INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT & MANAGEMENT

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STOCK PERFORMANCE OF AMERICA'S LARGEST BANKS AFTER MERGERS & ACQUISITIONS

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ABSTRACT

Since the dawn of the Great Recession, there has been much discussion and disagreement about the health of the banking system in the United States. Many of the nation's largest institutions were recipients of governmental funding through The Troubled Asset Relief Program (TARP) during the financial crisis and earned the moniker of too-big-too-fail (TBTF) (Brewer & Jagtiani, 2013). Even as large banks used bailout funds for liquidity purposes, they still managed to grow in size due to mergers and acquisitions of other firms. The research presented here explores the impact that these mergers have had on the stock performance of these large banking institutions when they acquire smaller organizations. By examining the stock price, quarterly dividend payments, and earnings per share (EPS) of ten largest bank in the nation, it is determined, that the overall impact of mergers on stock performance varies based on the variable tested. Stock price is not statistically affected by mergers/acquisitions; however, both dividend and EPS are significantly affected. This study affirms the findings of previous researchers in terms of limited stock price affect, however it also brings to light new information about how bank dividends and EPS are affected within this sample.

KEYWORDS

banks, mergers & acquisitions, stock price, stock performance.

INTRODUCTION

For nearly the past century, for-profit businesses have operated under the legal precedent that the ultimate goal of an organization is to maximize shareholder value (Dodge v Ford, 1919). In the banking industry, the goal is no different. Since the creation of the First Bank of United States in 1791, banking institutions have been entrusted by generations of Americans with the responsibility of properly managing and protecting the deposits of citizens, businesses, and governments alike. As history has shown, in times of economic turmoil, the banking industry becomes the unwilling recipient of strict governmental regulation through quick-fix legislation, which ends up breeding complexity and unintended chaos (Smith & Muñiz-Fraticelli, 2013). Current and past regulation of the American banking system was not designed to be detrimental to the industry, but rather put in place specific safeguards to defend the industry and financial wellbeing of the country from undue and costly financial risks (Boyd & De Nicolió, 2005). Even through governmental restriction, banks still have a duty to maximize their shareholder profit.

To manage the financial impact that this regulatory environment creates, some banks have chosen to adopt an aggressive merger and acquisition strategy in hopes of growing their footprint amid economic uncertainty, while generating both new revenue streams and business lines (Kowalik, Davig, Morris, & Regehr, 2015). Some of the nation's most stable banks were even able to acquire struggling institutions free of charge using governmentally assisted transactions. Additionally, voluntary mergers helped solve the growth management dilemma that many firms faced by utilizing excess cash to help expand in both market share and/or market capitalization (Higgins, 2012). Presented here is a quantitative research study that seeks to answer the question: *how do mergers and acquisitions (M&A) affect share performance of the nation's largest banks?* Researching the answer to this question is one of potential importance to all consumers of banking services, portfolio managers, and individual investors interested in the performance of a bank's common stock.

To answer the research question at hand, this paper will examine the past common stock performance of the ten largest American banking institutions to determine if M&A had any statistical impact on stock price, earnings per share, and/or quarterly dividend payouts. This research will focus on exploring both correlation and causality. Recent data has shown that nearly 50% of the national deposit market share is held within these ten banks (Cox, 2015), more accurately presented as 46.94% (FDIC, 2015). Past research on stock performance, both pre- and post-acquisition, has been inconclusive as to the affect that M&A activity has on the stock performance in a publically traded company and requires additional examination. Due to the financial prominence and prowess of the ten largest banks in the United States, it seems prudent that a study examines the direct impact of bank-to-bank mergers on the acquiring firms share performance. The prominence of this subject matter requires additional investigation into past research, relying upon peer-reviewed journal findings and unbiased financial data from reputable sources.

LITERATURE REVIEW

The impact that merger and acquisition (M&A) activity has on share performance of acquiring firms is not a new subject matter, and has been analyzed by researchers for decades (Hackbarth & Morellec, 2008; Lee, 2013; Melicher & Harter, 1972; Mortal & Schill, 2015; Nielsen & Melicher, 1973). Within past literature, there have been many insights gained into the impact of premiums paid by companies that were merging (Nielsen & Melicher, 1973), the importance that method of acquisition payment plays on stocks (Chronopoulos, Girardone, & Nankervis, 2013; Mortal & Schill, 2015), and the ability of financially constrained firms to make wise merger decisions (Brune et al., 2015). When a company buys a firm through a purchase acquisition or via a hostile takeover, the financial impact of such reorganization creates a competitive edge for the acquiring company and creates costs for industry competitors (Largay & Zhang, 2009).

Recent reports have shown that the five largest banks operating in the US comprise just over 35% market share of the nation's deposits (Cox, 2015), while the top ten banks control just under 50% of banking market (Arnold, 2014). This is due in part to bank consolidations, failures, and the need to eliminate work duplication (Brewer & Jagtiani, 2013). Over the past 30 years, the number of banks has fallen to less than half of what it was in the 1980's (Kowalik et al., 2015), and mergers are allowing for less competition within the banking industry by forming oligopolies (Chehab, 2002). With nearly half of the nation's deposit housed in just ten of the nation's 6,273 registered banks (FDIC, 2015), it is of economic importance that the impact of M&A activity on bank stock prices be examined. As a matter of consumer and commercial finance, over 92% of the United States households use some kind of banking service, and thus necessary to further explore a topic that has far-reaching relevance (Burhouse, Chu, Goodstein, Northwood, Osaki, & Sharma, 2014). Research has shown that since the enactment of the Gramm-Leach-Bliley Act (1999), which modernized the longstanding rules set forth in the Glass-Steagall Act of 1933, there have been a plethora bank mega-mergers which have dominated the banking industry (Soper, 2001). These mega-banks have earned the moniker of being too-big-too-fail (TBTF) as they all have assets in excess of $100B (Brewer & Jagtiani, 2013). Some of these banks have merged willingly, while others were part of governmentally assisted transaction to help form these TBTF organizations, and create a competitive edge in the banking marketplace (Largay & Zhang, 2009). It is this idea of competitive edge derived from mergers, which requires exploration of the research question at hand.

The past decade has been a roller coaster ride for the American banking system with unprecedented income gains, large loan losses, and overall financial volatility that led to congressional passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010). The reforms in this act were designed to protect the American economy from being negatively impacted by the systematic financial risks taken by many of the nation's banking institutions (Smith & Muñiz-Fraticelli, 2013) and put an end the idea that banks were TBTF (Brewer & Jagtiani, 2013). To manage the financial impact that this regulatory environment created, some firms chose to adopt an aggressive merger and acquisition strategy in hopes of growing assets, diversifying their portfolios, and entering into new geographic markets (Daddikar & Shaikh, 2014). This type of approach solved the management dilemma that many firms faced by utilizing excess cash to help expand in both market share and/or market capitalization (Higgins, 2012).

Past research has focused on the impact that merger announcements have played on stock prices of merging firms, demonstrating that news of a merger will impact the target company's stock price positively, while having little impact on the acquiring firm's stock price (Hackbarth & Morellec, 2008; Largay & Zhang, 2009). The public pronouncement of an upcoming merger is an important factor in the share performance of consolidating firms; however, the focus of this research goes beyond just the announcement of a merger, and addresses the actual impact of a closed business transaction. Stock price increases based on announcement alone demonstrate a level of efficiency in the United States capital market by movement through information (Fama, 1970), but do these speculative increases translate into specific and measureable shareholder gains? Past research on stock performance, both pre- and post-acquisition, has created competing conclusions on this matter, and a generally accepted position awaits discovery. Established research has indicated that the stock prices of the acquiring firm will increase after a merger (Chehab, 2002; Melicher & Harter, 1972), whereas contemporary scholars argue that company procurement has minimal and near zero impact on stock prices (Bhabra, 2008; Bozos, Koutmos, & Song, 2013). Other researchers have pointed out that even as the purchase of companies may create growth, M&A activity creates a mediocre or losing proposition for shareholders (Higgins, 2012).

Research that infers positive stock price movement, is founded in the understanding that post-merger benefits arise from above market acquisition costs necessary for purchase of another business (Melicher & Harter, 1972). The reasons why companies merge, specifically banks, provides insight as to why decades old research provides contradictory results in identifying the direct correlation between stock price movement and M&A activity. As argued by Zhang (1998) while exploring bank mergers, "In theory, three major motives have been put forward: synergy, agency, and hubris. The synergy motive suggests value gains resulting from takeovers. The agency motive describes welfare-enhancing takeovers for the acquirer management at the expense of the acquirer shareholders. The hubris hypothesis explains the mistakes in the acquirer management's valuation of the takeover" (p. 1025). The findings in this study shows that motivating factors for M&A will impact the acquiring firms financial gain either positively or negatively based on the catalytic desire for unification, however most banks will merge for the purpose of synergy (Zhang, 1998). The unification of once competing firms, has allowed banks to create economies of scale, increase revenues, lower costs by operational efficiencies, diversify by expansion, and result in an efficient banking system that can benefit the domestic economy (Kowalik et al., 2015). This efficiency has also been linked to larger market gains, and abnormal stock price fluctuations (Aamir, Kouser, & Mujtaba Chaudhary, 2014; Agrawal, Jaffe, & Mandelker, 1992; Chehab, 2002). With a company restructured through synergy, "evidence exists to suggest that managers and investors factor post-merger profit efficiency and to a lesser extent cost efficiency opportunities into the offering prices" (Chronopoulos et al., 2013, p. 259).

Other researchers acknowledge that while a merger announcement may create a temporary increase in stock prices for the involved firms, there is no overall increase in performance for a post-merger firm, especially on stock purchase deals (Mortal & Schill, 2015). Additionally, in their study of non-financial firms, Mortal & Schill conclude that companies who grow their asset size organically have similar growth as merged firms, and that post-merger returns are undifferentiated from zero (2015). Other researchers argue that the stock prices will most likely show negative returns post-merger based on higher than market value premiums paid to acquire target companies (Largay & Zhang, 2009). In examining the long term shareholder impact of mergers, researchers have shown that stockholders of acquiring companies will be negatively impacted by a loss of wealth of about 10% over the five years post-merger completion (Agrawal, Jaffe, & Mandelker, 1992). While stock performance may also be attributed to external market factors outside of M&A activity, other researchers argue that the most important financial metric used in the acquisition of another company is not just company stock price, but stock dividend is of the highest importance then followed by P/E (Lee, 2013). This review of past literature has identified some areas of research disagreement, causing a need for further exploration.

OBJECTIVES

As demonstrated, a majority of past research has focused their attention on M&As of non-financial companies, the effect of equity vs. cash purchases, and the effect of merger announcement on both target and acquiring company stock prices. There appears to be a void in past research to discover the affect that mergers and acquisitions have on the stock performance of the largest banks in this nation, specifically those with the fiduciary responsibility for nearly half of all deposits in the United States (over $5T). To fill this gap in literature, there is a prudent need to research the relationship that exists between M&A and bank stock performance. The objective of this study is two part. First, this research aims to identify what impact bank mergers have on company stock performance. This occurs by testing pre-merger stock performance data with post-merge stock performance data. Secondly, this paper will identify those findings that are of benefit to investors and analysts of bank stock performance.

HYPOTHESIS

Based upon the research of previous scholars, to test the research question at hand, the overarching hypotheses of this study is:

H_1 = M&A activity directly affects share performance in the nation's largest banks

H_0 = M&A activity does not directly affect share performance in the nation's largest banks

RESEARCH METHODOLOGY

SAMPLING TECHNIQUE

To gather information on the specific population used in this study, a convenience sample technique was utilized based on the market share of the chosen institutions. Data on these well-known and financially sound institutions is easy accessible to find, interpret, and analyze through variety of ways. For this research, all data was found using online databases that report stock performance information on a multitude of firms in a standardized format.

SAMPLE SELECTION

The ten institutions used in this report were chosen based on a recent report by the Federal Deposit Insurance Corporation (FDIC) identifying national deposit market share ranking as of June 2015. Considered for this study are the ten largest banking institutions, based on their fiduciary role of mainting nearly 50% of all the nation's deposit dollars, totaling over $5 trillion of the nation's $10 trillion. Only these ten banks will be examined, as the remaining 53% of the nation's bank deposits are held amongst 6,173 regional and community banks. For the purpose of economic importance, only these firms ten will be included.

SCOPE

Based on market share data found within the FDIC BankFind database, the scope of this paper will examine the common stock performance of the ten largest FDIC insured, American-banking institutions (ranked in order of largest to smallest market share amongst the TBTF banks):

- BAC - Bank of America, National Association (FDIC #: 3510)
- JPM - JPMorgan Chase Bank, National Association (FDIC #: 628)
- WFC - Wells Fargo Bank, National Association (FDIC #: 3511)
- C - Citibank, National Association (FDIC #: 7213)
- USB - U.S. Bank National Association (FDIC #: 6548)
- PNC - PNC Bank, National Association (FDIC #: 6384)
- COF - Capital One, National Association (FDIC #: 4297)
- TD - TD Bank, National Association (FDIC #: 18409)
- STI - SunTrust Bank (FDIC #: 867)
- BK - The Bank of New York Mellon (FDIC #: 639),

Analysis of these sample institutions will determine if M&A had any statistical impact on stock price, quarterly dividend payouts, and earnings per share.

To isolate the impact of M&A on bank stock performance, the data will only include information found within the following parameters:

- Focusing on the ten largest banks in the US (ranked by domestic market share) as of the June 30, 2015 FDIC market share report. Asset and market capitalizations are not included in the ranking of the firm chosen.

- Mergers and acquisitions from the 1st quarter of 2008 to the 4th quarter of 2015 are used due to the volatility and unprecedented regulation that began in 2008.
- Only full mergers and acquisitions are incorporated in this data, with the intentional exclusion of strategic buyouts of individual branches and lines of business. Partial sales of offices and divisions are disqualified from this study, as many of these minor acquisitions affected only specific geographic locations. Examples of exclude transactions include US Bank Acquiring Charter One branches in Chicago in 2014, or Bank of America selling their Idaho and Eastern Oregon Branches to Washington Federal, also in 2014.
- Internal reorganizations such as divisional splits and affiliated corporate unification of divisions are excluded from this study.
- Only previously, unaffiliated corporate bank mergers will be included, such as voluntary M&A, governmentally assisted transactions, and hostile takeovers.

By using a restrictive scope, the goal of this research will aid in identifying whether a statistically significant relationship exists between a bank's growth strategy and shareholder value.

DATA COLLECTION

Data has been collected focusing solely on the M&A history of all firms chosen since January 2008. This has allowed for a sufficient sample size needed for this case study. A quantitative examination of pre-acquisition stock performance trends and post-acquisition trends for each institution after a takeover has occurred. Using historical data gathered from Yahoo Finance, FDIC, and Mergent Online a profile for each of these institutions has identified 52 unique mergers that satisfy the parameters used for this project.

STATISTICAL TOOLS AND TECHNIQUES

The pre and post M&A data for each of the institutions tested are grouped as unique variables. Testing includes trend analysis and statistical testing to verify to see how mergers and acquisitions affect stock performance. SPSS and Excel are the platform tools chosen to analyze and test the data in hopes of discovering correlation and relational significance. The analysis of each variables uses a 95% confidence interval percentage (CI) to identify any areas where there was greater than a 5% statistical significance where $p < .05$.

DATA ANALYSIS

In a 1972 study, which analyzed the stock price movements of large company acquisitions, researchers attempted to discover the effect of M&A's on acquiring firms (Melicher & Harter). A portion of the methodology used in this decades old study, compared average company stock prices six-months prior to merger, with average stock prices six-month post-merger, to identify if changes in prices were significantly different from zero. This six month time period was chosen as the appropriate timeframe for testing as it is far enough away from merger announcement and completion to have the averages overly influenced by speculation (Nielsen & Melicher, 1973). The results of this industrial study showed a lack of price differentiation from zero, when comparing pre-merger prices to post-merger prices.

The analysis of this 43-year-old study serves as the model for the data collection and testing in discovering the impact of large bank mergers. The data collected here focuses on more than just stock price movement, but also includes merger impact on quarterly dividend payouts, and earnings per share (EPS). Only the mergers and acquisitions by the ten largest banks in the United States, since the first quarter following the start of the Great Recession (1st Quarter 2008), have been included in this data resulting in 52 corporate acquisitions. Bank market share from a 2015 FDIC report is the primary method for determining which institutions are included within this investigation. Information for each M&A event was derived by using two different financial databases, Yahoo Finance and Mergent Online. Additionally, the information was collected by:

- Calculating both the average daily adjusted price common stock for each organization six months before the date of acquisition and the average daily common stock price from the date of acquisition to six months out (Yahoo Finance)
- Averaging the quarterly dividend payments per share for six months prior to the bank acquisition, and the average quarterly dividend payouts from the date of merger to six months in the future (Yahoo Finance)
- Recording the average EPS Net Basic of the acquiring bank six-months prior to the merger, and identifying those numbers with the EPS from the date of unification to six months post-merger (Mergent Online).

The entire dataset consisted of 52 unique bank mergers, identified as the following independent variable groups:

- AvgPrice6moPrior: Six-month pre-merger stock price average, up to the day before finalization of company acquisition.
- AvgPrice6moPost: Six-month stock price average from the date of merger plus six months.
- AvgDiv6moPrior: Six-month average dividend payout prior to merger, including only those quarterly dividend payments that occurred within the six-month measurement window.
- AvgDiv6moPost: Six-month average dividend payout after the finalization of the announced merger, including only those quarterly dividend payments that occurred within the six-month measurement window.
- AvgEPS6moPrior: Six-month average EPS as reported on the companies standardized quarterly income statement within the six-month measurement window pre-merger.
- AvgEPS6moPost: Six-month average EPS as reported on the companies standardized quarterly income statement within the six-month measurement window before merger.

TESTING OF THE HYPOTHESIS

In order to identify if any significant trends exist to the stock performance of an acquiring firm, the means of each variable pair are calculated and compared side by side both numerically and visually. On the surface, these numbers provide an interesting perspective on the impact that M&A activity has had on these large financial institutions. Based upon the raw data collected, the stock performance of these ten institutions provides a mixed message as to the impact of acquiring a smaller competitor.

TABLE 1: CHANGE IN BANK STOCKS AFTER M&A

Bank M&As Since 1st Quarter 2008	Average Change In Price Per Share	Average Change in Quarterly Dividend Per Share	Average Change In Earnings Per Share
52	-2.67%	-8.73%	-32.54%

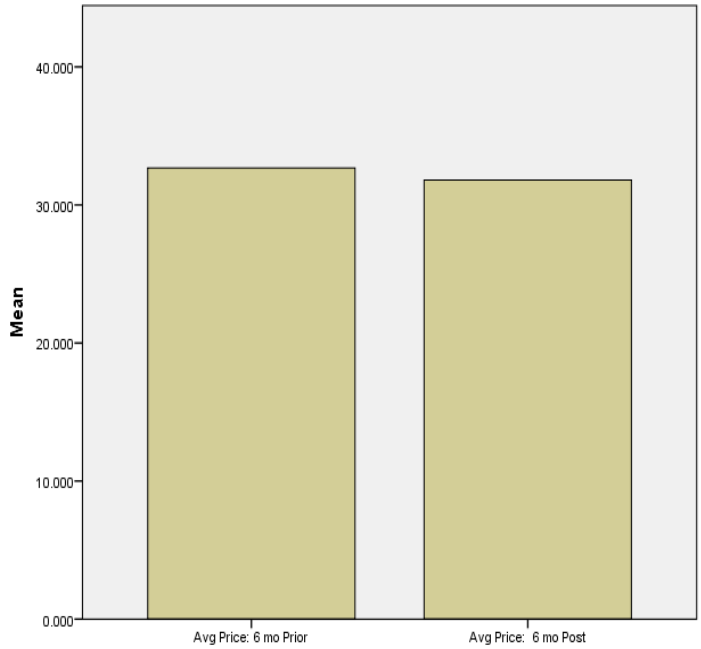
In calculating the means of each examined category, a basic trend has begun to evolve showing negative stock performance as an average for these institutions. The variable means are calculated by taking the total stock, divided, or EPS and dividing by the number of the M&A cases for this study; in this case 52. To calculate the percent change of each variable, all data was computed using the formula: $\frac{(Post-Merger\ Value-Pre-Merger\ Value)}{Pre-Merger\ Value}$, a variation of the standard percent change equation (Berman, Knight, & Case, 2013). These averages are not an accurate reflection of the unique financial results experienced by each institution, but rather an overall mean of the cumulative pre and post-merger results of all ten banks analyzed. The individual results of each bank varied. Some of the entities have shown an increase in all three the tested categories (USB, PNC, COF), while others showed gains/no losses in at least two areas (C, TD, STI, BK), and the remaining firms in this sample identified average losses in all three fields (BAC, WF, JPM). Additionally, all variable sets were further analyzed to calculate the standard deviation and mean of each. In doing so, a negative downward trend emerged.

TABLE 2: PAIRED SAMPLES STATISTICS

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Avg Price: 6 mo Post	31.80327	52	11.227205	1.556933
	Avg Price: 6 mo Prior	32.67731	52	12.201663	1.692066
Pair 2	Avg Div: 6 mo Post	.26821	52	.217958	.030225
	Avg Div: 6 mo Prior	.29386	52	.243070	.033708
Pair 3	Avg EPS Net Basic: 6 mo post	.42346	52	.466951	.064755
	Avg EPS Net Basic: 6 mo prior	.62774	52	.534820	.074166

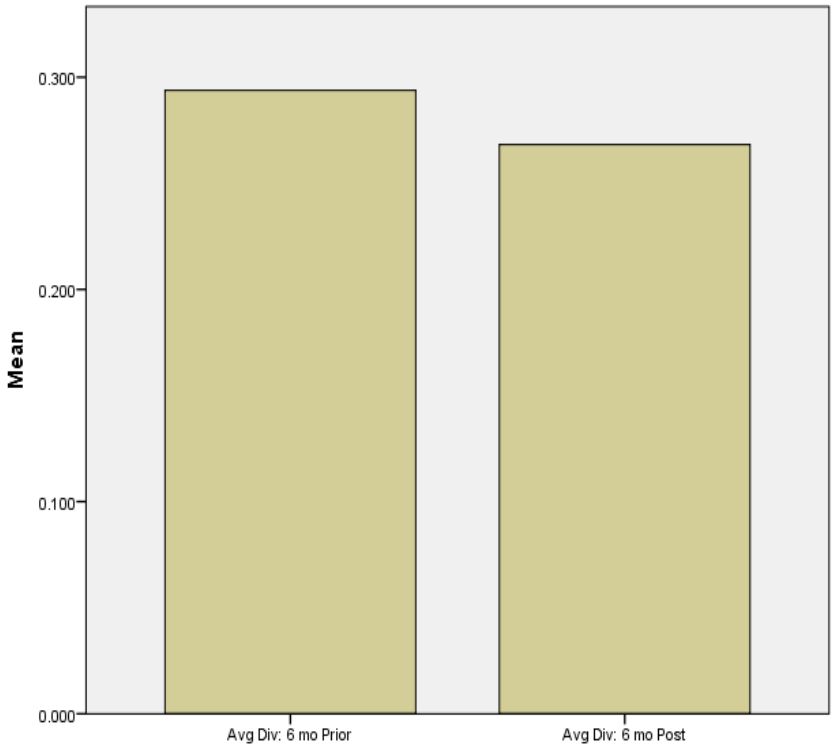
Between all ten banks, the cumulative comparison between both pre and post-merger means identified this visual downward trend:

FIG. 1



Average Stock Price Differences: Pre-Merger & Post-Merger (Δ -2.67%)

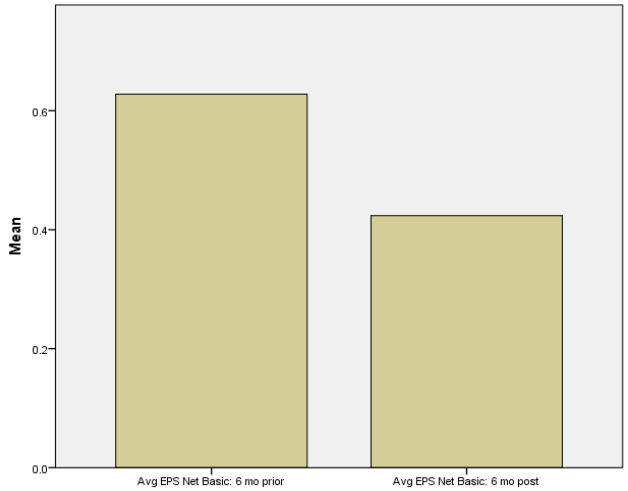
FIG. 2



Average Quarterly Dividend Differences: Pre-Merger & Post-Merger (Δ -8.73%)

Average EPS Differences: Pre-Merger & Post-Merger (Δ -32.54%)

FIG. 3

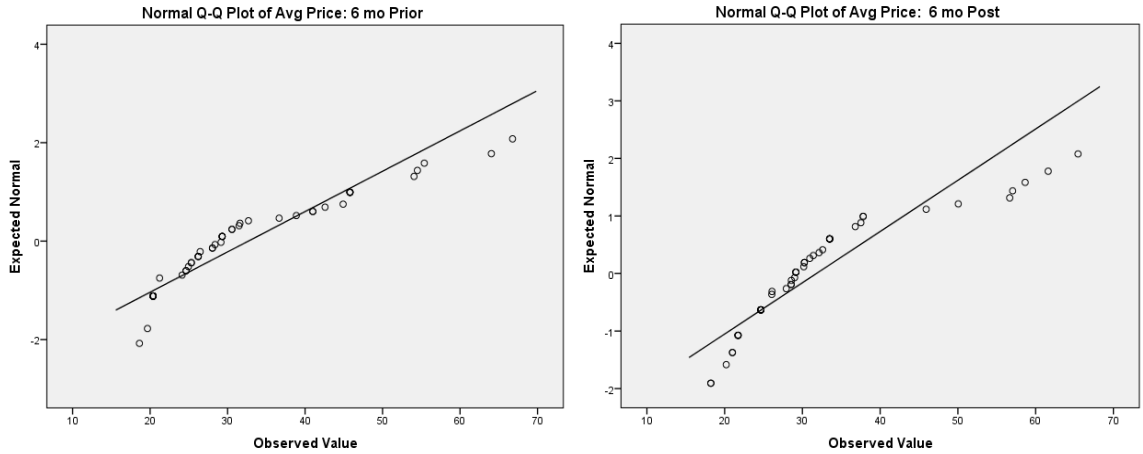


The raw percentage change in both pre and post-merger data show minor deceases in the stock performance area tested within study. The negative change in price performance dropped only slightly, while the reduction in dividend and EPS were more pronounced. These numbers are averages amongst the 52 mergers that occurred between the 1st full quarter of 2008 until the 4th quarter of 2015. This snapshot of averages, as interesting as they may be, require further testing to determine whether the pattern that has emerged is of any statistical significance. To do so requires analysis of these six variables through a more in-depth level of testing. In testing to see if the resulting decreases in stock performance are statistically significant, a paired samples t-test is used to determine whether the changes seen within these three areas are different from zero.

A boxplot exploration for each of the six variable group discovered that there were no outliers within the Avg6moPricePrior, Avg6moDivPrior, and Avg6moDivPost. The boxplot analysis of the Avg6oPricePrior yielded three outliers that were greater than 1.5 box lengths outside the edge of the box, while the variables Avg6moEP-SPrior and Avg6moEPSPost each had one potential outlier. In reviewing the data, the inputs are correct and the values did not reveal the outliers as extreme, allowing for their continued inclusion into this study. The Normal Q-Q Plot provides a visual inspection of each variable, identifying a pattern of normal distribution:

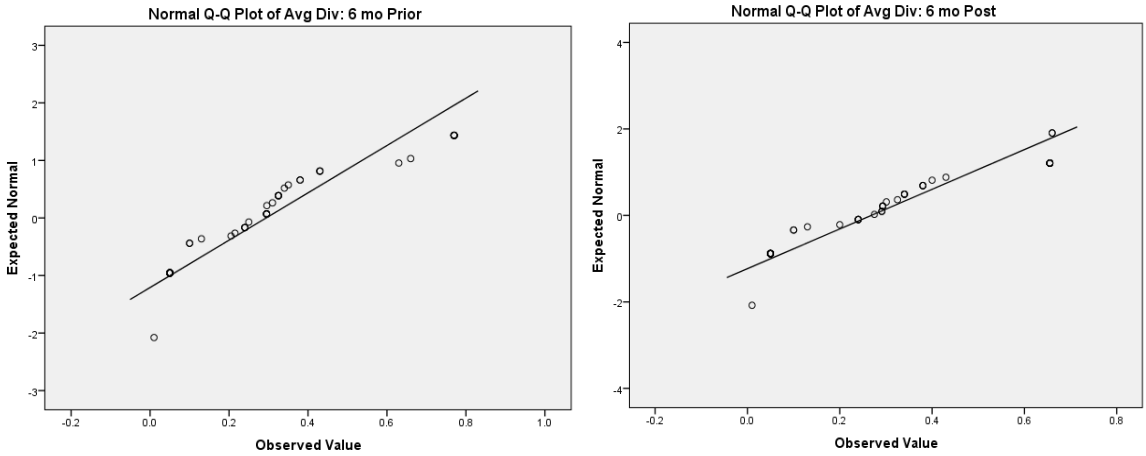
NORMAL Q-Q PLOT: STOCK PRICE

FIG. 4 & 5



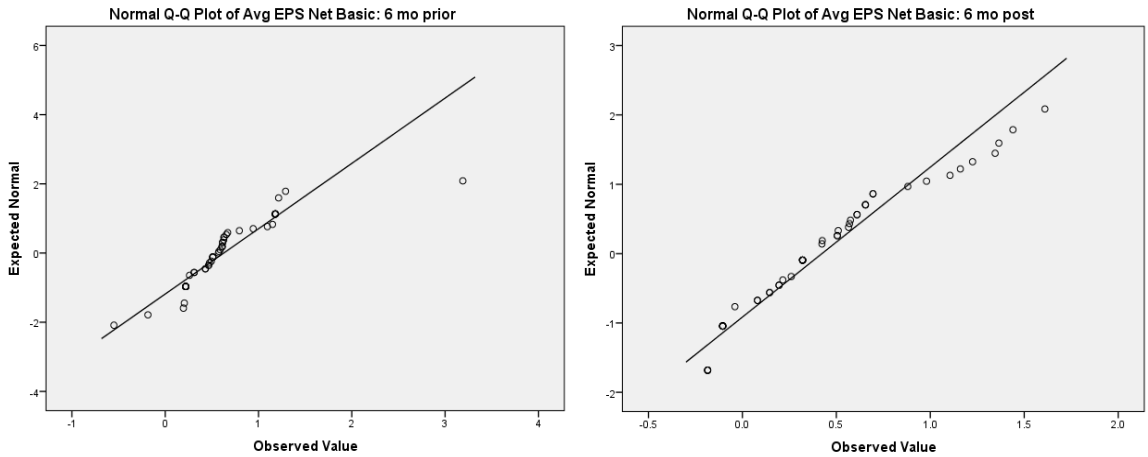
NORMAL Q-Q PLOT: QUARTERLY DIVIDEND PAYOUT

FIG. 6 & 7



NORMAL Q-Q PLOT: NET BASIC EARNINGS PER SHARE

FIG. 8 & 9



Paired Sample T-test. As the variables are paired to calculate statistical impact, the hypothesis of this study is revised and reduced to each variable pair as follows:

STOCK PRICE

- *H_{P1} = M&A activity directly affects common stock price in the nation's largest banks*
- *H_{P0}= M&A activity does not directly affect common stock in the nation's largest banks*

QUARTERLY DIVIDEND PAYMENTS

- *H_{D1} = M&A activity directly affects stock dividend payments in the nation's largest banks*
- *H_{D0} = M&A activity does not directly affect stock dividend payments in the nation's largest banks*

EARNINGS PER SHARE

- *H_{E1} = M&A activity directly affects EPS in the nation's largest banks*
- *H_{E0} = M&A activity does not directly affect EPS in the nation's largest banks*

For proper comparison the variables chosen in this study, a paired sample t-test was conducted to accurately identify the statistical significance of the stock performance impact caused by M&A activity among the largest domestic banking institutions. In this test, all calculations used the standard equation: $t = \frac{\bar{d}}{\sqrt{s^2/n}}$.

For testing purposes, all post-merger variables act as Variable 1 as these were the dependent variables, and the pre-merger variables are Variable 2 acting as the independent variables. Variable 2 acts as control to identify if there exists any post-M&A impact on stock performance.

VARIABLE ASSOCIATIONS

As a matter of measuring the strength of relationship between each pair of variables, an initial Pearson Correlation Coefficient examination identified some interesting findings as the association between these continuous variables sets. This data test shows correlation between variables, not necessarily causality as explained in other testing. The sample size of 52 allows for accuracy of identifying correlation, while not diluted by an overly large dataset. Not all variables demonstrate a statistically significant association to one another, however the strength of correlations is most predominant in the variables pairs of pre (prior) and post-merger activity in price, dividend payout, and earnings per share.

TABLE 3: VARIABLE CORRELATIONS

		Avg Price: 6 mo Prior	Avg Price: 6 mo Post	Avg Div: 6 mo Prior	Avg Div: 6 mo Post	Avg EPS Net Basic: 6 mo prior	Avg EPS Net Basic: 6 mo post
Avg Price: 6 mo Prior	Pearson Correlation	1	.773**	.635**	.731**	-.178	-.202
	Sig. (2-tailed)		.000	.000	.000	.206	.151
	N	52	52	52	52	52	52
Avg Price: 6 mo Post	Pearson Correlation	.773**	1	.189	.298*	-.139	-.184
	Sig. (2-tailed)	.000		.179	.032	.325	.192
	N	52	52	52	52	52	52
Avg Div: 6 mo Prior	Pearson Correlation	.635**	.189	1	.946**	-.218	-.171
	Sig. (2-tailed)	.000	.179		.000	.120	.226
	N	52	52	52	52	52	52
Avg Div: 6 mo Post	Pearson Correlation	.731**	.298*	.946**	1	-.224	-.179
	Sig. (2-tailed)	.000	.032	.000		.111	.204
	N	52	52	52	52	52	52
Avg EPS Net Basic: 6 mo prior	Pearson Correlation	-.178	-.139	-.218	-.224	1	.095
	Sig. (2-tailed)	.206	.325	.120	.111		.496
	N	52	52	52	52	53	53
Avg EPS Net Basic: 6 mo post	Pearson Correlation	-.202	-.184	-.171	-.179	.095	1
	Sig. (2-tailed)	.151	.192	.226	.204	.496	
	N	52	52	52	52	53	53

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Analysis of variable correlations and examination of the relationship strength between variable pairs discovered:

- A very strong association is found between the Average Dividend Prior & Post variables where *r*=.946, with a statistical significance of p<.0001.

- A strong relationship exists between the stock price variables, where r=.773, and a significance of p<.0001 which satisfies the alpha of statistical significance.
- Surprisingly, a weaker relationship is found among the earnings per share variables. The EPS ratio shows a correlation significance of r =.095, which denotes a weak correlation. This may be due in part to the use of negative numbers in the earnings per share calculations.

The strength of relationship is based on the following interpretation of the association.

TABLE 4

Size of the Correlation	Coefficient General Interpretation
.8 to 1.0	Very Strong Relationship
.6 to .8	Strong Relationship
.4 to .6	Moderate Relationship
.2 to .4	Weak Relationship
.0 to .2	Weak or No Relationship

(Salkind, 2014, p. 92)

The paired sample t-tests reveal the following information about the differences between each variable pair:

TABLE 5: PAIRED SAMPLES TEST

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper			
Pair 1	Avg Price: 6 mo Post - Avg Price: 6 mo Prior	-.874038	7.946858	1.102031	-3.086458	1.338381	-.793	51	.431
Pair 2	Avg Div: 6 mo Post - Avg Div: 6 mo Prior	-.025648	.079845	.011073	-.047877	-.003419	-2.316	51	.025
Pair 3	Avg EPS Net Basic: 6 mo post - Avg EPS Net Basic: 6 mo prior	-.204279	.675568	.093684	-.392358	-.016200	-2.181	51	.034

RESULTS

The findings of the paired sample t-test confirmed much of what was initially discovered in the visual trend analysis of pre- and post-merger activity. The test shows a mild impact on each of the three variable pairs as demonstrated by the negative mean values. The *t* values, though reporting as negative, discuss their relation to the hypothesis and only show that indeed a difference between the two variable sets exits. The significance of each variable pair describes interesting findings that clarify how independent these variables are to one another.

Stock price. The results from at a 95% CI identify a mean decrease of -.874 in the post-merger stock price when compared to pre-merger pricing. The 2-tailed significance results on stock price show that p=.431. This would not satisfy the statistical requirement that p<.05. The calculated p in this paired test shows that the significance between each variable is not statistically significant from zero, confirming the results of past researchers (Hackbarth & Morellec, 2008; Largay & Zhang, 2009), and affirming the null hypothesis.

Stock Dividends. Much like stock prices, the mean difference between the dividend pairs shows a decrease, however much smaller at -.0256. Unlike the significance level of stock price performance, the statistical impact on dividends revealed a p =.025 which satisfies the significance factor of p <.05. The results show a statistical correlation confirming that within this sample, bank mergers affect quarterly stock dividends at a significance level greater than zero. This result has rejected the null hypothesis for stock dividends, while confirming the hypothesis for this study.

Earnings per share. This paired sample t-test calculated a mean decrease of -.204 between pre and post-merger earnings. Independent of stock price and dividend per share payments, the earnings per share resulted in a p =.034, showing a significance greater than zero where p <.05. The p value rejects the null hypothesis for earnings within this sample, showing significance between pre- and post-merger stock performance.

DISCUSSION

The findings of this investigation paint a picture of both variable correlation and independence. By analyzing stock performance using three indicators, rather than solely relying on stock price, patterns have emerged through the data to provide valuable information. Stock price, though a readily available indicator of share performance, does not tell the whole story of overall stock performance. When a surviving firm acquires a smaller banking institution, the impact on price can be so minor that it is insignificant. An investor looking to grow the value of their portfolio through speculative purchase of banks who are actively acquiring other institutions will find that the resulting increase in price may never materialize. Past research has found that stock prices may rise at the announcement of a merger, but then will drop after the initial increase (Hackbarth & Morellec, 2008). There can still be short-term increases that occur in acquiring firm stock price, but these are isolated examples and not reflective of the major corporations within the industry. If anything, investment among these companies both post and pre-merger show minimal declines and moderate price stability during each time period tested.

The raw data shows large increases and declines amongst stock price, dividends, and earnings per share among all banks tested. Cumulatively, these banks demonstrate that their M&A activity creates a negative impact on their overall stock performance, as both dividends and EPS declined. A positive indicator amongst the data showed that even through economic hardship, every bank was able to pay their shareholders with quarterly dividends. These banks, though tested, maintained their financial integrity while continuing their operations. Even as the number of banks continues to decline nationwide to mergers and institutional failures, "bank mergers can result in more efficient banks and a sounder banking system and thus benefit the economy, as long as banking markets remain competitive and communities' access to banking services and credit is not diminished" (Kowalik et al., 2015, p. 31). The banks tested in this study show that even as statistically significant relationships between pre- and post-merger stock performance can occur, the strength of these stocks are still a stable investment for long term investors and portfolio managers, regardless of temporary and cyclical turbulence. The findings in this analysis do not indicate whether the relationship created by M&A will indicate positive or negative share performance, only that there is a statistically significant causal relationship by M&A on EPS and dividend payments.

CONCLUSION

The three individual paired t-tests analyzing stock price, quarterly dividends, and earnings per share provided three unique results. Stock prices were lowered by a small margin and found to reinforce the findings of past literature, and thus demonstrating a lack of differentiation from zero (Melicher & Harter, 1972). Surprisingly the same was not true for the either quarterly dividends or earnings per share, as both are affected by a bank acquiring another institution. The firms used in this sample size are not minor, but rather they currently have the fiduciary responsibility of maintaining a significant portion of deposits within the domestic banking industry (Cox, 2015). In terms of investor understanding and confidence, the discoveries of this study demonstrate that M&A activity has greater financial impact on stock performance than only affecting price. Well-informed investors understand that there is more to choosing a bank stock than only an increase in share price value, this study adds to the body of investor knowledge showing that M&A activity can drive down both dividends and EPS while creating losses for shareholders.

Additionally, the tests concluded that even in an industry where certain firms are considered "too big to fail" (Brewer & Jagtiani, 2013), growth activities can have negative stock impact for the acquiring firms, regardless of size or market share. Even though the number of deposits, assets, offices, and loans may increase on a bank's financial statement when acquiring a smaller competitor, there is still financial risk that can manifest as negative stock performance. Banks that choose to

incorporate M&A as part of their growth strategy need to be aware of these risks, and the negative impact that this approach can have on their shareholders and financial strength. This study has aided in the further understanding of this subject matter, and given a glimpse into the financial factors that affect bank stocks more so than just the price of their common shares. This research is of economic importance to businesses, individuals, bank managers, and investors alike based on the high likelihood that $1 in every $2 deposited in the United States is protected in at least one of these ten institutions. Unlike past research, which has focused on a broad set of data, this case study focuses a specific, yet powerful set of organizations.

LIMITATIONS OF THIS STUDY

Mergers and acquisitions have shown to affect the overall stock performance of a firm; however, there could be other factors that may influence stock performance. Using the timeframe from 1st Qtr. 2008 to 4th Qtr. 2015, can be a reason that statistical significance happened to be identified when testing these variables. During this seven year time period, the United States was at the cusp of entering into a recession (commonly known as the Great Recession) lasting from 2007 to 2009 ((Kowalik et al., 2015). During this time, an increase in governmental regulation and forced FDIC closures created an environment of volatile stock movements. The economic recovery that has been steadily gaining momentum since 2010, has allowed for both extreme declines and increases in the overall stock market that may have inadvertently affected the data tested in this study. Other factors that limit the findings of this research include using data based on governmentally assisted transactions (GAT), of which 20 of the 52 acquisitions are included. These transactions occur when the FDIC forcibly closes an institution, and that bank's assets are re-assigned to a presumable more stable institution. Including these transactions may or may not have had the same impact on stock performance as voluntary mergers and acquisitions since GAT mergers have no advance notice, and are completed within hours of a bank failing. Further research would need to be conducted to discover if the type of merger (voluntary or involuntary) is a factor in stock performance.

Additional research using control samples such as IXBK, the Nasdaq Bank Index, could be beneficial in identifying whether these stock trends were limited to just these ten institutions, or the banking industry as a whole. There could be difficulty in locating a control group to account for dividends and EPS, but that would be left to future researchers. Furthermore, it would be beneficial for investors and researchers alike to investigate the impact of the 50 or 100 largest banks in order to identify as to whether or not increasing the sample size can affect the statistical validity of the findings. In an industry where 92% of the American population subscribes to some sort of bank product or service (Burhouse, Chu, Goodstein, Northwood, Osaki, & Sharma, 2014), it is important to continually research this industry and understand which decisions can impact the health and stability of the banking system in the United States.

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