

# INTRAGROUP M&A, MINORITY SHAREHOLDERS' PROTECTION, AND LEGAL ORIGIN

Ettore Croci\*

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## Abstract

*This paper analyzes how legal-origin families affect minority shareholders' returns in intragroup mergers and acquisitions (M&As). I collected data for 1,302 intragroup M&As from 60 countries to determine (1) whether and where expropriation takes place, and (2) if legal origin explains the treatment reserved to minority shareholders by the bidder. I find that intragroup acquisitions are not used to expropriate minority shareholders. This result is common to all of the regions examined, with the only exceptions being Eastern Europe and legal-origin families. To the contrary—intracorporate M&As actually create value. However, target shareholders do not benefit from intragroup transactions in the same way. In fact, target shareholders in common law countries earn returns abnormally higher than those realized by target shareholders in civil law countries. Thus, while all legal families seem to provide at least a minimum level of investor protection in case of intragroup M&A, common law gives more power to minority investors when dealing with controlling shareholders.*

*JEL classification code:* G34.

*Keywords:* intragroup mergers, intragroup acquisitions, event study, expropriation, legal origin.

\*Università Cattolica del Sacro Cuore, Via Necchi 5, 20121 Milan, Italy, e-mail: [ettore.croci@unicatt.it](mailto:ettore.croci@unicatt.it)

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## 1. Introduction

Recent evidence (La Porta et al. 1999; Claessens et al. 2001; Faccio and Lang 2002) has shown that that large shareholders and business groups are common, especially outside the United States. Pyramids are often used to separate ownership from control, increasing the incentives to control shareholders in order to exploit minority shareholders (Bebchuk, Krakman, and Triantis 2000). As Faccio and Stolin (2006) argue, groups offer many possibilities for controlling shareholders to expropriate resources: transfers of assets, borrowing or lending at non-market rates, and unfair pricing of transactions.

In this paper, I study one of these possibilities: intragroup mergers and acquisitions—i.e., mergers and acquisitions in which both the acquirer and the target belong to the same business group.<sup>1</sup> Managements and controlling shareholders usually claim that these transactions are efficient reorganizations of their business groups, but they can also use intragroup deals to divert assets to their benefit. To some extent, an intragroup M&A can be viewed as a self-dealing transaction along lines defined by Djankov et al. (2006). In fact, they define a self-dealing transaction as “a transaction between two firms controlled by the same person, who can in principle be used to improperly enrich this person”. Thus, the first goal of the paper is to determine whether intragroup acquisitions are designed either to take advantage of minority shareholders or to create value. I examine 1,302 intragroup deals from 60 countries involving publicly listed target firms during the period 1986–2005. To my knowledge, this is the most comprehensive database of intragroup transactions available.

Starting with the seminal works of Shleifer and Vishny (1997) and La Porta et al. (1997, 1998), the impacts of investor protection on corporate governance (La Porta et al.,

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<sup>1</sup> In the paper, I do not require that the bidder be the parent company.

2000), corporate valuation (La Porta et al. 2002), cross listing (Reese and Weisbach 2002; Burns et al. 2006), and even earning management (Leuz et al. 2003), have received considerable attention. La Porta et al. (1997, 1998) document that the legal families from which modern commercial laws originated (hereinafter called legal origins) play a key role in determining the degree of investor protection in a given country. The second objective of this paper is, therefore, to investigate how legal origin affects the treatment reserved to minority investors in intragroup M&As around the world.

Intragroup mergers can be an ideal venue for exploring investor protection and the effectiveness of different legal regimes. In fact, since the bidder (or another company in the same business group) already controls the target firm, there is no change of control at stake. Bidders acquire shares from minority shareholders, not incumbent controlling shareholders, and this permits the study of how minority shareholders are treated across different countries. The fact that the target firms are already part of the business group also makes intragroup transactions less likely to be driven by managerial empire building than acquisitions between independent entities.

While I find no evidence that intragroup transactions are designed to expropriate minority shareholders in target firms (the abnormal return is 11.74% in the event window [-2, +2]), there is evidence suggesting that these transactions do indeed create value. Acquirers and parents earn small but positive abnormal returns, and the combined gains from the deal are, on average, positive. This contrasts with the negative reaction to the acquisition of public firms usually reported in literature. Legal origin affects minority investors' protection in intragroup M&As. In fact, while target share prices increase an average of 16.68% in countries of English legal origin, target shareholders in French and

German civil law countries have to settle for a gain of 6.36% and 7.34%, respectively. Shareholders in countries whose legal system has a Scandinavian origin gain 12.80% around the time of the acquisition announcement. To put it differently, the highest level of investor protection guaranteed by the laws, social norms, and traditions of common law countries gives minority shareholders a stronger bargaining position when dealing with a controlling shareholder.

Using cross-sectional regression models, I find that legal origin still has a significant impact on abnormal returns after controlling for factors that have been shown to affect the market reaction around the acquisition announcement. Target shareholders in civil law countries realize a lower abnormal return than their counterparts in common law countries after controlling for firm and deal characteristics and the geographical region. Conversely, the impact of legal origin on acquirer and parent firms' returns is negligible.

This paper is part of the growing literature on minority shareholders' expropriation. While some papers examine dividends (Faccio et al. 2001), debt (Faccio et al., 2005), tunneling (Johnson et al. 2000; Bertrand et al. 2002), and connected party transactions (Cheung et al. 2006), there are also a few recent papers that study intragroup mergers and acquisitions at the single-country level. Bae et al. (2002) study intragroup mergers in Korea. Bigelli and Mengoli (2004) find evidence suggesting that prices are set in a way that permits the transfer of wealth toward the parent company in Italian intragroup deals. Holmen and Knopf (2004) document limited expropriation in Sweden, and they argue that bad governance is compensated for by legal protection and strong social norms. Buysschaert, Deloof, and Jegers (2004) document that intragroup equity sales increase minority shareholders' wealth in Belgium. Finally, Atanasov et al. (2004)

examine how a change in the security laws reduced freeze-out bids in Bulgaria. Another paper related to mine is that of Faccio and Stolin (2006), who examine the effect that an acquisition made by a European firm belonging to a group has on the company located at the upper level in the pyramid. They do not find evidence of expropriation.

This paper offers several contributions to the current debate on investor protection. First of all, it carries out the first worldwide analysis of intragroup M&As. Second, it rejects the hypothesis that intragroup acquisitions are merely motivated by expropriation. While this does not mean, of course, that tunneling and minority expropriation are not a serious issue in many countries, the evidence in this paper indicates that, at the least, laws and market forces effectively prevent the control of shareholders so that intragroup acquisitions can be used to steal from minority investors. On the contrary, the evidence indicates that intragroup M&As create value. Third, the paper shows that even in transactions where there is no change of control involved, bidders pay a premium the magnitude of which is economically significant and depends upon the legal origin. Thus, legal origin sets up conditions under which minority investors can reap considerable gains even in mop-up transactions.

The remainder of the paper is structured as follows. Section 2 develops the hypotheses, and Section 3 presents the sample and the data. Section 4 documents preliminary evidence about the sample firms, and Section 5 presents the event study analysis. Section 6 reports the results of multivariate regressions. Section 7 discusses cross-country deals, and robustness checks are presented in Section 8. Section 9 provides the conclusions.

## **2. Hypothesis Development**

As mentioned in the introduction, business groups offer many possibilities for controlling shareholders to expropriate resources. One type of transaction in which the risk of expropriation is potentially high is the acquisition by the parent company (or another subsidiary) of a firm belonging to the business group, hereinafter called an intragroup acquisition (or an intragroup M&A).

In intragroup M&As, the target firm ownership structure is characterized by the presence of a controlling shareholder. In contrast to the acquisitions usually investigated in the empirical literature, target minority investors in intragroup M&As do not have to worry about entrenched managers willing to fight off takeover offers, but they do have to fear unfairly priced offers made by the controlling shareholder. In fact, controlling shareholders can potentially use intragroup acquisitions to expropriate resources from minority investors to their benefit. Figure 1 shows the types of intragroup acquisitions considered in the paper. The acquisition can be carried out either directly by the parent company or through a subsidiary.

[Please insert Figure 1 about here]

Minority shareholders rarely have the economic power to block the deal once the controlling shareholder decides to execute the intragroup acquisition. Even in case of tender offers, minority shareholders can reject the offer, but then they face a huge risk of holding illiquid shares in their portfolios if they hold out and the offer succeeds. Roe (2006) reports that during the decade 1960–1970 insiders set prices in their favor to buy out public shareholders in going private transactions even in the United States. As

Enriques (2000) argues, insiders have a *de facto* power to divert resources to themselves. The self-dealing potential of intragroup acquisitions leads to the first hypothesis:

**Hypothesis 1a: *Intragroup M&As are designed to expropriate target firms' minority shareholders.***

Under this hypothesis, target stock prices should react negatively around the announcement of an intragroup transaction. Conversely, the bidder's reaction should be positive. The prediction for the combined gain is uncertain because the loss to the target firm's shareholders can offset the bidder's gain. As can be easily seen, these predictions are in sharp contrast to the well-documented empirical evidence for M&As of listed targets. In fact, in these deals target shareholders usually gain from M&A deals, while bidders often report negative or negligible abnormal returns (Andrade et al. 2001).

It can also be argued that these transactions are indeed value-increasing reorganizations of business groups, as controlling shareholders often claim. Moreover, in some countries minority investors may rely on legal protection and social norms that make expropriation, if not unfeasible, at least very costly in this kind of transaction. Holmen and Knopf (2004) find that this is the case for Sweden, but, given the publicity of these deals, this may be true even in less rich and corruption-free countries. Even in emerging markets, legal changes to improve investor protection may render expropriation throughout intragroup acquisitions too costly compared with other expropriation technologies (Atanasov et al. 2004). In cases of value-increasing reorganizations and at least minimal investor protection, controlling shareholders may be willing to share part of the gain with target shareholders. The increase in value can be due to synergies or better management, but it can also stem from an expropriation-based argument. In fact,

Almeida and Wolfezon (2006) argue that pyramids have both a payoff and a financing advantage when the amount of diversion is expected to be high. Thus, getting rid of a layer in the pyramid may be a way of signaling to the market that diversion is going to be reduced in the whole business group. These arguments lead to the following hypothesis:

**Hypothesis 1b: *Intragroup M&As are value-creating transactions, and target firms' shareholders obtain at least a share of the intragroup M&A's gains.***

This hypothesis predicts that both the market reaction to target firms' shares and the combined gain from the transactions are positive.

The second objective of this paper is to determine whether minority shareholders receive the same treatment across the world. Shleifer and Vishny (1997) define corporate governance as “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”, but previous literature makes it clear that these ways differ across countries. The legal approach to corporate governance proposed by La Porta et al. (1997, 1998) emphasizes the role played by the legal system, both laws and their enforcement, to protect outside investors (La Porta et al. 2000). In a series of papers, La Porta et al. show that legal rules protect outside investors differently across the four legal families: the English, the French, the German, and the Scandinavian. As La Porta et al. (2000) argue, “differences among legal origins are best described by the proposition that some countries protect all outside investors better than others”. Their studies document that common law countries have the strongest protection of outside investors, while French civil law countries have the weakest.

Although a complete description of legal families goes beyond the goals of this paper, it is worth noticing that the La Porta et al. (2000) argument does not entirely rely



on the so-called “judicial” explanation. According to this explanation, common law protects investors better than civil law because it grants substantial discretion to judges, who base their decisions on precedents and general principles such as fiduciary duty. However, as both Beck et al. (2003) and Roe (2006) argue, even in civil law countries like Germany and France judges sometimes go beyond the mere application of the law.<sup>2</sup> Furthermore, as La Porta et al. (2000) argue, there is no guarantee that common law judges will use their discretion to favor outsiders. They can as well serve political interests or even help politically connected controlling shareholders.

To complement the judicial view, La Porta et al. (1999b, 2000) argue that legal traditions differ in the priority they give to individual investors against the state. Beck et al. (2003) call this difference in priority the “political channel”. While common law has aimed to protect private property since the beginning, French and German commercial codes had as their main objective the advancement of the power of the State.<sup>3</sup> La Porta et al. (1999a) find that governments’ intervention in economic activity is higher in civil law countries, particularly in French ones, than in common law countries.

Since intragroup acquisitions are transactions with a very high self-dealing potential, the legal origin theory predicts that minority target shareholders will obtain a higher degree of protection and better (i.e., fairer) treatment in common law countries.<sup>4</sup>

***Hypothesis 2: Target shareholders receive better treatment in intragroup deals in common law countries.***

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<sup>2</sup> See Lobbe (2004) for a case of expansive lawmaking in Germany related to corporate groups.

<sup>3</sup> See Glaeser and Shleifer (2002) for a comparison of the historical evolution of the English and French legal systems.

<sup>4</sup> The legal origin theory does not imply that target firms’ minority shareholders will be expropriated in these transactions. In fact, the legal origin theory is based on the comparison of different legal families and thus does not hold that one system is inherently better or worse than another.

According to this hypothesis, I expect to find the highest abnormal returns for target shareholders in common law countries. Concerning cross-country acquisitions, I also expect that acquirers from civil law countries should pay more when they acquire a subsidiary listed in a common law country than when they acquire a local subsidiary.

Summing up, the paper tests two main hypotheses. First, it tests what drives intragroup M&As. In fact, intragroup mergers and acquisitions may be caused by the desire to control shareholders either to divert assets to the detriment of minority shareholders (Hyp. 1a) or to create value through efficient reorganizations (Hyp. 1b). Second, the paper investigates how minority shareholders are treated under different legal systems (Hyp. 2).

### **3. Sample and Data**

The original sample includes 144,047 acquisitions involving public firms reported in Thomson Financial Securities Data's Thompson One Banker over the period January 1986 to December 2005. I consider acquisitions whose deal value is at least \$1 million that took place in 60 countries, listed in Table 1, from all over the world.

[Please insert Table 1 about here]

I rely on Thompson One Banker's ultimate parents to identify potential intragroup transactions. Thompson One Banker reports the same firm as the ultimate target's parent and the ultimate acquirer's parent in 31,664 deals. I am fully aware that this criterion does not guarantee the inclusion of all of the intragroup transactions in my sample, but

short of a complete mapping of the structure of all business groups in the world, including both listed and unlisted firms and their evolution over the twenty years investigated, I believe that this is the most accurate way to identify the relevant transactions. After dropping all of the acquisition announcements in which the target firm is not reported as a public firm,<sup>5</sup> the sample still includes 25,283 acquisitions. Removing buybacks reduces the sample to 4,038 acquisitions.

All acquisitions of partial interest, in which the bidder holds less than 30% of the target firm's capital after the transaction, are eliminated (314). These purchases do not necessarily give control to the acquirer. I also drop the deals that are not completed (847) and those transactions that involve a transfer of less than 5% of the target's equity capital (258). These deletions bring the sample to 2,586 acquisitions.

To reduce the possibility of "false hits" (i.e., non-intragroup transactions reported as intragroup deals), I manually control whether these 2,586 deals are intragroup transactions using *Lexis/Nexis*. This check aims to avoid a potential overestimation of the number of intragroup acquisitions. I find that 968 transactions are not intragroup deals and, thus, I eliminate them. The main reason is that in the great majority of these cases Thomson One Banker reports the post-acquisition parent company of the target firm and not the pre-acquisition parent company. I also leave out deals in which the stake held by the acquirers before the announcement is greater than 90%, in order to eliminate mandatory squeeze-out bids and second attempts to de-list a company, whose prices are often fixed by laws. Moreover, given the limited free-float, the market reaction is often meaningless in these cases.

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<sup>5</sup> The initial screening did not exclude the possibility that only the bidder is listed.

Finally, I control whether target firms in the remaining 1,618 transactions have stock price data available on Datastream. The final sample, which is used in the empirical analysis, includes 1,302 intragroup deals. Table 1 reports the various steps based on the target region. There are 426 transactions from Western Europe; 29 from the former Soviet bloc; 356 from Asia; 114 from Australia, New Zealand, and South Africa; 143 from the Americas (outside the U.S.); and 234 from the United States Table 2 breaks down the observations based on the target firms' countries and legal origins. I rely on Djankov et al. (2006) to identify the legal origin of a given country. Also, following Djankov et al. (2006), I allocate former communist countries to one of the four legal families. Despite the fact that there are only 13 countries with English origin, almost half of the deals involve firms in common law countries (47.24%). This is not surprising, considering that stock markets in common law countries are more developed (La Porta et al. 1997, 1998).

[Please insert Table 2 about here]

Table 3 presents the relative frequency of intragroup acquisitions as compared with non-intragroup acquisitions—i.e., acquisitions where bidders and targets do not belong to the same business group.<sup>6</sup> Intragroup acquisitions represent 7% of the total M&A activity. However, their distribution varies sharply according to the region and legal origin family: intragroup acquisitions are relatively unheard of in common law countries, especially in the U.S., compared with civil law countries. The proportion of intragroup acquisition in

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<sup>6</sup> The criteria used to identify acquisitions are the same that were used to create the sample of intragroup deals without requiring that the bidder and the target have the same ultimate parent.

countries of English origin (5.09%) is statistically different from those of the other legal families (16.75%, 16.90%, and 10.16% for French, German, and Scandinavian origin, respectively), and I obtain a similar result if I remove U.S. deals from the sample. Given previous studies on ownership structure, this result is expected. However, the high frequency of intragroup acquisitions in civil law countries, where investor protection is believed to be worse and pyramids more common, can be caused either by expropriation or by greater possibilities to create value through group restructurings.

[Please insert Table 3 about here]

#### **4. Descriptive Statistics**

Table 4 presents accounting and stock market information about targets, acquiring firms, and parent companies.<sup>7</sup> Because parents and bidders overlap to a great extent, the discussion focuses on the differences between bidders and targets.<sup>8</sup>

As is common in the M&A literature, bidders are larger than targets. The median bidder (market capitalization US\$2,173 m) is more than ten times as large as the median target (US\$208 m). The acquiring firm owns, on average, 58.82% of the target firm's equity before the deal (median 62%). When the deal is completed, the bidder's stake increases to 92.37% (median 100%). Thus, many of these deals end with the bidder taking the target private (79.11%). Target firms have performance similar to bidders at operating level (median 3.89% versus 3.74%), but the stock price performance of the median target firm in the year preceding the acquisition is worse than that of the bidder.

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<sup>7</sup> These descriptive statistics only cover listed firms. In fact, while all targets are listed, bidders and parent companies may be unlisted. Obviously, the same reasoning applies to all the empirical analysis.

<sup>8</sup> The listed parent company is also the acquiring firm in roughly 70% of observations.

This difference is not due to diversification—the pre-deal stock price performance of targets involved in diversifying acquisition is similar to that of targets acquired by firms outside their industry. The same happens for acquirers.<sup>9</sup> Target firms do not have significant growth opportunities; median sales growth and median market-to-book ratio are statistically lower than those of acquirers. Market-to-book ratio has also been interpreted as a measure of overvaluation (Ang and Cheng, 2006; Dong et al. 2006). Similarly to the results of Ang and Cheng (2006), acquirers are, on average, more overvalued than the targets. Target firms are generally less leveraged than bidders, but both hold a similar percentage of cash.

[Please insert Table 4 about here]

Because Table 4 may hide differences at the target country level, in an unreported analysis I computed the same statistics for targets and acquirers according to the six geographical regions. While statistics for Western European firms are similar to those of the full sample, Asian targets have negative stock price performance (median -4.17%) before the deal. This result is not caused by the severe crisis that hit Asia in 1997–1998 (Mitton 2002; Lemmon and Lins 2003). In fact, 280 out of 356 observations (78.56%) for Asian countries are after the year 2000. Asian bidders also have better performance and market-to-book ratios than targets, indicating that the poor target performance may have been a reason behind the group restructuring. Conversely, targets outperform bidders before the deal in Australia, New Zealand, and South Africa (median: 5.26% vs.

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<sup>9</sup> Acquirers and target firms share the same two-digit SICs in 47.31% of the sample (616 out of 1,302), while parents and targets belong to the same industry in 41.17% of the sample (536 out of 1,302).

0.49%), and they also have marginally better operating performance and are less leveraged. Thus, mop-up acquisitions do not seem to be driven by the target firm's poor performance in these countries. Bidders and targets have similar performance in the U.S. and the Americas. Finally, the median target firm in the former Soviet bloc seems to outperform the median bidder, although there are very few observations.

[Please insert Table 5 about here]

Table 5 presents the same statistics according to the legal origin of the target country. Firms involved in intragroup deals are larger in countries from the French and German legal traditions than in common law countries. At the operating performance level, the median return on assets (ROA) is similar for English and French countries, especially for targets. Firms in German countries show poor operating performance, while the best operating performance for both targets and bidders is in Scandinavia. Leverage is also similar between firms in French and English legal tradition countries, with acquirers more prone to use debt than targets. Targets are almost all-equity financed in German legal origin countries, while more debt is used in Scandinavian legal tradition countries. Acquirers have better stock price performance than targets in the year before the acquisitions in all of the legal origin regimes, but performance differs substantially across different regimes.

Overall, the findings are not supportive of the hypothesis that intragroup M&As are designed to expropriate the target's minority shareholders. In fact, controlling shareholders acquire target firms when their performance is not particularly good. Even

though there are some differences, the picture that emerges from descriptive statistics is that firms are relatively homogeneous, so it remains to be seen whether the reaction at the time of the announcement is homogeneous as well.

## **5. Event-Study Analysis**

I conduct an event-study analysis to evaluate firms' stock price reactions to the announcement of an intragroup acquisition. If the transaction favors acquirers at the expense of the target's shareholders, a negative or negligible reaction by target firms is expected. Favorable conditions for the controlling shareholders will be also reflected in positive abnormal returns for both the acquirer and the parent company. I estimate the market model using daily returns to adjust for systematic risk.<sup>10</sup> Table 6 presents the results.

[Please insert Table 6 about here]

The market reaction for target firms is positive and statistically significant in all of the event windows. The reaction is concentrated around the announcement day (11.74% in the event window [-2, +2]), while the run-up before the transaction is relatively small (3.17% in the event window [-30, -3]). After the announcement, prices remain almost unchanged. Cumulative abnormal returns (CARs) in intragroup transactions are lower than CARs for M&A announcements involving a change of control, which is around 16% in Andrade et al. (2001) in the U.S. and about 12.28% in

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<sup>10</sup> The estimation period is a 200-day interval from day -240 to day -41 with respect to the event day.



Europe (Martynova and Renneboog 2006).<sup>11</sup> However, the magnitude of targets' share reaction in intragroup acquisition is still economically significant.

The positive and significant increase around the time of the acquisition announcement is hardly consistent with the view that intragroup transactions are merely designed to take advantage of the target's minority shareholders. Indeed, bidders offer a premium even if no control change is involved. The average premium with respect to the closing price one week before the deal is about 21.39% (median 15.73%).<sup>12</sup>

Given the overlap between them, it is not surprising that parent firms and acquirers have similar results. Around the announcement day, both acquirers and parents realize a small but significant positive abnormal return, which becomes insignificant in longer event windows. However, the reaction is larger than what is usually found in the literature for bidding firms. In fact, when the target is a listed firm, there is a negative reaction (Andrade et al. 2001). Because targets report positive and significant returns, the results for acquirers cannot be explained by a zero-sum game in which the controlling shareholders take advantage of minority investors. These results indicate that these deals create value, which is shared between targets and bidders. The lack of the listing effect may be due to the fact that there is less room for overvaluing a listed firm when the bidder is already in control. In fact, the controlling shareholder can easily obtain information about the true value of the target firm and take a fully informed decision.

Overall, intragroup transactions, which usually are aimed at getting rid of at least one layer in the group structure, are well received by the market. Even though such

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<sup>11</sup> 12.28% refers to the event window [-1, +1]. The CAR in the [-1, 1] event window is 10.36% in my sample. Abnormal returns are 14.73% in the event window [-5, +5] in Martynova and Renneboog (2006).

<sup>12</sup> Statistics and data concerning the takeover premium are based on Thompson One Banker's data and cover 1,015 out of 1,302 observations.

transactions do not result in a control change, target firms realize positive and significant abnormal returns, the economic significance of which is not negligible. Bidders' and parent companies' stock prices have a small but positive reaction at the time the transaction is announced. This can be due to synergies or better management, but it can also be explained by an expropriation-based argument. Almeida and Wolfezon (2006) argue that pyramids have both a payoff and a financing advantage when the amount of diversion is expected to be large. Thus, eliminating a layer in the pyramid may be a way of signaling the market that diversion is going to be reduced in the whole business group.

Panel B of Table 6 analyzes intragroup M&As according to the target region: Europe, Asia, Australia/New Zealand/South Africa, USA, Americas, and Eastern Europe. The results for Europe are similar to those for the full sample. The market reaction of target firms is positive and significant (9.31% in the event window [-2, +2]), which is smaller than the 12.28% found by Martynova and Renneboog (2006) in their study of European M&As in the period 1993–2001.<sup>13</sup> The announcement of an intragroup transaction is preceded by a run-up in the target stock price (4.43% in the event window [-30, -3]).

While both Europe and Asia are characterized by corporate groups, Faccio et al. (2005) find differences in the effectiveness of capital market institutions to prevent the use of debt to expropriate minority shareholders. However, when M&A transactions are used to restructure business groups, abnormal returns for Asian targets are similar to those reported for European ones, with the only exception being the event day (day 0). Reactions for bidders and parents are similar to those for Europe.

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<sup>13</sup> On the announcement day, the abnormal return for the Martynova and Renneboog (2006) sample is 9.01%, which is more than one third larger than the 5.45% reported by the targets in my sample.

The results for targets in Australia, New Zealand, and South Africa, all countries with a legal system of English origin, present some differences with respect to European and Asian targets. First, the run-up before the deal announcement is negligible. Second, the reaction around the announcement day is stronger.<sup>14</sup> Acquirers have poor stock price performance when the deal is announced—CARs are negative and significant in the event window (-2, +2)—which does not support any expropriation-based explanation.

Targets in the U.S. have the largest positive reactions. In the event window [-2, 2], the abnormal return (17.95%) is almost twice as large as that of European counterparts, and it is similar to the 16% reported by Andrade et al. (2001). Thus, even if there is no change of control involved in these transactions, target shareholders earn about as much as target shareholders in non-intragroup M&As. In the U.S., when acquiring or merging with a listed subsidiary, controlling shareholders have to negotiate the deal with a special committee of independent directors of the target firms. This fact, and the desire to avoid lengthy and costly litigations with target shareholders if the price is deemed unfair, certainly contribute to raising the offered price, and therefore increase the market reaction at the time of the acquisition announcement. There is no evidence of run-up before the announcement. The large return for the target's shareholders does not come at the expense of bidder's ones—in fact, contrary to the insignificantly negative reaction found by Andrade et al. (2001), the reaction for bidders (and parents) is positive and on announcement day (0).

In the Americas, a region that includes Canada and Latin America, results for targets are similar to those of the full sample, but bidders earn larger abnormal returns. However, the difference is not statistically significant.

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<sup>14</sup> The difference is statistically significant at the 10% level.

In the former Soviet bloc, target shareholders do not gain much—the abnormal return is an insignificant 2.33% in the event window [-2, +2], which means that they are worse off than their counterparts in Western Europe. In fact, the difference for the event window [-2, +2] is statistically significant at the 5% level. Bidders and parents are those who gain from the transactions. In fact, their abnormal returns are similar to those of target firms, which suggests that intragroup acquisitions are biased to favor of controlling shareholders in Eastern Europe. Target shareholders are simply offered the current market value of their shares, a result that can certainly be explained by the weak rights enjoyed by minorities in Eastern European countries. As Pistor (2000) and Berglof and Pajuste (2003) argue, privatizations of former state-owned companies favored managers and gave them an advantage over outsiders. The managers then often became the controlling shareholders in these corporations, leaving minorities with little protection. Atanasov et al. (2004) show that minority buyouts were used by controlling shareholders to divert assets in Bulgaria before (but not after) a legal change in 2001. However, these results have to be interpreted with caution given the small number of observations.

Previous literature emphasizes the importance of the legal origin in determining both the degree of market development and investor protection. Panel C presents event study results according to the legal origin of the target country. Target shareholders are better off in English origin countries, where they report significantly larger abnormal returns compared with shareholders in countries with French, German, or Scandinavian legal traditions. The higher return in common law countries is not a pure U.S.-driven effect. In fact, targets in both the United Kingdom (23.70%) and Hong Kong (25.70%) exhibit even higher returns than U.S. targets in the event window [-2, +2]. Target firms in

French- and German-origin countries have similar performance, while performance in Scandinavian-origin countries is marginally better, especially in  $[-2, +2]$ , and on day 0. Bidders realize larger gains in German-origin countries.

[Please insert Table 7 about here]

Table 7 presents an estimation of the percentage gain created by intragroup acquisitions, the combined CAR (CCAR). Following Bradley et al. (1988), I define CCAR as the cumulative abnormal return to a value-weighted portfolio of the  $i$ th target and the  $i$ th bidder.<sup>15</sup> The weights used are the market value of the target equity minus the value of the target shares held by the acquirer, and the market value of the acquiring firm as of the end of 30<sup>th</sup> business day prior to the acquisition announcement.<sup>16</sup>

As in Andrade et al. (2001) and Bradley et al. (1988), the CCAR is positive and significant (1.00% in the event window  $[-2, +2]$ ). Thus, on average, intragroup acquisitions create value. The CCARs are positive and significant in four out of six regions, and in the remaining two (Aus/NZ/SA and Eastern Europe) the combined CAR is negative but insignificant. However, in contrast to the targets' CAR, the highest CCAR is in the Americas, not in the U.S. The CCARs for different legal families are remarkably similar, with the only exception being deals in Scandinavian-origin countries, which report a CCAR of 1.97%. CCARs are positive but insignificant in the event window  $[-30, +30]$ .

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<sup>15</sup> I do not compute the combined value for the parent company because I do not have ownership data for the whole business group.

<sup>16</sup> As Bradley et al. (1988) argue, the statistical properties of the weighted average of the target's and bidder's CAR are unknown.

[Please insert Table 8 about here]

Table 8 documents the total dollar gain of the acquisition, the target firm's dollar gain, and the bidder's dollar gain. It goes without saying that these measures, computed following Bradley et al. (1988), depend upon the size of the firms involved in the deal.<sup>17</sup> The median combined dollar value is positive in all the regions, with the only exception being the tri-nation group Australia, New Zealand, and South Africa. Targets' dollar gains are positive everywhere but in Eastern Europe, which confirms the results of the event study. Bidders' dollar gains are relatively close to zero, as expected from Table 6.

Concerning legal origin, the combined dollar gain is always positive. It is lower in the English-origin countries, but these firms are usually the smallest and those with the most concentrated ownership, as Table 5 documents. Compared with other legal families, German-origin bidders obtain a larger share of the transaction gains. Again, this result is consistent with Table 6—German-origin bidders are those who gain the most.

While the analysis thus far has shown important differences for target firms at both the geographical and legal origin levels, previous literature documents that the performance of firms involved in an M&A deal also depend upon deal and firm characteristics. To take into account the effect of these variables, a multivariate cross-sectional analysis is performed in the next section.

## **6. Cross-sectional Analysis**

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<sup>17</sup> European and American targets and bidders are by far the largest.

The previous analysis shows that the reaction to the announcement of an intragroup deal differs according to the legal origin of the target's country, especially for targets. In this section, I control whether these differences are due to firms and deal characteristics that are known to affect the firm's reaction to the acquisition announcement.

The variables of interest in the regressions are the dummy variables for the four legal origin families: *English*, *French*, *German*, and *Scandinavian*. As in the event study analysis, these dummies refer to the target firm country. The dummy *English* is dropped to avoid multicollinearity. Thus, given the previous evidence and literature (La Porta et al. 1997, 1998, 2000; Djankov et al. 2006), I expect a negative and significant coefficient for these variables, in particular for *French*.

The control variables include firms' characteristics: size, ROA, M/B, stock price performance before the deal, leverage, cash holdings, collateral, and sales growth. *Size* is defined as the log of the firm's market value of equity at the end of the previous fiscal year (Worldscope Item WC07210). Size is expected to decrease the announcement reaction because takeover premiums are usually lower for large firms. *ROA* is the return on assets (WC08326). *Leverage* is defined as the book value of financial debt over the book value of total assets (WC03251/WC02999). *Cash Holding* is defined as cash plus tradable securities over total assets (WC02001/WC02999). *Collateral* is the ratio of tangible assets to total assets (WC02501/WC02999). *Sales Growth* is the growth rate in total sales (WC07240). *Market-to-book* is defined as market value of equity (WC07210) divided by common equity (WC07220). *Stock price* is defined as the stock price performance over the previous calendar year (WC05070). *Cash Holding* is the ratio between cash and equivalents and the book value of total assets (WC02001/WC02999).

Finally, *Relative Size*, the ratio between the deal value and the market value of the acquirer (parent), is also included in regressions for acquirers and parents.

I also control for the following deal characteristics: percentage of the target's equity held by the bidder before the transactions, the method of payment, and whether the deal is aimed at delisting the target firm. *Own Before* is the percentage of the target firm's equity held by the bidder before the transaction. I expect a smaller reaction the larger the stake held by the bidder. *Cash* is a dummy variable that takes value 1 if the method of payment of the deal is cash (at least 80% of the deal value).<sup>18</sup> Cash deals usually report larger reactions for target firms than stock-financed transactions. Bidders also report higher CARs when they use cash compared with deals where the form of payment is stock. *Taken Private* is a dummy variable taking value 1 when the deal aims at delisting the target firm. Because the bidder wants to take the target company private, it needs all of the target's minority shareholders to accept its offer.<sup>19</sup> Thus, the premium offered should be higher, leading to higher announcement abnormal returns. I also include dummies for the target firm's geographical region. I include these variables to be sure that the legal origin variables are not just proxies for the geographical location of the target firm.

Table 9 presents the results for target firms. The dependent variable is the abnormal return in the event window [-2, +2] in Columns I-IV and [-30, +30] in Columns V and VI. Consistent with the event study results, dummies for legal origin are negative and significant, indicating that the reaction is stronger in common law countries. The French, German, and Scandinavian dummies are all significant at the 1% level, and

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<sup>18</sup> Results do not change if I use the percentage of cash used in the deal instead of the dummy.

<sup>19</sup> Or, at least, enough shares to force a mandatory freeze-out bid.



they remain so after including both region and year dummies. Thus, the regression analysis confirms that target shareholders are better off in common law countries.

[Please insert Table 9 about here]

The only firm characteristics that are statistically significant are leverage and stock price performance.<sup>20</sup> Leverage has a negative coefficient. As Stulz (1988) argues, debt covenants reduce the bidder's gain from the acquisition and therefore decrease the premium offered. Moreover, a high level of debt on the part of the target may prevent the bidder from issuing new debt. Leverage is not significant when the dependent variable is the CAR in event window [-30, +30]. A good stock price performance in the year before the acquisition decreases the abnormal return, a result that is consistent with the fact that intragroup deals are more valuable for minority shareholders in poorly performing companies. In fact, in this case, intragroup transactions may be the only way out for minority shareholders, especially when liquidation or bankruptcy is not a remote possibility. Conversely, when the company is performing well, the stock price is less depressed to start with, and the option to sell to parent companies is less valuable. Consistent with the literature, the market prefers cash deals to stock deals, and there is less uncertainty about the offer value when the method of payment is cash. As expected, when the deal is aimed at delisting a subsidiary, the market reaction is stronger.

About the region dummies, only Eastern Europe is significant when the dependent variable is CAR in [-2, +2]. The coefficient is negative, which indicates that target

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<sup>20</sup> In an unreported regression, I included a dummy variable for diversifying transactions (bidders and targets belong to different industries). The results do not change, and the diversifying dummy is not significant.

shareholders are worse off in the former Soviet bloc. However, the results for region dummies are not robust to the change of the event window. In fact, Europe, Asia, and the Americas are positive and significant and East Europe is not in Column VI, where the dependent variable is the CAR in [-30, +30].

Table 10 shows the regression results for bidders. As suggested by the event study results, the legal origin variables do not affect the bidder's returns. Among the other variables, relative size has the expected negative impact on the bidder's CAR. The larger the target, the lower is the abnormal return. A high market-to-book ratio reduces the abnormal return for bidders, which is consistent with the Shleifer and Vishny (2003) overvaluation story. The positive and significant coefficient for the cash deal dummy in Columns II and IV is also consistent with overvaluation. Bidders gain more when the targets become fully owned subsidiaries. Dummies for Europe; Australia, New Zealand, and South Africa; and Eastern Europe are negative and significant, and both the stock price and the operating performance are significant when the event window [-30, +30] is used. The coefficient for ROA is positive, but the coefficient for stock price performance is negative, which indicates that firms with good performance may be called upon to rescue poorly performing targets and that successful targets may be merged with poorly performing bidders. This explanation is supported by Table 9. Collateral and Sales Growth have negative and statistically significant coefficients.

[Please insert Table 10 about here]

I also run the same regressions for parents firms, and the results are similar to those presented in Table 10. However, two differences deserve to be mentioned. First, the stock price performance is negative and significant in all of the regressions, which confirms that intragroup transactions may be used at the group level to smooth out performances. Second, regional dummies are no longer significant.

Tables 9 and 10 have shown that legal origin is a key determinant in the target price reaction to the intragroup deal announcement, but it does not influence bidders' reactions.<sup>21</sup> The evidence suggests that the target's minority investors reap greater benefits in terms of market reaction in common law countries. Overall, there is no evidence to support the view that these transactions are designed to take advantage of minority shareholders in the target firms, even in civil law countries. In fact, abnormal returns are normally positive and significant for target firms everywhere. Thus, rather than expropriation, the difference in returns seems to be based on how the gains from the transaction are split between target's minority shareholders and the bidder/parent company. The set of rules, traditions, laws, and enforcement in English-origin countries gives more power to the target's minority shareholders, who are therefore in a position to extract a larger share of the gains.

## **7. Cross-Country Deals**

One important deal characteristic that I have not taken into account thus far is whether the deal involves firms incorporated in different countries. The target and the acquirer are incorporated in different countries in roughly 29% of the deals, and the percentage of

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<sup>21</sup> Results would be similar if I use the legal origin of bidders or parent companies. In the sake of brevity, these regressions are omitted.

cross-country deals—i.e., deals involving firms from different countries—is a bit higher (36%) when I look at the nationality of targets and parent companies.

In an unreported analysis, I find that target shareholders realize larger gains in cross-country deals (15.30% in the event window [-2, +2]) than in same-country deals (10.29%), a difference that is statistically significant. Conversely, acquirers and parent companies earn larger returns in same-country deals, but the difference between same and cross-country deals is not statistically significant. Given the overlap between parents and bidders, it is not surprising that I find a similar pattern when cross-country deals are defined on the basis of the target and parent companies' nationalities.

Breaking down the observations according to the legal origin of the target firm's country, I find that targets in English-origin countries earn a much higher CAR when the acquirer is foreign (21.54%) than when it is local (14.68%). The same pattern occurs for targets in German-origin countries (11.96% vs. 6.95%) but not for those in French- and Scandinavian-origin countries. In fact, in these countries, CARs for cross-country and same-country deals are not statistically different (7.97% vs. 5.50% and 13.43% vs. 12.54% in French and Scandinavian countries, respectively). The higher CARs for cross-country deals in English-origin countries are due to acquisitions made by acquirers whose country is not of English origin. While the average CAR when the bidder is from an English-origin country (including the target's country) is 15.91%; the CAR is 19.66%, 29.27%, and 20.20% when the bidder is from French-, German-, and Scandinavian-origin countries, respectively. Thus, foreign bidders that are buying out minorities in English-origin countries are extremely careful about minority investors, but there is no such clear pattern for the other legal families.

I now rerun the regression models of Tables 8 and 9 with a dummy variable for cross-country deals included. While I find that the cross-country dummy is usually positive and significant (even if only at the 10% level), the results do not change, especially those regarding the impact of the legal origin dummies on CARs.<sup>22</sup>

## **8. Robustness Checks**

### *8.1 A shorter sample period: 1996–2005*

The sample period is relatively long—twenty years, starting in 1986. However, the great majority of deals take place between 1996 and 2005 (1,009 out of 1,302). Moreover, given Thomson One Banker coverage, it is more likely that there are more missing deals in Asia and Latin America than in the U.S. or Canada, especially in the early years of the sample period. In fact, there are only 104 intragroup acquisitions in civil law countries during the period 1986–1995. Finally, the recent increase in attention to corporate governance and investor rights even in civil law countries might have mitigated the differences in investor protections across different regimes in the last part of the sample period.

To control whether these potential biases affect the results presented in the previous section, I run the same regressions using a shorter sample period: 1996–2005. In an unreported analysis, I find that the results for the subsample 1996–2005 closely match those of the full sample. Legal origin dummies for French, German, and Scandinavian legal origin have negative and significant coefficients in regressions for target firms, but they are usually not significant in regressions for bidders and parents. Thus, the choice of a longer sample period does not seem to affect the results.

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<sup>22</sup> The regression results are available upon request.

## *8.2 Are the bidder and parent company the same firm?*

One of the major differences in intragroup transactions concerns which firm actually carries out the acquisition. In fact, sometimes parent companies do not directly buy out the listed subsidiaries but instead use another firm in their business group as the acquisition vehicle. This strategy may be used to make the transaction less transparent or, even worse, to expropriate the bidder's shareholders. Thus, I control for whether results differ according to whether the parent company (as recorded by Thomson One Banker) makes the acquisition directly.

Parent companies are the bidding firm in the majority of the observations in my sample. In fact, parent companies and acquirers are the same firm in 717 out of the 1,302 deals included in the analysis (55.06%). There is no difference for the target shareholders if the parent company makes the acquisition or not. In fact, the abnormal return is similar (12.43% when the bidder is not the parent company vs. 10.88% when the bidder is the parent company in [-2, +2]).<sup>23</sup> While CARs are usually larger when the parent and the bidder are different firms, for the two subsamples they are not statistically different for acquirers. Parent firms that do not acquire directly have a larger positive reaction around the acquisition announcement (0.79% in the event window [-2, +2]) than parent companies that are also bidders (0.21%). Although the difference is again not statistically significant, this reaction is consistent with the fact that parent companies (and the controlling shareholders) gain more when they do not bear the full cost of the acquisition but instead share it with the subsidiary's minority shareholders.

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<sup>23</sup> CARs are similar for the other event windows, as well.

Using multivariate regressions, I also look at the effect of the strategy of acquiring directly or through a subsidiary. In an unreported analysis, I include a dummy that takes value 1 when the parent company is also the bidder in the intragroup deals in the regression model of Table 9. The dummy is not statistically significant in any regression, and the results for the other variables are identical to those shown in Table 9. I also run the model for the different subsamples: intragroup acquisitions made directly by the parent, and intragroup acquisitions made through a subsidiary. The main finding—i.e., the negative and significant coefficient for legal origin variables—is confirmed.

Regarding acquirers, the inclusion of the dummy taking value 1 when the parent company carries out the acquisition do not alter the results shown in Table 10. The dummy is generally not significant. In unreported regressions, legal origin variables remain insignificant in all of the regressions when I subdivide the full sample according to whether or not acquirers and parent companies are the same firm.

### *8.3 Does legal origin affect returns at the regional level?*

In previous sections, I have documented the importance impact of legal origin on target minority shareholder returns. However, I do not know if legal origin affects returns in the same way in different regions. Table 11 shows the results for target firms in Europe, Asia, and the Americas.<sup>24</sup>

[Please insert Table 11 about here]

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<sup>24</sup> Regressions are not performed for the U.S. and Australia/New Zealand/South Africa because all of these countries have an English legal origin. Regressions are not performed for the former Soviet bloc because of the small number of observations.

Results in Table 11 confirm the importance of legal origin even at the regional level. French, German, and Scandinavian dummies are all negative and significant in the regressions for Europe. Thus, shareholders are again better off in common law countries—i.e., Ireland and the United Kingdom. The coefficients for French, German, and Scandinavian legal origin are not statistically different from one another. The remaining variables offer a slightly different picture with respect to Table 8. While the taken private dummy and stock price performance are still significant, the dummy for cash deals and leverage are no longer significant. However, M/B becomes negative and significant, which supports the hypothesis that these deals are more valuable for poorly performing targets.

Shareholders in Asian countries with French or German legal tradition (no country has Scandinavian origin in Asia) are worse off than their counterparts in English origin countries. Findings for Asian targets are similar to European ones, except the fact that in Asia the market reaction is larger for cash deals. Conversely, results are a little different in the Americas, where all countries but Canada are civil law countries of French origin. In fact, legal origin is not significant. No variable is significant, with the sole exception of *Taken Private* in Column V and *Stock Price Performance* in Column VI.

Overall, regressions at the regional level confirm the importance of legal origin in explaining the market reaction for target firm's stock prices. As is the case for the full sample, legal origin does not play such an important role in determining CARs for acquirers and parent companies. In untabulated regressions, I find that dummies for legal



origin are usually insignificant—only the dummy for French countries has a positive and statistically significant coefficient in the regression for bidders in Asia.

#### *8.4 Mergers vs. Acquisitions*

So far, I have not considered the form of the deal—i.e., whether the intragroup transaction is a merger or an acquisition. The form of the deal may matter because there is more room for expropriation in mergers than in acquisitions. However, mergers are not common in my sample, with only 101 transactions taking that form.<sup>25</sup> CARs for mergers are lower than CARs for acquisitions: 8.75% vs. 11.99% in [-2, +2], but the difference is not statistically significant. While CARs for acquisitions show the same differences of the full sample, CARs for mergers are remarkably similar across legal families (from 7.12% of German-origin countries to 10.32% of Scandinavian ones). Regression results for the acquisition subsample are similar to those in Table 8, but no variable is significant in the regressions for the merger subsample.

### **9. Conclusion**

The paper focuses on two objectives. The first is to determine whether intragroup acquisitions are used across the world to expropriate minority shareholders in target firms. The second is to determine the effect of different legal origin families on how these minority shareholders are treated.

Contrary to the expropriation hypothesis, the paper shows that intragroup acquisitions create value and that part of this gain goes to minority shareholders. This result is common across all the regions examined (the only exception being Eastern

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<sup>25</sup> The number of mergers and acquisitions is based on the form of the deal as reported by Thomson One.

Europe) and legal origin families. Despite the lack of expropriation, target shareholders do not enjoy the same privileges everywhere. In fact, in common law countries they earn abnormal returns higher than those realized by target shareholders in civil law countries. Thus, while all of the legal regimes seem to provide at least a minimum level of investor protection at the time of the intragroup M&A, the English tradition gives a stronger bargaining position to minority investors when dealing with controlling shareholders. The result of this stronger position is that target firms' minority shareholders get a larger share of the value created by the transactions.

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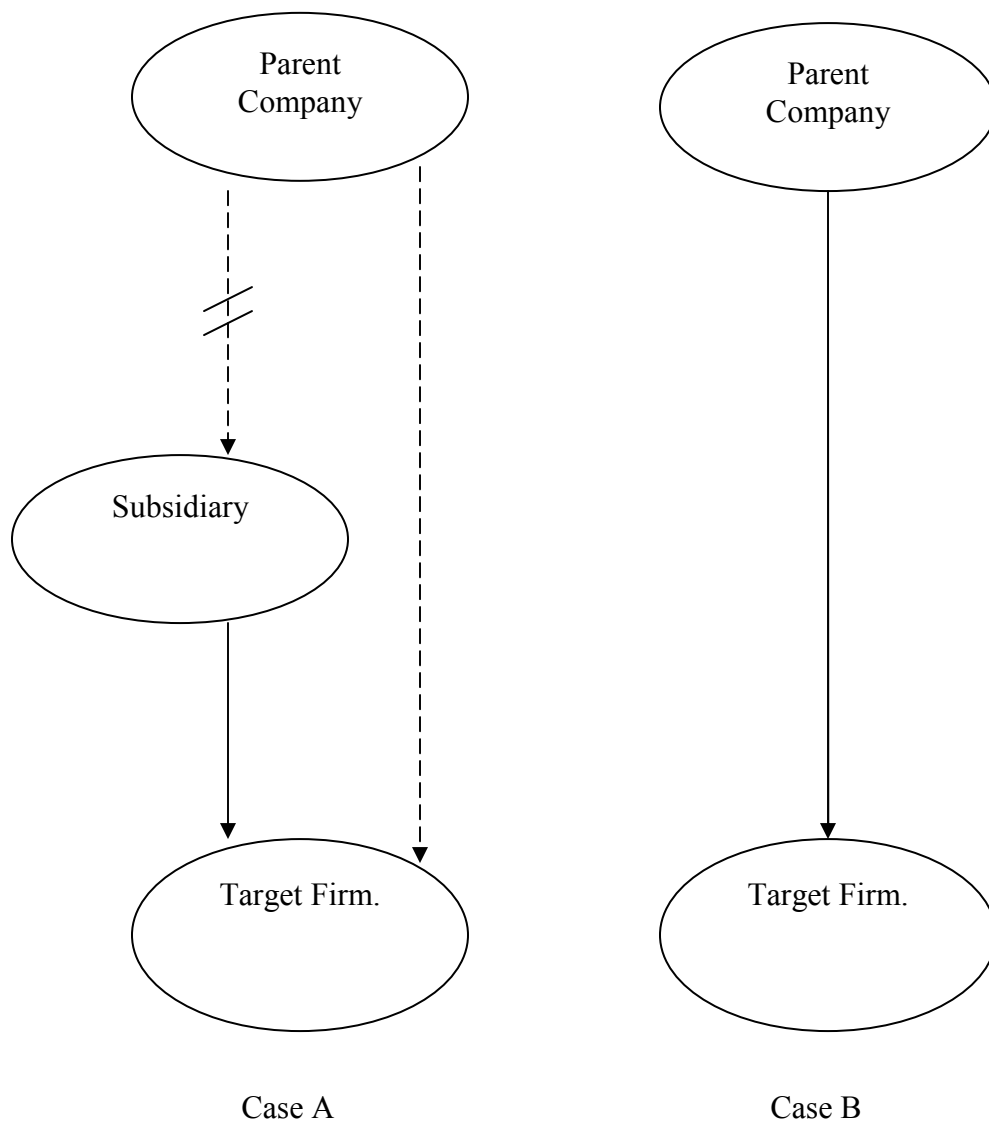


Figure 1. Type of intragroup acquisitions. The figure shows the two types of intragroup acquisitions considered in the paper. In Case A, the acquisition is not carried out by the parent company itself but through another subsidiary, which acts as the bidder in the transaction. The dashed line indicates that there could be other companies in the group pyramids. In Case B, the parent company acts directly as bidder in the transaction.

**Table 1. Sample**

The table reports the steps used to build the database. Deals are subdivided according to the target firm's region. All mergers and acquisitions are from Thompson One Banker's database.

<i>Region</i>	<i>Western Europe</i>	<i>Eastern Europe</i>	<i>Asia</i>	<i>Aus/NZ/SA</i>	<i>Americas</i>	<i>U.S.</i>	<i>Total</i>
All acquisitions from all mergers & acquisitions with							
- Target or acquirer public							
- Announcement date from 01.01.1986 to 12.31.2005							
- Deal value > \$1m							
Total	33852	1660	22397	8303	12640	65194	144047
<i>Number of deals left after the following criteria</i>							
Same Ultimate Parent	4460	279	5418	1117	3142	17248	31664
Target Listed	2821	155	3628	736	2624	15859	25823
Share Buybacks	1425	134	954	294	516	715	4038
Owned after > 30%	1313	128	890	217	470	673	3691
Deal Status Completed	1003	80	627	198	355	581	2844
Acquired less than 5%	862	75	574	191	325	559	2586
<i>Deals lost because:</i>							
No intragroup deals	-331	-28	-158	-53	-119	-279	-968
<i>Intragroup deals</i>							
No Datastream data	-105	-18	-60	-24	-63	-46	-316
<i>Deals included</i>	426	29	356	114	143	234	1302
<i>Countries in the region</i>	19	12	13	3	12	1	60
	Austria	Bulgaria	China	Australia	Argentina	USA	
	Belgium	Croatia	Hong Kong	New Zeal.	Bolivia		
		Czech		South			
	Denmark	Rep	India	Africa	Brazil		
	Finland	Estonia	Indonesia		Canada		
	France	Latvia	Israel		Chile		
	Germany	Lithuania	Japan		Colombia		
	Greece	Poland	Malaysia		Ecuador		
	Iceland	Romania	Philippines		Mexico		
	Italy	Russia	Singapore		Paraguay		
		Slovak					
	Luxemb.	Rep.	Korea		Peru		
	Netherlands	Slovenia	Taiwan		Uruguay		
	Norway	Ukraine	Thailand		Venezuela		
	Portugal		Vietnam				
	Ireland						
	Spain						
	Sweden						
	Switzerland						
	Turkey						
	UK						

**Table 2. Observations by Country and Legal Origin**

The table reports the number of observations for each country. The legal origin (LO) of the country is also reported. Following Djankov et al. (2006), I classify legal origin into four groups: English origin, French origin, German origin, and Scandinavian (Scandin.) origin.

Europe		Eastern Europe			Asia			Americas			
Country	LO	Obs	Country	LO	Obs	Country	LO	Obs	Country	LO	Obs
Austria	German	7	Bulgaria	German	0	China	German	9	Argentina	French	13
Belgium	French	20	Croatia	German	0	Hong Kong	English	41	Bolivia	French	0
Denmark	Scandin.	5	Czech R.	German	7	India	English	36	Brazil	French	33
Finland	Scandin.	12	Estonia	German	1	Indonesia	French	7	Canada	English	71
France	French	112	Latvia	German	1	Israel	English	11	Chile	French	11
Germany	German	44	Lithuania	French	1	Japan	German	172	Colombia	French	6
Greece	French	4	Poland	German	16	Malaysia	English	18	Ecuador	French	0
Iceland	Scandin.	0	Romania	French	1	Philippines	French	3	Mexico	French	6
Italy	French	62	Russia	French	1	Singapore	English	38	Paraguay	Unkn.	0
Luxembourg	French	6	Slovak R.	German	1	Korea	German	9	Peru	French	3
Netherlands	French	17	Slovenia	Unkn.	0	Taiwan	German	2	Uruguay	French	0
Norway	Scandin.	8	Ukraine	French	0	Thailand	English	10	Venezuela	French	0
Portugal	French	18	<b>Total</b>		<b>29</b>	Vietnam	Unkn.	0	<b>Total</b>		<b>143</b>
Ireland	English	1				<b>Total</b>		<b>356</b>			
Spain	French	22									
Sweden	Scandin.	33									
Switzerland	German	13									
Turkey	French	1									
UK	English	41	<b>Aus/NZ/SA</b>			<b>USA</b>			<b>Legal Origin (World)</b>	<b>%</b>	
<b>Total</b>		<b>426</b>	Country	LO	Obs	Country	LO	Obs	English	47.24	615
			Australia	English	54	USA	English	234	French	26.65	347
			New Zeal.	English	33	<b>Total</b>		<b>234</b>	German	21.66	282
			South Afr.	English	27				Scandin.	4.45	58
			<b>Total</b>		<b>114</b>				<b>Total</b>		<b>1302</b>



**Table 3, Frequencies of Intragroup Acquisitions**

The table reports the number of non-intragroup acquisitions, intragroup acquisitions, and total M&As with a deal value larger than \$1 million during the period 1986–2005 that satisfy the following requirements: the target is listed, the deal is not a share buyback, the percentage of the target firm’s equity owned after the transaction is larger than 30%, the deal is completed, and the percentage acquired in the transaction is larger than 5%. Panel A subdivides the observations according to the region of the target firm. Panel B subdivides the observations according to the legal origin of the target firm’s country.

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	<i>Non- Intragroup Acquisitions</i>	<i>%</i>	<i>Intragroup Acquisitions</i>	<i>%</i>	<i>Total</i>
<b><i>Panel A: Regions</i></b>					
Europe	4443	89.32%	531	10.68%	4974
Asia	2474	85.61%	416	14.39%	2890
Aus/NZ/SA	1157	89.34%	138	10.66%	1295
Americas	8493	96.81%	280	3.19%	8773
USA	1997	90.65%	206	9.35%	2203
East Europe	297	86.34%	47	13.66%	344
<b><i>Panel B: Legal Origin</i></b>					
English	14401	94.91%	772	5.09%	15173
French	2282	83.25%	459	16.75%	2741
German	1559	83.10%	317	16.90%	1876
Scandinavian	619	89.84%	70	10.16%	689
Total	18861	92.10%	1618	7.90%	20479

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**Table 4. Accounting and Market-based Statistics**

The table presents accounting and market-based statistics for Target, Acquirers, and Parent Companies. *Size* is defined as the firm's market value of equity (US\$) at the end of the previous fiscal year (Worldscope Item WC07210). *Total Assets* is the book value of the firm's total assets in US\$ (WC07230). *Sales Growth* is the growth rate in total sales (WC07240). *Collateral* is the ratio of tangible assets to total assets (WC02501/WC02999). *ROA* is the return on assets (WC08326). *Cash Holding* is defined as cash plus tradable securities over total assets (WC02001/WC02999). *Leverage* is defined as the book value of financial debt as a percentage of the book value of total assets (WC03251/WC02999). *Market-to-book* is defined as market value of equity in US\$ (WC07210) divided by common equity in US\$ (WC07220). *Stock price performance* is defined as the stock price performance over the previous calendar year (WC05070). *Own. Before* is the percentage of the target firm's equity held by the bidder before the transaction. *Own. After* is the percentage of the target firm's equity held by the bidder after the transaction. The p-values of the tests for difference in mean (t-test) and equality of median (median test) between target firms and acquirers and between target firms and parent companies are reported.

<b>Target</b>						
	Mean	Median	N.Obs			
Size	1117512.5	208247	956			
Total Assets	3946572.1	405052	969			
Collateral	0.3073	0.2641	956			
ROA	2.0650	3.8900	939			
Cash Holding	0.1382	0.0782	873			
Leverage	0.1235	0.0616	962			
M/B	3.4238	1.3722	928			
Stock Perf.	0.1075	0.0000	947			
Sales Growth	3.2530	0.0550	946			
Own. Before	58.8153	62.0000	1302			
Own. After	92.3675	100	1302			

<b>Acquirer</b>						
	Mean	Median	N.Obs	Difference Acquirer-Target		
				t-test	Median test	
Size	8995520.2	2173604	796	0.0000	0.000	
Total Assets	31261215	4649664.5	804	0.0000	0.000	
Collateral	0.3099	0.2903	797	0.8186	0.231	
ROA	3.8859	3.7450	788	0.1657	0.595	
Cash Holding	0.1123	0.0807	709	0.0003	0.578	
Leverage	0.1850	0.1594	803	0.0000	0.000	
M/B	2.2976	1.6880	791	0.1562	0.000	
Stock Perf.	0.1425	0.0625	781	0.2424	0.005	
Sales Growth	0.1325	0.0846	792	0.2157	0.024	

<b>Parent Company</b>						
	Mean	Median	N.Obs	Difference Parent-Target		
				t-test	Median test	
Size	12697264	2924390.5	892	0.0000	0.000	
Total Assets	41490910	6331645	901	0.0000	0.000	
Collateral	0.3002	0.2770	892	0.5259	0.429	
ROA	3.9159	3.6800	879	0.1349	0.606	
Cash Holding	0.1121	0.0840	783	0.0001	0.325	
Leverage	0.1815	0.1567	900	0.0000	0.000	
M/B	2.3070	1.7767	888	0.1361	0.000	
Stock Perf.	0.1436	0.0649	877	0.2074	0.001	
Sales Growth	0.1317	0.0858	877	0.1925	0.008	

**Table 5. Accounting and Market-based Statistics by Legal Origin**

The table presents accounting and market-based statistics for Target, Acquirers, and Parent companies. *Size* is defined as the firm's market value of equity (US\$*k*) at the end of the previous fiscal year (Worldscope Item WC07210). *Total Assets* is the book value of the firm's total assets in US\$*k* (WC07230). *Sales Growth* is the growth rate in total sales (WC07240). *ROA* is the return on assets (WC08326). *Cash Holding* is defined as cash plus tradable securities over total assets (WC02001/WC02999). *Leverage* is defined as the book value of financial debt as percentage of the book value of total assets (WC03251/WC02999). *Market-to-book* is defined as market value of equity in US\$ (WC07210) divided by common equity in US\$ (WC07220). *Stock price performance* is defined as the stock price performance over the previous calendar year (WC05070). *Own. Before* is the percentage of the target firm's equity held by the bidder before the transaction. *Own. After* is the percentage of the target firm's equity held by the bidder after the transaction. The p-values of the tests for difference in mean (t-test) and equality of median (median test) between target firms and acquirers (parent companies) are reported.

	<i>Mean</i>	<i>Median</i> <i>Target</i>	<i>N. Obs.</i>	<i>Mean</i>	<i>Median</i> <i>Acquirers</i>	<i>N. Obs.</i>
<b>English Origin</b>						
Size	850780.4	191480.5	408	5497002	1315195	339
Total Assets	1839310.1	306531	413	15668304	2325818	343
ROA	0.8395	4.9500	391	4.5268	4.5900	335
Cash Holding	0.1328	0.0717	383	0.1048	0.0644	312
Leverage	0.1480	0.0786	411	0.1998	0.1621	343
M/B	4.4555	1.3873	394	2.3024	1.6872	337
Stock Perf.	0.0926	-0.0091	399	0.1339	0.0579	334
Sales Growth	6.9569	0.0719	394	0.2157	0.0869	336
Own. Before	59.6771	63.3390	615			
Own. After	93.2291	100	615			
<b>French Origin</b>						
Size	2091055.1	390649.5	262	14502239	4365794	208
Total Assets	8852039.2	930098	267	64077989	15895610	211
ROA	4.2408	4.3000	264	4.1639	3.5800	206
Cash Holding	0.1324	0.0640	217	0.1123	0.0829	167
Leverage	0.1171	0.0740	263	0.1750	0.1585	211
M/B	1.8905	1.4261	252	2.2927	1.8099	206
Stock Perf.	0.1946	0.0625	269	0.2166	0.1008	204
Sales Growth	1.1201	0.0446	267	0.2981	0.0777	210
Own. Before	59.0345	62.1320	347			
Own. After	91.3648	98.085	347			
<b>German Origin</b>						
Size	633256.8	128068	246	10396928	2879038	213
Total Assets	2652776.5	295626	249	28205577	5765579	214
ROA	1.1934	2.1200	245	2.1043	1.4600	211
Cash Holding	0.1592	0.1055	237	0.1226	0.0973	197
Leverage	0.0798	0.0265	248	0.1733	0.1600	214
M/B	3.5765	1.3034	242	2.3581	1.7267	212
Stock Perf.	0.0520	-0.0476	238	0.0779	0.0222	209
Sales Growth	0.1307	0.0294	246	-0.1968	0.0628	211
Own. Before	57.7517	59.7700	282			
Own. After	92.2011	100	282			
<b>Scandinavian Origin</b>						
Size	439648.1	241686.5	40	1831637	860499.5	36
Total Assets	1013937.3	447337	40	5648323	2211000	36
ROA	5.0979	5.8700	39	6.7719	5.9200	36
Cash Holding	0.0921	0.0674	36	0.1212	0.0762	33
Leverage	0.1853	0.2136	40	0.1713	0.1703	35
M/B	1.9976	1.3456	40	1.9236	1.3962	36
Stock Perf.	0.0039	0.0585	41	0.1791	0.1708	34
Sales Growth	0.1314	0.0698	39	0.3272	0.1174	35
Own. Before	53.5382	55.3000	58			
Own. After	90.0383	100	58			

**Table 6. Event Study Results**

Panel A presents the event study results for the whole sample of targets, acquirers, and parent companies involved in intragroup transactions during the period 1986–2005. Panel B presents the results according to the region of the target country. Panel C presents the results according to the legal origin of the target country.

	Targets		Acquirers		Parents	
<b>Panel A: All</b>						
Ev. Window	CAR	t-stat	CAR	t-stat	CAR	t-stat
(-30, -3)	3.17%	4.0825	0.39%	0.8404	0.07%	0.1722
(-30, 30)	17.05%	13.8790	1.20%	1.6300	0.67%	1.0084
0	6.08%	44.0680	0.34%	4.1701	0.38%	5.0742
(-2, 2)	11.74%	37.6740	0.32%	1.7443	0.44%	2.6318
N. Obs.		1302		860		948
<b>Panel B: By Region</b>						
<i>Europe</i>						
Ev. Window	CAR	t-stat	CAR	t-stat	CAR	t-stat
(-30, -3)	4.43%	5.5829	0.17%	0.2493	0.16%	0.2464
(-30, 30)	18.15%	14.4800	0.30%	0.2728	0.18%	0.1771
0	5.46%	38.8160	0.31%	2.5081	0.23%	2.0171
(-2, 2)	9.31%	29.2880	0.37%	1.3177	0.47%	1.8024
N. Obs.		426		269		277
<i>Asia</i>						
Ev. Window	CAR	t-stat	CAR	t-stat	CAR	t-stat
(-30, -3)	4.57%	4.3298	0.32%	0.3826	-0.29%	-0.3692
(-30, 30)	15.57%	9.3299	1.65%	1.2370	0.40%	0.3211
0	2.73%	14.5710	0.35%	2.3617	0.32%	2.2839
(-2, 2)	10.92%	25.7830	0.56%	1.6572	0.36%	1.1368
N. Obs.		356		255		288
<i>Australia, New Zealand, South Africa</i>						
Ev. Window	CAR	t-stat	CAR	t-stat	CAR	t-stat
(-30, -3)	0.01%	0.0030	-2.64%	-1.3805	-2.01%	-1.1424
(-30, 30)	13.47%	1.9085	-3.37%	-1.1151	-1.68%	-0.6028
0	6.61%	8.3379	-0.34%	-0.9992	0.37%	1.1977
(-2, 2)	12.55%	7.0137	-1.84%	-2.4049	0.03%	0.0487
N. Obs.		114		61		75
<i>USA</i>						
Ev. Window	CAR	t-stat	CAR	t-stat	CAR	t-stat
(-30, -3)	0.71%	0.2492	-0.11%	-0.0838	-0.21%	-0.1969
(-30, 30)	20.90%	4.6469	3.14%	1.5631	2.91%	1.7396
0	11.92%	23.5680	0.94%	4.1389	1.01%	5.3483
(-2, 2)	17.95%	15.7220	0.53%	1.0430	0.78%	1.8319
N. Obs.		234		159		174

**Table 6. (Cont.)**

		<b>Targets</b>		<b>Acquirers</b>		<b>Parents</b>	
<b>Americas</b>							
Ev. Window		CAR	t-stat	CAR	t-stat	CAR	t-stat
(-30, -3)		2.68%	1.6743	2.99%	2.0408	1.68%	1.3515
(-30, 30)		16.87%	6.6510	2.15%	0.9288	0.18%	0.0926
	0	7.27%	25.6080	-0.03%	-0.1206	-0.01%	-0.0550
(-2, 2)		12.11%	18.8850	0.79%	1.3455	0.46%	0.9217
N. Obs.			143		99		110
<b>Eastern Europe</b>							
Ev. Window		CAR	t-stat	CAR	t-stat	CAR	t-stat
(-30, -3)		2.25%	0.5754	5.25%	1.7883	4.57%	1.8971
(-30, 30)		2.72%	0.4402	1.24%	0.2669	2.77%	0.7299
	0	1.18%	1.6972	-0.18%	-0.3503	-0.04%	-0.0850
(-2, 2)		2.33%	1.4900	-0.78%	-0.6589	-0.16%	-0.1688
N. Obs.			29		17		24
<b>Panel C: Legal Origin</b>							
<b>English</b>							
Ev. Window		CAR	t-stat	CAR	t-stat	CAR	t-stat
(-30, -3)		2.48%	1.6981	-0.04%	-0.0506	-0.42%	-0.6213
(-30, 30)		20.56%	8.9100	0.77%	0.6224	0.44%	0.4188
	0	9.31%	35.9230	0.43%	3.1172	0.54%	4.5081
(-2, 2)		16.68%	28.5000	-0.14%	-0.4411	0.36%	1.3594
N. Obs.			615		383		442
<b>French</b>							
Ev. Window		CAR	t-stat	CAR	t-stat	CAR	t-stat
(-30, -3)		4.36%	4.5522	0.61%	0.8203	0.07%	0.0993
(-30, 30)		16.90%	11.1670	1.19%	1.0210	0.72%	0.6595
	0	3.04%	17.9230	0.33%	2.5493	0.29%	2.3159
(-2, 2)		6.36%	16.5990	0.64%	2.1563	0.58%	2.0785
N. Obs.			347		220		231
<b>German</b>							
Ev. Window		CAR	t-stat	CAR	t-stat	CAR	t-stat
(-30, -3)		3.35%	3.1118	0.64%	0.7277	0.72%	0.87241
(-30, 30)		10.40%	6.1083	1.75%	1.2661	1.50%	1.1499
	0	2.20%	11.511	0.37%	2.4103	0.30%	2.0306
(-2, 2)		7.34%	16.995	0.93%	2.6516	0.57%	1.7295
N. Obs.			282		219		239
<b>Scandinavian</b>							
Ev. Window		CAR	t-stat	CAR	t-stat	CAR	t-stat
(-30, -3)		2.56%	1.2184	2.06%	1.0059	1.77%	0.88198
(-30, 30)		12.98%	3.9038	2.31%	0.7143	-2.48%	-0.78205
	0	8.82%	23.662	-0.69%	-1.8988	-0.45%	-1.2746
(-2, 2)		12.80%	15.205	-0.31%	-0.3770	-0.36%	-0.45228
N. Obs.			58		38		36

**Table 7. Combined CARs**

Following Bradley et al. (1988), I define combined CAR (CCAR) as the cumulative abnormal return to a value-weighted portfolio of the  $i$ th target and the  $i$ th bidder. The weights are the market value of the target equity, minus the value of the target shares held by the acquirer, and the market value of the acquiring firm as of the end of the 30<sup>th</sup> business day prior to the acquisition announcement. Panel A presents the event study results for the whole sample of targets and acquirers involved in intragroup transactions during the period 1986–2005. Panel B presents the results according to the region of the target country. Panel C presents the results according to the legal origin of the target country.

**Panel A: All**

Ev. Window	Targets-Acquirers	
	CAR	t-stat
(-30, -3)	0.37%	0.4433
(-30, 30)	1.68%	1.2810
0	0.67%	4.5230
(-2, 2)	1.00%	3.0140
N. Obs.		859

**Panel B: Combined Target-Acquirer By Region**

Ev. Window	Europe		Asia		Aus/NZ/SA	
	CAR	t-stat	t-test	p-value	t-test	p-value
(-30, -3)	0.35%	0.4335	0.21%	0.1859	-2.56%	-0.3180
(-30, 30)	1.03%	0.8004	1.69%	0.9277	-2.56%	-0.2013
0	0.69%	4.8210	0.42%	2.0545	0.15%	0.1015
(-2, 2)	1.10%	3.3878	0.92%	1.9947	-0.58%	-0.1796
N. Obs.		269		255		60

Ev. Window	USA		Americas		East Europe	
	CAR	t-stat	CAR	t-stat	t-test	p-value
(-30, -3)	-0.05%	-0.0255	2.45%	1.2528	5.05%	0.9179
(-30, 30)	3.24%	1.0586	3.41%	1.1005	2.24%	0.2581
0	1.33%	3.8678	0.65%	1.8772	-0.35%	-0.3565
(-2, 2)	1.21%	1.5571	1.94%	2.4794	-1.15%	-0.5190
N. Obs.		159		99		17

**Panel C: Combined Target-Acquirer By Legal Origin**

Ev. Wind.	English		French		German		Scandinavian	
	CAR	t-stat	CAR	t-stat	CAR	t-stat	CAR	t-stat
(-30, -3)	-0.11%	-0.0677	0.76%	0.7783	0.53%	0.4525	2.00%	0.7841
(-30, 30)	1.57%	0.6089	1.90%	1.2352	1.68%	0.9092	1.56%	0.3860
0	0.99%	3.4341	0.45%	2.5999	0.32%	1.5168	0.67%	1.4780
(-2, 2)	0.92%	1.4100	0.97%	2.4870	1.01%	2.1599	1.97%	1.9252
N. Obs.		382		220		219		38

**Table 8. Combined, Target, and Bidder Gains**

I define combined gain as combined value multiplied by CCAR (the cumulative abnormal return to a value-weighted portfolio of the  $i$ th target and the  $i$ th bidder). The combined value is the sum of the market value of the target equity, minus the value of the target shares held by the acquirer, and of the market value of the acquiring firm as of the end of the 30<sup>th</sup> business day prior to the acquisition announcement (US\$ million). The target gain is the target firm's CAR multiplied by the market value of the target equity, minus the value of the target shares held by the acquirer. The bidder gain is the target firm's CAR multiplied by the market value of the bidder's equity. Panel A shows the results according to the region of the target country. Panel B presents the results according to the legal origin of the target country.

		Combined Gains		Target Gains		Bidder Gains	
		(-2, +2)	(-30, +30)	(-2, +2)	(-30, +30)	(-2, +2)	(-30, +30)
<b>Panel A: Region</b>							
Europe	Mean	39.5964	243.0422	40.0337	73.8445	-0.0275	167.3300
	Median	4.6077	12.6246	2.8254	7.21005	-0.1114	4.9394
	Obs.	269	269	269	269	269	269
Asia	Mean	22.5314	-2.0183	10.4106	10.53038	12.2896	-11.5041
	Median	2.4095	22.3449	1.9603	2.739206	0.6948	12.2653
	Obs.	255	255	255	255	255	255
Aus/NZ/SA	Mean	-18.7495	-44.1869	22.5968	14.9177	-40.8700	-58.0890
	Median	-0.3875	-17.5695	2.9907	4.0276	-1.6363	-11.1595
	Obs.	60	60	60	60	60	60
USA	Mean	-51.9492	-172.6730	22.6243	25.3575	-74.5755	-203.6010
	Median	4.0984	4.2692	5.4714	5.6066	0.4675	0.1117
	Obs.	159	159	159	159	159	159
Americas	Mean	-3.7347	-251.9930	22.7021	38.8897	-22.5925	-264.4230
	Median	8.3238	0.3627	4.9522	6.3706	1.4052	-0.8075
	Obs.	99	99	99	99	99	99
Eastern Europe	Mean	-45.9645	-978.8400	-7.1057	-49.3063	-45.7951	-919.9690
	Median	37.8792	2.9282	0.0240	-0.4637	28.1575	-0.2530
	Obs.	17	17	17	17	17	17
<b>Panel B: Legal Origin</b>							
English	Mean	-34.7197	-102.4290	19.8215	25.4958	-54.3240	-128.2830
	Median	2.2653	2.0741	3.9686	4.8171	0.0033	-0.8192
	Obs.	382	382	382	382	382	382
French	Mean	-2.4764	148.9228	43.6242	90.9516	-43.8644	68.2944
	Median	5.2919	12.4025	2.6626	8.8712	-0.6474	6.8015
	Obs.	220	220	220	220	220	220
German	Mean	91.7051	-2.3504	12.5158	2.0460	78.6207	-5.8430
	Median	7.8312	21.2173	1.6283	1.9559	7.6231	19.0008
	Obs.	219	219	219	219	219	219
Scandinavian	Mean	-10.9152	1.3053	15.6177	7.6672	-26.6955	-8.8968
	Median	3.7784	11.3580	5.8088	5.0941	-4.4518	0.1394
	Obs.	38	38	38	38	38	38
Total	Mean	6.8229	-7.9512	23.8691	35.4926	-16.5290	-41.4402
	Median	3.7020	6.3278	3.0891	4.8140	0.3308	2.4132
	Obs.	859	859	859	859	859	859

### Table 9. Cross-sectional Regressions for Target Firms

The table presents the results of cross-sectional regressions in which the dependent variable is the targets' returns in the event windows [-2, 2] in Columns I–IV and the abnormal returns in [-30, +30] in Columns V and VI. *French*, *German*, and *Scand.* are dummy variables for the legal origin of the target firm country. *Size* is defined as the log of the firm's market value of equity at the end of the previous fiscal year (Worldscope Item WC07210). *Sales Growth* is the growth rate in total sales (WC07240). *Collateral* is the ratio of tangible assets to total assets (WC02501/WC02999). *ROA* is the return on assets (WC08326). *Cash Holding* is defined as cash plus tradable securities over total assets (WC02001/WC02999). *Leverage* is defined as the book value of financial debt as percentage of the book value of total assets (WC03251/WC02999). *Market-to-book* is defined as market value of equity in US\$ (WC07210) divided by common equity in US\$ (WC07220). *Stock price performance* is defined as the stock price performance over the previous calendar year (WC05070). *Own. Before* is the percentage of the target firm's equity held by the bidder before the transaction. *Cash* is a dummy that takes value 1 if the method of payment of the deal is cash (at least 80% of the deal value). *Taken Private* is a dummy taking value 1 when the deal aims at delisting the target firm. *Europe*, *Asia*, *Aus/NZ/SA*, *Americas*, and *East Europe* are dummies for the geographical region of the target firm country. Robust standard errors are in parenthesis. The symbols \*, \*\*, \*\*\* denote statistical significance at the 1%, 5%, and 10% levels, respectively.



**Table 9. (Cont.)**

	I	II	III	IV	V	VI
Constant	0.0554	0.0393	0.0448	0.0320	0.1528	0.0946
	0.0532	0.0602	0.0654	0.0701	0.0939	0.0997
French	-0.0987***	-0.1206***	-0.0999***	-0.1296***	-0.0630**	-0.1227***
	0.0164	0.0276	0.0170	0.0280	0.0267	0.0425
German	-0.0874***	-0.0977***	-0.0937***	-0.1060***	-0.1173***	-0.1613***
	0.0170	0.0249	0.0177	0.0251	0.0264	0.0354
Scand.	-0.0697***	-0.0872**	-0.0728***	-0.0998***	-0.1514***	-0.2070***
	0.0261	0.0361	0.0269	0.0364	0.0379	0.0531
Size	0.0031	0.0032	0.0035	0.0034	-0.0045	-0.0033
	0.0038	0.0039	0.0039	0.0040	0.0056	0.0058
ROA	-0.0014	-0.0013	-0.0013	-0.0013	0.0001	-0.0001
	0.0008	0.0008	0.0008	0.0008	0.0010	0.0010
M/B	-0.0008	-0.0008	-0.0008*	-0.0007	-0.0013*	-0.0012
	0.0005	0.0005	0.0005	0.0005	0.0007	0.0007
Own. Before	-0.0004	-0.0004	-0.0005	-0.0005	-0.0001	0.0000
	0.0004	0.0004	0.0004	0.0004	0.0006	0.0006
Stock Price P.	-0.0397***	-0.0402***	-0.0416***	-0.0416***	-0.1453***	-0.1442***
	0.0087	0.0087	0.0093	0.0092	0.0187	0.0183
Leverage	-0.1029**	-0.1084**	-0.0979*	-0.1045**	0.0039	0.0163
	0.0519	0.0520	0.0526	0.0530	0.0735	0.0736
Cash Holdings	0.0502	0.0469	0.0395	0.0391	-0.0523	-0.0525
	0.0421	0.0432	0.0423	0.0432	0.0648	0.0660
Collateral	0.0113	0.0125	0.0068	0.0111	-0.0459	-0.0659
	0.0286	0.0303	0.0291	0.0312	0.0438	0.0454
Sales Growth	-0.0002	-0.0002	-0.0002	-0.0002	0.0000	0.0000
	0.0002	0.0002	0.0002	0.0002	0.0007	0.0007
Cash	0.0919***	0.0955***	0.0937***	0.0954***	0.0830***	0.0804***
	0.0149	0.0151	0.0152	0.0154	0.0230	0.0240
Taken Private	0.0737***	0.0794***	0.0749***	0.0786***	0.0806***	0.0894***
	0.0166	0.0166	0.0166	0.0167	0.0275	0.0271
Europe		0.0248		0.0326		0.1059**
		0.0331		0.0333		0.0485
Asia		0.0220		0.0164		0.0925**
		0.0300		0.0322		0.0437
Aus/NZ/SA		-0.0361		-0.0429		0.0165
		0.0267		0.0285		0.0403
Americas		0.0482		0.0453		0.1296***
		0.0303		0.0308		0.0438
East Europe		-0.1197***		-0.1085***		0.0920
		0.0398		0.0388		0.1235
Year Dummies	N	N	Y	Y	Y	Y
R <sup>2</sup>	0.1574	0.1689	0.1728	0.1836	0.2181	0.2295
N. Obs.	775	775	775	775	775	775

### Table 10. Cross-sectional Regressions for Bidders

The table presents the results of cross-sectional regressions in which the dependent variable is the acquirers' returns in the event windows [-2, 2] in Columns I–IV and the abnormal returns in [-30, +30] in Columns V and VI. *French*, *German*, and *Scand.* are dummy variables for the legal origin of the target firm country. *Size* is defined as the log of the firm's market value of equity at the end of the previous fiscal year (Worldscope Item WC07210). *Rel Size* is the ratio between the deal value and the acquirer's size. *Sales Growth* is the growth rate in total sales (WC07240). *Collateral* is the ratio of tangible assets to total assets (WC02501/WC02999). *ROA* is the return on assets (WC08326). *Cash Holding* is defined as cash plus tradable securities over total assets (WC02001/WC02999). *Leverage* is defined as the book value of financial debt as percentage of the book value of total assets (WC03251/WC02999). *Market-to-book* is defined as market value of equity in US\$ (WC07210) divided by common equity in US\$ (WC07220). *Stock price performance* is defined as the stock price performance over the previous calendar year (WC05070). *Own. Before* is the percentage of the target firm's equity held by the bidder before the transaction. *Cash* is a dummy that takes value 1 if the method of payment of the deal is cash (at least 80% of the deal value). *Taken Private* is a dummy taking value 1 when the deal aims at delisting the target firm. *Europe*, *Asia*, *Aus/NZ/SA*, *Americas*, and *East Europe* are dummies for the geographical region of the target firm country. Robust standard errors are in parenthesis. The symbols \*, \*\*, \*\*\* denote statistical significance at the 1%, 5%, and 10% levels, respectively.

**Table 10. (Cont.)**

	I	II	III	IV	V	VI
Constant	0.0287	0.0426	0.0397	0.0490*	0.0435	0.0936
	0.0221	0.0244	0.0250	0.0267	0.0780	0.0793
French	0.0064	0.0143	0.0064	0.0127	-0.0036	0.0313
	0.0055	0.0081	0.0057	0.0083	0.0188	0.0263
German	0.0028	0.0107	0.0025	0.0094	-0.0017	0.0225
	0.0057	0.0071	0.0064	0.0074	0.0218	0.0266
Scand.	-0.0121	-0.0024	-0.0129	-0.0051	-0.0523	-0.0044
	0.0119	0.0135	0.0126	0.0145	0.0367	0.0426
Size	-0.0021	-0.0025	-0.0021	-0.0026	-0.0030	-0.0047
	0.0014	0.0014	0.0016	0.0016	0.0050	0.0049
Rel. Size	-0.6552***	-0.6657***	-0.6558***	-0.6711***	-0.7264***	-0.8064***
	0.0320	0.0325	0.0344	0.0362	0.1557	0.1596
ROA	0.0000	0.0001	0.0000	0.0001	0.0054***	0.0056***
	0.0004	0.0004	0.0004	0.0004	0.0018	0.0017
M/B	-0.0024**	-0.0023**	-0.0022**	-0.0022**	-0.0127***	-0.0121***
	0.0010	0.0010	0.0011	0.0011	0.0045	0.0044
Own. Before	0.0001	0.0001	0.0001	0.0000	0.0005	0.0004
	0.0001	0.0001	0.0001	0.0001	0.0004	0.0004
Stock Price P.	-0.0064	-0.0063	-0.0065	-0.0065	-0.1029***	-0.1068***
	0.0049	0.0048	0.0050	0.0050	0.0187	0.0186
Leverage	-0.0024	-0.0157	-0.0054	-0.0183	0.0145	-0.0602
	0.0185	0.0189	0.0190	0.0196	0.0632	0.0643
Cash Holdings	-0.0005	-0.0039	-0.0027	-0.0049	-0.1398	-0.1449*
	0.0260	0.0255	0.0266	0.0263	0.0870	0.0860
Collateral	-0.0185	-0.0144	-0.0176	-0.0133	-0.1167**	-0.0890*
	0.0121	0.0121	0.0129	0.0132	0.0502	0.0493
Sales Growth	-0.0005	-0.0005	-0.0003	-0.0003	-0.0064***	-0.0065***
	0.0004	0.0004	0.0004	0.0004	0.0013	0.0013
Cash	0.0077	0.0010*	0.0080	0.010*	0.0028	0.0082
	0.0050	0.0051	0.0052	0.0053	0.0168	0.0172
Taken Private	0.0124**	0.0132**	0.0117*	0.0126*	-0.0006	0.0018
	0.0061	0.0063	0.0063	0.0065	0.0219	0.0214
Europe		-0.0182*		-0.0168		-0.0965***
		0.0104		0.0104		0.0350
Asia		-0.0119		-0.0121		-0.0627*
		0.0093		0.0101		0.0360
Aus/NZ/SA		-0.0230**		-0.0240**		-0.1389***
		0.0111		0.0117		0.0387
Americas		-0.0042		-0.0037		-0.0238
		0.0100		0.0101		0.0341
East Europe		-0.0503*		-0.0472*		-0.0831
		0.0256		0.0257		0.0527
Year Dummies	N	N	Y	Y	Y	Y
R <sup>2</sup>	0.072	0.0877	0.0805	0.095	0.1555	0.1825
N. Obs.	677	677	677	677	677	677

**Table 11. Cross-sectional Regressions for Target Firms by Region**

The table presents the results of cross sectional regressions in which the dependent variable is the targets' returns in the event window [-2, +2] for three geographical regions: Europe, Asia, and the Americas. *French*, *German*, and *Scand.* are dummy variables for the legal origin of the target firm country. *Size* is defined as the log of the firm's market value of equity at the end of the previous fiscal year (Worldscope Item WC07210). *ROA* is the return on assets (WC08326). *Own. Before* is the percentage of the target firm's equity held by the bidder before the transaction. *Leverage* is defined as the book value of financial debt over the book value of total assets (WC03251/WC02999). *Cash Holding* is defined as cash plus tradable securities as percentage of total assets (WC02001/WC02999). *Collateral* is the ratio of tangible assets to total assets (WC02501/WC02999). *Sales Growth* is the growth rate in total sales (WC07240). *Market-to-book* is defined as market value of equity in US\$ (WC07210) divided by common equity in US\$ (WC07220). *Stock price* is defined as the stock price performance over the previous calendar year (WC05070). *Cash\_Holding* is the ratio between cash and equivalents and the book value of total assets. *Cash* is a dummy taking value 1 if the method of payment of the deal is cash (at least 80% of the deal value). *Taken Private* is a dummy taking value 1 when the deal aims at delisting the target firm. Robust standard errors are in parenthesis. The symbols \*, \*\*, \*\*\* denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	<i>Europe</i>		<i>Asia</i>		<i>Americas</i>	
	I	II	III	IV	V	VI
Constant	0.2343** 0.1044	0.3034** 0.1360	0.0228 0.0998	0.0268 0.1232	0.1045 0.2917	0.2584 0.3150
French	-0.1843** 0.0729	-0.1835*** 0.0683	-0.1274** 0.0559	-0.1591** 0.0755	-0.0937 0.0585	-0.0529 0.0736
German	-0.1463* 0.0783	-0.1549** 0.0733	-0.0682** 0.0308	-0.0900** 0.0348		
Scand.	-0.1386* 0.0744	-0.1361* 0.0705				
Size	-0.0017 0.0062	-0.0027 0.0069	0.0026 0.0082	-0.0009 0.0090	0.0098 0.0205	0.0009 0.0232
ROA	0.0000 0.0010	0.0000 0.0010	-0.0022 0.0015	-0.0021 0.0014	0.0010 0.0035	0.0004 0.0041
M/B	-0.0039*** 0.0006	-0.0036*** 0.0006	-0.0005** 0.0002	-0.0005** 0.0002	-0.0051 0.0153	-0.0089 0.0178
Own. Before	-0.0001 0.0005	-0.0001 0.0005	-0.0007 0.0007	-0.001* 0.0008	-0.0021 0.0021	-0.0019 0.0020
Stock Price	-0.0494* 0.0277	-0.0621* 0.0344	-0.0261** 0.0102	-0.0321*** 0.0114	-0.0279 0.0184	-0.0598** 0.0262
Leverage	-0.1150 0.1047	-0.1201 0.0932	-0.1136 0.1213	-0.1272 0.1146	-0.0667 0.1773	-0.0203 0.1937
Cash Hold.	0.0400 0.0653	0.0068 0.0665	0.0357 0.0686	0.0198 0.0688	-0.1295 0.1932	-0.3458 0.2734
Collateral	0.0268 0.0427	0.0086 0.0492	0.0024 0.0753	-0.0103 0.0753	-0.0208 0.1036	-0.0064 0.1390
Sales Growth	0.0006 0.0006	0.0008 0.0007	-0.0244 0.0281	-0.0246 0.0287	-0.0566 0.0887	-0.1060 0.1213
Cash	0.0213 0.0276	0.0190 0.0281	0.1606*** 0.0304	0.1701*** 0.0330	0.0540 0.0477	0.0664 0.0537
Taken Private	0.0552** 0.0221	0.0554** 0.0237	0.1068*** 0.0356	0.1222*** 0.0382	0.1225* 0.0703	0.0575 0.0780
Year Dum.	N	Y	N	Y	N	Y
R <sup>2</sup>	0.1605	0.197	0.1984	0.2795	0.1806	0.3275
N. Obs.	253	253	267	267	78	78