AND ACQUISITIONS FOR TWO AND THREE DIGIT SIC CODES IN DIVISION G - RETAIL TRADE
1980 TO 2009

SIC	**52**		**521**	**523**	**525**	**526**	**527**			
Number of M&As	434		253	18	62	68	33			
SIC	**53**		**531**	**533**	**539**					
Number of M&As	899		650	120	129					
SIC	**54**		**541**	**542**	**543**	**544**	**545**	**546**	**549**	
Number of M&As	1,493		1,246	10	15	16	14	92	100	
SIC	**55**		**551**	**552**	**553**	**554**	**555**	**556**	**557**	**559**
Number of M&As	1,261		591	79	215	236	49	31	12	48
SIC	**56**		**561**	**562**	**563**	**564**	**565**	**566**	**569**	
Number of M&As	875		119	286	53	48	154	119	96	
SIC	**57**		**571**	**572**	**573**					
Number of M&As	1,056		370	76	610					
SIC	**58**		**581**							
Number of M&As	2,721		2,721							
SIC	**59**		**591**	**592**	**593**	**594**	**596**	**598**	**599**	
Number of M&As	3,651		679	30	61	831	866	289	895	

Panel A of Table 4 presents Retail Trade M&A activity sorted first by two digit SIC codes and then by decade. We find that for all two digit SIC codes, except Automotive Dealers and Gasoline Service Stations (55), the most M&A activity occurs during the 1990s. The lowest M&A activity, except for General Merchandise Stores (53), occurs during the 1980s. Interestingly, the 2000s decade has the highest merger activity for Automotive Dealers and Gasoline Service Stations (55) and the lowest merger activity for General Merchandise Stores (53).

Panel B of Table 4 presents Retail Trade M&A activity sorted first by decade and then by two digit SIC codes. In the 1980s, 21.15% of all mergers took place in the Miscellaneous Retail (59) sector and only 4.19% of the deals took place in Automotive Dealers and Gasoline Service Stations (55). During the 1990s and 2000s, the smallest percentage of deals, 3.51% and 2.76% respectively, were done in the

Building Materials, Hardware, Garden Supply, and Mobile Home Dealers (52) and the highest percentage of deals, 30.15% and 32.6% respectively, were done in the Miscellaneous Retail (59) sector. Further inspection of Panel B shows that roughly half of all deals in all decades were done in SIC 58, Eating and Drinking Places, and SIC 59, Miscellaneous Retail.

Panel C of Table 4 presents correlations of Retail Trade M&A activity across two digit SIC codes over the thirty year period. Eating and Drinking Places (58) has generally the highest correlation with the other Retail Trade sectors, while General Merchandise Stores (53) generally has the lowest correlations with the other Retail Trade sectors. Notably, General Merchandise Stores (53) and Automotive Dealers and Gasoline Service Stations (55) are negatively correlated which is consistent with the results depicted in Panel A.

TABLE 4
FREQUENCY AND CORRELATIONS OF MERGERS AND ACQUISITIONS IN RETAIL TRADE SORTED BY TWO DIGIT SIC CODES
1980 TO 2009

PANEL A: M&A ACTIVITY FOR TWO DIGIT SIC BY DECADE

SIC	52	53	54	55	56	57	58	59
1980s	25.81%	34.82%	22.91%	7.38%	25.26%	19.03%	17.13%	12.85%
1990s	44.24%	40.71%	42.73%	43.30%	39.54%	48.11%	45.02%	45.17%
2000s	29.95%	24.47%	34.36%	49.33%	35.20%	32.86%	37.85%	41.99%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

PANEL B: M&A ACTIVITY FOR DECADE BY TWO DIGIT SIC

SIC	52	53	54	55	56	57	58	59	Total
1980s	5.05%	14.12%	15.43%	4.19%	9.97%	9.07%	21.02%	21.15%	100.00%
1990s	3.51%	6.69%	11.66%	9.98%	6.33%	9.29%	22.39%	30.15%	100.00%
2000s	2.76%	4.68%	10.91%	13.23%	6.55%	7.38%	21.90%	32.60%	100.00%

Panel C: Correlation of M&A Activity across Two Digit SIC

SIC	52	53	54	55	56	57	58	59
52	1							
53	0.4959	1						
54	0.6986	0.5693	1					
55	0.4979	-0.0609	0.6299	1				
56	0.7294	0.4493	0.7950	0.6460	1			
57	0.7497	0.4596	0.9191	0.6735	0.7880	1		
58	0.6506	0.3288	0.8837	0.8268	0.8256	0.8904	1	
59	0.5196	0.1324	0.7300	0.7754	0.6243	0.7633	0.8378	1

Deal and target financial characteristics for the Retail Trade Sector are shown in Table 5 for each decade and two digit SIC codes. For comparison purposes, all dollar amounts are stated in 2009 dollars. An analysis of variance test shows that in all but two of the SICs, Food Stores (54) and Miscellaneous

Retail (59), the value of the transaction is statistically significantly different across the decades. Although there are relatively less M&As during the 1980s, deal values are highest for the decade and across the two digit SIC codes, except for Building Materials, Hardware, Garden Supply, and Mobile Home Dealers (52); Apparel and Accessory Stores (56); and Home Furniture, Furnishings, and Equipment Stores (57). Despite the large volume of deals occurring during the 1990s and across the two digit SIC codes, the value of the transactions in the 1990s are smaller than the other decades.

As shown in Table 5, there are statistically significant differences in the financial characteristics of Target firms across the decades and within the two digit SIC codes. Net Sales, Net Income, and Total Assets of Target firms one year prior to the transaction are highest for the 2000s decade for all two digit SIC codes in Retail Trade. The Net Sales growth rates for five years prior to the transaction are highest for the 1980s decade and for all two digit SIC codes in Retail Trade except for Automotive Dealers and Gasoline Service Stations (55) and Home Furniture, Furnishings, and Equipment Stores (57) which have the highest growth rates during the 2000s and 1990s decades respectively.

TABLE 5
RETAIL TRADE DEAL AND TARGET CHARACTERISTICS SORTED BY TWO DIGIT SIC (DATA IS WINSORIZED AT THE ONE PERCENT LEVEL AND STATED IN 2009 DOLLARS)

	Transaction ($mil)	Net Sales One Year Prior ($mil)	Net Income One Year Prior ($mil)	Total Assets One Year Prior ($ mil)	Net Sales 5- Year Growth Rate (%)
SIC All					
80's	285.99	3,689.65	87.92	1,912.64	24.43
90's	135.44	2,103.54	60.47	1,283.48	18.39
00's	217.23	4,530.25	176.00	3,022.88	14.51
F Test	37.55	27.34	29.96	29.09	20.30
P Value	0.0000	0.0000	0.0000	0.0000	0.0000
SIC 52					
80's	182.81	2,524.13	37.13	1,276.12	32.97
90's	82.22	921.95	14.19	654.95	7.98
00's	778.32	29,693.22	1,782.82	24,165.23	8.65
F Test	14.64	34.18	51.72	45.65	6.24
P Value	0.0000	0.0000	0.0000	0.0000	0.0035
SIC 53					
80's	639.92	11,013.48	360.06	6,949.35	21.80
90's	308.65	6,727.79	197.79	4,549.70	7.42
00's	589.82	11,582.56	394.90	7,864.66	10.67
F Test	8.05	4.62	4.50	3.62	10.66
P Value	0.0004	0.0104	0.0118	0.0280	0.0000
SIC 54					
80's	458.75	7,125.01	79.01	1,962.39	15.77
90's	300.51	6,687.50	152.19	3,232.80	13.22
00's	306.79	14,701.88	368.91	8,707.89	10.20
F Test	2.63	9.40	6.05	14.71	1.64
P Value	0.0729	0.0001	0.0026	0.0000	0.1958
SIC 55					
80's	225.66	927.22	24.17	761.30	8.45
90's	89.82	1,038.94	28.15	863.24	18.21
00's	122.21	2,694.21	106.63	2,075.06	27.00

F Test	4.98	5.44	5.29	5.35	1.18
P Value	0.0073	0.0050	0.0061	0.0057	0.3135
SIC 56					
80's	146.05	1,774.15	53.04	812.83	38.82
90's	124.18	1,377.82	66.14	676.30	17.10
00's	224.73	2,686.79	168.29	1,647.59	11.82
F Test	4.18	5.94	7.14	9.65	27.41
P Value	0.0159	0.0029	0.0009	0.0001	0.0000
SIC 57					
80's	161.34	847.98	7.30	643.17	19.09
90's	54.30	927.97	7.26	464.32	24.45
00's	208.14	3,237.65	83.61	1,516.79	9.70
F Test	11.96	12.37	5.68	12.65	6.93
P Value	0.0000	0.0000	0.0038	0.0000	0.0012
SIC 58					
80's	200.95	1,028.27	29.91	743.03	27.57
90's	76.56	613.67	32.41	595.84	21.86
00's	124.16	1,160.70	81.44	1,023.29	14.92
F Test	14.19	5.90	3.92	2.09	7.35
P Value	0.0000	0.0028	0.0201	0.1240	0.0007
SIC 59					
80's	158.01	945.48	19.67	520.27	30.57
90's	123.23	847.29	20.94	540.71	22.87
00's	169.99	2,519.55	74.21	1,664.48	17.95
F Test	2.07	10.23	5.20	11.93	4.03
P Value	0.1266	0.0000	0.0057	0.0000	0.0184

Table 6 presents Target and Acquirer returns around the announcement date for Retail Trade mergers and acquisitions for 1980 to 2009 sorted by two digit SIC codes. Target returns are statistically significant one week prior to and the day of the announcement of the transaction across all decades and for all two digit SIC codes, except for Building Materials, Hardware, Garden Supply, and Mobile Home Dealers (52) during the 2000s. Target returns one week after the announcement are generally positive but many are not statistically significant from zero. Acquirer returns one week prior to the announcement are statistically significantly positive across all decades and for all two digit SIC codes except for Building Materials, Hardware, Garden Supply, and Mobile Home Dealers (52) during the 2000s and Apparel and Accessory Stores (56) during the 1980s where acquiring firms experienced a significantly negative return. Acquirer returns the day of the announcement are statistically significantly positive across all decades and for all two digit SIC codes. Acquirer returns one week after the announcement date are both significantly positive and negative across the decades and for two digit SIC codes.

TABLE 6
TARGET AND ACQUIRER RETURNS FOR RETAIL TRADE M&AS AROUND ANNOUNCEMENT DATE SORTED BY TWO DIGIT SIC CODES 1980 TO 2009 (DATA IS WINSORIZED AT THE ONE PERCENT LEVEL)

		Target Return 1 Week Prior to Announcement	Target Return Day of Announcement	Target Return 1 Week After Announcement	Acquirer Return 1 Week Prior to Announcement	Acquirer Return Day of Announcement	Acquirer Return 1 Week After Announcement
SIC All	80's	7.99***	6.54***	1.91*	1.09**	1.41***	-.39**
	90's	5.81***	4.32***	1.44	1.46***	1.28***	.54***
	00's	6.52***	5.10***	2.65***	2.07***	1.22***	1.04***
SIC 52	80's	9.55***	7.52***	8.02***	2.49*	1.11**	-.11**
	90's	4.78***	3.62***	2.99***	3.35**	1.56**	-.65**
	00's	6.42***	0.74	1.17	-1.82**	0.28***	-.39**
SIC 53	80's	6.31***	5.27***	0.87	1.46**	1.74**	0.27**
	90's	5.97***	3.38***	2.03**	1.88**	.90***	.90**
	00's	7.97***	4.49***	0.68	2.27**	.88**	0.84***
SIC 54	80's	10.04***	7.56***	3.71***	.65**	1.34**	.72**
	90's	4.86***	3.76***	2.95***	1.44***	1.54***	.28***
	00's	6.84***	6.49***	2.70***	.93**	1.17***	.54**
SIC 55	80's	11.98***	5.59***	-2.00**	3.17**	.58**	.86**
	90's	4.61***	3.88***	1.13	0.00**	.53***	1.18***
	00's	2.94***	1.68*	-0.44	1.59**	.63***	2.08**
SIC 56	80's	4.00***	4.59***	0.16	-2.51**	1.61**	-2.71**
	90's	7.96***	5.02***	1.00	2.22**	1.84***	1.71**
	00's	2.36**	2.61**	0.62	2.21**	2.73**	3.00**
SIC 57	80's	9.06***	9.98***	1.37	.96**	2.16**	-.41**
	90's	6.17***	5.47***	-0.34	2.09**	1.49***	.09**
	00's	9.92***	7.52***	2.61**	2.68**	.64**	1.75**
SIC 58	80's	5.53***	5.09***	1.83*	2.91**	1.80**	-1.23**
	90's	5.29***	4.61***	0.95	.69***	1.49***	0.57***
	00's	6.52***	4.91***	3.18***	3.98**	1.33***	.76**
SIC 59	80's	10.58***	6.79***	1.84*	.87**	.67***	-.06**
	90's	6.12***	4.14***	1.70*	1.87***	1.21***	.31***
	00's	7.89***	6.93***	4.76***	1.13**	1.28***	.33***

*** P value 1% or less ** P value 5% * P value 10%

CONCLUSIONS

Retail Trade M&A activity has continued to be one the highest volume industries in the M&A field. From a total sample over the thirty year period of 12,390 mergers and acquisitions, we have 2,217 (17.89%) during the 1980s, 5,470 (44.15%) during the 1990s and 4,703 (37.96%) during the 2000s. Within the Retail Trade industry the SICs of The Eating and Drinking Places (58) and Miscellaneous Retail (59) lead as the largest in terms of volume over all periods.

The 1990's showed the maximum number of deals but their transaction values, as measured in 2009s dollars, where the smallest of the three decades. The cost per unit of sales for each dollar of deal value for acquiring firms was most expensive in the 1980s and consolidation in many sectors has brought the prices up from deal values in the 1990s, but many average deal values in the 2000s are still below average deal values in the 1980s. Due to consolidation in most of the sectors most of the financial variables related to the deals in the 2000s are significantly different from those in the previous two decades. In addition the five year growth rates prior to the deal have decreased while working off a larger base.

ENDNOTES

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