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Analysis of stock returns for both Pfizer and AstraZeneca during the bid process and possible reasons for change in price on key s Institution:
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Analysis of stock returns for both Pfizer and AstraZeneca during the bid process and possible reasons for change in price on key dates
Common stock price and return, for a given entity, varies with time and depend on many factors, key to which is investors’ perception on expected returns. Pfizer’s bid to take over AstraZeneca offers examples of environmental factors to changes in stock return and stock rice and this paper discusses possible reasons behind changes in stock return of the two companies during the bid process.
Gemunden & Frensch explain that expected effects of acquisitions on stock value influences current value (2007, p. 20). If investors expect acquisition to benefit a company then price of the company’s stock is likely to rise while price is likely to fall is an expected acquisition is likely to be detrimental. Factors such as “ investment strategies,” “ ownership forms,” “ capital structures,” and “ dividend policies” that are likely to change with an acquisition are also likely to influence stock prices (Moyer, McGuigan, & Kretlow 2008, p. 12). In addition, expressed opinions by investors can either improve or reduce share price at a time (Khan & Zuberi 1999, p. 45) and all these could have influenced prices and return of the two companies’ stock.
One of the key dates in the takeover period is November 25, 2013 when Pfizer informed AstraZeneca of intended takeover. Even though it was a private correspondence, it could have spread to stakeholders and a perceived lost value among Pfizer’s stakeholders could have triggered the observed negative change in stock price. Price for AstraZeneca however increased afterwards to indicate perceived benefits by the company’s stockholders. These suggest that Pfizer offered better economic prospects than AstraZeneca did at the time, and its internal environment could be more promising than that of AstraZeneca. On May 1, 2014, Pfizer made public its takeover interest and suffered a subsequent decline in price, which begun two days earlier, and perceived loss of advantage by existing stockholders as well as possible negative investor opinions could have caused the decline. At the same time, stock price for AstraZeneca declines and this could be a response to Pfizer’s price trends that made it less attractive.
The fall in stock price for Pfizer continued until 7 May, a time at which the British Prime Minister expressed concerns over the takeover, and then stabilized until mid May. Price for AstraZeneca stock however remained constant over this period. Pfizer’s persistence on the takeover, against its shareholder’s confidence could explain the fall and the political opposition appear to have developed the investors’ confidence towards stability. At the same time, possible opinion that the takeover would not be possible could have reduced expectations from AstraZeneca’s stock price, leading to its stability. Stock prices for both companies then remained stable between at a time when stockholders for both company appear to have given up on the takeover bid. With the expected final rejection of the bit, price for AstraZeneca’s stock fell before stabilizing while that of Pfizer began to improve gradually. It is also important to note that with the final rejection, prices for both companies’ stocks stabilized towards their values before the bid intensified in early May (Farrell 2014, p. 1; Market Watch 2014, p. 1).
Investors’ expectations, organizations’ internal factors into returns, and possible opinions on effects of the takeover were therefore possible factors to the changes in stock prices for both companies during the takeover bid period.
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