

## ACADEMIC SEMINAR

### Is High Cash Flow a Blessing or a Curse?

### Evidence from Bidder's Long-term Performance

This study examines the impact of a bidder's free cash flow (FCF) on its long-term, post-acquisition performance. Instead of taking FCF as a proxy for agency problem, we argue that free cash flow can reflect managerial ability to run a firm, which is central to the picking of high quality targets in acquisitions. Consistent with such argument, we find targets acquired by low-FCF bidders have inferior quality. They tend to have lower operating performance but higher financial leverage than those acquired by high-FCF bidders. Irrespective of the quality of the targets acquired, low-FCF bidders perform poorly in the stock market subsequently. In addition, their operation deteriorates, with a significant number of them becoming bankrupt or acquired by other firms following the acquisitions. In contrast, high-FCF bidders significantly outperform their control firms following the acquisitions if they acquire low-leverage targets and perform poorly if they acquire high-leverage targets. Our results remain robust after controlling for the agency problems, financial constraints, and growth opportunities of the acquirers.



### Prof. Wilson Tong

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Dr. Wilson H.S. Tong is Professor of Finance in the Hong Kong Polytechnic University. He received his PhD in Economics specializing in International Finance from Arizona State University. After graduation, he joined the Department of Finance of the Hong

Kong University of Science and Technology in 1992 and joined the School of Accounting and Finance of the Hong Kong Polytechnic University in 2001. His research interests are in corporate finance, empirical investments, and the China market. His publications appear in Journal of Financial Economics, Journal of Financial and Quantitative Analysis, Journal of Corporate Finance, Financial Management, Journal of Empirical Finance, Journal of Banking and Finance, and Journal of International Money and Finance.

**Date** 6 October 2015 (Tuesday)

**Time** 11:00am - 12:30pm

**Venue** SEK210, 2/F, Simon & Eleanor Kwok Bldg.

**Language** English

\*\*\* All are Welcome \*\*\*