

Fairness Opinions in corporate transactions. Evidence from the German takeover market

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Abstract

It appears that the public perceives Fairness Opinions (FOs) merely as a secondary measure to manager liability insurance, which primarily serve to offer legal protection for the management rather than to provide economic transaction advice. To some degree this perception contrasts with the intended purpose of FOs, which is the assessment of financial adequacy of the offer to support the decision-making process of the client and the reduction of information asymmetries among stakeholders. This paper investigates the effect of FOs mandated by the target on the management recommendation in accordance with §27 WpÜG and the subsequent indirect effects on the success of corporate transactions in Germany. Based on a dataset of 323 transaction offers for publicly listed companies in Germany that were submitted in the years 2007 to 2022 we find strong evidence for the economic importance of FOs in the German market for corporate control. FOs increase the likelihood of unambiguous management recommendations. Utilizing path models, we find that positive (negative) FOs significantly increase (reduce) the success of corporate transactions. Our analyses suggest that the role of FOs for the efficiency of the market for corporate control is underestimated and should receive greater attention from both, regulators and market participants.

Keyword: M&A, takeover offer, takeover success, management recommendations, Fairness Opinion