

# Enough is Enough: Policy Uncertainty and Acquisition Abandonment

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# Enough is Enough: Policy Uncertainty and Acquisition Abandonment

## **Abstract:**

This study investigates how policy uncertainty affects the acquisition process during the post-announcement period. Utilizing a sample of Australian mining sector acquisitions over 1998-2017, we find that rising policy uncertainty after initial acquisition announcements is associated with a longer time to close deals. Importantly, prolonged high policy uncertainty plays a critical role in triggering acquisition abandonment. Further, the stock market reacts negatively to deal abandonment, but to a lesser extent if the abandonment decision is made amid protracted policy uncertainty. The muted market reactions are also associated with managers' explanations for deal abandonment decisions. Overall, our findings highlight that policy uncertainty is an important "deal-breaker" in acquisitions.

**Key words:** policy uncertainty, acquisition abandonment, post-announcement period, mining sector investment

**JEL classification:** G34, G38

## 1. Introduction

Uncertainty is often a “deal-breaker” in acquisitions. The multitude of unknowns surrounding government policy and regulation pressure dealmakers to renegotiate and even terminate announced acquisitions. For example, soon after the U.S. Treasury Department introduced new tax rules, drug maker Pfizer terminated its agreement to acquire Allergan; similarly, China Mengniu Dairy walked away from its proposed acquisition of an Australian-based dairy firm Lion after the Australian treasurer said the deal would be “contrary to the national interest.”<sup>1</sup> Although practitioners have publicly speculated on the link between policy uncertainty and acquisition abandonment,<sup>2</sup> little empirical evidence on this link has been provided in the acquisitions literature. This study, therefore, investigates whether policy uncertainty is an important determinant of acquisition abandonment.<sup>3</sup>

We hypothesize that policy uncertainty affects the acquisition process during the post-announcement period and even acquisition outcomes. This premise is grounded on economic theories of incomplete contracting, which argue that contracts are inherently incomplete because contracting parties cannot fully anticipate or explicitly specify all future states of the world (Hart and Moore, 1988; Aghion and Bolton, 1992; Tirole, 1999). In terms of acquisition contracts specifically, an initial acquisition agreement does not guarantee completion of the deal (Skaife and Wangerin, 2013; Bhagwat et al., 2016). Acquisition parties continue to receive new information after signing the original agreement and keep reviewing the pending transaction (Hotchkiss et al., 2017; Lai and Pu, 2019). If policy uncertainty keeps rising and

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<sup>1</sup> See Humber C. and Pierson R., April 2016. “Obama’s inversion curbs kill Pfizer’s \$160 billion Allergan deal.” *Reuters* (Available at: <https://www.reuters.com/article/us-allergan-m-a-pfizer-idUSKCN0X21NV>); Kehoe J., August 2020. “China Mengniu takeover of Lion Dairy collapses.” *Financial Review*. (Available at: <https://www.afr.com/companies/manufacturing/china-mengniu-takeover-of-lion-dairy-collapses-20200825-p55p0w>).

<sup>2</sup> Picker, L., July 2016. “Slowdown in Merger Deals Attributed to Political Uncertainty.” *The New York Times*. (Available at: <https://www.nytimes.com/2016/07/01/business/dealbook/slowdown-in-merger-deals-attributed-to-political-uncertainty.html>)

<sup>3</sup> In this study, the terms acquisition/deal termination and abandonment are used interchangeably.

lingers after the initial deal announcement, it may change the economic implications of the proposed investment, potentially leading to contract revision or even termination. We thus posit that policy uncertainty plays a critical role in triggering acquisition renegotiation and even abandonment.

Using a hand-collected sample of project acquisitions from the Australian mining exploration entities (MEEs) over 1998–2017,<sup>4,5</sup> we investigate the impact of policy uncertainty on the acquisition process, with a particular focus on the interim period and acquisition outcomes. We measure the Australian policy uncertainty using a news-based index, developed by Baker, Bloom, and Davis (2016) (hereafter, BBD). This index has been used in prior studies as a good indicator of policy uncertainty (e.g., Gulen and Ion, 2015; Nguyen and Phan, 2017; Bonaime et al., 2018).

The main findings of this study are as follows. First, a rise in policy uncertainty after initial deal announcement is associated with a longer deal completion time. Our estimations suggest that, holding other variables at their sample means, a 27% increase in the policy uncertainty index after an initial deal announcement results in an extra month of time to close the deal. We also document a positive association between rising policy uncertainty and the likelihood of acquirers extending deal closing dates. Our results are consistent with the ‘real options’ theory that managers tend to delay deal resolution when faced with elevated policy uncertainty.

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<sup>4</sup> Project acquisitions are central to mining firms’ developing exploration portfolios. As a large resource-based economy, Australia is one of the most active mining acquisition markets. For example, Australian mining acquisitions worth a total USD \$3 billion in the first half of 2020, accounted for about 11 per cent of the value of global deals. (Evan, N., August 9, 2020, “Mining sector set for fresh wave of mergers and acquisitions.” *The Australian*) See Section 2.1 for the background of the Australian mining sector acquisitions.

<sup>5</sup> There is an emerging literature that considers corporate investment at the project level. Gilje et al. (2020) and Décaire et al. (2020) examine project-level investment decisions in the U.S. oil and gas industry; Cohn et al. (2020) examine firm value and project announcements (e.g., new product announcement) in both the U.S. and international markets; Cunningham et al. (2020) investigate the post-acquisition development of pharmaceutical drug projects.

Second, we provide empirical evidence confirming anecdotal observations that protracted policy uncertainty is an important deal-breaker in acquisitions. Specifically, when high policy uncertainty is prolonged for 12 months without interruption, the probability of acquirers abandoning announced deals in the following month increases by 11%. The inferences are unaffected by including a comprehensive set of deal-, firm- and macro-level controls. The results are also robust to an instrumental variable approach, in which we use the time that the Parliament of Australia spent on legislation to instrument for protracted policy uncertainty. By documenting a direct link between policy uncertainty and acquisition abandonment, we shed new light on factors affecting acquisition outcomes.

Third, we show that the firm-specific cost of acquisition abandonment, as perceived by the equity market, is largely dependent on the extent of policy uncertainty. On average, the market reaction to acquirers' announcements of deal abandonment is significantly negative. However, the stock market tends to penalize acquirers' deal abandonment decisions to a lesser extent after observing a longer period of high policy uncertainty. For instance, when high policy uncertainty lingers for more than one year, the negative impact of deal abandonment on acquirers' shareholder value becomes insignificantly different from zero. Our further analysis reveals that the muted market reactions are also associated with managers' explanations for deal abandonment decisions. Specifically, the market likes acquirers stepping away from deals subject to policy uncertainty or regulatory risk. Investors also react less negatively when a pending transaction is terminated under uncertainty to avoid the sunk cost fallacy (Arkes and Blumer, 1985). However, if an acquirer withdraws from a proposed deal due to its inability to secure acquisition financing, then the market is unforgiving. These results continue to hold using a propensity score matched sample of completed and terminated acquisitions. Overall, our findings suggest that investors do consider acquirers' exposure to policy uncertainty.

Our study makes several contributions. First, it adds to the prior literature on determinants of acquisition abandonment. Prior theoretical and empirical studies demonstrate that managers' learning from market reactions to initial deal announcements or new information arriving in the pre-closing stage is a main driver for deal renegotiation and acquisition termination (e.g., Luo, 2005; Liu and McConnell, 2013; Hotchkiss et al., 2017; Lai and Pu, 2019). However, they do not specify the nature of the news that is generated from different sources. Bhagwat et al. (2016) find that increases in stock market volatility during the interim period drive ex-post contract revisions in mergers, though they do not consider changes in policy uncertainty. Our study provides empirical evidence showing that policy uncertainty is an important deal-breaker in acquisitions.

We also extend the literature examining the link between policy uncertainty and acquisition activities. Prior studies typically investigate the impact of policy uncertainty on completed acquisitions and initial deal announcements (e.g., Nguyen and Phan, 2017; Bonaime et al., 2018). We distinguish our effort from these studies by focusing on the interim phase and acquisition outcomes. More importantly, our results highlight a key dimension of policy uncertainty: the duration of uncertainty (Gulen and Ion, 2015). Not only the level but also the duration of policy uncertainty negatively impacts corporate investment. In particular, prolonged policy uncertainty jeopardizes the growth of early-stage businesses like MEEs. Therefore, our findings are important for understanding the impact of policy uncertainty on acquisitions and, more generally, corporate investment. Further, the existing evidence on acquisitions has been exclusively based on large public acquirers.<sup>6</sup> Given that small firms' acquisition behavior and financial attributes differ significantly from those of large firms, their

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<sup>6</sup> The data selection in most M&A research typically places a lower limit on deal value (e.g., USD \$10 million) or firm size (e.g., USD 50 million), with the deliberate intention of excluding small firms with small deals (e.g., Schlingemann, 2004).

acquisition performance deserves more academic attention (Weitzel and McCarthy, 2011). Our study fills this gap in the acquisitions literature.

Last, our findings are relevant to research exploring market sentiment to firm announcements in uncertain times. Prior literature suggests that managers tend to disclose bad news during periods of market inattention when investor information processing is constrained (e.g., Duchin and Schmidt, 2013; DeHaan et al., 2015). This might explain the average muted market reaction to acquirers' announcements of deal termination under protracted policy uncertainty. However, we find evidence that, rather than being distracted under uncertainty, investors do differentiate bad news (i.e., acquisition termination) based on the information content that managers provide (Knauer and Wöhrmann, 2016). Our research is thus related to the growing literature on market (in)attention.

The remainder of the paper is organized as follows. Section 2 outlines the background of the Australian mining sector and presents empirical predictions of this study. Section 3 describes sample firms and MEE project acquisitions. Section 4 reports empirical results and discusses our findings. Section 5 shows robustness tests and Section 6 concludes.

## **2. Research background and empirical predictions**

### *2.1 Mining exploration entities in Australia*

The focus of this study is to investigate how policy uncertainty affects the acquisition process *after* acquisitions are announced. To address this question, we utilize a hand-collected sample of project acquisitions by Australian mining exploration entities (MEEs). We choose this setting for a number of reasons. First, the mining sector is economically important. Australia's economy significantly depends on the mining sector, which accounts for one-third of companies listed on the Australian Securities Exchange (ASX) and contributes over 50% of export income. Participants actively engage in mineral exploration and acquisition activities in

over 100 countries.<sup>7</sup> Hence, any uncertainty affecting the mining sector is a focal point of political debate in Australia. For instance, the introduction of a federal mining tax in 2010 arguably became a protracted political saga that dominated two federal elections and contributed to the demise of two Prime Ministers (Eccleston and Hortle, 2016). The Australian political backdrop and economic significance of the mining sector thus create an ideal setting to examine the implications of policy uncertainty on corporate investment, which is of interest to policy makers, academics, and industry participants.

Second, the unique industry structure of the mining sector enables us to examine early-stage firms' acquisition attempts. Unlike the global diversified resource giants such as BHP Billiton and Rio Tinto, junior miners make up most of the sector and share a homogeneous business objective: to make economic resource discoveries. These junior exploration firms are vulnerable to any heightened level of uncertainty due to tight regulations on their operations and a lack of internal funding. Mining exploration and acquisition activities face increased regulatory scrutiny (e.g., work health and safety concerns; environmental protection) (Christensen et al., 2017). Additionally, MEEs are financially constrained because they have no operating revenue during the exploration and pre-development phase that routinely takes between 10-20 years.<sup>8</sup> Given their capital constraints and high-risk exploration activities, MEEs demonstrate markedly different acquisition behaviors from large firms. For example, they primarily rely on project acquisitions as external growth options; they often use earnouts or staged payment methods in acquisitions to mitigate the valuation risk of the target (Ferguson et al., 2020). Nevertheless, despite the importance of small businesses in any economy, acquisition attempts by small and early-stage firms have long been ignored in the prior

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<sup>7</sup> Source: ASX Metals & Mining Sector Profile; Ministers for the Department of Industry, Science, Energy, and Resources.

<sup>8</sup> There are five stages of the mining life cycle: exploration, evaluation, mine-site development, production, and closure.



acquisitions literature (Weitzel and McCarthy, 2011). We aim to fill this gap by taking advantage of the unique industry structure in the mining sector.

Apart from its economic importance, this setting also has several empirical advantages. MEE project acquisitions often take a long time to complete. On average, it takes 7 (12) months for MEE acquirers to complete (terminate) a deal.<sup>9</sup> The long interval between deal initiation and resolution fits the assumption of incomplete contracting theory. The high deal frequency among MEEs also affords sufficient observations on deal renegotiations/terminations. More importantly, the ASX's continuous disclosure requirements provide impetus to research examining the acquisition interim stage. ASX listing rules require that any major delay in completion or revision of a previously announced contract should be immediately disclosed to the public (ASX Listing Rules 3.1, 3.1A and 3.1B).<sup>10</sup> This provides researchers an opportunity to observe attributes of an acquirer's decision to revise or even abandon an ongoing transaction in the face of uncertainty. Further, by focusing on a single industry, we are able to better capture the factors affecting acquisition outcomes. Having a relatively homogenous sample helps mitigate the heterogeneity in business models among different industries (Zhang and Zhang, 2017).

## *2.2 Empirical predictions*

There are wide-ranging motivations for revising or terminating an announced acquisition. They typically include adverse rulings by regulatory agencies, manager learning from the market reaction to the initial deal announcement or related media coverage (Luo, 2005; Liu

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<sup>9</sup> This is consistent with Ekelund et al. (2001) in that acquisitions in regulated industries often take longer to complete than deals not subject to the scrutiny of regulatory agencies. As a comparison, in the U.S. setting, Luypaert and De Maeseneire (2015) observe that the average time between an initial announcement and the completion of mergers is 112 days; Lai and Pu (2019) show that the average length of acquisition withdrawal is 110 days in their sample; Hotchkiss et al. (2017) document an average deal resolution time of 5.16 months.

<sup>10</sup> The ASX requires all listed entities to comply with continuous disclosure obligations and immediately disclose information that has "a material effect on the stock price or value of the entity's securities." If a firm does not disclose to the general public "when a previously announced material customer contract is terminated or does not proceed," then the firm fails to meet its disclosure obligations (ASX Listing Rules 3.1, 3.1A and 3.1B).

and McConnell, 2013), targets' low-quality financial reporting (Skaife and Wangerin, 2013), funding issues, or differences in national institutional features or cultures in cross-border transactions (Weber and Camerer, 2003; Dikova et al., 2010; Caiazza and Pozzolo, 2016). Nevertheless, from a theoretical perspective, deal revisions are invariably a consequence of the restrictiveness of an initial contract. Incomplete contracting theory suggests that, since many future contingencies are left out of an initial contract due to difficulties in predicting the future states of the world, the contract is likely to be revised (Aghion and Bolton, 1992). This is also applicable to the context of acquisition contracts.

While widely acknowledged by the investment community, the importance of the post-announcement period in acquisitions is under-researched in the prior academic literature (Wong and O'Sullivan, 2001; Skaife and Wangerin, 2013; Bhagwat et al., 2016; Lai and Pu, 2019). An acquisition agreement has a long interval between the initial deal announcement and scheduled completion date. It could last for months or even years (Ekelund et al., 2001; Chen et al., 2016). After announcing a proposed acquisition, transaction parties continue to receive new information including deal- and firm-specific information as well as other unexpected changes in market conditions or government policy. These pieces of new information allow both acquisition parties to improve the precision of the underlying transaction value and also reveal problems in the existing deal (Hotchkiss et al., 2017). As such, the economic prospects of the ongoing transaction are likely to change materially with the arrival of new information. We thus posit that, being an exogenous source of uncertainty, policy uncertainty likely triggers acquisition revision or even termination.

We argue that policy uncertainty will affect the acquisition interim stage in several ways. First, increases in policy uncertainty after an initial acquisition announcement will lengthen deal completion time. Real options theory suggests that investors tend to "wait-and-see" when uncertainty increases (McDonald and Siegel, 1986). If policy uncertainty rises after

acquisitions are announced, then acquirers likely wait for additional information or the resolution of uncertainty, thereby taking a longer time to close the deal. We expect that a rise in policy uncertainty after the initial acquisition announcement would be associated with a longer deal completion time.

Second, policy uncertainty affects not only deal completion time but also acquisition outcomes. Prior studies show that policy uncertainty poses financing challenges for businesses (Colak et al., 2017; Jens, 2017) and affects global commodity prices (Hou et al., 2017). It is thus conceivable that the economic implications of proposed investments by MEEs might look worse in times of policy uncertainty. More importantly, although uncertainty increases the value of the option to wait, it also increases the cost of waiting (Alvarez, 1999). Which of these two opposite effects dominates in the pre-completion stage of an acquisition process would be determined by the extent of uncertainty. Theoretically, the waiting period is short if the extent of uncertainty is small (Stokey, 2016). When the extent of uncertainty is no longer small, the assumption that uncertainty increases incentives to wait no longer necessarily holds. To avoid the cost of further waiting and potential future losses brought about by prolonged policy uncertainty, acquirers are likely incentivized to abandon pending transactions. Hence, our second prediction is that protracted policy uncertainty is a key contributor to acquisition abandonment.

Third, we predict that the consequences of acquisition abandonment on acquiring firms' shareholder value would depend on the extent of policy uncertainty. The obvious consequences of deal abandonment on acquirers include (1) direct costs (e.g., legal and consulting fees), and (2) damage to acquirers' reputations due to substantial acquisition-related costs becoming sunk (Luo, 2005) or acquirers' inability to materialize investment opportunities (Schlingemann, 2004). We expect that deal terminations, on average, will negatively impact acquirers' shareholder value. Yet, the effect of the same news may change under different states of the

world (Veronesi, 1999). Boyd et al. (2005) show that the announcement of rising unemployment is good news for stocks during economic expansions and bad news during economic contractions. In certain cases, an abandonment of a value-destroying acquisition could benefit an acquirer's shareholder interests because the reversal decision, in part, recoups that acquirer's lost reputational capital at the initial deal announcement (Liu and McConnell, 2013). Similarly, although an acquisition abandonment is often interpreted as bad news to acquirers' shareholders, it may be less detrimental under prolonged high policy uncertainty, because such a withdrawal decision could help the acquirer reduce ex-post business risk. In sum, we conjecture that, after observing a longer period of high policy uncertainty, the stock market would react less negatively to acquirers' announcements of deal abandonment. We test the three empirical predictions in Section 4.

### **3. Sample and data**

#### *3.1 Sample*

Our initial sample firms consist of metals and mining entities listed on the Australian Securities Exchange (ASX) (*GICS Sector: Materials, GICS industry: Metals & Mining*) from January 1998 to December 2017. As we focus on MEEs, we exclude mining producers, which emphasize primarily on mine management and cash flow maximization as opposed to MEEs' acquisition and exploration focus. We follow prior studies and identify MEEs as production revenue being less than 15 percent of market capitalization (Ferguson and Pündrich, 2015). Data on project acquisitions are hand-collected from ASX announcements on the Morningstar DatAnalysis Premium database. The data collection process proceeds as follows. We first identify all initial announcements of project acquisitions by sample firms if an announcement falls in *Announcement sub-type "Acquisition,"* or has the following key words in its headline: *"acquire/acquisition," "secure opportunity," "obtain project," "new project," "purchase agreement," "expand ground/expansion," "option agreement,"* and *"farm-in agreement."* We

then monitor the progress of each transaction subsequent to its initial deal announcement and collect all stand-alone announcements in relation to (i) deal renegotiation, including extensions of deal closing dates and revisions of offer prices; and (ii) deal resolution, either completion or termination.<sup>11,12</sup> The final sample for our empirical tests consists of 979 acquisitions from 491 unique firms.

We measure policy uncertainty in Australia using the Australian news-based policy uncertainty index, developed by Baker, Bloom and Davis (2016). This index (hereafter, BBD) is constructed monthly and includes articles with key terms related to uncertainty from the eight largest Australian newspapers.<sup>13</sup> Figure 1 plots the BBD policy uncertainty index over 1998–2017. It shows that the level of Australian policy uncertainty surges around events relating to financial crises, the mining tax and carbon tax policy debates, as well as Australian elections. Though this news-based index captures the impact of some international events (e.g., 9/11, Brexit), Figure 1 clearly shows that a long period of high policy uncertainty occurs between 2012 and 2013 and is unique to Australia. It is mainly attributed to the uncertainty about domestic mining policy and Australian federal elections.

[Insert Figure 1 here]

Table 1 Panel A reports the distribution of deal abandonment/renegotiation by calendar year. On average, 33.7% (13.3%) of announced acquisitions in our initial sample are terminated

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<sup>11</sup> See Appendix B Table A1 for examples of announcement headlines of project acquisitions, deal renegotiations, or terminations.

<sup>12</sup> As a unique transaction type in the mining sector, an option agreement means a MEE acquires an option to purchase a project. The granted option period ranges from one month to two years. For these option agreements, deal completion (termination) is defined as the exercise (termination/lapse) of the option (See Appendix B Table A1).

<sup>13</sup> The eight Australian newspapers include: *The Daily Telegraph*, *The Courier Mail*, *The Australian*, *The Age*, *The Advertiser*, *The Mercury*, *Sydney Morning Herald*, and *The Herald Sun*. The index is available at: [https://www.policyuncertainty.com/australia\\_monthly.html](https://www.policyuncertainty.com/australia_monthly.html)

(renegotiated).<sup>14</sup> The highest deal termination rate is 47%, observed in 2008. This is closely followed by a deal termination rate of 45% in both 2012 and 2013, corresponding to 21 consecutive months of high policy uncertainty in Australia (i.e., above the sample mean) from June 2011 to February 2013. In addition, there are six consecutive years between 2010 and 2015 with deal renegotiation rates higher than the sample average, coinciding with the period of mining tax and carbon tax debates as well as federal election uncertainty. Collectively, the patterns revealed in Table 1 Panel A suggest that policy uncertainty could be an important driver for acquisition renegotiation and even abandonment.

[Insert Table 1 here]

Table 1 Panel B presents the matrix of acquisition outcomes. We categorize our sample transactions into different outcomes on the basis of (1) whether an announced acquisition is completed or terminated, and (2) whether there is any renegotiation before deal completion or termination. This procedure results in a 2×2 matrix of acquisition outcomes for the sample of 979 mining project acquisitions. Overall, 57% of the announced deals are completed as initially contracted, 9% completed with renegotiation, 4% terminated with renegotiation, and 30% terminated without any deal revision.

### *3.2 Descriptive statistics of acquisition abandonments*

To provide descriptive evidence on potential determinants of acquisition abandonment, we manually collect managers' explanations for deal abandonment from acquirers' announcements.<sup>15</sup> Table 2 shows that announced acquisitions are terminated for various

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<sup>14</sup> The failure rate of MEE project acquisitions is relatively high compared to the failed acquisition attempts examined in prior U.S. studies, which range from 8% to 25% due to different sample periods and selection criteria (e.g., Luo, 2005; Bhagwat et al., 2016; Hotchkiss et al., 2017; Adra et al., 2020). The high failure rate in our sample is unsurprising, given the fact that MEEs' acquisition and exploration activities are highly regulated and typically involve different sources of uncertainty.

<sup>15</sup> See an example of an acquisition termination announcement in Appendix B Table A2. Note that in Table 2, we count the number of reasons for deal abandonment, not the number of abandoned deals, because some announcements list more than one reason for deal abandonment. As a result, the total number of stated reasons in Table 2 is slightly larger than the total number of abandoned transactions.

reasons. The most commonly stated reason is related to specific news about acquired assets (e.g., resource potential, exploration technicality), which accounts for 28.9% of all abandoned transactions. It is noteworthy that regulation/policy uncertainty or risk is the second most listed reason for acquisition abandonment (12.4%). The next two most popular reasons are acquirers' shift in exploration/business focus (9.1%) and acquisition funding difficulty (8.8%). Others include due diligence conditions not being satisfied (6.8%), changes in economic/market conditions (6.5%), and legal disputes (4.7%). Note that close to 23% of all terminated deals do not provide any explanation for deal termination decisions.<sup>16</sup>

[Insert Table 2 here]

We also summarize deal resolution time by stated reasons in Table 2. On average, MEE acquirers take 12 months to abandon announced deals. The longest pre-closing period (21 months) occurs due to acquirers' shift in their exploration/business focus. This is followed by a 13-month pre-closing period for acquirers being unable to secure acquisition financing in time, highlighting MEEs' typical financial constraints due to a lack of operating revenue and limited access to debt financing (Myers and Majluf, 1984). In comparison, if an acquirer is not satisfied with due diligence results, it takes a relatively shorter time (5 months) to terminate the deal. Further, when facing uncertainty in the stock/commodities market, MEE acquirers usually take 12 months to abandon announced transactions. Overall, Table 2 implies that MEE acquirers often face a number of challenges when attempting to close deals.

We conduct univariate analysis in Table 3 to provide preliminary evidence on the factors affecting acquisition outcomes. Table 3 reports the mean value of characteristics of completed versus terminated transactions at the deal-, firm-, and macro-level. Definitions of variables and

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<sup>16</sup> In this study, we do not identify whether the deal termination decision is initiated by the acquirer or target. We are only able to collect stated reasons from acquirers' announcements, because most project acquisitions by the Australian-listed MEEs are acquiring private targets. Besides, it is often stated that acquisition parties mutually agree to terminate a proposed transaction.

data sources are as detailed in Appendix A. At the deal-level, 21% of completed transactions are entirely financed by stock, which is significantly higher than the 12% used in terminated deals, while there is no significant difference in the use of all cash payments between completed (17%) and terminated (14%) transactions. Additionally, as a unique deal structure of project acquisitions in the mining exploration industry, option-like acquisitions account for 31% of completed deals and 62% of terminated deals. Option-like acquisitions include option agreements (e.g., acquiring an option to purchase a project) and earnout agreements (e.g., a portion of purchase price is deferred and dependent on the target achieving performance milestones or ex-post events). These deals are similar to compound options. Acquirers with option-like deals not only secure exploration opportunities, but also ensure the flexibility to cap the costs of bad news by terminating ongoing transactions after gaining additional information during either the option period or the first exploration stage, long before the acquisition price is fully paid (Ferguson et al., 2020). In addition, option-like deals have few contractual protection mechanisms (e.g., termination fees, material adverse event clauses). Hence, due to the relative ease of abandonment of such transactions, it is unsurprising that a majority of terminated transactions are option-like deals.

Further, the average acquirers' cumulative abnormal return (CAR) of completed acquisitions (10%) around the initial deal announcement is significantly higher than that of terminated deals (6%). As expected, announcements of deal termination receive an average market reaction of -6%, compared to 2% for announcements of deal completion. The difference is statistically significant at the 1% level, suggesting that, in general, acquisition abandonments impair acquirers' shareholder value. Finally, the average deal resolution time of terminated transactions is almost five months longer than that of completed deals, implying that acquirers likely adopt a "wait-and-see" strategy before they make their final decisions to abandon announced transactions.



Among firm-level characteristics, acquirers with terminated deals are smaller in size and have less acquisition experience than acquirers successfully closing transactions. The two groups are similar in terms of their financial leverage, market-to-book ratio, and stock volatility. A comparison of macro-economic fundamentals further reveals that, before the actual deal resolution dates, terminated deals often face higher macro-level uncertainty and a worse capital-raising environment than completed deals, such as a longer period of high policy uncertainty, and higher economic and commodity price volatility, as well as a lower stock market return. In line with managers' stated reasons listed in Table 2, the univariate analysis in Table 3 suggests that policy uncertainty appears to be one of many factors contributing to acquisition termination.

[Insert Table 3 here]

## 4. Empirical results

### 4.1 Policy uncertainty and the interim period in acquisitions

We begin our empirical analysis by investigating how policy uncertainty affects the acquisition process in the post-announcement period. Specifically, we examine whether changes in policy uncertainty after the initial acquisition announcement affect (1) deal resolution time, which is the time (in months) it takes acquirers to close announced deals, and (2) the likelihood of deal renegotiations (e.g., extending deal closing dates, revising offer prices). We first model deal resolution time as a function of changes in policy uncertainty after initial deal announcements as follows, controlling for deal-, firm-, and macro-level characteristics:

$$Resolution\ Time_{i,j} = \alpha + \beta \times \% \Delta PU_{i,j} + \lambda \mathbf{C} + \varepsilon_{i,j}, \quad (1)$$

in which  $Resolution\ Time_{i,j}$  is the duration (in months) between the date of the initial acquisition announcement and that of the deal completion or termination for deal  $j$  of firm  $i$ .

$\% \Delta PU_{i,j}$  is the relative change in policy uncertainty index during the interim period of deal  $j$  of firm  $i$ , calculated as  $(PU_{resolution} - PU_{initial})/PU_{initial} \times 100$ , where  $PU_{resolution}$  ( $PU_{initial}$ ) is the average 3-month BBD policy uncertainty index before the deal resolution date (initial deal announcement date).

The set of control variables,  $C$ , includes deal-, firm-, and macro-level characteristics. For deal-level controls, we follow prior M&A literature and include indicator variables for payment method, *All stock* (*All cash*), which equals 1 if the acquisition consideration is all paid in stock (cash), and 0 otherwise. We include *Initial CAR*, the acquirer's 5-day announcement CAR centered on the initial deal announcement date, to control for deal quality (Luo, 2005; Liu and McConnell, 2013). *Option-like deal* is an indicator variable that equals 1 if the announced acquisition has an option-like deal structure (e.g., an option agreement to purchase a project), and 0 otherwise. It captures the ease of deal renegotiation or abandonment because some option-like deals are not associated with definitive acquisition agreements and have few contractual protection mechanisms. Firm-level controls include variables commonly used in M&A studies, such as *Ln(Total assets)*, *Financial leverage*, *Market-to-book*, *Cash holdings (%)*, and *Stock volatility*. Firm-level accounting variables (stock volatility) are measured in the fiscal year (12-month period) prior to the initial acquisition announcement date. To control for acquirers' learning experience (Aktas et al., 2013), we include *Past acquisition experience*, measured as the number of acquisitions announced by firm  $i$  before transaction  $j$  during the sample period.

Consistent with prior policy uncertainty literature, we also include the following macro-level variables to control for uncertainty brought about by economic fundamentals: (1) *Federal election*, to control for uncertainty related to specific Australian federal elections; (2) *Stock market returns*, the returns on the ASX All Ordinaries Index to control for Australian stock market conditions; (3) *Commodity price index* from the Reserve Bank of Australia (RBA) to

control for non-rural commodity price cycles;<sup>17</sup> and (4) *Implied volatility*, VXO index of implied volatility from the Chicago Board Options Exchange (CBOE) as a measure of general economic uncertainty.<sup>18</sup> *Federal election* is an indicator variable that equals one if the initial deal announcement date of deal  $j$  is within the 3-month period before a scheduled federal election. Changes in other macro-level variables during the pre-completion period are all measured similar to  $\% \Delta P U$ . We estimate the model in equation (1) and report regression results with different sets of controls in Table 4 columns (1) – (3). Standard errors are clustered by firm and year-month in all specifications.

[Insert Table 4 here]

Consistent with predictions, we find that a rise in policy uncertainty after initial deal announcements leads to a longer deal resolution time. The coefficients on  $\% \Delta P U$  in columns (1) – (3) in Table 4 are all positive and statistically significant at the 1% level, suggesting that acquirers likely “wait-and-see” amid rising policy uncertainty before concluding an announced deal. Specifically, the coefficient on  $\% \Delta P U$  in Model 2 (column 2) (coef. = 0.0366,  $t$ -stat = 3.82) indicates that a 27% increase in policy uncertainty during the post-acquisition period causes a 1-month delay in closing an announced deal, controlling for deal-, firm-, and macro-level characteristics. As nearly 25% of our sample transactions experienced more than a 29% increase in policy uncertainty during the pre-completion stage, our findings suggest that policy uncertainty imposes non-trivial waiting costs on transaction parties. Our inferences are unaffected by (1) excluding macro-level controls in Model 1, and (2) controlling for the pre-

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<sup>17</sup> The RBA non-rural commodity price index covers bulk commodities (Iron ore, Coal), base metals (Lead, Zinc, and Nickel) and other resources (Gold, Copper ore) (Available at: <https://www.rba.gov.au/statistics/>). Given that more than 80% of MEE project acquisitions target gold, copper and iron ore, we use this index to capture the potential impact of commodity price fluctuations on MEE project acquisition activities.

<sup>18</sup> We use the CBOE Volatility Index in our analysis because data for the Australian S&P/ASX 200 VIX are only available from 2008 while the sample period in this study starts from 1998. Although U.S. focused, the VXO index of implied volatility is widely considered to be the best available estimate of market uncertainty in Australia (e.g., Smales, 2016; Wu et al., 2020).

announcement uncertainty in Model 3.<sup>19</sup> We thus provide empirical evidence showing that heightened policy uncertainty subsequent to deal announcement significantly lengthens deal resolution time.

Other control variables are largely in line with prior studies. Consistent with Bhagwat et al. (2016), we document a significantly negative association between deal resolution time and increases in implied volatility (VIX). The negative coefficient on  $\% \Delta$  *Implied volatility* (coef. =  $-0.0319$ ,  $t$ -stat =  $-2.02$ ) in column (2) suggests that acquirers shorten the time-to-completion in response to elevated levels of market-wide volatility in the short term. It is noteworthy that the BBD index and VIX represent different sources of uncertainty (Barrero et al., 2017). Because the VIX predicts short-term market uncertainty, closing a deal sooner can help reduce acquirers' exposure to short-term market risks. In contrast, policy uncertainty index is a longer-horizon measure that would have a fundamental or long-lasting impact on business activities. The difference in time horizon between the two measures of uncertainty explains why they affect acquisitions in different ways (Bonaime et al., 2018). Similarly, we also document a significantly negative association between *Federal election* and deal completion time in column (2) (coef. =  $-2.1907$ ,  $t$ -stat =  $-2.14$ ), suggesting that acquirers tend to close deals sooner to avoid election-related uncertainty. Jens and Page (2018) argue that the BBD policy uncertainty index and election-related uncertainty measures have different levels of predictability about uncertainty. For instance, uncertainty related to election timing is foreseeable because election timing is known in advance. Compared with scheduled elections, relevant events linked to policy uncertainty, as captured by news article searches, are usually more unexpected because, in most cases, the ultimate timing of the uncertainty resolution is unknown (e.g., Brexit, Covid-19 travel bans). Hence, our findings lend support to the

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<sup>19</sup> Nguyen and Phan (2017) find that it takes acquirers more time to complete deals when policy uncertainty in the year preceding the initial acquisition announcement is higher. However, they do not consider whether changes in policy uncertainty after initial deal announcements also affect the length of the interim period in acquisitions.

theoretical arguments in Jens and Page (2018) that firms' investment behavior responds differently to more (less) predictable policy uncertainty.

If a higher level of policy uncertainty after initial deal announcements motivates acquirers to wait longer, we should also observe a higher likelihood of acquirers extending deal closing dates amid elevated uncertainty. In a further test, we employ a multinomial logistic regression (Model 4 in Table 4) to examine how policy uncertainty affects deal revision decisions. The dependent variable in Model 4, *Deal revision*, is a categorical variable, with '0' = no deal revision, '1' = revising offer price, and '2' = extending deal closing date. The reference group in the multinomial logistic regression is the subsample of deals without any contract revisions, which are assigned a value of zero (*Deal revision* = 0). The explanatory variables in Model 4 are the same as those in Model 3.

The results of the multinomial logistic regression (Model 4 in Table 4) indicate that, when policy uncertainty increases after initial deal announcements, acquirers are likely to renegotiate an extended period for deal closing. The coefficient on  $\% \Delta P U$  under the category "Extending deal closing date" (*Revision* = 2) is positive and statistically significant at the 1% level (coef. = 0.0061, *t*-stat = 2.86). Yet, revisions of offer price are not driven by policy uncertainty as the coefficient on  $\% \Delta P U$  under the category "Revising offer price" (*Revision* = 1) is insignificantly different from zero.<sup>20</sup> Overall, the results in Table 4 suggest that an increase in policy uncertainty during the post-announcement period is associated with (1) a longer deal-resolution time, and (2) a higher likelihood of the acquirer extending the deal closing date, confirming the existence of "real options" effects in the acquisition interim stage.

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<sup>20</sup> Among 130 revised acquisitions in our sample, 26 revise both the original offer price and deal closing date. They are coded as category 2 in Table 6. The results are unchanged when we code these 26 deals as category 1.

#### 4.2 Policy uncertainty and acquisition outcomes

Our results in Section 4.1 are consistent with the view that policy uncertainty delays the acquisition process during the post-announcement period. We next explore whether policy uncertainty affects acquisition outcomes. As discussed above, we argue that, when policy uncertainty keeps rising and persists, acquirers likely abandon announced deals to reduce further exposure to protracted uncertainty. To test this prediction, we follow Gulen and Ion (2015) and construct *Prolonged high PU* to capture both the level and duration of policy uncertainty. *Prolonged high PU* is the run of consecutive months of high policy uncertainty (above the sample mean) prior to deal closing dates. For example, *Prolonged high PU*<sub>*i,j*</sub> equals 12 if there is a consecutive 12-month period with high policy uncertainty prior to the actual deal closing date of deal *j* from firm *i*. By definition, *Prolonged high PU* equals zero when policy uncertainty is below the sample average. We then perform a binomial logistic regression to analyse the determinants of deal termination:

$$Outcome_{i,j}(Terminated = 1) = \alpha + \beta \times Prolonged\ PU_{i,j} + \lambda C + \varepsilon_{i,j}, \quad (2)$$

in which the dependent variable *Outcome*<sub>*i,j*</sub> in equation (2) is an indicator variable that takes a value of one if an announced acquisition *j* of firm *i* is terminated, and zero otherwise.

We include deal-, firm- and macro-level controls in equation (2). The first set of explanatory variables controls for deal-level characteristics, including *All stock*, *All cash*, *Initial CAR*, and *Option-like deal*. Luo (2005) argues that corporate insiders or managers have incentives to seek information about deal prospects from market reactions to the initial acquisition announcements. This line of argument is particularly applicable to our setting. When an acquirer is a small firm like MEE with less acquisition experience and fewer resources to process policy uncertainty information, the deal completion or abandonment decision may become more sensitive to the market's opinion when the proposed deal was first announced to

the public. We thus include *Initial CAR* to control for acquirers' learning from the market and deal quality (e.g., Chen et al., 2007; Jacobsen, 2014). Further, as a unique feature of project acquisitions in the mining exploration industry, *Option-like deal* is included in model specifications as a proxy for the degree of deal protection.<sup>21</sup>

The second set of variables represents firm-level characteristics, the same as the controls in Table 4, including *Ln(Total assets)*, *Financial leverage*, *Market-to-book*, *Cash holdings (%)*, *Stock volatility* and *Past acquisition experience*. The macro-level control variables include *Commodity price volatility*, *Stock market returns*, and *Implied volatility*, which are measured in the 12-month period prior to the deal closing date. Similar to the construction of *Prolonged high PU*, we also construct an alternative set of macro-level variables, *Prolonged high commodity price*, *Prolonged positive stock market returns*, and *Prolonged high implied volatility* to control for commodity price cycles, the capital raising environment, and the duration of high economic volatility, respectively. *Federal election* is also included to capture political uncertainty relating to Australian federal elections. Regression results of equation (2) with different specifications are reported in columns (1) – (3) in Table 5.

[Insert Table 5 here]

We show that prolonged high policy uncertainty has a strong positive effect on acquisition abandonment decisions. Specifically, the positive coefficient on *Prolonged high PU* in column (2) (coef. = 0.0334, *t*-stat = 2.10) suggests that an uninterrupted period of 12 months of high policy uncertainty prior to deal resolution is associated with an 11% increase

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<sup>21</sup> We note that deal protection devices in acquisition contracts (e.g., termination fee, material adverse change clauses) are effective in preventing the acquirer or target from cancelling the proposed transaction (e.g., Officer, 2003; Bates and Lemmon, 2003; Boone and Mulherin, 2007). However, few deals in our sample list deal protection devices in their initial deal announcements. Rather, MEE acquirers engaged in option-like acquisitions often can “opt-out” without incurring cost penalties or at the cost of option fees only. Given the unique feature of option-like acquisitions in the mining industry and the unavailability of detailed deal protection clauses data, we therefore use an indicator variable *Option-like deal* to control for the degree of deal protection or the ease of deal termination.

in the probability of acquirers abandoning announced deals in the following month, controlling for deal-, firm-, and macro-level characteristics. The results still hold when we exclude macro-level variables (column 1) or use an alternative set of macro-level controls (column 3). The coefficients on *Prolonged high PU* in columns (1) and (3) remain positive and statistically significant at the 5% level, suggesting that prolonged high policy uncertainty is a key driver for acquisition abandonment.

We note the possibility that, when facing prolonged policy uncertainty, an acquirer might still attempt to complete the deal if the terms of the acquisition agreement can be renegotiated to partially offset its increased exposure to uncertainty. To investigate more fully the consequences of policy uncertainty on acquisition activities, we re-estimate equation (2) using an ordered logistic regression, which adds deal renegotiation as a potential outcome of an announced transaction (Skaife and Wangerin, 2013). The dependent variable *Outcome* in the ordered logistic regression (columns 4 and 5 in Table 5) is set equal to one of the three outcomes ranked from least to most severe: *Outcome* = 0, 1, or 2 if the announced acquisition is completed without deal revisions, renegotiated and completed, or terminated, respectively.<sup>22</sup> As expected, the parameter estimates for *Prolonged high PU* in columns (4) and (5) are all positive and statistically significant at the 1% and 5% level, respectively. Our findings therefore confirm again that protracted policy uncertainty adversely affects acquisition outcomes.

Other explanatory variables in Table 5 are generally consistent with the prior literature. The negative coefficient on *Initial CAR* suggests that a lower market reaction to the initial acquisition announcement predicts a higher likelihood of deal termination. This is because a low initial CAR motivates the acquiring firm to update the economic prospects of the proposed

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<sup>22</sup> The results continue to hold when the dependent variable, *Outcome*, is set as one of four possible outcomes of an announced acquisition, with '0' = completed as scheduled, '1' = renegotiated and completed, '2' = renegotiated and terminated, and '3' = terminated without revisions.



transaction from the market and then revise the original agreement (Luo, 2005; Liu and McConnell, 2013). Moreover, the significantly negative coefficients on  $\ln(\text{Total assets})$  and *Past acquisition experience* indicate that smaller or less experienced acquirers are more likely to abandon announced deals. Further, at the macro level, *Commodity price volatility* is positively associated with the likelihood of deal termination (coef. = 0.0319,  $t$ -stat. = 2.16, in column 2), implying that a product market shock is also a key driver for acquisition abandonment. Interestingly, the coefficients on *Stock market returns* and *Prolonged positive stock market returns* are all significantly negative, suggesting that a booming stock market helps reduce funding difficulties for MEEs and thus the probability of deal failure. In other words, an acquirer's ability to secure equity financing is a critical factor in successfully closing the transaction. Together, the results in Table 5 imply that policy uncertainty is an important determinant of acquisition abandonment.

#### 4.3 Acquirer's cost of deal abandonment under policy uncertainty

Having documented that policy uncertainty triggers acquisition abandonment, we now turn to investigating the impact of deal abandonment on acquirers' shareholder value. We aim to gauge the firm-specific net cost of acquisition abandonment as perceived by the stock market, in particular, in times of prolonged high policy uncertainty. Specifically, we expect an average negative market reaction to acquirers' abandonment decision, while this negative impact on acquirers' shareholder value would change with the extent of policy uncertainty.

We first report in Table 6 Panel A acquirers' 5-day resolution CAR (-2, +2), centered on the announcement date of deal completion or termination. Acquirer abnormal returns are market-adjusted returns using the equally-weighted daily market return of all ASX-listed stocks as the market benchmark, which is sourced from the Securities Industry Research Centre of Asia-Pacific (SIRCA). For the full sample presented in column (1), deal completions are met with a positive market reaction of 1.89% while terminations receive a negative -5.81%. Their

difference is statistically significant at the 1% level. This is consistent with the notion that deal abandonment is interpreted as bad news to the acquirer.

In order to gauge the differential impact of prolonged policy uncertainty on market reactions to acquisition outcomes, we then partition the sample by the high policy uncertainty duration before deal resolution dates. If the market considers how long acquirers have been exposed to high policy uncertainty and the optimal timing of investment commitments, the difference in resolution CARs between completed and terminated deals should vary across different durations of high policy uncertainty. Columns (2) – (4) in Table 6 Panel A show that this is exactly what we observe.

There is an obvious trend that the stock market penalizes acquirers' deal abandonment decisions to a lesser extent after observing a longer period of high policy uncertainty. When the duration of high policy uncertainty before deal resolution dates is between zero and three months (column 2), deal completions (terminations) have an average CAR of 0.024 (−0.065). When *Prolonged high PU* increases, we observe a monotonic decrease (increase) in CAR for completed (terminated) deals. In addition, the difference in acquirers' announcement CAR between deal completion and termination remains statistically significant but narrows from 0.089 in column (2) to 0.074 in column (3). When high policy uncertainty lingers for at least 12 months (column 4), the difference becomes insignificantly different from zero. This finding suggests that an abandonment decision may be no worse than a completion decision under the circumstances of protracted policy uncertainty. Thus, Table 6 Panel A provides preliminary evidence that investors consider acquiring firms' exposure to policy uncertainty.

[Insert Table 6 here]

We next use a regression framework to investigate the impact of deal abandonment on the acquiring firm's shareholder value, controlling for various factors that may also influence

announcement returns. Specifically, we regress acquirers' resolution CARs on *Prolonged high PU*, *Termination*, and their interaction term, as well as other controls. Of particular interest is the coefficient on the interaction term *Prolonged PU*  $\times$  *Termination*, which captures the differential impact of high policy uncertainty duration on market reactions to acquisition outcomes. Regression results are presented in column (1) in Table 6 Panel B. As expected, the coefficient on *Termination* is significantly negative (coef. =  $-0.1019$ ,  $t$ -stat =  $-4.44$ ), suggesting that deal abandonment decisions, on average, lower acquirers' shareholder value compared to successful completions. However, the positive and significant coefficient on the interaction term *Prolonged PU*  $\times$  *Termination* (coef. =  $0.0058$ ,  $t$ -stat =  $2.13$ ) indicates that investors react less negatively to acquirers' deal abandonment decisions after observing a longer period of high policy uncertainty. The regression results are largely consistent with the univariate analysis in Table 6 Panel A.<sup>23</sup>

To extend our analysis, we construct a categorical variable, which represents different durations of high policy uncertainty that acquirers have faced as they proceed to deal closing dates. *High PU* takes the value of '0' if policy uncertainty is lower than the sample average or high policy uncertainty lasts for fewer than three months ( $0 \leq \textit{Prolonged high PU} < 3$ ), '1' if high policy uncertainty lasts for more than three months and shorter than one year ( $3 \leq \textit{Prolonged high PU} < 12$ ), and '2' if high policy uncertainty lasts for more than one year without interruption ( $\textit{Prolonged high PU} \geq 12$ ), before the deal closing date. We adjust the model in column (1) by interacting the categorical variable *High PU* with *Termination* and report regression results in column (2) in Panel B. The coefficient on the interaction term *Prolonged high PU*  $\geq 12$   $\times$  *Termination* is positive and statistically significant at the 5% level.

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<sup>23</sup> Deal value is not included in our model specifications due to difficulties to obtain or calculate the deal value of option-like acquisitions. For example, the values of earnout payments are often missing in the initial acquisition announcements (e.g., Cain et al., 2011). Nevertheless, as prior studies show that deal size significantly influences the market reactions to initial acquisition announcements (e.g., Moeller et al., 2004), using *Initial CAR* as a control variable helps mitigate the concern over the absence of deal value in our model specifications.

The result suggests that, when high policy uncertainty persists for more than 12 months without interruption, the negative impact of deal termination on the acquiring firm's shareholder value is almost zero ( $Termination + Prolonged\ high\ PU \geq 12 \times Termination = -0.0976 + 0.0951$ ). Overall, our results in Table 6 indicate that, although the market normally reacts negatively to acquirers' deal abandonment decisions, the negative effect is likely to be moderated when such decisions are made amid protracted policy uncertainty.

We note that completed and terminated acquisitions could be fundamentally different. Deal- and firm-level differences between completed and terminated transactions may affect our results presented in Table 6. To remove such biases, we employ a propensity score matching (PSM) method and select a group of control deals with ex-ante similar observable characteristics as terminated transactions but successfully completed. Specifically, we obtain the propensity score by estimating Model (2) in Table 5 Panel A, which accounts for different levels of factors affecting acquisition outcomes and has the highest  $R^2$  among the determinant models, to predict the probability of deal abandonment. For each treated (terminated) transaction, we select a control (completed) deal that has the closest propensity score within a caliper of 0.05 with replacement. This matching method generates a matched sample of 406 acquisitions. Then, we rerun the acquirers' resolution CAR cross-sectional models using the propensity score matched sample and report regression results in Table 7. The coefficients on the interaction terms between policy uncertainty and deal termination are all positive and statistically significant. Therefore, our results remain robust to the matched sample of completed and terminated acquisitions.

[Insert Table 7 here]

A natural question to ask is, why does the market 'forgive' acquisition abandonment decision during protracted policy uncertainty? There are two possible explanations. First, as

we have argued, a deal abandonment decision under high uncertainty could help the acquirer reduce its exposure to ex-post business risk. For some transactions with an option-like deal structure (e.g., acquiring an option to purchase a project), abandonment prior to the full price being paid can help the acquirer avoid the sunk cost fallacy (Arkes and Blumer, 1985). We expect that such abandonments would not seriously impair acquirers' shareholder value in times of high uncertainty. An alternative explanation is that MEE managers may strategically time the release of abandonment news under high uncertainty to avoid penalty from the market. Prior studies suggest that managers tend to hide bad news by announcing it during periods of high uncertainty or low market attention (e.g., Bird and Yeung, 2012; DeHaan et al., 2015). It is likely that, when managers foresee lingering policy uncertainty, they may delay disclosing acquisition abandonment decisions because they expect such news to not draw as much attention of market participants. However, the continuous disclosure requirements of the ASX do not allow for much discretion with respect to timing news releases of contract terminations.<sup>24</sup> Although it is possible that managers tend to release bad news after business hours or on Fridays (DeHaan et al., 2015), ASX does not make it possible for managers to accelerate or delay by months any announcements on material acquisition termination. Otherwise, firms fail to meet their disclosure obligations (ASX Listing Rules 3.1, 3.1A and 3.1B). Accordingly, we tend to rule out the second explanation.

To provide further evidence on the potential reasons why the market forgives acquirers' abandonment decisions under high uncertainty, we incorporate managers' explanations for acquisition abandonment (see Table 2) into the acquirers' resolution CAR regression. We construct a categorical variable *Reason* related to the eight categories listed in Table 2: 1. Bad news about the acquired asset (resource potential/technicality); 2. Regulation/policy uncertainty; 3. Shift in exploration/business focus; 4. Funding difficulty (acquirer cannot

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<sup>24</sup> See footnote 13 for details about the ASX continuous disclosure requirements.

secure financing in time); 5. Due diligence conditions not being satisfied; 6. Changes in economic/market conditions; 7. Other (e.g., legal disputes); and 8. Unknown. The variable *Reason* is set equal to zero if the announced deal is completed. We then follow the specification in Table 6 Panel B and interact *Reason* with *Prolonged PU*. Of interest are coefficients on the interaction terms  $Prolonged\ PU \times Reason$ , which capture whether investors react differently to deal terminations under uncertainty based on managers' explanations. We report the coefficients in Table 8 with the full sample in column (1) and the PSMatched sample in column (2).

[Insert Table 8 here]

We find that, rather than being distracted under high policy uncertainty, investors do differentiate acquisition abandonments based on managers' explanations. Specifically, the coefficients on  $Prolonged\ PU \times Reason2$  are significantly positive, suggesting that the market prefers when acquirers step away from deals subject to policy uncertainty or regulatory risk. Investors also react less negatively when an acquirer terminates a pending transaction under uncertainty to avoid "throwing good money after bad" (reason 1) (Arkes and Blumer, 1985). However, if a proposed transaction is withdrawn owing to the acquirer's inability to secure acquisition funding (reason 4), then the market is unforgiving regardless of the extent of policy uncertainty. The intuition is that, since external funding for MEEs' exploration activities is key to their survival, the fact that the investment opportunity is foregone for financial reasons is seen as a signal of managers' inability to materialize further investment. Overall, we show in Table 8 that the firm-specific cost of deal abandonment is associated with *both* the extent of policy uncertainty and explanations that managers provide.

## 5. Robustness

### 5.1 Deal abandonment and acquirer's CEO capital

Prior studies document that managers “listen to the market” when deciding whether to abandon proposed acquisitions that investors perceive to be value reducing (Luo, 2005). Liu and McConnell (2013) further argue that the CEO holding stock in the acquiring firm is motivated to reverse the value-destroying transaction because the negative initial market reaction affects the acquirer CEO's personal wealth. As such, a deal abandonment decision could be driven by a CEO' desire to recoup his lost wealth at the initial deal announcement.

Although we have already included acquirers' initial CAR in the determinant models in Table 5 to control for managers' learning from the market, we follow Liu and McConnell (2013) and add more controls: CEO stock ownership and  $\Delta CEO\ capital$ .  $\Delta CEO\ capital$  is the product of acquirers' initial announcement CAR and CEO stock ownership. It measures the change in an acquirer CEO's wealth caused by the initial market reaction. We re-estimate the deal termination determinants model by including additional controls and report our regression results in Table 9. As CEO ownership data are missing for a number of observations in our sample, we restrict our analysis in column (1) to observations with CEO ownership, which reduces our sample size to 645. We also assume that missing CEO ownership equals zero ownership, and we report our regression results in column (2). Consistent with our main findings in Table 5, the coefficients on *Prolonged high PU* in Table 9 remain positive and significant at the 5% level. Our results confirm that protracted policy uncertainty is a contributor to acquisition abandonments.

[Insert Table 9 here]

## 5.2 Endogeneity of policy uncertainty measure

A potential concern with the BBD policy uncertainty index is endogeneity (Xu, 2020). This news-based policy uncertainty measure may coincide with other economic conditions, which induce acquisition abandonments. While different sets of macro-level variables are included in our model specifications to control for economic conditions, the effect of policy uncertainty on acquisition abandonment decisions may still be confounded by other macro-level factors. To ease this concern, we adopt an instrumental variable approach.

We use the time (in hours) that the Parliament of Australia spent on legislation to instrument for prolonged policy uncertainty. If political leaders stall on legislative decisions or the outlines of a policy have not been agreed upon, the Senate likely spends more time discussing proposed bills or legislation related issues, which leads to lengthy debates and creates more uncertainty. Therefore, *Time on legislation* is likely to satisfy the relevance condition as an instrument for *Prolonged high PU*. However, it is not obvious that the time the Australian Parliament spends on legislation affects MEEs' acquisition abandonment decisions, because bills that are debated in the Senate include a broad range of topics (e.g., appropriations, human rights, migration policy).

We obtain the *Time on legislation* from the website of the Parliament of Australia, which discloses the number of hours that the Senate spent on governmental legislation in each sitting period.<sup>25</sup> We then estimate the determinants model of deal abandonment using the *Time on legislation* measure as an instrument. We report the results from our two-stage regression in Table 10. The coefficient on *Prolonged high PU* in the second stage regression (column 2)

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<sup>25</sup> We measure *Time on legislation* as the total hours the Senate spent on governmental legislation in the 6-month (or 2-quarters) period preceding the deal closing date. Taking the second quarter (Q2) of 2013 as an example, during the sitting dates between 14 May and 16 May in 2013, the Senate spent 10 hours and 20 minutes considering legislation; for the period of 17 June – 28 June in 2013, the number of hours spent deliberating legislation was 48 hours and 10 minutes. There are no other sitting dates in Q2 of 2013. Therefore, *Time on legislation* in Q2 of 2013 is 58.5 hours. Available at: [https://www.aph.gov.au/Parliamentary\\_Business/Statistics](https://www.aph.gov.au/Parliamentary_Business/Statistics)



remains positive and statistically significant (coef. = 0.0756,  $t$ -stat = 2.04). Therefore, our results are robust to the instrumental variable estimation, supporting the view that protracted policy uncertainty has a significantly negative impact on acquisition outcomes.

[Insert Table 10 here]

## **6. Conclusion**

This study investigates how policy uncertainty affects the acquisition process subsequent to initial deal announcements. Using a hand-collected sample of project acquisitions by ASX-listed mining exploration entities over 1998-2017, we find robust evidence showing that policy uncertainty delays deal closing and even triggers deal abandonment.

We present three sets of empirical results. First, we show that a rise in policy uncertainty after initial acquisition announcements is associated with a longer deal resolution time and a higher likelihood of deal extensions. More importantly, we document that prolonged high policy uncertainty is a key determinant of acquirers' deal abandonment decisions. Our results are robust to controlling for other potential deal-breakers and an instrumental variable estimation. Further, our findings demonstrate that market participants do consider acquirers' exposure to policy uncertainty. Deal abandonment decisions are penalized by the stock market to a lesser extent when high policy uncertainty lingers. These inferences still hold when we use a propensity score matched sample of completed and terminated transactions.

Overall, our study highlights that policy uncertainty is a first-order concern to acquirers in the acquisition interim stage. Though the sample in this study is confined to early-stage firms within the mining industry setting in Australia, our findings hold implications for future research that examines how uncertainty affects small firms' acquisition attempts and investors' reaction to corporate announcements.

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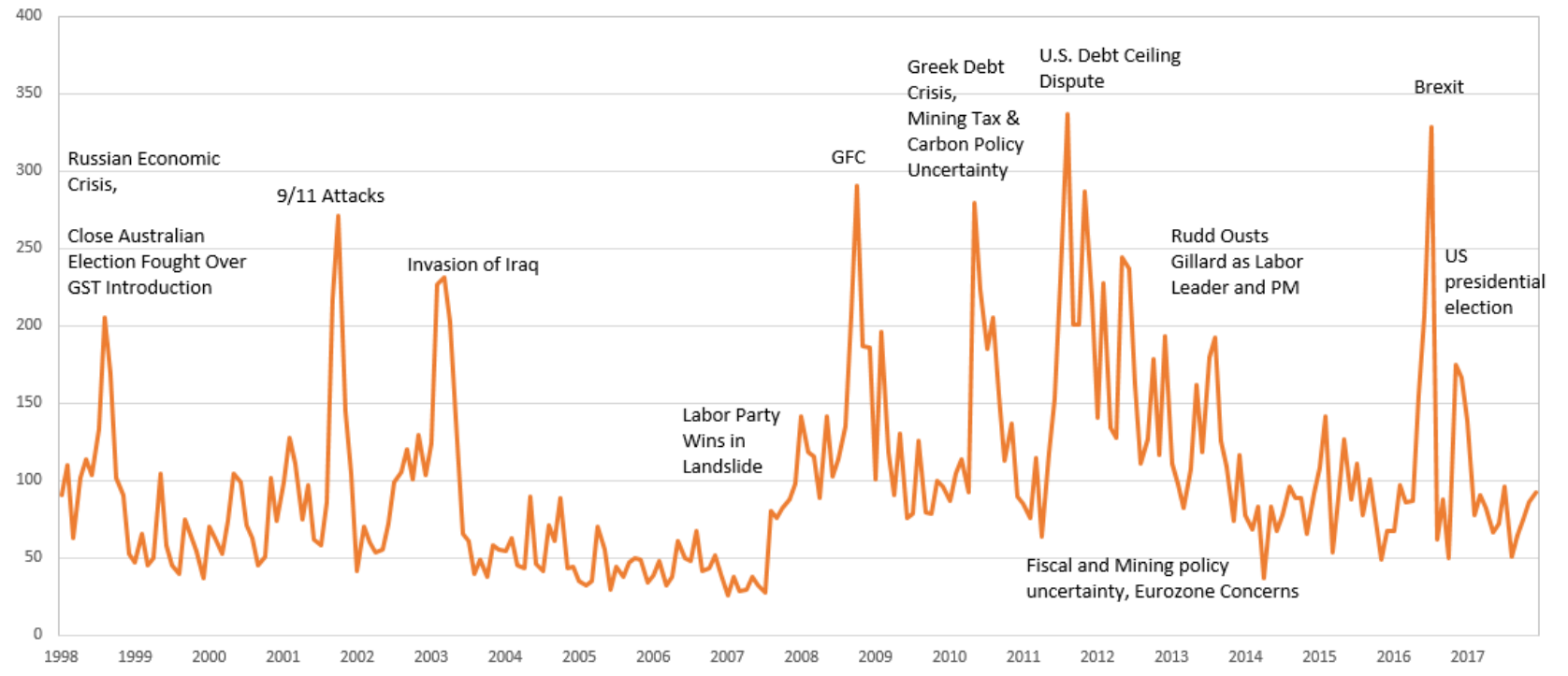
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**Figure 1. Australian policy uncertainty index**

This figure plots the Australian policy uncertainty index, developed by Baker, Bloom, and Davis (2016), during the January 1998 – December 2017 period.



Source: [http://www.policyuncertainty.com/australia\\_monthly.html](http://www.policyuncertainty.com/australia_monthly.html)

**Table 1. Distribution of deal termination and renegotiation**

Panel A presents a yearly distribution of project acquisitions announced by the ASX-listed mining exploration entities (MEEs) between 1 January 1998 and 31 December 2017. Panel B presents the matrix of acquisition outcomes.

*Panel A. Distribution of MEEs' project acquisitions by year*

Year	# of acquisitions	Termination		Renegotiation	
		# of terminated deals	%	# of renegotiations	%
1998	10	3	30.0	1	10.0
1999	9	0	0.0	3	33.3
2000	11	4	36.4	1	9.1
2001	11	3	27.3	2	18.2
2002	15	5	33.3	2	13.3
2003	25	10	40.0	5	20.0
2004	30	12	40.0	4	13.3
2005	34	16	47.1	3	8.8
2006	34	11	32.4	2	5.9
2007	61	15	24.6	5	8.2
2008	66	31	47.0	8	12.1
2009	66	19	28.8	7	10.6
2010	88	25	28.4	12	13.6
2011	100	41	41.0	14	14.0
2012	86	39	45.3	17	19.8
2013	69	31	44.9	10	14.5
2014	77	23	29.9	13	16.9
2015	53	20	37.7	8	15.1
2016	91	17	18.7	10	11.0
2017	43	5	11.6	3	7.0
Total	979	330	33.7	130	13.3

Panel B. The matrix of acquisition outcomes

	<u>No deal revision</u> (A)	<u>Deal revision</u> (B)	
<u>Completed (I)</u>	N = 557 (56.9%)	N = 92 (9.4%)	Total = 649 (66.3%)
<u>Terminated (II)</u>	N = 292 (29.8%)	N = 38 (3.9%)	Total = 330 (33.7%)
	Total = 849 (86.7%)	Total = 130 (13.3%)	



**Table 2. Termination reasons and deal resolution time**

This table presents (1) managers' stated reasons for deal terminations and (2) deal resolution time. The sample includes project acquisitions announced by the ASX-listed mining exploration entities (MEEs) between 1 January 1998 and 31 December 2017. The stated reasons are hand-collected from the acquiring firms' announcements on Morningstar DatAnalysis Premium.

<i>Stated reasons for termination</i>	(1) Frequency		(2) Time-to-resolution
	N	Percent	(in months)
1. Asset-specific information about the acquired asset (resources potential/technicality)	98	28.9	12
2. Regulation/policy uncertainty	42	12.4	11
3. Shift in exploration/business focus	31	9.1	21
4. Funding difficulty (acquirer cannot secure financing in time)	30	8.8	13
5. Due diligence conditions not being satisfied	23	6.8	5
6. Changes in economic/market conditions	22	6.5	12
7. Other (e.g., legal disputes)	16	4.7	9
8. Unknown	77	22.7	12
Total	339	100.0	12

**Table 3. Characteristics of completed versus terminated acquisitions**

This table reports the mean value of various characteristics of completed versus terminated acquisitions at the deal-, firm- and macro-level. See Appendix A for detailed definitions and data sources of variables. The *t*-stat reported in column (4) is two-sample *t*-test for testing the difference in mean characteristics between completed and terminated deals. \*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1) Completed deals (N = 649)	(2) Terminated deals (N = 330)	(3) Diff. (1) – (2)	(4) Diff. <i>t</i> -stat
<b><i>Deal-level variables</i></b>				
All stock (0/1)	0.21	0.12	0.09***	(3.86)
All cash (0/1)	0.17	0.14	0.03	(1.08)
Option-like deal(0/1)	0.31	0.62	-0.32***	(-9.78)
Initial CAR	0.10	0.06	0.04***	(2.59)
Resolution CAR	0.02	-0.06	0.08***	(4.97)
Deal resolution time (months)	7.30	12.21	-4.91***	(-6.71)
<b><i>Firm-level variables</i></b>				
Ln(Total assets)	15.79	15.57	0.23***	(2.60)
Financial leverage	0.89	1.26	-0.37	(-1.05)
Market-to-book ratio	-4.57	2.44	-7.01	(-0.96)
Cash holdings (%)	37.33	41.62	-4.29**	(-2.06)
Stock volatility	1.10	1.00	0.10	(1.33)
Past acquisition experience	4.91	4.11	0.81***	(2.84)
<b><i>Marco-level variables</i></b>				
Federal elections (0/1)	0.08	0.10	-0.02	(-0.97)
Implied volatility (VIX)	18.69	20.17	-1.48***	(-1.07)
Stock market returns (%)	0.45	0.13	0.32***	(-2.47)
Commodity price volatility	8.95	9.94	-0.99**	(-2.23)
Prolonged high policy uncertainty	2.46	3.27	-0.81**	(-2.42)
Prolonged high commodity price	40.08	44.93	-4.85*	(-1.91)
Prolonged positive stock market returns	1.51	1.24	0.27**	(2.45)
Prolonged high implied volatility	2.10	1.92	0.17	(0.62)

**Table 4. Policy uncertainty, deal resolution time, and deal renegotiation**

This table reports regression results of deal resolution time (Models 1–3) and the likelihood of deal revisions (Model 4) on changes in policy uncertainty during the post-announcement period. In Models 1–3, the dependent variable is *Deal resolution time*, which is the duration (in months) between the date of the initial acquisition announcement and that of deal completion or termination. Model 4 is a multinomial logistic model. The dependent variable in Model 4, *Deal revision*, is a categorical variable with ‘0’ = no deal revision, ‘1’ = revising offer price, and ‘2’ = extending deal closing date. The reference category is acquisitions without revision, which is coded as 0.  $\% \Delta P U$  is the relative change in the BBD policy uncertainty index during the pre-completion period of an announced acquisition. Other variables are as defined in Appendix A. In all model specifications, standard errors are clustered by firm and year-month. *t/z* -statistics are reported in parentheses. \*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Var.	Model 1	Model 2	Model 3	Model 4 (Multinomial Logit)	
	<i>Deal resolution time (in months)</i>			<i>Revision = 1</i> (Revising offer price)	<i>Revision = 2</i> (Extending deal closing date)
$\% \Delta P U$	<b>0.0253<sup>***</sup></b> (3.54)	<b>0.0366<sup>***</sup></b> (3.82)	<b>0.0383<sup>***</sup></b> (3.69)	<b>-0.0008</b> (-0.26)	<b>0.0061<sup>***</sup></b> (2.86)
<i>Deal-level controls</i>					
All stock	-1.8207 <sup>**</sup> (-2.39)	-1.8672 <sup>**</sup> (-2.40)	-1.8778 <sup>**</sup> (-2.41)	-0.2038 (-0.43)	-0.3809 (-0.97)
All cash	0.2698 (0.26)	0.1979 (0.20)	0.3310 (0.33)	0.7281 <sup>*</sup> (1.91)	0.4032 (1.33)
Initial CAR	-0.5516 (-0.34)	-0.6702 (-0.42)	-0.7909 (-0.49)	0.4608 (0.62)	0.2108 (0.55)
Option-like deal	5.5793 <sup>***</sup> (7.57)	5.5149 <sup>***</sup> (7.50)	5.4708 <sup>***</sup> (7.41)	0.5036 (1.51)	0.3005 (1.15)
<i>Firm-level controls</i>					
Ln(Total assets)	-0.0389 (-0.15)	-0.0111 (-0.04)	-0.1347 (-0.49)	-0.2048 <sup>*</sup> (-1.68)	-0.2505 <sup>**</sup> (-2.30)
Financial leverage	-0.1886 (-1.60)	-0.1868 (-1.62)	-0.1849 (-1.57)	-0.0600 <sup>**</sup> (-2.46)	-0.0080 (-0.53)
Market-to-book	0.0071 <sup>*</sup> (1.68)	0.0069 <sup>*</sup> (1.67)	0.0069 (1.63)	0.0016 (1.61)	-0.0011 (-1.49)
Cash holdings (%)	0.0207 <sup>*</sup> (1.69)	0.0229 <sup>*</sup> (1.82)	0.0200 (1.60)	-0.0184 <sup>***</sup> (-3.00)	-0.0029 (-0.62)
Stock Volatility	-0.4904 <sup>*</sup> (-1.73)	-0.4627 (-1.59)	-0.4764 (-1.59)	-0.2421 (-0.95)	0.0785 <sup>**</sup> (1.98)
Past acquisition experience	-0.0920 (-1.37)	-0.0968 (-1.43)	-0.0993 (-1.42)	-0.0390 (-0.99)	0.0021 (0.06)

<i>Marco-level controls</i>					
%ΔCommodity price		0.0031 (0.11)	0.0221 (0.73)	0.0030 (0.29)	-0.0121 (-1.23)
%ΔStock market return		-0.0002 (-0.56)	-0.0002 (-0.63)	-0.0004 (-1.08)	0.0000 (0.21)
%Δ Implied volatility		-0.0319** (-2.02)	-0.0332** (-2.04)	0.0012 (0.23)	-0.0094* (-1.89)
Federal election		-2.1907** (-2.14)	-1.9887* (-1.90)	-0.1928 (-0.31)	-0.5812 (-1.05)
Pre-announcement PU			0.6232 (0.70)	0.4536 (1.02)	0.7518** (1.97)
Pre-announcement commodity price			0.0293** (2.01)	-0.0002 (-0.03)	-0.0061 (-1.03)
Pre-announcement stock market return			16.6820 (1.06)	-3.3675 (-0.41)	1.9640 (0.28)
Pre-announcement Implied volatility			0.0083 (0.18)	-0.0187 (-0.75)	-0.0256 (-1.10)
Constant	7.4995* (1.66)	7.0504 (1.56)	2.9561 (0.56)	-0.7315 (-0.26)	-1.0707 (-0.49)
Adj-R <sup>2</sup> (Pseudo-R <sup>2</sup> )	0.125	0.131	0.134		0.062
N	979	979	979		979

**Table 5. Policy uncertainty and acquisition outcomes**

The table presents results from logistic regressions of deal termination on prolonged policy uncertainty. In columns (1) – (3), the dependent variable is an indicator variable, which takes a value of 1 if an announced acquisition is terminated, and 0 otherwise. In columns (4) and (5), the dependent variable is a categorical variable, *Outcome*, which is a set of three possible outcomes for an announced acquisition: 0 = completed without deal revisions, 1 = renegotiated and completed, and 2 = terminated. Other variables are as defined in Appendix A. z-statistics are reported in parentheses. \*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

<i>Dependent Var.</i>	<i>Dependent variable: Acquisition outcome</i>				
	(1)	(2)	(3)	(4)	(5)
	Logit	Logit	Logit	Ordered Logit	Ordered Logit
	<i>Completed = 0 Terminated = 1</i>			<i>Completed = 0 Renegotiated = 1 Terminated = 2</i>	
<b>Prolonged high PU</b>	<b>0.0340**</b>	<b>0.0334**</b>	<b>0.0335**</b>	<b>0.0385***</b>	<b>0.0374**</b>
	<b>(2.24)</b>	<b>(2.10)</b>	<b>(2.06)</b>	<b>(2.66)</b>	<b>(2.54)</b>
<i>Deal-level controls</i>					
All stock	-0.4420**	-0.4199*	-0.4191*	-0.4316**	-0.4370**
	(-2.00)	(-1.91)	(-1.91)	(-2.07)	(-2.10)
All cash	-0.1790	-0.1843	-0.1867	0.0478	0.0433
	(-0.86)	(-0.86)	(-0.87)	(0.25)	(0.23)
Initial CAR	-0.7980**	-0.8142**	-0.8046**	-0.6284**	-0.6229**
	(-2.43)	(-2.45)	(-2.40)	(-2.26)	(-2.22)
Option-like deal	1.2426***	1.2476***	1.2505***	1.3201***	1.3240***
	(8.29)	(8.24)	(8.24)	(9.37)	(9.36)
<i>Firm-level controls</i>					
Ln(Total assets)	-0.1152*	-0.1233**	-0.1192*	-0.1440***	-0.1397**
	(-1.89)	(-2.01)	(-1.93)	(-2.58)	(-2.49)
Financial leverage	0.0256	0.0267	0.0255	0.0192	0.0191
	(1.29)	(1.42)	(1.31)	(1.16)	(1.11)
Market-to-book	-0.0005	-0.0006	-0.0005	-0.0010*	-0.0009
	(-0.67)	(-0.84)	(-0.62)	(-1.67)	(-1.52)
Cash holdings (%)	0.0020	0.0012	0.0019	-0.0003	0.0003
	(0.74)	(0.45)	(0.70)	(-0.12)	(0.11)
Stock volatility	-0.0577	-0.0560	-0.0627	0.0141	0.0097
	(-0.80)	(-0.74)	(-0.84)	(0.64)	(0.44)
Past acquisition experience	-0.0455**	-0.0469**	-0.0504***	-0.0347**	-0.0380**
	(-2.47)	(-2.51)	(-2.72)	(-2.05)	(-2.29)
<i>Macro-level controls</i>					
Federal election		0.3987	0.2660	0.2377	0.1398
		(1.51)	(1.03)	(0.93)	(0.56)
Commodity price volatility		0.0319**		0.0241*	
		(2.16)		(1.76)	
Stock market returns		-6.5743**		-7.1824**	
		(-2.15)		(-2.49)	
Implied volatility		-0.0163		-0.0095	
		(-1.04)		(-0.66)	
Prolonged high commodity price			0.0016		0.0024
			(0.77)		(1.27)
Prolonged positive stock market returns			-0.1168***		-0.1010**
			(-2.61)		(-2.48)
Prolonged high implied volatility			-0.0118		-0.0083
			(-0.68)		(-0.54)
Pseudo-R <sup>2</sup>	0.097	0.106	0.105	0.089	0.088
N	979	979	979	979	979

**Table 6. Policy uncertainty and acquirers' CAR around deal resolution announcements**

Panel A presents acquirers' cumulative abnormal return (CAR) around the announcement date of deal resolution (either completion or termination), segmented by high policy uncertainty duration prior to deal resolution dates. Abnormal announcement returns are 5-day cumulative market-adjusted returns to acquiring firms, and the market benchmark is SIRCA's equally-weighted daily market return of all ASX-listed stocks. In Panel A, *t*-statistics in parentheses in rows (1) and (2) are from *t*-testing the hypothesis that acquirers' CARs are insignificantly different from zero. Row (3) reports results from two-sample *t*-test, which tests the hypothesis that the difference in mean CARs between deal completions and terminations is zero (*t*-statistics in parentheses). Panel B reports cross-sectional analysis of acquirers' announcement CARs. The dependent variable is acquirer 5-day CAR centered on the deal resolution announcement date. Other variables are as defined in Appendix A. *t*-statistics are in parentheses and based on standard errors adjusted for heteroskedasticity. \*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

*Panel A. Summary of acquirers' abnormal return around deal resolution announcements*

	(1)	(2)	(3)	(4)
Outcome	Full sample	$0 \leq \text{Prolonged high PU} < 3$	$3 \leq \text{Prolonged high PU} < 12$	$\text{Prolonged high PU} \geq 12$
(1) <i>Completion</i>	0.0189*** (2.91)	0.0242*** (3.05)	0.0116 (0.90)	-0.0128 (-0.70)
(2) <i>Termination</i>	-0.0581*** (-3.97)	-0.0647*** (-3.43)	-0.0628** (-2.06)	-0.0104 (-0.35)
(3) <i>Diff. = Completion – Termination</i> <i>t-stat.</i>	0.0769*** (4.81)	0.0889*** (4.35)	0.0743** (2.25)	-0.0024 (-0.07)

Panel B. Policy uncertainty and acquirers' CAR around deal resolution announcements

<i>Dependent variable: acquirers' CAR around deal resolution announcements</i>		
	(1)	(2)
Termination	-0.1019*** (-4.44)	-0.0976*** (-3.99)
Prolonged high PU	-0.0031** (-2.32)	
<b>Prolonged high PU × Termination</b>	<b>0.0058**</b> <b>(2.13)</b>	
3 ≤ Prolonged high PU < 12		-0.0190 (-1.13)
Prolonged high PU ≥ 12		-0.0352* (-1.65)
3 ≤ Prolonged high PU < 12 × Termination		0.0140 (0.32)
<b>Prolonged high PU ≥ 12 × Termination</b>		<b>0.0951**</b> <b>(2.10)</b>
<i>Deal-level controls</i>		
All stock	-0.0025 (-0.14)	-0.0023 (-0.13)
All cash	-0.0239 (-1.14)	-0.0238 (-1.12)
Initial CAR	0.0175 (0.59)	0.0180 (0.61)
Option-like deal	0.0035 (0.23)	0.0035 (0.23)
<i>Firm-level controls</i>		
Ln(Total assets)	0.0007 (0.14)	0.0007 (0.13)
Financial leverage	-0.0048** (-1.99)	-0.0048** (-2.04)
Market-to-book	0.0001 (1.57)	0.0001 (1.60)
Cash holdings(%)	0.0003 (1.11)	0.0003 (1.11)
Stock volatility	-0.0021 (-0.42)	-0.0021 (-0.42)
Past acquisition experience	0.0007 (0.39)	0.0007 (0.42)
<i>Macro-level controls</i>		
Federal election	-0.0214 (-0.76)	-0.0196 (-0.69)
Commodity price volatility	-0.0002 (-0.17)	-0.0000 (-0.02)
Stock market return	0.0313 (0.11)	-0.0482 (-0.16)
Implied Volatility	-0.0005 (-0.38)	-0.0006 (-0.43)
Constant	0.0281 (0.31)	0.0266 (0.29)
Adj-R <sup>2</sup>	0.037	0.034
N	948	948

**Table 7. Policy uncertainty and acquirers' CAR around deal resolution announcements (PSM matched sample)**

The table reports results of the acquirer CAR cross-sectional regressions using a propensity score matching sample. We first obtain the propensity score by estimating Model (2) in Table 5 to predict the probability of deal abandonment. For each treated (terminated) transaction, we then select a control deal that has the closest propensity score within a caliper of 0.05 and is successfully completed. The regression model specification is the same as that in Panel B of Table 6. The dependent variable is acquirers' CARs centered on the announcement date of deal completions or terminations. Other variables are as defined in Appendix A. *t*-statistics are in parentheses and based on standard errors adjusted for heteroskedasticity. \*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

<i>Dependent variable: acquirers' CARs around deal resolution announcements</i>		
	(1)	(2)
Termination	-0.0999*** (-4.06)	-0.0917*** (-3.46)
Prolonged high PU	-0.0053** (-2.34)	
<b>Prolonged high PU × Termination</b>	<b>0.0080** (2.37)</b>	
3 ≤ High PU < 12		-0.0095 (-0.37)
12 ≤ High PU		-0.0489* (-1.65)
3 ≤ High PU < 12 × Termination		0.0024 (0.05)
<b>12 ≤ High PU × Termination</b>		<b>0.1098** (2.16)</b>
Controls	Yes	Yes
Adj-R <sup>2</sup>	0.023	0.018
N	406	406



**Table 8. Policy uncertainty, acquirers' deal resolution CAR, and deal abandonment reasons**

The table follows the specification in Table 6 Panel B and reports acquirers' resolution CAR regression by incorporating the stated reasons for deal abandonment. The categorical variable *Reason* corresponds to managers' explanations listed in Table 2: 1. Bad news about the acquired asset (resources potential/technicality); 2. Regulation/policy uncertainty; 3. Shift in exploration/business focus; 4. Funding difficulty (acquirer cannot secure financing in time); 5. Due diligence conditions not being satisfied; 6. Changes in economic/market conditions; 7. Other (e.g., legal disputes); and 8. Unknown. *Reason* is set equal to zero if the announced deal is completed. Control variables are the same as those in Table 6 Panel B. *t*-statistics are in parentheses and based on standard errors adjusted for heteroskedasticity. \*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

<i>Dependent variable: acquirers' CARs around deal resolution announcements</i>		
	(1) Full sample	(2) PSMatched sample
<b>Prolonged high PU # Reason1</b>	<b>0.0084**</b> <b>(2.14)</b>	<b>0.0094**</b> <b>(2.18)</b>
<b>Prolonged high PU # Reason2</b>	<b>0.0092**</b> <b>(2.06)</b>	<b>0.0110**</b> <b>(2.46)</b>
Prolonged high PU # Reason3	0.0026 (0.48)	0.0006 (0.10)
Prolonged high PU # Reason4	0.0194 (1.40)	0.0234 (1.61)
Prolonged high PU # Reason5	-0.0222* (-1.79)	-0.0201* (-1.70)
Prolonged high PU # Reason6	0.0009 (0.07)	0.0033 (0.26)
Prolonged high PU # Reason7	0.0043 (0.21)	0.0062 (0.31)
Prolonged high PU # Reason8	-0.0006 (-0.12)	-0.0004 (-0.07)
Reason1	-0.1348*** (-4.22)	-0.1371*** (-3.96)
Reason2	-0.1276*** (-3.68)	-0.1239*** (-3.49)
Reason3	-0.0488 (-1.09)	-0.0467 (-0.98)
Reason4	-0.2603** (-2.09)	-0.2781** (-2.17)
Reason5	-0.0774 (-0.73)	-0.0764 (-0.73)
Reason6	0.0334 (0.62)	0.0198 (0.35)
Reason7	-0.1148 (-1.00)	-0.1190 (-1.06)
Reason8	-0.0208 (-0.64)	-0.0161 (-0.44)
Prolonged high PU	-0.0031** (-2.26)	-0.0040** (-2.10)
Controls	Yes	Yes
Adj-R <sup>2</sup>	0.054	0.049
N	948	406

**Table 9. Policy uncertainty, acquisition outcomes, and CEO ownership**

This table follows the specification of Model 2 in Table 5 with additional control variables, *CEO ownership* and  $\Delta$ *CEO capital*. The dependent variable *Outcome* is an indicator variable, which takes a value of 1 if an announced acquisition is terminated, and 0 otherwise.  $\Delta$ *CEO capital* is the change in stock capital owned by an acquirer's CEO as the product of the acquirer's initial deal announcement CAR and CEO stock ownership. Other variables are as defined in Appendix A. Standard errors are clustered by firm and year-month. z-statistics are reported in parentheses. \*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

<i>Dependent variable:</i>	<i>Outcome (Termination = 1)</i>	
	(1) Non-missing CEO ownership	(2) Missing CEO ownership is assumed as zero
<b>Prolonged high PU</b>	<b>0.0396**</b> <b>(2.06)</b>	<b>0.0341**</b> <b>(2.12)</b>
<i>Deal-level controls</i>		
All stock	-0.7313** (-2.32)	-0.4236* (-1.90)
All cash	-0.1979 (-0.74)	-0.1879 (-0.87)
Initial CAR	-0.7689 (-1.35)	-0.9796*** (-2.65)
Option like deal	1.3501*** (7.24)	1.2498*** (7.87)
$\Delta$ CEO capital	2.7050 (0.73)	3.9402 (1.22)
<i>Firm-level controls</i>		
Ln(Total assets)	-0.1255 (-1.52)	-0.1283** (-2.10)
Financial leverage	0.0428** (2.02)	0.0273 (1.44)
Market-to-book ratio	-0.0010 (-1.20)	-0.0006 (-0.88)
Cash holdings(%)	0.0035 (1.00)	0.0013 (0.48)
Stock volatility	-0.0352 (-0.58)	-0.0721 (-0.81)
Past acquisition experience	-0.0080 (-0.36)	-0.0473** (-2.44)
CEO ownership	1.0419 (1.51)	0.4911 (0.74)
<i>Macro-level controls</i>		
Federal election	-0.0401 (-0.12)	0.3883 (1.42)
Commodity price volatility	0.0161 (0.83)	0.0328** (2.16)
Stock market returns	-8.7815** (-2.07)	-6.6272** (-2.14)
Implied volatility	-0.0151 (-0.73)	-0.0168 (-1.05)
Constant	0.6939 (0.49)	1.0298 (0.98)
Pseudo-R2	0.120	0.108
N	645	979

**Table 10. Policy uncertainty and acquisition outcomes (2SLS with an instrument variable)**

This table follows the determinant Model 2 in Table 5 and reports results of a two-stage regression using *Time on legislation* as an instrument for *Prolonged high PU*. *Time on legislation* is the total hours the Parliament of Australia spent on governmental legislation in the 6-month period preceding the quarter of the deal closing date. Other variables are as defined in Appendix A. *t*-statistics are reported in parentheses. We also report tests of under-identification (Kleibergen-Paap LM statistic with critical p-value in parentheses) and weak instruments (Kleibergen-Paap Wald rank F statistic) based on Kleibergen and Paap (2006). \*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

<i>Dependent variable: Outcome (Termination = 1)</i>		
	First-stage	Second-stage
Time on legislation	<b>0.0381<sup>***</sup></b> <b>(8.84)</b>	
Prolonged high PU		<b>0.0756<sup>**</sup></b> <b>(2.04)</b>
Controls		Yes
Test of under-identification		64.123 ( <0.001)
Test of weak instruments		62.997 ( <0.001)
Adj-R <sup>2</sup>		0.213
N		956

Appendix A. Variable Definitions

Variable	Definition	Data Source
<b><i>Policy uncertainty variables</i></b>		
Prolonged high PU	The run of consecutive months with high BBD policy uncertainty index (above the sample mean) during the sample period.	The news-based Australian uncertainty index constructed by Baker, Bloom, and Davis (2016). Available at: <a href="http://www.policyuncertainty.com/index.html">www.policyuncertainty.com/index.html</a>
$\Delta$ PU%	Calculated as $(PU_{\text{resolution}} - PU_{\text{initial}}) / PU_{\text{initial}}$ and expressed as a percentage, in which $PU_{\text{resolution}}$ and $PU_{\text{initial}}$ are the average 3-month policy uncertainty index before the deal resolution and initial announcement date, respectively.	
<b><i>Deal-level variables</i></b>		
Outcome	An indicator variable that takes a value of 1 if an announced acquisition is terminated, and 0 otherwise. A categorical variable that takes a value of 0 if an announced acquisition is completed without deal revisions, takes a value of 1 if renegotiated and completed, and takes a value of 2 if terminated.	Hand collected from Morningstar DatAnalysis Premium
Deal revision (0, 1, 2)	A categorical variable with '0' = no deal revision, '1' = revision of offer price, and '2' = extension of deal closing date.	Hand collected from Morningstar DatAnalysis Premium
All stock (0, 1)	An indicator variable that equals 1 if a deal is fully paid by shares of the acquirer, and 0 otherwise.	Hand collected from Morningstar DatAnalysis Premium
All cash (0, 1)	An indicator variable that equals 1 if a deal is fully paid by cash, and 0 otherwise.	Hand collected from Morningstar DatAnalysis Premium
Option-like deal (0, 1)	An indicator variable that equals 1 if the announced acquisition is an option agreement (e.g., acquiring an option to purchase a project) or an earnout agreement (e.g., a portion of purchase price is paid upon the target achieving predetermined performance milestones).	Hand collected from Morningstar DatAnalysis Premium  Hand collected from Morningstar DatAnalysis Premium

Time-to-resolution	The number of months between the initial announcement and resolution date.	
Initial CAR	The cumulative stock return to the acquiring firm over the window (-2, +2) centered on the initial announcement date, net the return on the equal-weighted return of all ASX-listed stocks over the window period.	SIRCA Databricks
Resolution CAR	The cumulative stock return to the acquiring firm over the window (-2, +2) centered on the announcement date of deal completion or termination, net the return on the equal-weighted return of all ASX-listed stocks over the window period.	SIRCA Databricks
 <b><i>Firm-level variables</i></b>		
Ln(Total assets)	Natural logarithm of book value of total assets	Morningstar DatAnalysis Premium
Market-to-book	Closing share price on the last day of a firm's financial year divided by shareholders' equity per share.	Morningstar DatAnalysis Premium
Financial leverage	Total assets divided by shareholders' equity	Morningstar DatAnalysis Premium
Cash to total assets (%)	Cash holdings divided by total assets	Morningstar DatAnalysis Premium
Stock volatility	The standard deviation of a firm's monthly stock returns in the prior 12-months before the initial deal announcement.	SIRCA SPPR
Past acquisition experience	The number of project acquisitions announced prior to deal $j$ during the sample period.	Hand collected from Morningstar DatAnalysis Premium
CEO ownership	The proportion of ordinary shareholdings held by CEOs at the financial year-end before the acquisition announcement.	Hand collected from financial reports
 <b><i>Macro-level variables</i></b>		
Federal elections	An indicator variable which takes a value of 1 if the initial deal announcement date is within a 3-month period before a scheduled	Australian Politics and Elections Database <a href="http://elections.uwa.edu.au/">elections.uwa.edu.au/</a>

	Australian federal election between January 1998 and December 2017, and 0 otherwise.	
Implied volatility	Average monthly VXO-implied volatility index from the Chicago Board Options Exchange (CBOE) in a 12-month period before the deal resolution date.	Bloomberg
Stock market return	Average monthly return on the Australian Securities Exchange All Ordinaries Index in a 12-month period before the deal resolution date.	Bloomberg
Commodity price index	Non-rural Commodity Prices Index in a 12-month period before the deal resolution date.	Reserve Bank of Australia
Commodity price volatility	Standard deviation of monthly commodity price index in a 12-month period before the deal resolution date.	Reserve Bank of Australia
Prolonged high implied volatility	The run of consecutive months with high VIX (above the sample mean) before the deal resolution date.	Bloomberg
Prolonged positive stock market return	The run of consecutive months with positive stock market returns before the deal resolution date.	Bloomberg
Prolonged high commodity price	The run of consecutive months with a high commodity price index (above the sample mean) before the deal resolution date.	Reserve Bank of Australia
Time on legislation	The time (in hours) that the Parliament of Australia spent on governmental legislation in the 6-month period preceding the deal resolution date.	<a href="https://www.aph.gov.au/Parliamentary_Business/Statistics">https://www.aph.gov.au/Parliamentary_Business/Statistics</a>

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Appendix B. Examples of announcements

Table A1. Examples of announcement headlines of project acquisitions, deal renegotiations, and terminations

*Project acquisition announcements*

<b>ASX Code</b>	<b>Company Name</b>	<b>Project Name</b>	<b>Announcement Date</b>	<b>Announcement Header</b>
ACP	Audalia Resources Limited	Medcalf	19/01/2012	Acquisition of Medcalf Project
AHR	Anchor Resources Limited	Featherbeds	23/10/2007	Acquisition of Uranium Project
EXS	Exco Resources Limited	Winderera	20/10/1999	Strike another Options Deal on Advanced Cobar Gold Project
IGR	Integra Mining Limited	Red Dale	20/06/2007	Option to Purchase Tenements Adjacent to Salt Creek
GOR	Gold Road Resources Limited	Dinninup	13/08/2007	Farm In Agreement - Dinninup Area South West WA
HHM	Hampton Hill Mining NL	Apollo Hill	07/01/2003	Agreement for the Purchase of Apollo Mining Pty Ltd

*Deal renegotiation announcements*

<b>ASX Code</b>	<b>Company Name</b>	<b>Project Name</b>	<b>Announcement Date</b>	<b>Announcement Header</b>
AGY	Argosy Minerals Limited	Albetros Diamond	15/07/2003	Renegotiation of Albetros Agreement
AIW	Ausroc Metals Ltd	Shenglong	29/09/2014	Amendment of Shenglong agreement
EMG	Emergent Resources	Beyondie Iron	16/03/2010	Beyondie Acquisition - Variation to Agreement
AMN	Agrimin Limited	Yunt Dag	05/07/2012	Extension to Yunt Dag Agreement
BDR	Beadell Resources Limited	Cracow	30/06/2008	Cracow Completion Date Extended
DEG	De Grey Mining Limited	Indee new	02/10/2017	Settlement of Indee Transaction extended by up to 12 months

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*Deal termination/completion announcements*

<b>ASX Code</b>	<b>Company Name</b>	<b>Project Name</b>	<b>Announcement Date</b>	<b>Announcement Header</b>
DGO	DGO Gold Limited	Yandan	27/07/2011	Withdrawal from Heads of Agreement for the Yandan Project
OVR	Overland Resources	Trojan Gold	20/10/2017	Termination of Heads of Agreement- Trojan Gold Project
AAG	Aragon Resources Limited	Hot Chili	12/11/2009	Hot Chili Acquisition Not to Proceed
ESR	Estrella Resources Limited	Mt Edwards	06/01/2017	Completion of Acquisition Of Mt Edwards Lithium
GMR	Golden Rim Resources	Paguanta	28/07/2016	Golden Rim Completes Acquisition of the Paguanta Project
AGO	Atlas Iron Limited	Mt Webber	05/05/2009	Atlas exercises option to acquire iron ore rights in Pilbara
NMT	Neometals Limited	Nannine	05/07/2013	Lapse of Option to acquire Nannine Mining Centre

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Table A2. Examples of deal termination/renegotiation announcements

1. Caeneus Minerals Ltd (CAD) announced on 11/09/2015

*Title: TERMINATION OF AGREEMENT WITH POSEIDON NICKEL LIMITED*

**TERMINATION OF AGREEMENT WITH POSEIDON NICKEL LIMITED**

Caeneus Minerals Ltd (“Caeneus” or “the Company”) advises that it has **terminated** the binding agreement (“Agreement”) with Poseidon Nickel Limited (ASX: POS) (“Poseidon”) in relation to the Company’s acquisition of contractual rights (“Acquisition”) to mine the Silver Swan underground nickel mine.

The Company was unsuccessful in raising the required funds (“Capital Raising”) to complete the Acquisition on or before the Completion date of 14 September 2015 due to current economic conditions and falling commodity prices.

2. CBH Resources Limited (CBH) announced on 17/06/2003

*Title: Update on Elura Mine Purchase*

**Re: Update on Elura Mine Purchase**

Consolidated Broken Hill Ltd and Pasminco Australia Ltd have agreed to extend the unconditional date for the purchase of the Elura Mine at Cobar, New South Wales, to 18th July 2003.

The extension of time is to seek greater certainty on two key issues --- Workers Compensation Insurance premiums, and the rescission of the current Elura Consent Award enabling implementation of modern labour arrangements at the Mine.