

The Performance of the European Market for Corporate Control: Evidence from the 5th Takeover Wave

Abstract:

For the 5th takeover wave, European M&As were expected to create significant takeover value: the announcement reactions were strongly positive for target shareholders (more than 35%) and the bidding shareholders also expected to gain a small though significant increase in market value of 0.5%. While, most of the expected takeover synergies are captured by the target firm shareholders, The combined value creation is significantly positive. However, the expected value strongly depends on the wave pattern, with optimistic expectations at the climax of the wave and a more pessimistic outlook at the decline. We establish that the characteristics of the target and bidding firms and of the bid itself have a significant impact on takeover returns. While some of our results have been documented for other markets of corporate control (e.g. US), a comparison of the UK and Continental European M&A markets reveals that the corporate environment is an important factor affecting the market reaction to takeovers: (i) In case a UK firm is taken over, the abnormal returns exceed those in bids involving a Continental European target. (ii) The presence of a large shareholder in the bidding firm has a significantly positive effect on the takeover returns in the UK and a negative one in Continental Europe. (iii) Weak investor protection and low disclosure environment in Continental Europe enable bidding firms to invent takeover strategies that allow them to act opportunistically towards target firm's incumbent shareholders; more specifically, partial acquisitions and acquisitions with undisclosed terms of transaction.

1. Introduction

The fifth global wave of mergers and acquisitions (M&As) which took place in the 1990s stands out as the largest and most diverse of the last century. For the first time, Continental European (hereafter CE) firms were as eager to participate in the market for corporate control as their US and UK counterparts, such that European takeover activity hit levels similar to those experienced in the US. Since the middle of 2003, takeover activity has picked up in Europe, continuing the industry consolidation trend of the 1990s. Despite these developments, empirical research on M&A activity remain mostly confined to the UK and US and there is little known about how well the Continental European market for corporate control performs relative to other regions.

The purpose of this paper is twofold. First, we carry out an in-depth analysis of the performance of corporate takeovers conducted by European firms during the fifth takeover (1993-2001). Our sample comprises 2,419 mergers and acquisitions that involve companies from 28 European countries, including those from Central and Eastern Europe. The performance of European M&As is measured by the changes in the value of bidding and target firms in the period around the transaction announcement. As potential determinants of the takeover gains we consider the characteristics of the bidding and target firms and of the bid itself. This study contributes to the restricted literature on European M&As in several ways. First, in contrast to Goergen and Renneboog (2004) who examine only the largest European M&As, this paper studies both large and small takeover transactions. Moeller et al. (2003) document that the focus on large takeovers may give an incomplete picture of the impact of acquisitions on shareholder wealth, as large acquisitions tend to be less profitable than the small ones. Second, we examine takeover performance over the different phases of the fifth takeover wave. Indeed, a limitation of the existing European M&A studies (see e.g. Campa and Hernando, 2004) is their focus on takeovers conducted in the peak of the fifth takeover wave. For the US, Moeller et al. (2005) show that acquisitions in 1998-2001 generate large losses to bidding firms' shareholders, while earlier transactions in that decade result in positive gains.

The second purpose of this paper is to investigate whether a wide range of institutional structures and legal rules have an impact on how takeovers are perceived at their announcement. Continental European transactions are conducted in a corporate environment very different from that of the UK. In comparison to their British peers, companies from the Continent have a more concentrated ownership structure (Faccio and Lang 2002) and operate in an environment with weaker investor protection, less developed capital markets (LaPorta et al. 1998), and less strict

insider trading regulation (Bhattacharya and Daouk, 2004).¹ A growing literature advocates that the corporate environment influences the cost of capital, corporate performance, and the distribution of benefits among corporate stakeholders (e.g. La Porta et al., 1997, 2002; Mork et al., 2000; and Levine, 1998, 1999).² We argue that regulation is also likely to have an impact on the patterns of M&A activity. Hence, the main research question we ask in this paper is whether and to what extent the specifics of CE corporate governance and regulatory systems (relative to those of the UK) influence the anticipated performance of takeovers.

In a nutshell, our main findings are the following. We find that European M&As are expected to create takeover synergies since their announcements trigger substantial share price increases. However, most of the takeover gains are captured by the target firm shareholders: the cumulative abnormal returns (CARs) at the announcement captured by the targets amount to 9% on average, considerably larger than the (still statistically significant) 0.5% accruing to the bidding firms. We establish that the characteristics of the target and bidding firms and of the bid itself have a significant impact on takeover returns. First, hostile takeovers and tender offers trigger substantially larger price reactions to the target shareholders than do friendly M&As. Second, investors discount the bidder and target's share prices at the announcement of all-equity offers relative to cash bids. Third, target shareholders gain higher premiums in cross-border takeovers. Fourth, the acquisition of a private firm generates significantly positive abnormal returns for the bidder's shareholders. We also demonstrate that takeovers occurring when takeover activity is slowing down trigger lower gains to both bidder and target shareholders than do deals at the beginning of the wave.

While some of these results have been documented for other markets of corporate control (e.g. US), a comparison of the UK and CE M&A markets reveals that the corporate environment is an important factor affecting the market reaction to takeovers: (i) In case a UK firm is taken over, the abnormal returns exceed those in bids involving a CE target. This difference in premiums seems to be caused by a more strict takeover legislation in the UK than in the CE countries. The UK regulation protects the target shareholders better against expropriation by the bidder and gives them more power to extract higher premiums in takeover negotiations. (ii) The presence of a large shareholder in the bidding firm has a significantly positive effect on the takeover returns in the UK and a negative one in Continental Europe. This suggests that the market views the role of major

¹ It is important to note that mentioned above characteristics of the corporate environment in CE countries are valid for the period of the 1990s and may be no longer true for the later (earlier) periods.

² The empirical literature documents that weak corporate governance combined with weak enforcement of the law distorts the efficient allocation of resources, undermines the ability of companies to compete internationally, and hinders investment and economic development.

shareholders differently in the two corporate governance regimes. (iii) Weak investor protection and low disclosure environment in Continental Europe enable bidding firms to invent takeover strategies that allow them to act opportunistically towards target firm's incumbent shareholders; more specifically, partial acquisitions and acquisitions with undisclosed terms of transaction. Whereas these types of transactions are virtually non-existent in the UK, they prevail in a large number in CE countries. We find that such transactions lead to substantial losses to the shareholders of both bidding and target firms.

The rest of the paper is outlined as follows. In Section 2, we review the determinants of the share price reactions to takeover announcements and hypothesize potential differences between UK and CE M&As. Section 3 describes the data sources, sample statistics, and methodology, while section 4 investigates market reaction to takeover announcements and relates it to different takeover characteristics in a univariate analysis framework. In Section 5, we investigate the determinants of the announcement returns in a multivariate framework. Section 6 concludes.

2. The determinants of the market reaction to takeover announcements

2.1 Predictions of the existing literature

An M&A announcement brings new information to the market, such that investors' expectations about the firm's prospects are updated and reflected in the share prices.

Both the theoretical and empirical M&A literature have shown that a variety of attributes affect the value of bidding and target firms at the announcement of corporate takeovers.³ Empirical studies, mainly based on UK and US mergers and acquisitions, document that changes in the share price of the bidding and target firms at the takeover announcement depend on the characteristics of the transaction: the geographical scope of the takeover (domestic versus cross-border M&As), the form of and the attitude towards the bid (opposed bids, unopposed tender offers, friendly M&As), the success or failure of the negotiations (successfully completed or withdrawn bid), the legal status of the target firm (listed versus privately-held), the industry scope of the deal (focus versus diversification), the means of payment (all-cash, all-equity, mixed offer), and the sub-period of the takeover wave in which the bid was announced (the run-up, the peak and the decline of the wave). The market combines these pieces of information into a signal about the quality of the bidding and

³ For an overview of the evidence on the wealth effects of M&A activity and the motives for takeovers, see Jensen and Ruback (1983), Jarrell et al. (1988), Agrawal and Jaffe (2000), Bruner (2003), and Burkart and Panunzi (2006).

target firms and of the potential value creation. The share prices are then adjusted accordingly. Table 1 summarizes the theoretical predictions and empirical evidence on the relationship between takeover characteristics and the market reaction to takeover announcements.

2.2 CE versus UK corporate takeovers: potential differences

There are fundamental differences between the Anglo-American takeover markets, and that in Continental Europe: the typical CE firm has a more concentrated ownership structures (Faccio and Lang 2002), operates in an environment with weaker investor protection, and with less developed capital markets (LaPorta et al. 1998), and is subject to less strict insider trading regulations (Bhattacharya and Daouk, 2004).

These differences may affect corporate takeovers in several ways. First, CE bidding firms may adopt opportunistic takeover strategies such as partial acquisitions and acquisitions with undisclosed terms of transaction, which are prevented by law in the UK. Second, the market may regard takeovers by CE firms with large blockholders negatively, as these deals may result in expropriation of the bidder's minority shareholder rights. Such expropriation is facilitated in corporate governance regimes with weak legal minority protection.⁴ Third, a lack of efficient takeover regulation in Continental Europe makes target shareholders less powerful relative to the bidder, which allows the bidder to capture a larger part of takeover gains. Fourth, CE executive directors/investors who are informed about a forthcoming takeover may turn to illegal trading on inside information, whereas such behaviour is more effectively prevented in the UK. Below we discuss how these specific aspects of the CE market for corporate control may affect the bidder and target's share price reactions to takeover announcements

2.2.1. Opportunistic takeover strategies

Weak investor protection may enable acquirers to adopt takeover strategies that allow them to act opportunistically towards the target's incumbent shareholders (Bertrand et al., 2002). Partial acquisitions may turn the target's incumbent shareholders into minority shareholders, whose rights could be expropriated by the acquirer due to poor legal protection. That is, when the protection of minority shareholders is not addressed at the regulatory level, bidders may be tempted to use partial

⁴ Weak investor protection may also have a direct impact on the market valuation of takeover benefits. Bris and Cabolis (2005) document that the regulatory environment in both the bidding and target firms' countries have significant impact on premiums paid in M&As. The relationship between the level of investor protection and premiums paid in M&As is relatively complex and its analysis goes beyond the scope of this paper. We leave a detailed analysis of this relationship to a separate paper.

acquisitions to extract private benefits of control at the detriment of the target's shareholders. To protect the target shareholders from being expropriated by the bidder, regulators typically introduce a mandatory bid rule (Goergen et al., 2005). The rule obliges bidders acquiring a controlling share block to make an offer for all the remaining shares outstanding at a fair price.⁵ For instance, partial acquisitions of majority control are virtually impossible. However, the number of partial acquisitions may be high in countries where the mandatory bid rule is not enforced (such as Germany and Sweden). In these countries, we expect target shareholders to dislike partial acquisitions and react negatively to their announcements.

Acquisitions with undisclosed terms of transaction (such as means of payment and transaction value) are another strategy that enables bidding firms to behave opportunistically. When disclosure requirements are low, the management or the controlling shareholder of the bidding firm may conceal the details of the bid. When a takeover with undisclosed terms of transaction is announced, we expect investors to be aware of potential expropriation and react negatively.

2.2.2. The role of bidder's large blockholders in takeovers

The presence of a large shareholder in bidding firms may have a significant impact on the market reaction to takeover announcements. However, this impact may differ between countries (it may be positive for UK firms and negative for CE firms), as the market views the roles of the major shareholders in the two corporate governance regimes as being different. When ownership and control are dispersed, small shareholders cannot effectively monitor management and mitigate potential conflicts of interest between management and shareholders due to coordination problems. Ownership concentration resolves this problem, as major shareholders have strong incentives to monitor management and replace it in poorly performing companies (Franks et al., 2001). Therefore, investors may regard the presence of a large blockholder in a UK bidding company as a credible signal that the takeover decision is driven by motives of profit maximization.

However, the gains from having the firm's management monitored by a large blockholders may be wiped out by the agency costs associated with opportunistic behaviour of the blockholder towards minority shareholders. In takeover context, the costs arise when major blockholders use acquisitions as an instrument to transfer wealth from minority shareholders to themselves (Faccio and Stolin, 2004). This type of acquisitions is more likely to be observed in CE countries, where

⁵ The definitions of a controlling share block and fair price vary across countries. UK takeover regulation imposes a mandatory bid to be made when the bidder acquires 30% of the target firm's equity and the fair price to be equal to the highest price paid for pre-bid purchases (Goergen et al., 2005).

concentrated corporate ownership structures prevail but the rights of minority shareholders are relatively less protected. Since minority shareholders are likely to fear potential expropriation, we expect the market to react negatively to the announcements of takeovers by CE bidders controlled by a major shareholder.

2.2.3. Takeover regulation

Takeover regulation plays a crucial role in shaping the pattern of M&A activity. Importantly, it affects the distribution of the bargaining power and thereby of the takeover surplus between the bidder and the target. Regulatory provisions that make target shareholders more powerful relative to the bidder (such as the mandatory bid rule, the sell-out right, and takeover defence measures) redistribute the takeover surplus from the bidder to the target shareholders (Goergen et al., 2005). However, in countries lacking this type of regulation, most of the takeover surplus is captured by bidding firms leaving the target's shareholders with lower returns. Similarly, Rossi and Volpin (2004) report that targets earn higher premiums in countries where the mandatory bid requirement is enforced by law. Goergen et al. (2005) advocate that the UK has adopted a more strict takeover legislation than CE countries. Therefore, we expect higher takeover premiums to be offered in takeover bids made to British companies.

2.2.4. Insider trading

When insider trading is not effectively regulated, insiders are more likely to trade on non-public information (Bris, 2005). This implies that part of the valuation effect of takeovers is already incorporated in the share price prior to the announcement day (Bhattacharya et al., 2000). In this case, the takeover valuation effect is likely to be captured in the share price run-up realised prior to the bid. Bhattacharya and Daouk (2004) document that among European countries the UK has the toughest insider trading law. These are then CE countries where takeovers are preceded by illegal trading on inside information.⁶

3. Data sources, descriptive statistics and methodology

3.1 Sample selection

⁶ However, Bris (2005) shows that insider trading laws make profitable to violate them, and hence countries with the toughest regulation may face bouts of illegal activity.

We select our original sample of European acquisitions undertaken during the fifth takeover wave (1993-2001) from the Mergers and Acquisitions Database of the Securities Data Company (SDC). The SDC data were filtered down to intra-European domestic and cross-border takeovers, whereby both the acquirer and the target are from countries within Continental Europe and the UK. Our sample also includes deals involving firms from Central and Eastern Europe. We retain only those M&As that satisfy the following requirements: (i) the transaction involves a change in control⁷; (ii) either the bidder or target shares (or both) are traded on a European stock exchange; (iii) both parties in the transaction are independent corporations;⁸ (iv) neither the bidder nor the target is a financial institution (bank, unit trust, mutual fund or pension fund); (v) the period between two consecutive bids by the same acquirer is not less than 300 trading days;⁹ (vi) financial and accounting data for at least one of the participants of the transaction are available in DataStream or in the Amadeus, Fame or Reach databases of Bureau van Dijk.

The quality of the SDC data is verified by comparing its information on the announcement date, the companies' countries of origin, the transaction value, payment structure, share of control acquired, bid completion status, and the target's attitude towards the bid with information from the news announcements stored in LexisNexis, the Financial Times, and Factiva.¹⁰ We find that the SDC records for M&As from our sample frequently do not coincide with those of the other sources. These inconsistencies have been amended by replacing contradictory SDC information with the new one extracted from the news announcements. All in all, amendments were made in about 36% of our final sample.¹¹

The ownership and control structure of the bidding and target firms prior to the takeover announcement is collected from a variety of sources described in Appendix II. To control for dual class shares, pyramidal ownership structures, multiple control chains, and cross-holdings, all of which prevail in CE companies, we focus on corporate control structures rather than ownership structures. To identify the ultimate control structure of a firm, we follow the methodology presented

⁷ We require either that the transaction leads to a combination of the firms or that the acquirer who held less than 50% of the target's stock prior to the transaction acquires full control (increases its ownership position to more than 50%).

⁸ Divestitures and management buyouts are not included.

⁹ The reason is that we want to avoid contamination of the windows used to estimate systematic risk. Therefore, we exclude bids by the same acquirer within less than 300 trading days from the previous announcement (240 days estimation period ending 60 days before the event).

¹⁰ We consider all news announcements available in English, French, German, Dutch, Italian, Spanish, Swedish, Portuguese, Russian, Czech, and Polish languages. For the French, German, Italian, Spanish, Swedish, and Portuguese, we use WorldLingo online translator (www.worldlingo.com).

¹¹ The percentage refers to all M&As from our sample for which at least one deal characteristic reported in SDC does not coincide with that from the other sources and hence it was replaced. Most of the inconsistencies found in the SDC records regard the bid completion status, share of control acquired, and the transaction value.

in Barca and Becht (2001) and Faccio and Lang (2002). First, we consider only shares bearing voting rights. Second, as control depends on both direct and indirect ownership of voting equity, we accumulate the voting stakes directly or indirectly controlled by the same ultimate shareholder. When a target company is private, we assume that ownership and control concentration in this firm amounts to 100%.

3.2 Sample summary statistics

Our final sample of European M&A announcements consists of 2,419 deals involving firms from 28 European countries. The sample characteristics are described in tables 2 through 4.

3.2.1. Sample composition by deal characteristics

According to panel A of table 2, about 70% of the intra-European takeover bids target a domestic firm. The relative number of cross-border bids within Europe has been gradually increasing over time, starting with 23% in the beginning of the fifth takeover wave and reaching 32% in its end. Moeller and Schlingemann (2004) document a similar tendency for US takeovers.

Takeovers resulting in a full acquisition of the target's shares comprise 60% of the sample over the period 1993-2001. In the remaining deals, the bidder acquires majority control. The fraction of acquisitions of partial control has augmented near the end of the takeover wave. One reason is that there is a high number of large M&A transactions in 1998-2001, which are relatively more risky for the bidding firms and require considerable financial resources. A desire to diversify the risk of these mega-deals and limited financing capacity may force bidders not to bid for all the equity of target firms.

Our sample comprises 162 (7%) opposed (or hostile) bids, 473 (19%) unopposed tender offers and 1,784 (74%) friendly M&As. We classify an acquisition as *opposed* if the board of directors of the target firm responds negatively to the bidder's initial offer for whatever reason.¹² Further, within the *unopposed* takeovers, we also distinguish between bids conducted in form of a public tender offer (unopposed tender offers) and bids conducted in form of a merger or a private purchase of a control block (friendly M&As).¹³ Panel A of table 2 shows that the frequency of

¹² It should be noted that a negative response to the bid may result either from the target's bargaining strategy to extract a higher premium (Schwert, 2000), or from the target directors' viewpoint that the proposed strategic plan underlying the acquisition is incompatible with the target firm's own strategy (Lipton, 1985).

¹³ An *unopposed tender offer* is a public offer to the target shareholders asking them to sell their shares for cash and/or equity at a pre-specified price or equity exchange ratio, while the board of directors of the target firm does not respond negatively to the bid (issue negative comments about the bid). An acquisition is considered to be successful if a

friendly M&As is especially high in the beginning (1993-96) and in the end of the takeover wave (2000-01), whereas the frequency of unopposed tender offers is highest in the period of the takeover wave peak (1997-99). Opposed takeovers are least frequently observed when the takeover wave slows down (2000-01).

[Insert Table 2 about here]

About 9% of all takeovers in our sample ultimately fail as a consequence of successful opposition to the bid or a collapse of the friendly takeover negotiations. The rest of the sample is divided into successfully completed M&As (80%) and pending negotiations in which the bid has been announced but has not been completed or withdrawn (11%).¹⁴ In many of the pending bids, the bidder announces its intention to acquire control over the target firm, but the acquisition occurs in several steps. That is, at the announcement, the bidder acquires a large stake of, say, 25% and pledges to acquire control (the remaining 25-75%) in the near future. The relative number of withdrawn bids hits the highest levels in the beginning of the fifth takeover wave (1993-95), whereas pending acquisitions occur with high frequency in the end of the wave (2000-01).

Panel A of table 2 also indicates that a large part of takeover bids are made on privately held target firms (63%), while the remainder (37%) are bids on publicly owned targets listed on a stock exchange. The frequency of M&As involving public targets substantially increases in the second half of the takeover wave (1997-01), reaching its peak in 1999 (46% of the deals), when the M&A activity was at its strongest.

Expansion within the same industry seems to be a dominant takeover strategy during the 1990s. Sixty-four percent of all the M&A announcements refer to bidders and targets operating in the same sector or related industries¹⁵, while the remainder are diversifying acquisitions. The highest percent of focussed acquisitions is observed in 1997-99.

Of the 1,721 bids where the payment method is disclosed, the majority (54%) are all-cash offers. This percentage is lower than the 80% reported for European all-cash M&As in Faccio and

sufficient number of shares are tendered such that the bidder gains control over the target. A *merger* refers to the consolidation of the assets of two firms, which is approved by both the shareholders of the target and the shareholders of the bidding firms. Generally, the majority of 2/3 or more of shareholder votes of each firm is required for the merger to succeed (the required percentage may vary across countries). A *private purchase* of a control block refers to all transactions in which the bidder purchases a controlling share block by means other than a tender offer. This category usually comprises acquisitions of private targets or direct purchases of a share block from a large shareholder of the target firm.

¹⁴ We checked the status of all bids which were labeled as 'pending' in the SDC database. We used LexisNexis and Factiva and changed the completion status when pending bids were ultimately completed or withdrawn. For a number of bids, no further information was ever released in the financial press.

¹⁵ We define 'companies in related industries' as firms of which the primary 2-digit SIC codes coincide. Changing this definition to the 3-digit SIC classification, does not materially change the results in the remainder of the paper.

Masulis (2005). The difference may be driven by the exclusion of divestitures (acquisitions of other firms' subsidiaries) and cross-border acquisitions of US targets, which represent a substantial fraction of Faccio and Masulis' sample and are mostly pure cash offers. Panel A of table 2 reports that, of all the bids involving equity payments, about half are pure equity-exchange offers. The other half are mixed offers that consist of 53% cash, 47% stock, and less than 1% of loan notes, on average. Our sample also includes 698 bids (29% of the sample) that lack information about the method of payment and transaction value. The highest proportion of M&As with undisclosed transaction terms is observed in Austria (68% of all bids in the target's country), Germany (67% of all bids in the target's country), and Switzerland (57% of all bids in the target's country). None of UK target firms is involved in takeovers with undisclosed terms of transaction, as such lack of disclosure would violate UK transparency regulation.

In panel B of table 2, the characteristics of the takeover deals are detailed. We organize this information according to the geographical origin of the bidding firm (UK versus Continental Europe). The average takeover deal is worth US\$ 1,487 million. This figure is considerably influenced by outliers, as the median value of transactions barely exceeds US\$ 24 million.¹⁶ The average size of CE takeovers exceeds the size of their UK peers more than seven times.

Interestingly, bidders from the Continent intend to hold only 81% (95% median) of the target shares after the bid completion, while UK bidders seek to own 95% (100% median).¹⁷ Bidders' preferences regarding their ultimate ownership in the target firm are affected by takeover regulation. For instance, UK Takeover Code obliges bidders to make a mandatory bid to purchase all shares of the target firm after it has acquired a share block of 30%. However, this type of requirements was virtually non-existent in many CE countries (such as Germany and Sweden) during most of the 1990s.¹⁸ Therefore, compared to their UK peers, bidders from the Continent have more freedom in initiating acquisitions of partial control. The impact of takeover regulation on the takeover bids is

¹⁶ The largest acquisitions by year are: the US\$ 1.5 billion bid by Lagardere Group for Matra-Hachette (both are located in France); the US\$ 2.5 billion bid in 1994 by Enterprise Oil for Lasmo (both are UK firms); the US\$ 5.5 billion bid in 1995 by Granada Group for Forte (both are UK firms); the US\$ 30 billion bid in 1996 by Ciba-Geigy for Sandoz (both are located in Switzerland); the US\$ 3.5 billion bid in 1997 by Rallye for Casino Guichard Perrachon (both are French firms); the US\$ 35 billion bid in 1998 by Britain's Zeneca Group for Sweden's Astra; the US\$ 202 billion bid in 1999 by Vodafone for Mannesmann; the US\$ 14 billion bid in 2000 by Vodafone for Spain's Airtel; and the US\$ 7 billion bid in 2001 by Germany's E.ON (formerly Veba/Viag) for Britain's Powergen.

¹⁷ We focus on the percentage of the target's shares that the bidder *ex-ante* intends to own after the bid and not on the percentage that the bidder *obtains ex-post* because our sample comprises withdrawn and pending acquisitions, in which the bidder acquires less than or nothing of what it was intended. We also refer to the percent of target's shares the bidder *intends to own after the bid* and not on the percent of shares the bidder *intends to acquire* because some firms accumulate a stake in the target firm (toehold) already prior to the bid.

¹⁸ For a detailed overview of differences in takeover regulations across European countries and see Goergen et al. (2005)

further supported by evidence that the size of the toehold that UK bidders accumulate prior to the bid (averaged over the ones who have decided to do so) is about 25% with a median of 29%, just below the 30% mandatory bid threshold. The size of the toehold accumulated by CE bidders is somewhat higher: 32% (35% median).¹⁹

3.2.2. *Sample composition by countries of bidding and target firms*

Table 3 shows that the UK is the dominant market for corporate control in Europe: half of the domestic takeover transactions occur in the UK and one fifth of all the bidders in intra-European cross-border acquisitions are UK firms. Proportionally, UK firms are targeted less frequently: merely 12.7% of the European target firms are headquartered in the UK – a percentage similar to that for Germany and France. Unsurprisingly, given the dispersed nature of ownership in UK firms, most hostile bids are concentrated in this country: 61% of the domestic and 41% of the cross-border hostile bids (from the target firms' perspective) take place in the UK. The second and third largest markets for corporate control in Europe are Germany and France; they respectively account for 10% and 13% of all domestic bids, and 12% and 15% of all cross-border bids. Not to be underestimated is the Scandinavian M&A market, especially in its impact on cross-border takeover activity in Central Europe. Relative to the other major economies in Europe, takeover activity in Italy is remarkably low. Firms located in the countries that joined the European Union in 2004 are attractive takeover targets, being involved in 15% of all cross-border M&As. In contrast, the involvement of such firms as bidders in cross-border acquisitions is negligible, as is the domestic takeover market in Central Europe.

[Insert Table 3 about here]

3.2.3. *Characteristics of the bidding and target firms*

The characteristics of the bidding and target firms are reported in Table 4. Relative to target firms, bidders in European M&As tend to be larger and to have better growth opportunities (as reflected by the market capitalization and the Q-ratio). Also, bidding firms are somewhat less leveraged than targets (21% versus 23%, respectively). Target firms have a higher percentage of collateral (38%) than do bidders (31%). Table 4 also shows that the corporate performance (return

¹⁹ The difference in mean toeholds of UK and CE bidders is statistically significant at the 1% level. Importantly, only 9% of British firms actually decide to purchase a toehold. The figure is twice lower than the percent of bidders with a toehold in Continental Europe.

on assets (ROA), and cash flow to sales) and investment activity (capital investments to total assets) of targets and bidders are similar.

[Insert Table 4 about here]

Some attributes are significantly different between targets and bidders from the UK and Continental Europe. Table 4 shows that UK firms (both bidders and targets) outperform their CE peers in terms of sales, growth opportunities, and ROA. Furthermore, UK companies are less leveraged and have more collateral. These differences are likely to follow from differences in the regulatory environment of the UK and Continental Europe. A growing literature advocates that the legal system in the UK ensures better investor protection and corporate focus on shareholder value than do the corporate governance regimes of CE countries (La Porta et al., 1997). In turn, this may result in higher company valuations and growth potential (La Porta et al., 2002; Himmelberg et al., 2002).

UK and CE firms differ not only in terms of performance and capital structure, but also in terms of ownership and control. On average, the largest blockholder of a CE bidding firm ultimately controls 39% of the voting rights, which is significantly higher than the average voting stake (14%) held by the dominant shareholder of a UK bidding firm. For CE bidders, we detect at least one dominant shareholder with voting power in excess of 20% in more than three quarters of the firms, and a blockholder holding a large majority of voting rights (60% and more) in 21% of the firms.²⁰ In contrast, UK bidders are characterized by dispersed ownership structures, as only 8% have a shareholder with a significant blockholding of at least 20% of voting rights. The ultimate ownership structures of our bidders are similar to those reported for the UK and Continental Europe by Faccio and Lang (2002). Given that there is no mandatory ownership disclosure for privately held firms, we have to make an assumption that the ownership concentration amounts to 100%. The reason is that many non-listed firms are likely to be controlled by one or a group of large investors. On average, we find little difference between the control structures of target and bidder firms by region (the UK and Continental Europe).

3.3 Methodology

²⁰ When analyzing control structure data we follow Faccio and Lang's (2002) approach and focus on control thresholds of 20% and 60%. This ensures the comparability of our results with the literature on Continental European M&As that employs the Faccio and Lang (2002) ownership and control database (see e.g. Faccio and Masulis, 2005; Faccio and Stolin, 2006). We consider a firm to be widely held if there is no a shareholder with a stake of 20% or more. When we use alternative cut offs (e.g. the 25% threshold, a blocking minority), we do not find different results.

3.3.1. Abnormal returns and test statistics

In order to measure the short-term wealth effects prior to, at and after the takeover announcement, we apply an event study methodology. That is, the short-term shareholder wealth effect at the takeover announcement is computed as the sum of daily abnormal returns realized in the period starting 60 days prior and ending 60 days subsequent to the event day.²¹ We also consider alternative event windows within the [-60, +60] interval. Daily abnormal returns are computed as the difference between realized and market model benchmark returns. The market model uses the MSCI-Europe index and the parameters are estimated over 240 days starting 300 days prior to the acquisition announcement.²² To test for significance of the estimated abnormal returns, we use two parametric test statistics (the portfolio test and the standardized test) as proposed by Brown and Warner (1985) and the non-parametric Corrado test (Corrado, 1989).²³

3.3.2. Correction for potential sample selection bias

We recognize that the regression analysis of the share price reaction to takeover announcements may suffer from a censoring problem. The analyzed sample of successful, pending, and withdrawn M&As excludes deals in which bidders initially decided not to bid. Factors such as financial constraints, growth opportunities, and share price performance are likely to be important determinants of the bidder's decision (not) to perform a takeover. In other words, we may observe fewer takeovers by bidders with low cash holdings, high leverage, small size, underperforming share price, or poor growth opportunities, which may bias our test results. To control for this potential bias, we employ Heckman's (1976, 1979) procedure for a sample-selection correction. Applying a Probit analysis on the full sample of European firms (and subsamples of CE and UK firms), we estimate the probability that a firm will undertake an acquisition. The resulting parameters are used to compute Heckman's λ for each bidding firm in our sample. We include Heckman's λ as an

²¹ The event day is either the day of the announcement or the first trading day following the announcement in case the announcement is made on a non-trading day.

²² Our estimates of the abnormal returns are robust with respect to the different choices of the market index (local, European-wide, and worldwide index) and the estimation model of the benchmark returns (the estimated beta adjusted for mean-reversion (Blume, 1979), and non-synchronous trading (Dimson, 1979)). Changing the market index or the estimation model does not materially change the results in the remainder of the paper.

²³ The portfolio test statistic assumes that the CARs are larger for securities with a higher variance. Hence, equal weights are given to the returns of individual securities. The standardized test statistic assumes that the true CARs are constant across securities and gives more weight to the securities with a lower variance of the CARs. For reasons of conciseness, we only show the non-parametric test statistics; the results of the parametric tests do not change the interpretation of the results and are available upon request.

additional regressor into the regression analysis of the bidder's CARs. If the null hypothesis that Heckman's λ is insignificant cannot be rejected, censoring is not a significant problem in our sample and hence does not lead to sample selection biases in our estimation procedure.

4. Market reaction to takeover announcements (Univariate analysis)

In this section, we focus on univariate analyses of bidder and target CAARs realized in intra-European M&As. We relate the CAARs to the various characteristics of target and bidding firms and of the bid itself: these include the location of the target (domestic versus cross-border M&As), the type of the takeover (a full takeover versus the acquisition of majority control), the form of and the attitude towards the bid (opposed bids, unopposed tender offers, friendly M&As), the success or failure of the negotiations (successfully completed, pending, or withdrawn bid), the legal status of the target firm (listed versus privately-held), the business expansion strategy (focus versus diversification), the means of payment (all-cash, all-equity, mixed offer, or undisclosed means of payment), and the sub-period of the takeover wave in which the bid was announced (the run-up, the peak and the decline of the wave). We also investigate variation in the market reaction to takeover announcements across deals that involve firms of different legal origin.

4.1 Market reaction to takeover announcements: total sample

Table 5 reports that the announcement of a takeover bid accrues positive abnormal returns to the bidder shareholders: on the event day, a small average abnormal return of 0.5% is realized on average, though it is statistically significant at the 1% level. Over a 10-day window centred around the event day, the average CAAR amounts to 0.8%. Strikingly, the CAARs of bidding firms generated over the 3-month period subsequent to the bid are significantly negative (-3%). Figure 1 illustrates the evolution of the bidder CAARs daily over the [-60, +60] event window.

In comparison to the bidder CAARs, the price reactions for the target firms are substantial: on the event day, an abnormal return of 9% is realized on average (see table 5). The evolution of the target CAARs prior to and after the event day is reported in Figure 2. We find that there is a significant increase in the target share price in the two months (40 trading days) prior to the initial public announcement. On average, investors who own shares in the target firm two months prior to the event day and sell their shares at the end of the event day would earn a premium of 21% above

the expected return. The overall findings suggest that the majority of takeover deals is expected to generate synergy values, most of which are captured by the target firm shareholders.

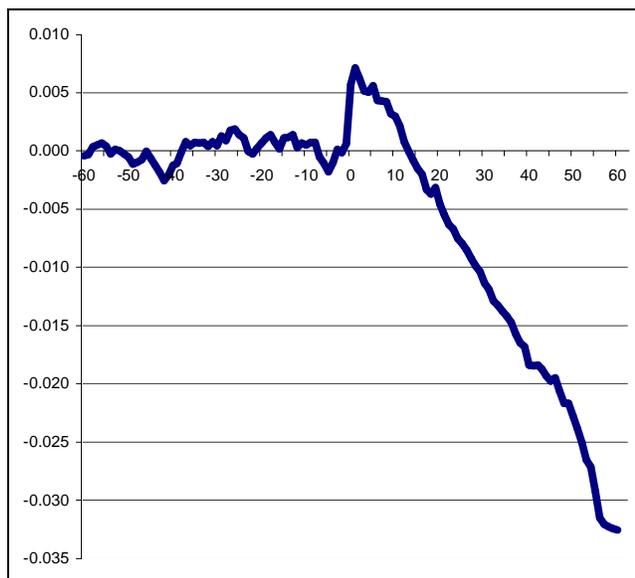


Figure 1. Bidder CAARs around the M&A announcement

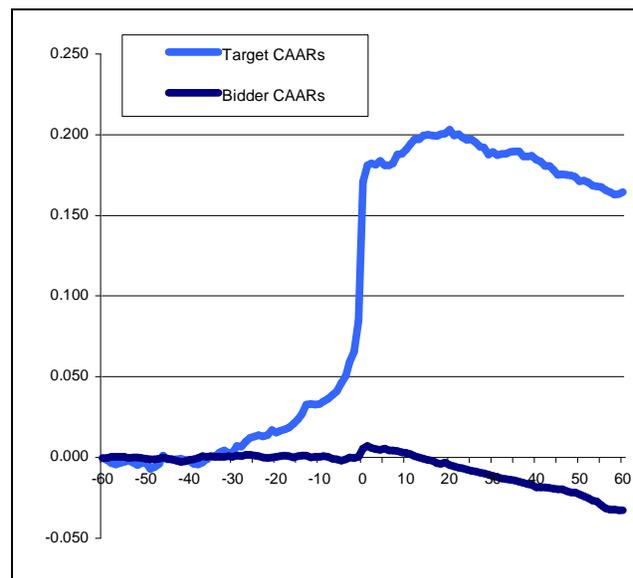


Figure 2. Target (and bidder) CAARs around the M&A announcement

Note: Figures 1 and 2 show the market reaction to the announcement of M&A transactions for bidding and target firms as well as the CAARs before and after the event (day 0). The benchmark used in the market model is the MSCI-Europe index returns; the model parameters are estimated over 240 days starting 300 days prior to the acquisition announcement.

[Insert Table 5 about here]

4.2 Market reaction to takeover announcements by deal characteristics

4.2.1. Geographical scope of transaction

We have mentioned that 70% of the intra-European M&As are domestic deals. Table 5 shows that bidding firms engaging in cross-border bids experience lower announcement effects than do those undertaking domestic acquisitions (0.4% versus 0.6%, respectively), and the difference is statistically significant. Subsequent to the event day, the negative price correction for bidding firms is larger in cross-border bids than in domestic ones (-3.6% versus -2.5%).

Investors of target companies also favour more domestic acquisitions. The announcement effect of domestic and cross-border targets amounts to 10% and 8%, respectively (Table 5). This difference is statistically significant. When we add the price run-up (40 trading days prior to the event), the difference increases to nearly 3% and remains statistically significant. Outperformance of domestic acquisitions relative to their cross-border peers (both in terms of the bidder's and target's

CAARs) suggests that market anticipates difficulties in managing the post-merger integration process between foreign firms and hence discount the expected takeover synergies.

4.2.2. Type of acquisition

The acquisitions of partial control have received little attention in the existing literature. This is because they are virtually non-existent in the US and UK. However, we find that this type of takeovers prevail in Continental Europe. Table 5 compares the announcement effect of partial acquisitions to that of full acquisitions. We find that bidding firm shareholders do not favour majority (or partial) control acquisitions (in contrast to the acquisition of full control). Table 5 documents that although the announcement effect of a majority acquisition is significantly positive (0.4%), it is somewhat lower than the announcement effect of a full takeover bid (0.6%). Also, an acquisition of majority interest is associated with significant negative abnormal returns both before and after the transaction announcement, whereas a full acquisition is preceded by a significant increase in the equity value of the bidding firm.

Target shareholders also dislike acquisitions of partial control. At the announcement day, the share price of a target subject to a full acquisition rises by 12%, which is more than five times larger than the abnormal return of a target subject to an acquisition of majority control (see Table 5). Investors who purchase target shares three months prior to a full takeover bid and sell the shares three months after the announcement earn a CAAR of 31%. In contrast, only 14% is acquired over the same period when the bid is made in order to obtain majority control only. The lower returns associated with bids for majority control may reflect concerns that a control transfer may lead to expropriation of the remaining minority shareholders.

4.2.3. Form of and attitude towards the bid

When we partition all bids into three subsamples based on the attitude and form of the bid: opposed (or hostile) bids, unopposed tender offers and friendly negotiated deals, we observe that bidder's shareholders clearly react differently to the announcements of those deals. On the event day, bidder share prices are subject to a negative price corrections in opposed bids and unopposed tender offers. The announcement of friendly M&As is greeted favorably by the market, as the abnormal returns are significantly positive (0.8%). However, friendly M&As are followed by remarkable share price decline over 3 months subsequent to the bid. It seems that the market reactions at the

announcement are overoptimistic and that the bidders' shareholders have second thoughts about the profitability of these transactions.

Expectedly, takeover bids opposed by the target's board generate the highest abnormal returns (15%) to the target shareholders on the announcement day. The announcement returns induced by opposed takeover bids are significantly higher than those induced by unopposed tender offers (12%) and friendly M&As (3%). Table 5 also unveils that there are large differences in the share price run-ups between friendly and hostile takeover bids. A hostile acquisition generates a CAAR of more than 30% over a 2-month period preceding and including the announcement day. In contrast, the target share prices significantly underperform in friendly M&As relative to opposed bids and unopposed tender offers both before and after the announcement. Over the holding period of 6 months centred around the event day, friendly M&As generate a CAAR of merely 10%, compared with 32% in tender offers and a considerable 44% in hostile bids.

4.2.4. Bid completion status

We also address the question as to whether the markets are able to predict the ultimate success or failure of the M&A negotiations. Table 5 reports that the announcement effect for unsuccessful bidders is negative (-0.6%), but not statistically significant from zero. The total wealth effects (over a 6-month time span) of completed, pending, and withdrawn takeovers range between -6% and -3%, with most losses occurring to bidding firms facing difficulties to complete the takeover negotiations (pending deals) or postponing the completion of the bid.

The event-day effect for target firms is significantly larger (by 1% to 2%) for successful bids than for failures and pending deals. However, over the 2-month window prior to and including the event day, there is no difference in the CAARs between failed and successful bids (21.8% versus 21.5%). For the same period, pending acquisitions underperform successful and withdrawn bids by 3 to 5%.

4.2.5. Legal status of the target firm

Table 5 shows that the announcement of a bid for a private firm induces significantly positive abnormal returns of 0.8% to the bidder's shareholders, whereas the announcement of a bid for a public firm results in an (insignificantly) negative return of -0.1%. The evidence is similar to that of Moeller et al. (2004) and Faccio et al. (2004). However, the post-announcement returns over longer time windows decline to almost -3% when the target firm is private and to -1.3% when it is publicly

listed (both are significant at the 1% level). This evidence suggests that market revise downward potential takeover synergies once more information about the true value and growth potential of the target firm is revealed.²⁴

4.2.6. Industry scope

Table 5 also compares the announcement period bidder firm CAARs in diversifying takeovers with those in industry-related (or focus-oriented) deals. Consistent with the conjecture for bidding companies that diversification destroys value on average (see table 1), we find that bidding firms have significantly higher short-run wealth effects around the announcements of business expansions within their core industry compared to the returns induced by announcements of diversifying acquisitions (0.63% versus 0.36%). Also, it appears that the market anticipates the focus strategy of the bidder, because there is a statistically significant run-up in the bidder's share price over the two-month period prior to the event day. While the share price increases by 1.4% preceding an intra-industry bid announcement, it declines by the same percentage preceding the announcement of a diversifying takeover.

When CAARs for target firms are considered, regardless of the length of the window, diversifying takeovers outperform deals with a focus strategy. Over the period including the announcement day and the price run-up, target shareholders in diversifying takeovers enjoy a CAAR of about 24% whereas those in takeovers with a focus strategy earn a CAAR of about 19%. This confirms that bidders may overpay for unrelated target firms and engage in more aggressive bidding strategies in diversifying takeovers.

4.2.7. Means of payment

Asymmetric information between the bidder's management and outside investors may influence the choice of the means of payment and the consequent market reaction. A negative price correction is expected for all-equity bids and a positive one for all-cash bids (table 1). Table 5 confirms that bidders' shareholders perceive offers involving cash payments more favourably (0.6% for all-cash and 0.9% for mixed bids) than all-equity offers (for which the abnormal returns are insignificantly different from zero). Furthermore, in the period following the bid announcement, the bidder share prices generally decline, but decline substantially more in bids involving equity

²⁴ Due to the low disclosure requirements for privately owned companies, reliable information is not available. This stands in sharp contrast to the public firms, which are constantly scrutinized by different regulatory bodies, media, and the public.

payments. The CAARs over a 6-month period in all-cash bids are not significantly different from zero (at -0.9%), whereas those in all-equity bids and mixed offers are significantly negative (-2.2% and -2.8% , respectively).

Table 5 shows that the target's share price reaction is also sensitive to the means of payment in a takeover bid. Regardless of the event window, the CAARs of cash offers bids are significantly higher than those of all-equity offers (at the 1% significance level). Acquisitions where the payment method is undisclosed do not lead to a significant price change at the announcement. The lack of information on such bids is even penalized by the market as the share price decreases by 4% over three-month period subsequent to the event day.

4.2.8. The sub-periods of the 5th takeover wave

Table 5 shows significant differences between the price reactions to bids for the three sub-periods of the takeover wave. The sum of the price run-ups and the announcement effects for takeover bids at the beginning, peak and decline of the wave are 0.19%, 1.47% and 1.12%, respectively. However, when we calculate CAARs over somewhat longer time windows (e.g. 6 months), it seems that bidder shareholders realise that the bids may have been excessive at the peak and at the decline over the takeover wave: the CAARs amount to 0.52% in 1993-96, -1.30% in 1997-99 and -9.87% in 2000-01.²⁵ It should be noted that the substantial decline subsequent to the M&A peak is already corrected for the strong downward equity market movement. From the middle of 2000, the M&A climate turned bleak and the stock market decline made bidder shareholders very pessimistic about future synergistic gains. Thus, our evidence shows that from the perspective of bidding firms, sweet M&As turned sour due to such reasons as managerial hubris, self-interest, and herding (see table 1).

Target shareholders gain the most at the peak of the takeover wave. Table 5 shows that, at the announcement day, target firms gain an average premium of 8% prior to 1997, 10% in 1997-99, and 9% in 2000-01. The differences are statistically significant at the 1% level. The second stage of the takeover wave also stands out in terms of the price run-up for target firms: it amounts to 13% (up from 8% observed in 1993-1996). Over longer time windows, for instance over a 6-month window symmetrically centred around the event day, the post-1999 bids yield lower CAARs (21%) than do those in 1997-1999 (31%) and those before 1997 (25%).

²⁵ This result is unlikely to be driven by outliers, as the median value of CARs over window $[-60, +60]$ for takeovers in 2000-2001 equals -5.4% (Q25= -24% and Q75= 21%).

4.3 Market reaction to takeover announcements by the legal origin of bidder and target

Rossi and Volpin (2004) show that the legal environment and takeover regulation are important determinants of the takeover gains. They report that takeover premiums are higher in countries with higher shareholder protection and in countries where the mandatory bid requirement is enforced by law. To control for the impact of the legal environment on takeover premiums, we classify all acquisitions into five groups according to the legal origin of the bidder and target countries, following La Porta et al. (1998). Countries from the former communist block are classified according to their (staged) accession to the European Union, as this event has had an important impact on their corporate legislation.

4.3.1. Domestic acquisitions

Table 6 shows that bidder share price reactions to domestic bids vary considerably by legal origin of the firm. Bidding firms of common law and German and Scandinavian civil law countries earn significantly positive wealth gains at the announcement. Conversely, the wealth changes incurred by bidders from French civil law countries and the new and prospective EU entrants are insignificantly different from zero. Over a 6-month time window symmetrically around the event date, the share price movements are either negative (for firms from German civil law countries and the new and prospective EU entrants) or statistically insignificant (for firms from UK common law and French and Scandinavian civil law countries).

Table 6 further documents that the legal origin of the target country also has a clear impact on target abnormal returns in domestic deals. Target firms from English common law countries experience very large wealth effects over all event windows. Importantly, target firms from Scandinavian civil law countries where the corporate governance legislation and the institutional financial environment are close to those in the UK (LaPorta et al., 1998), also exhibit strongly positive CAARs (of 21% over the event day and the price run-up period). While target firms from the countries that either joined the EU in 2004 or are expected to join in 2007 have the lowest announcement effect (-0.5%), those from French and German civil law countries also earn particularly low CAARs of 1.7% and 2.3%, respectively.

[Insert Table 6 about here]

4.3.2. Cross-border acquisitions

Turning to cross-border acquisitions in table 6, we show that bidding firms of German, Scandinavian, and French legal origins earn higher announcement returns than do firms of English legal origin: the announcement effects are 0.5% (average across the three legal origins) and 0.2% respectively. The difference is statistically significant at the 1% level. Companies incorporated in countries of Scandinavian legal origin are expected to benefit from the announcement of cross-border takeovers most (0.8%).

The premiums offered in cross-border takeovers are significantly higher for the target firms from English common law countries than for those from the civil law countries: 13.8% versus 5.9% at the announcement (averaged across other countries). Adding the price run-up to the announcement effect, the numbers increase to even 37% and 14%, respectively. Importantly, the corresponding effect for targets from the new and prospective EU entrants is insignificantly different from zero. Given that the corporate governance regime of the bidding firm is imposed on the target firm (Bris and Cabolis, 2004; and Rossi and Volpin, 2004), it is also important to classify the target firm wealth effects by the legal origin of the bidder country.²⁶ We find that the differences in target share price reactions are now less outspoken. Still, the announcement period abnormal returns remain the highest when the legal origin of the bidder country is English common law.²⁷

5. Determinants of the market reaction to takeover announcements (Multivariate analysis)

The results of the univariate analysis suggest that the market reaction to takeover announcements varies across takeover bids with different characteristics. We now turn to exploring which of the effects documented in the previous section dominates in a multivariate analysis framework. In section 2 we conjecture that the characteristics of the takeover bid convey a signal to the market about the quality of the bidding and target firms and of the potential value creation in the takeover. Therefore, the release of information about the takeover induces investors to update their expectations about the bidding and target firms' prospects. Thus, we expect the takeover characteristics to explain a substantial part of variation in the bidder and target's share price changes in the period around the takeover announcement. As additional proxies for the quality of the bidders

²⁶ According to international law, when a foreign firm acquires 100% of a domestic firm, the nationality of the latter changes. Hence, the target firm adopts the accounting standards, disclosure practices, and governance structures of the acquiring firm.

²⁷ The CAARs of the bidding and target firms by country of origin are available upon request.

and targets and potential takeover synergies we also consider the financial and operating performance of these firms and their corporate control structures.

Information about takeovers is incorporated into the share prices in three steps. First, some investors or insiders trade on private information or rumours. Second, the major flow of reliable information is released to the market at the first public announcement of the takeover deal. At the announcement day, investors learn about the objective of the bidding firm, the target's attitude towards the bid, and the initial terms of the deal. Third, additional information about the takeover is obtained in the post-announcement period. This typically regards the failure or a success of the bid, a better estimate of the synergy values, and the ultimate terms of the transaction. Since the information revealed at each step is likely to affect market expectations about the bidder and target's prospects, we model market reaction to takeover announcements consisting of three components: the pre-event, announcement, and the after-event effects. In separate regressions, we investigate the factors that affect the CARs realized prior to the bid over the period $[-60, -2]$ days, over the 3 days around the bid announcement, and subsequent to the bid over the period $[+2, +60]$ days. Given that we expect to observe fundamental differences between M&As involving UK and CE firms (see section 2), we also run the regressions for these two types of deals separately.

5.1. Bidder's cumulative abnormal returns

The determinants of the market reaction to takeover announcements for bidding firms are reported in table 7 and their economic effects are in table 8. The analysis of bidder returns may be subject to a sample selection bias, as bidders may already have specific characteristics (independent of the takeover decision) that generate a specific level of returns. To control for this potential bias, we apply Heckman's procedure for sample-selection correction (see section 3.3.2).²⁸

5.1.1. Bidder pre-announcement returns

The pre-announcement returns on the shares of a bidding firm over the period starting 3 months and ending 2 days before the event are positively influenced by the bidder's Tobin's Q (see model 1 in tables 7 and 8). An increase in the Q-ratio by one standard deviation leads to an incremental rise in the bidder's run-up premium of 1023 basis points (see table 8). This suggests that investors value corporate takeovers more when the bidding firm has better growth opportunities. In

²⁸ The fourth row from the bottom of table 7 indicates regressions for which censoring is found to be a significant problem and the correction for the sample selection bias is applied. The correction is needed for the pre-bid CARs in the sub-sample of CE bids.

contrast, investors are wary when a bidding firm with high cash flow reserves makes a takeover bid. In such cases, legitimate doubts arise about the true motives for the takeover: cash surpluses are likely to be used for managerial empire building (Jensen, 1986). Accordingly, a one standard deviation increase in the bidder's cash flows reduces the run-up effect by 1666 basis points.

Since hostile takeovers are often launched after unsuccessful private negotiations with the target management, these deals are likely to be anticipated by the market due to information leakages or insider trading. We confirm that this is the case: the pre-announcement CAARs in hostile takeovers are substantially higher than those in unopposed bids (the difference amounts to 320 basis points). The fact that takeovers are preceded by a substantial positive increase in the share price of bidding firms also suggests that these deals are expected to create value. However, the announcement effect itself triggers a negative reaction in bidder share prices (see Section 5.2.1). At this point, bidder shareholders may fear the emergence of a bidding war which may erode the potential synergistic value.

While the above findings are valid for both UK and CE bidders, the decomposition of the sample based on the location of the bidding firms reveals some differences (see models 2 and 3). Diversifying takeover bids are associated with a decrease in the pre-announcement CARs for bidding firms. However, this result is largely driven by CE bidders. For these firms, the run-up premium in diversifying takeovers is 347 basis points lower than in industry-related deals. The pre-announcement change in the share price of CE bidding firms also incorporates the negative effect of a forthcoming takeover with undisclosed terms of transaction (-327 basis points). Also, CE investors favour acquisitions of targets with high collateral. An acquisition of a target with high collateral may increase the European bidder's capacity to issue new debt at favorable terms (Rajan and Zingales, 1998). A one standard deviation increase in the target firm's collateral leads to a 522 basis point increase in the run-up premium of Continental bidders.

For the UK sub-sample, the returns over the pre-announcement period are 366 basis points higher when bidders use equity as a means of payment. This signifies that bidders take advantage of a temporary overvaluation of their equity and use it as cheap currency for acquiring real assets.²⁹ As

²⁹ If the managers of a bidding firm know that the firm's shares are worth more than their current market price, they will prefer to pay for the acquisition with cash. Conversely, if the bidder's management believes that the shares are overvalued, they prefer to offer equity. Also, Shleifer and Vishny (2003) and Rhodes-Kropf and Vishwanathan (2003) argue that overvalued bidders use equity to buy real assets of undervalued (or less overvalued) targets to take advantage of the mispricing premium over the longer term when the overvaluation may be corrected. In both cases, strong performance of the bidder's share price is an important determinant of the bidder's decision to use equity as a means of payment.

the takeover wave progresses, it seems that there are more information leakages prior to the public announcements of UK bids, or that takeovers in the UK are more predictable. M&As undertaken in the late 1990s are associated with significantly higher share price run-ups than those made in 1993-96.

The presence of a large shareholder in bidding firms also has a significant impact on the bidder abnormal returns. However, this impact is positive for UK firms and negative for CE firms. The presence of a blockholder with a control stake of at least 20% leads to a rise in the pre-announcement CARs of UK bidders by 351 basis points but to a reduction in the CARs of CE bidders by 237 basis points. This result confirms that the market views the roles of the major shareholders in UK and CE firms as being different. Investors regard the presence of a large blockholder in a UK company as a credible signal that the takeover decision is driven by motives of profit maximization, while minority shareholders of the CE bidders with a controlling shareholder fear expropriation.

[Insert about here Tables 7 and 8]

5.1.2. The bidder's announcement effect

On the announcement day, when information about the takeover bid is made public, investors assess (or adjust their assessment of) the potential takeover synergies and re-consider their valuation of the bidding and target firms. Model 4 in table 7 shows that the announcement of a hostile takeover or of a tender offer triggers a significant negative price correction for bidding firms. The correction amounts to reductions of 192 and 164 basis points in the announcement returns for hostile bids and tender offers, respectively (see table 8). This result is due to shareholder concerns that their firm will offer too high a premium. An all-equity offer also forces investors to adjust the bidder's share price downward. Announcement CARs in all-equity deals are 89 basis points lower than the CARs in deals that involve cash payments. One dominant explanation is that an equity payment conveys the signal that the bidder's share price is overvalued, which in turn triggers an adverse revaluation effect.

A significant positive announcement effect on returns to the bidding firms is observed in takeover bids for private targets (78 basis points). The literature formulates several explanations for this phenomenon (see e.g. Faccio et al., 2005). First, illiquid (privately-held) shares are likely to be sold at a discount. Second, private negotiations with the controlling shareholder of an unlisted firm are likely to result in lower costs of transferring control compared to open market purchases from

dispersed shareholders (Burkart, Gromb, and Panunzi, 1997). Third, an all-equity offer to a private firm may create an outside blockholder in the bidding firm and hence bring about more managerial discipline (Chang, 1998).

Acquisitions of full control (100% of the equity) are also associated with higher bidder announcement returns than are acquisitions of majority control; the difference amounts to 138 basis points. Takeover deals with undisclosed terms are an important concern for the investors of CE bidding firms: concealed information about the transaction value and the means of payment costs bidding firms 90 basis points in the announcement premium (see models 5 and 6). Investors are wary that the terms of the deal are not disclosed when it is aimed at expropriating their rights either by management or by the controlling shareholder.

A negative price correction for CE bidders also takes place when a relatively large target is approached. A one standard deviation increase in the relative size of the transaction reduces the bidder's announcement effect by 108 basis points. Two explanations are possible. First, this negative price correction expresses the information asymmetries between bidding and target firms. Uncertainty about the true market value of the target firm reflects the possibility that the bidder may incur substantial losses in case of a post-acquisition adverse revaluation of the target's assets. The magnitude of these potential revaluation losses depends on the relative size of the target firm. Second, as larger firms generally require a more complex management structure to operate effectively, the post-acquisition integration may be a relatively more difficult process. Investors fear that their firm will bear additional costs associated with these difficulties and adjust the firm's value downward.

UK investors seem to dislike acquisitions by bidding firms holding excessive cash reserves (see model 5). A one standard deviation increase in the bidder's cash flow is associated with a reduction in the announcement CARs by 468 basis points. Investors fear that high free cash flow encourages management to undertake value-destroying acquisitions. In addition, when takeover activity was slowing down in 2000-2001, UK deals were associated with significantly lower announcement returns than similar bids in the earlier periods (the difference is 152 basis points). This may reflect that investors get wary when the investment climate deteriorates and the stock market declines. In such periods, the market (belatedly) starts realizing that there is a danger of overpaying due to managerial hubris and self-interest.

5.1.3. Bidder post-announcement returns

Bidding firm CARs realized over the three months subsequent to the event day exhibit a persistently declining trend. Our analysis reveals that M&As initiated in the late 1990s trigger significant negative returns subsequent to the event day. In these deals, the post-announcement bidder CARs are reduced by 1082 basis points (see model 7 in tables 7 and 8). The negative coefficient on the bidder's Q-ratio reflects the market's reassessment of 'glamour' firms. As suggested by Rau and Vermaelen (1998), glamour firms tend to overestimate their ability to create synergies in takeovers, and are more likely to overpay than are value firms. When these circumstances of the bid become clear, the market reassesses the quality of the bidder and adjusts the share price accordingly. A one standard deviation increase in the bidder's Q-ratio reduces the post-announcement returns by 1023 basis points.

There is evidence that the announcement and post-announcement valuation effects increase with the bidder's share price performance prior to the takeover bid.³⁰ The evidence is consistent with a behavioural finance point of view: the positive relation between run-up and mark-up premiums may result from the fact that investors tend to overestimate the potential gains in takeovers launched by outperforming bidders.

Withdrawn takeover bids seem to be disliked by the market. However, this effect occurs only with respect to UK bidders (see models 8 and 9). Failure to complete a takeover deal costs UK bidding firms 867 basis points of their post-announcement returns. CE investors revise their expectations about takeover gains upwards if the bidder has accumulated a toehold in the target firm prior to the bid. A one standard deviation increase in the toehold leads to an increase of 205 basis points in the post-announcement CARs. Apart from the difference in the reaction to the announcement of a withdrawn bid and the effect of a toehold, the patterns of post-announcement share price changes in UK and CE bidders are very similar.

5.2. Targets' Cumulative Abnormal Returns

Table 9 exhibits the determinants of target firm share price changes around takeover announcements. The economic effect of the estimated parameters is reported in table 10.

5.2.1. Targets' pre-announcement returns

³⁰ Although this relationship has significant predictive power for the bidder CARs, the economic significance is small. A 100-basis points increase in the bidder CARs prior to the bid leads to an increase in the announcement and post-announcement premiums of merely 7 and 6 basis points, respectively.

Over the three months prior to hostile bid announcements, target shareholders can pocket significantly higher cumulative abnormal returns than they can prior to friendly M&As. The anticipation of a hostile takeover is associated with a 923 basis point increase in the target's pre-announcement returns (model 1 in tables 9 and 10). This confirms that hostile bids are more likely to be anticipated, or that some degree of insider trading or trading on rumours takes place. Also, firms that were targeted during the peak period of the fifth takeover wave (1997-99) experienced a very substantial pre-announcement share price increase compared to the companies targeted at the beginning (1993-1996) and at the end (2000-2001) of the wave (the difference is 832 basis points). It seems that paying too high a price for a target firm is more likely to occur when takeover activity is at its peak because the bids become more aggressive and are more likely to trigger opposition by the target firm. UK targets experience significantly higher share price run-ups than do other targets in our sample: the difference amounts to 1106 basis points.

Partitioning our sample into UK and CE targets, we find that the significant premiums paid for UK targets are mainly driven by cross-border acquisitions (see models 2 and 3). The anticipation of a cross-border acquisition leads to an additional run-up premium of 1327 basis points for UK targets. This stands in sharp contrast with the statistically insignificant reduction in the run-up of CE targets by 169 basis points. For CE targets, pre-announcement CARs increase with collateral: a one standard deviation increase in the collateral leads to an 845 basis point increase in returns. Diversification also triggers significant anticipations of wealth increases for CE targets. For those companies, an incremental premium of 595 basis points is realized. Investors expect bidders pursuing diversification strategies to bid more aggressively and hence pay higher takeover premiums than do bidders adhering to a focus strategy.

[Insert about here Tables 9 and 10]

5.2.2. Target announcement returns

In addition to a considerable share price run-up, target shareholders can make substantial gains upon the actual announcement of a hostile bid (model 4 in table 10). The difference in the returns of hostile and unopposed bids amounts to 741 basis points. The announcement of a tender offer is another important factor increasing the value of the target firm (447 basis points). Both results are in line with the hold-out argument: the bidder needs to pay a higher premium to induce small target's shareholders to sell their shares. As such, the more diffuse the target's control structure the higher is the premium paid. This conjecture may also explain the substantially larger

wealth effects of hostile bids and tender offers for UK relative to CE targets (see models 5 and 6). One reason is that dispersed ownership structures prevail in the UK but not in Continental Europe. The difference between the announcement effects for UK and CE targets is further confirmed by the significant positive coefficient of the English legal origin indicator variable (model 4). Target companies from English common law countries accumulate markedly higher announcement premiums than do firms from civil law countries (the difference amounts to 537 basis points).

The announcement premium accrued to target shareholders is 273 basis points higher at the peak than at the beginning and the end of the takeover wave. Higher premiums (by 268 basis points) are also observed in cross-border acquisitions. When the terms of the deal remain undisclosed or when the offer involves an equity exchange, the bidder's share price declines by 619 and 651 basis points, respectively.

There is a significant positive relation between the share price run-up and announcement returns of CE target firms. A run-up premium of 100 basis points leads to an additional return of 16 basis points at the bid announcement (model 6). This result stands in sharp contrast to Schwert (1996) who does not find such a relation for the US. Remarkably, Table 9 does not report such a relation for UK target firms either (model 5). The significant relation between mark-up and run-up premiums for CE targets suggests that the share price run-up, frequently caused by insider trading (Schwert, 1996; Meulbroek, 1992), is harmful to bidding firms as it significantly raises the price paid to acquire control.

Another feature of M&As involving CE targets is the negative relation between the bidder's toehold and the announcement premium accrued to target shareholders. A one standard deviation increase in the bidder's pre-bid ownership of target shares leads to a 395 basis point reduction in the target announcement returns. Betton and Eckbo (2000) report similar evidence for US firms. They explain that a larger toehold implies a higher probability of the relatively low target payoff in the single-bid successful outcome.³¹ The relation between the toehold and the announcement effect is insignificant however for UK firms.³²

We also observe that the shareholders of CE targets are the main winners in diversified takeovers. Diversifying bids are associated with a premium which is 512 basis points higher than that in focus-oriented deals. When a UK company is acquired, the relative size of the transaction

³¹ A larger toehold reduces the overall takeover price a bidder will have to pay (Grossman and Hart, 1980; Shleifer and Vishny, 1986).

³² The lack of significance may be explained by the fact that only 9% of the UK bidders actually acquire a toehold in the target firm prior to the bid. In contrast, 20% of Continental firms launch a takeover with a positive toehold.

matters: a one standard deviation increase in the relative size leads to a reduction of 192 basis points in the target's announcement premium. Withdrawn takeover bids lead to significant share price increases (883 basis points) for the UK target firms. This increase itself may be one of the reasons a bid ultimately fails, as a bidder is likely to withdraw its bid if target shareholders demand too high a premium.

5.2.3. *Target post-announcement returns*

The models explaining the post-announcement returns accrued to target shareholders have low explanatory power because these share prices remain relatively unchanged. As model 7 in table 10 shows, the target abnormal returns decrease by 961 basis points when the takeover terms are not disclosed, and by 1287 basis points when the bidder faces difficulties in completing the transaction. In contrast, the CARs increase after the announcement of a full acquisition (by 541 basis points). As in the case of the announcement CARs, the share price run-up positively affects post-bid target returns. This indicates that these are additional costs to the bidding firm triggered by pre-announcement leakages of information. However, the negative coefficient on the toehold variable indicates that bidding firms pay a lower total price when they acquire a toehold in the target firm prior to the bid. Takeover bids made in the period of the peak and decline of the takeover wave are associated with a significantly negative post-announcement stock price revaluation (by 321 and 688 basis points, respectively). However, all the effects mentioned in this subsection are only significant for CE target companies (model 9). In the UK, the post-announcement CARs of target firms are positively influenced by a withdrawal of the bid (model 8). It seems that investors are relieved that the bid is withdrawn and that they anticipate other, more profitable bids.

The only common effect for both UK and CE targets is the positive relation between the targets' post-bid returns and cash flows (see models 8 and 9). A one standard deviation increase in a target firm's cash flow triggers an increase in the post-announcement premium of 389 basis points. On the one hand, this suggests that negotiations between target shareholders and the bidder are ongoing and that a cash-rich target has better opportunities to negotiate a higher premium. On the other hand, this result is also in line with the conjecture that a cash-rich target is more able to apply anti-takeover measures such as share buy-backs or an increase in dividend payout, which make its acquisition more costly for the bidder.

6. Conclusions

This paper has examined the determinants of the market reaction to the announcements of European corporate takeovers that took place during the period 1993-2001, the fifth takeover wave. We document that the majority of takeover deals is expected to generate synergy values: they trigger substantial share price increases at the announcement, most of which are captured by the target firm shareholders. We find large announcement effects (of 9%) for the target firms compared to a (statistically significant) announcement effect of merely 0.5% for the bidding firms. Analysis of pre-bid cumulative abnormal returns reveals that bidder and target price reactions are not limited to the announcement day but commence already more than two months prior to the initial public announcement. Including the price run-up, the cumulative abnormal returns increase to 21% for the targets and 0.9% for the bidders. Subsequent to the event day, negative revaluations of the bidder and target's share prices occur.

We show that there is systematic variation in the valuation effects of takeovers with different characteristics, and these findings are valid for both UK and Continental European firms. First, hostile takeovers and tender offers trigger substantially larger price reactions to the target shareholders than do friendly M&As. Second, investors adjust downwards both the bidder and target's share prices at the announcement of all-equity offers. Third, target shareholders gain higher premiums in cross-border takeovers. Fourth, an acquisition of a private firm triggers significantly positive abnormal returns to the bidder's shareholders. We also demonstrate that takeovers occurring when takeover activity is slowing down trigger lower gains to both bidder and target shareholders than do deals at the beginning of the wave.

We also detect some fundamental differences between takeovers in the UK and Continental Europe. First, the shareholders of UK target firms are able to pocket significantly higher returns than their Continental European peers. We relate this difference in premiums to a more strict takeover legislation in the UK than in the Continental European countries, which protects the UK target shareholders from expropriation by the bidder and gives these target shareholders more power to extract higher premiums in takeover negotiations.

Second, the presence of a large shareholder in the bidding firm has a significantly positive impact in the UK and a negative one in Continental Europe. This evidence suggests that investors view the roles of the major shareholders in UK and Continental European firms as fundamentally different. The presence of a large blockholder in a UK bidder company is regarded as a credible signal that the takeover decision is driven by motives of profit maximization. In contrast, the

presence of a controlling shareholder in a Continental European firm may be interpreted as a signal that the takeover may also expropriate the firm's minority shareholders. The lack of an efficient takeover regulation and weak protection of shareholders in Continental Europe is likely to account for this difference.

Third, there is evidence of a significantly positive relation between mark-up and run-up premiums to bidder and target firms from Continental Europe. This finding stands in sharp contrast to Schwert (1996) who does not find such a relation for the US. Our analysis shows that the UK market exhibits no such a relation either. The run-up premium is typically caused by insider trading, which is less regulated in Continental Europe than in the UK. Therefore, the positive relation between run-up and mark-up premiums indicates that insider trading is harmful to Continental European bidding firms, as it significantly raises the price paid to acquire target shares. This in turn, may discourage potential bidders from making a takeover bid.

Finally, the Continental European market is also distinct in that there are a high number of takeover bids where the transaction terms remain undisclosed. Such transactions lead to substantial losses to the shareholders of both bidding and target firms. Similarly, acquisitions of partial control, virtually non-existent in the UK but prevailing in Continental Europe, trigger significantly lower share price reactions at their announcement. This evidence suggests that Continental European regulators who want to facilitate efficient corporate restructuring in their countries need to introduce measures to prevent takeovers leading to expropriation of the bidder and target's (minority) shareholders.

7. References:

- Agrawal, A. and Jaffe, J., 2000, The post-merger performance puzzle, in A. Gregory and C. Cooper (eds.), *Advances in Mergers and Acquisitions*, volume 1, Amsterdam: JAI Press, 7–41
- Agrawal, A. and Mandelker, G., 1987, Managerial incentives and corporate investment and financing decisions, *Journal of Finance* 42, 823–37.
- Amihud, Y., and B. Lev, 1981, Risk Reduction as a Managerial Motive for Conglomerate Mergers, *Bell Journal of Economics* 12, 605-617.
- Andrade, G., M. L. Mitchell, and E. Stafford, 2001, New Evidence and Perspectives on Mergers, *Journal of Economic Perspectives* 15 (2), 103-120.
- Asquith, P., R. Bruner, and D. Mullins, 1983, The Gains to Bidding Firms From Merger, *Journal of Financial Economics* 11 (1), 121-139.
- Barca, F., and Becht, M., 2001, (eds) *The Control of Corporate Europe*, Oxford: Oxford University Press
- Bhide, A., 1990, Reversing corporate diversification, *Journal of Applied Corporate Finance* 3, 70-81.
- Blume, M., 1979, Betas and their Regression Tendencies: Some Further Evidence, *Journal of Finance* 34, 265-267
- Bradley, M., A. Desai, and E.H. Kim, 1988, Synergistic Gains from Corporate Acquisitions and Their Division Between the Stockholders of Target and Acquiring Firms, *Journal of Financial Economics* 21 (1), 3-40.
- Bradley, M., and Sundaram, A., 2004, Do Acquisitions Drive Performance or Does Performance Drive Acquisitions?, *SSRN Working Paper*
- Bris, A., and C. Cabolis, 2004, The Value of Investor Protection: Firm Evidence from Cross-Border Mergers, *Yale ICF Working Paper No. 02-32*.
- Brown, S.J., and J.B. Warner, 1985, Using Daily Stock Returns: The Case of Event Studies, *Journal of Financial Economics* 14 (1), 3-31.
- Bruner, R.F, 2003, Does M&A Pay?, Chapter 3 in R.F. Bruner, *Applied Merges and Acquisitions*, Wiley Finance.
- Burkart, M., 1995, Initial shareholdings and overbidding in takeover contests, *Journal of Finance* 50 (5), 1491-1515.
- Burkart, M., D. Gromb, and F. Panunzi, 1997, Large shareholders, monitoring, and the value of the firm, *Quarterly Journal of Economics* 112 (3), 693-728.
- Burkart, M., and F. Panunzi, 2006, Takeovers, *ECGI - Finance Working Paper No. 118/2006*
- Campbell, C.J., and C.E. Wasley, 1996, Measuring Abnormal Daily Trading Volume for Samples of NYSE/ASE and NASDAQ Securities Using Parametric and Nonparametric Test Statistics, *Review of Quantitative Finance and Accounting* 6 (3), 309-326.
- Campbell, J.Y., A.W. Lo, and A.C. MacKinlay, 1997, (eds.) *The econometrics of financial markets*, Princeton University Press: Princeton, N.J.
- Cebenoan, A., G. Papaioannou, and N. Travlos, 1992, Foreign takeover activity in the US and wealth effects for target firm shareholders, *Financial Management* 21, 58–68.
- Chang, S. 1998, Takeovers of privately held targets, methods of payment, and bidder returns, *Journal of Finance* 53, 773-784.
- Comment, R., and G. Jarrell, 1995, Corporate Focus and Stock Returns, *Journal of Financial Economics* 37, 67-88.
- Conn, R., A.D. Cosh, P.M. Guest, and A. Hughes, 2005, The Impact on U.K. Acquirers of Domestic, Cross-Border, Public and Private Acquisitions, *Journal of Business Finance and Accounting*, forthcoming.
- Corrado, C.J., 1989, A Nonparametric Test for Abnormal Security-Price Performance in Event Studies, *Journal of Financial Economics* 23 (2), 385-95
- Danbolt, J., 2004, Target company cross-border effects in acquisitions into the UK, *European Financial Management* 10 (1), 83-108.
- Dennis, D. K. and J. J. McConnell, 1986, Corporate mergers and security returns, *Journal of Financial Economics* 16, 143-187.
- Dewenter, K., 1995, Does the market react differently to domestic and foreign takeover announcements? Evidence from the US chemical and retail industries, *Journal of Financial Economics* 37, 421–441.
- Dimson, E., 1979, Risk measurement when shares are subject to infrequent trading, *Journal of Financial Economics* 7, 197–226.
- Faccio, M., and L. Lang, 2002, The Ultimate Ownership of Western European Corporations, *Journal of Financial Economics* 65 (3), 365-395.
- Faccio, M., J. McConnell, and D. Stolin, 2005, Returns to Acquirers of Listed and Unlisted Targets, *Journal of Financial and Quantitative Analysis*, forthcoming
- Faccio, M., and R. W. Masulis, 2005, The Choice of Payment Method in European Mergers and Acquisitions, *Journal of Finance* 60 (3), 1345-1388.

- Faccio, M., and D. Stolin, 2004, Expropriation vs. proportional sharing in corporate acquisitions, *Journal of Business*, forthcoming.
- Franks, J., and R. Harris, 1989, Shareholder wealth effects of corporate takeovers: the U.K. experience 1955-1985, *Journal of Financial Economics* 23, 225-249.
- Franks, J., and C. Mayer, 1996, Hostile takeovers and the correction of managerial failure, *Journal of Financial Economics* 40, 163-181.
- Franks, J., C. Mayer, and L. Renneboog, 2001, Who Disciplines Management in Poorly Performing Companies?, *Journal of Financial Intermediation* 14, 943-977.
- Franks, J., R. Harris, and S. Titman, 1991, The Postmerger Share-Price Performance of Acquiring Firms, *Journal of Financial Economics* 29, 81-96.
- Froot, K., and J. Stein, 1991, Exchange rates and foreign direct investments: an imperfect capital markets approach, *Quarterly Journal of Economics*, 1191-1217.
- Fuller, K., J. Netter, and M. Stegemoller, 2002, What do Returns to Acquiring Firms Tell Us? Evidence from Firms that Make Many Acquisitions, *Journal of Finance* 57(4), 1763-1793.
- Goergen, M., and L. Renneboog, 2004, Shareholder Wealth Effects of European Domestic and Cross-Border Takeover Bids, *European Financial Management* 10 (1), 9-45.
- Goergen, M., M. Martynova, and L. Renneboog, 2005, Corporate Governance Convergence: Evidence From Takeover Regulation Reforms, *Oxford Review of Economic Policy*, 21 (2), 243-268.
- Gregory, A., 1997, An examination of the long run performance of UK acquiring firms, *Journal of Business Finance and Accounting* 24, 971-1002.
- Grossman, S.J., and O.D. Hart, 1980, Takeover bids, the free-rider problem and the theory of the corporation, *Bell Journal of Economics* 11, 42-64.
- Harford, J., 2003, Efficient and Distortional Components to Industry Merger Waves, *Unpublished Working Paper*, AFA 2004 San Diego Meetings.
- Healy, P. M., K. G. Palepu, and R. S. Ruback, 1992, Does corporate performance improve after mergers?, *Journal of Financial Economics* 31, 135-175.
- Healy, P., K. Palepu, and R. Ruback, 1997, Which takeovers are profitable: strategic or financial?, *Sloan Management Review* 38, 45-57.
- Heckman, J., 1976, The common structure of statistical models of truncation, sample selection, and limited dependent variables and a sample estimator for such models, *Annals of Economic and Social Measurement* 5 (4), 475
- Heckman, J., 1979, Sample selection bias as a specification error, *Econometrica* 47 (1), 153-162.
- Higgins, R. and L. Schall, 1975, Corporate Bankruptcy and Conglomerate Merger, *Journal of Finance* 30(1), 93-113.
- Hirshleifer, D., and S. Titman, 1990, Share Tendering Strategies and the Success of Hostile Takeover Bids, *Journal of Political Economy* 98 (2), 295
- Jarrell, G., J. Brickley, and J. Netter, 1988, The market for corporate control: the empirical evidence since 1980, *Journal of Economic Perspectives* 2, 49-68.
- Jarrell, G. and A. Poulsen, 1989, The Returns to Acquiring Firms in Tender Offers: Evidence from Three Decades, *Financial Management* 18 (3), 12-19.
- Jensen, M., 1986, Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers, *American Economic Review* 76 (2), 323-329.
- Jensen, M., 1988, Takeovers: Their Causes and Consequences, *Journal of Economic Perspectives* 2, 21-48.
- Jensen, M., 2004, Agency Costs of Overvalued Equity, *Harvard NOM Working Paper* No. 04-26; *ECGI - Finance Working Paper* No. 39/2004.
- Jensen, M., and W. Meckling, 1976, Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure, *Journal of Financial Economics* 3 (4), 305-360.
- Jensen, M., and R. Ruback, 1983, The market for corporate control: The scientific evidence, *Journal of Financial Economics* 11, 5-50.
- Kang, J., 1993, The international market for corporate control – mergers and acquisitions of US firms by Japanese firms, *Journal of Financial Economics* 11, 345-71.
- Kaplan, S. and M. Weisbach, 1992, The Success of Acquisitions: Evidence From Divestitures, *Journal of Finance* 47 (1), 107-138.
- La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny, 1997, Law and Finance, *Journal of Political Economy* 106, 1113-1155.
- Lang, L., R. Stulz, and R. Walkling, 1989, Managerial Performance, Tobin's Q, and the Gains from Successful Tender Offers, *Journal of Financial Economics* 24 (1), 137-154.
- Lang, L., R. Stulz and R. Walkling, 1991, A Test of the Free Cash Flow Hypothesis: The Case of Bidder Returns, *Journal of Financial Economics* 29(2), 315-335.

- Lewellen, W., 1971, A Pure Financial Rationale for the Conglomerate Merger, *Journal of Finance* 26, 521-545.
- Loderer, C., and K. Martin, 1990, Corporate Acquisitions by Listed Firms: The Experience of a Comprehensive Sample, *Financial Management* 19 (4), 17-33.
- Martin, K., and J. McConnell, 1991, Corporate Performance, Corporate Takeovers, and Management Turnover, *Journal of Finance* 46, 671-687.
- Maloney M., R. McCormick, and M. Mitchell, 1993, Managerial Decision making and Capital Structure, *Journal of Business* 66 (2), 189
- Maquiera, C., W. Megginson, and L. Nail, 1998, Wealth Creation Versus Wealth Redistributions in Pure Stock-For-Stock Mergers, *Journal of Financial Economics* 48 (1), 3-33.
- Meulbroek, L.A., 1992, An Empirical Analysis of Illegal Insider Trading, *Journal of Finance* 47 (5), 1661
- Moeller, S., and F. Schlingemann, 2005, Global Diversification and Bidder Gains: A Comparison Between Cross-border and Domestic Acquisitions, *Journal of Banking and Finance* 29, 533-564.
- Moeller, S., F. Schlingemann, and R. Stulz, 2004, Firm size and the gains from acquisitions, *Journal of Financial Economics* 73, 201-228.
- Moeller, S., F. Schlingemann, and R. Stulz, 2005, Wealth Destruction on a Massive Scale? A Study of Acquiring-Firm Returns in the Recent Merger Wave, *Journal of Finance* 60 (2), 757-782
- Morck, R., A. Shleifer, and R. Vishny, 1990, Do Managerial Objectives Drive Bad Acquisitions?, *Journal of Finance* 45 (1), 31-48.
- Morck, R., B. Yeung, and W. Yu, 2000, The information content of stock markets: Why do emerging markets have synchronon stock price movements?, *Journal of Financial Economics* 58, 215-260.
- Mulherin, J.H., and A.L. Boone, 2000, Comparing Acquisitions and Divestitures, *Journal of Corporate Finance* 6, 117-139.
- Nenova, T., 2003, The value of corporate votes and control benefits: A cross-country analysis, *Journal of Financial Economics* 68, 325-351.
- Rajan, R., H. Servaes, and L. Zingales, 2000, The cost of diversity: The diversification discount and inefficient investment, *Journal of Finance* 55, 2537-2564.
- Rajan, R., and L. Zingales, 1995, What do we know about capital structure? Some evidence from international data, *Journal of Finance* 50 (5), 1421.
- Rau, P.R. and T. Vermaelen, 1998, Glamour, value and the post-acquisition performance of acquiring firms, *Journal of Financial Economics* 49, 223-253.
- Ravenscraft, D.J. and F.M. Scherer, 1989, The Profitability of Mergers, *International Journal of Industrial Organization* 7, 101-116.
- Roll, R., 1986, The Hubris Hypothesis of Corporate Takeovers, *Journal of Business* 59, 197-216.
- Rossi, S., and P. Volpin, 2004, Cross-Country Determinants of Mergers and Acquisitions, *Journal of Financial Economics* 74(2), 277-304.
- Scharfstein, D., and J. Stein, 2000. The dark side of internal capital markets: Divisional rent-seeking and inefficient investment, *Journal of Finance* 55, 2537-2564.
- Schoenberg, R., 1999, Cultural Compatibility in International Acquisitions in F. Burton, M. Chapman, and A. Cross (eds.) *International business organization: Subsidiary management, entry strategies and emerging markets*, Academy of International Business series. New York: St. Martin's Press; London: Macmillan Press, 294-306
- Schwert, G.W., 1996, Markup Pricing in Mergers and Acquisitions, *Journal of Financial Economics* 41 (2), 153-162.
- Schwert, G.W., 2000, Hostility in takeovers: In the Eyes of the Beholder?, *Journal of Finance* 55(6), 2599-2640.
- Servaes, H. and M. Zenner, 1994, Taxes and the returns to foreign acquisitions in the United States, *Financial Management*, 42-56.
- Servaes, H., 1991, Tobin's Q and the Gains from Takeovers, *Journal of Finance* 46 (1), 409-419.
- Shelton, L. M., 2000, Merger market dynamics: insights into behaviour of target and bidder firms, *Journal of Economic Behavior & Organization* 41, 363-383.
- Shin H. and R. Stulz, 1998, Are Internal Capital Markets Efficient?, *Quarterly Journal of Economics* 113 (2), 531-552.
- Shleifer, A., and R. Vishny, 1989, Management Entrenchment: The Case of Manager-Specific Investments, *Journal of Financial Economics* 25 (1), 123-139.
- Smith, R.L., and J.H. Kim, 1994, The Combined Effects of Free Cash Flow and Financial Slack on Bidder and Target Stock Returns, *Journal of Business* 67 (2), 281-310.
- Wansley, J., W. Lane, and H. Yang, 1983, Shareholder returns to US acquired firms and domestic acquisitions, *Journal of Business Finance and Accounting* 10, 647-656.
- White H., 1980, A heteroskedasticity-consistent covariance matrix estimator and a direct test for heteroskedasticity, *Econometrica* 48, 817-838.

Zingales, L., 1994, The value of the voting right: A study of the Milan Stock Exchange experience, *Review of Financial Studies* 7, 125-148.

Appendix I. Data sources of ownership and control.

The ownership and control data that are not available from the sources below are gathered from annual reports and the shareholder registers of national stock exchanges.

<i>Country</i>	<i>Data sources</i>
Austria	Prof. Dr. Klaus Gugler (<i>University of Vienna</i>); Faccio and Lang (2002)
Belgium	Prof. Dr. Christoph van der Elst (<i>Tilburg University</i>); Prof. Dr. Luc Renneboog (<i>Tilburg University</i>)
Cyprus	Stockwatch Cyprus (http://www.stockwatch.com.cy)
Czech Rep.	SCP- The Prague Securities Centre (http://www.scp.cz)
Denmark	Prof. Dr. Steen Thomsen and Mr. Michael Emil Olinger (<i>Copenhagen Business School</i>)
Estonia	Tallinn Stock Exchange (http://www.ee.omxgroup.com)
Finland	Prof. Dr. Benjamin Maury (<i>HANKEN Swedish School of Economics and Business Administration</i>)
France	Prof. Dr. Alain Alcouffe (<i>Toulouse University</i>); Faccio and Lang (2002)
Germany	Prof. Dr. Luc Renneboog (<i>Tilburg University</i>); Prof. Dr. Ekkehart Boehmer (<i>Texas A&M University</i>); Faccio and Lang (2002)
Ireland	Thomson Financial Research: annual reports of individual firms; Faccio and Lang (2002)
Italy	Prof. Dr. Marcello Bianchi (<i>CONSOB</i>)
Latvia	Riga Stock Exchange (http://www.rfb.lv); Dr. Anete Pajuste (<i>Riga Business School</i>)
Lithuania	Vilnius Stock Exchange (http://www.nse.lt)
Netherlands	Annual reports and the <i>Financieele Dagblad</i>
Norway	Prof. Dr. Bernt Arne Odegaard (<i>Norwegian School of Management BI</i>)
Poland	Dr. Grzegorz Trojanowski (<i>University of Exeter</i>)
Portugal	Prof. Dr. Carlos Ferreira Alves (<i>Porto University</i>); Mr. Pedro Verga Matos (<i>Universidade Técnica de Lisboa</i>); CMVM - Comissão do Mercado de Valores Mobiliários (www.cmvm.pt)
Romania	Bucharest Stock Exchange (http://www.bvb.ro)
Slovenia	Dr. Aleksandra Gregoric (<i>Ljubljana University</i>)
Spain	Prof. Dr. Rafael Crespí (<i>Universitat de les Illes Balears</i>); CNMV- Comisión Nacional del Mercado de Valores (http://www.cnmv.es)
Sweden	Prof. Dr. Martin Holmen (<i>Uppsala University</i>)
Switzerland	Dr. Markus Schmid (<i>University of Basel</i>); Mr. Diego Dimitri Liechti (<i>Universität Bern</i>): data source Swiss Stock Guide (<i>Schweizer Aktienführer</i>)
UK	Dr. Grzegorz Trojanowski (<i>University of Exeter</i>); Faccio and Lang (2002); Thomson Financial Research: annual reports of individual firms

Appendix II. Variable Definitions

<i>Variable</i>	<i>Definition</i>
1997-1999	Indicator equals one if the bid was initiated in the period between January 1, 1997 and December 31, 1999 (the climax of the 5 th takeover wave); equals zero otherwise. Source: <i>SDC</i>
2000-2001	Indicator equals one if the bid was initiated in the period between January 1, 2000 and December 31, 2001 (the decline of the 5 th takeover wave); equals zero otherwise. Source: <i>SDC</i>
All-cash payment	Indicator equals one if the acquisition is fully paid with cash, and equals zero otherwise. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
All-equity payment	Indicator equals one if the acquisition is fully paid with equity, and equals zero otherwise. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Blockh>20%	Indicator equals one if the firm is controlled by a blockholder owning a voting stake of 20% and more prior to the takeover. Source: see Appendix II.
Blockh>60%	Indicator equals one if the firm is controlled by a blockholder owning a voting stake of 60% and more prior to the takeover. Source: see Appendix II.
CFlow/TA	Ratio of total cash flow (including cash flow from operating, financial, and investment activities) to total assets, at the year-end prior to the deal announcement. Source: <i>SDC and Amadeus/Fame/Reach and DataStream</i> .
Collateral	Ratio of tangible assets to total assets; both refer to the year prior to the deal announcement. Source: computed based on <i>Amadeus/Fame/Reach and DataStream</i> .
Control (%)	Ultimate voting stake owned by the bidder's largest shareholder. Source: see Appendix II.
Cross-border bid	Indicator equals one if the bidder and target are from different countries, and equals zero otherwise. Source: <i>SDC and LexisNexis, Factiva, and Financial Times</i>
Diversification	Indicator equals one if the bidder and target operate in different industries (their primary 2-digit SIC codes do not coincide), and equals zero otherwise. Source: <i>SDC and Amadeus/Fame/Reach</i>
English	Indicator equals one if the firm is incorporated in a country of English legal origin (Ireland and the UK), and equals zero otherwise. Source: computed based on the <i>LaPorta et al. (1997)</i> classification
Investments/TA	Ratio of total investments to total assets, both refer to the year-end prior to the deal announcement. Source: <i>Amadeus/Fame/Reach and DataStream</i>
Leverage	Ratio of total debt to total assets at the year-end prior to the deal announcement. Source: computed based on <i>Amadeus/Fame/Reach and DataStream</i>
Friendly M&A	Indication equals one if the takeover is not qualified as an opposed (by the target firm) bid or as an unopposed tender offer (see Opposed bid and Tender offer); it is zero otherwise. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
M&A of 100%	When CARs over windows [-60, -2] and [-1, +1] are analyzed, the indicator equals one if the bidder intends to hold 100% of the share capital of the target firm after the bid completion, and equals zero otherwise. When CARs over window [+2, +60] are analyzed, the indicator equals one if the bidder owns 100% of share capital of the target firm after the bid completion, and equals zero otherwise. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Market value	Market capitalization of the bidding firm 60 days prior to the initial bid announcement. Source: <i>Amadeus and DataStream</i>
Opposed (by the target's board) bid	Indicator equals one if the initial takeover offer meets a negative reaction by the management of the target firm or if a competing bid is made. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Pending bid	Indicator equals one if the bid has been announced but has not been completed or withdrawn afterwards. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Private target	Indicator equals one if target firm was a stand-alone firm not listed on any stock exchange at the moment of the bid announcement, and is zero otherwise. Source: <i>SDC and Amadeus/Fame/Reach</i>
Q-ratio	Ratio of market value of equity (ordinary and preferred) plus book value of debt over the sum of book value of equity and book value of debt. The market value of equity is taken 60 days prior to deal announcement, book value of equity and debt are at year-end prior to deal announcement. Source: <i>Amadeus/Fame/Reach and DataStream</i>
Relative size	The ratio of transaction value over the sum of the transaction value plus the bidder's market capitalization. If the transaction value is undisclosed, we employ the product of the percentage of share capital acquired and the book value of the target firm's assets one year prior to the bid as a proxy. Source: <i>SDC, LexisNexis, Factiva, and Financial Times and Amadeus/Fame/Reach and DataStream</i>
Returns on Assets	Ratio of net income to total assets, both refer to the year-end prior to deal announcement. Source: <i>Amadeus/Fame/Reach and DataStream</i>

<i>Variable</i>	<i>Definition</i>
Run-up	Cumulative abnormal returns (CARs) of bidder/target over the window [-60, -2] preceding the day of the deal announcement. The market model is adjusted for thin-trading and reversion to the mean over the period of 300 to 60 days before M&A announcement; the market index is the MSCI Europe index. Source: <i>DataStream</i>
Sales/TA	Ratio of sales revenues to total assets; both refer to the year-end prior to the deal announcement. Source: <i>Amadeus/Fame/Reach and DataStream</i>
Tender offer (unopposed by the target's board)	Indicator equals one if the bidder makes a public offer to purchase shares of the target firm and the takeover is not classified as opposed (see Opposed bid); and is zero otherwise. Generally, an unopposed tender offer is a public offer to the target shareholders asking them to sell their shares for cash and/or equity at a pre-specified price or equity exchange ratio, while the board of directors of the target firm does not issue negative statements about the bid. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Toehold	Percentage of the target firm shares that the bidder had accumulated prior to the bid announcement. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Total assets	Total assets of the firm at the year-end prior to deal announcement. Source: <i>DataStream and Amadeus/Fame/Reach</i>
Undisclosed terms	This indicator variable equals one if the terms of the transaction such as the means of payment or the transaction value are not disclosed, and equals zero otherwise. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Withdrawn bid	Indicator equals one if the bid was ultimately unsuccessful, and equals zero otherwise. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>

Table 1. Determinants of the anticipated gains to the bidder's and target's shareholders

	Empirical evidence	Expected effect on Bidder's CARs	Expected effect on Target's CARs
<u>GEOGRAPHICAL SCOPE:</u>			
<i>BIDDER & TARGET:</i> In cross-border acquisitions, bidding and target firms are likely to benefit by taking advantage of imperfections in international capital, factor, and product markets (Hymer, 1976); by internalising the R&D capabilities of target companies (Eun et al., 1996); and by expanding their businesses into new markets (as a response to globalisation trends).	Eun et al. (1996);	(+) Cross-border takeover	(+) Cross-border takeover
<i>BIDDER & TARGET:</i> Regulatory and cultural differences between the bidder and target countries may lead to difficulties in managing the post-merger process and hence failure to achieve merger synergies. Anticipating such difficulties in cross-border bids, the market may discount the expected takeover gains (Schoenberg, 1999).	Conn et al. (2005); Moeller and Schlingemann (2004)	(-) Cross-border takeover	(-) Cross-border takeover
<u>TYPE OF ACQUISITION:</u>			
<i>BIDDER:</i> Partial acquisitions are likely to take place when the acquisition is too risky or the bidding firm has insufficient financing capacity to acquire 100% of the target equity. Partial acquisitions are also associated with potential conflicts of interest that may arise between the bidder and the remaining target shareholders after the acquisition. Hence, the market is expected to react less favourably to partial acquisitions than to full acquisitions.	<i>Unknown</i>	(+) M&A of 100%	(+) M&A of 100%
<i>TARGET:</i> Bidding firms may use partial acquisitions (acquisitions of majority control but not of 100% control) to expropriate the target firms' minority shareholders (Faccio and Stolin, 2004). It follows that such acquisitions may create less value and are associated with significantly lower returns to the target shareholders than are acquisitions in which the bidder intends to obtain full control (100% of the equity).			
<u>FORM OF AND ATTITUDE TOWARDS THE BID:</u>			
<i>BIDDER:</i> Shareholders of the bidding firms fear that their firm will offer too high a premium if the target's management opposes the bid or if the offer is made directly to the target shareholders (bypassing the board of directors). The anticipated upward revisions in the offer premium erode the synergy values accruing to the bidder.	Franks and Mayer (1996); Gregory (1997); Goergen and Renneboog (2004)	(-) Opposed (or hostile) bid (-) Tender offer	(+) Opposed (or hostile) bid (+) Tender offer
<i>TARGET:</i> Market expects that opposition against the bid will lead to the upward movement of the target's share price at the announcement of a hostile bid.			
<u>BID COMPLETION STATUS:</u>			
<i>BIDDER:</i> If takeovers are positive net present value investments, then unsuccessful bidder returns should reflect the loss of profitable investment opportunities (Ruback, 1983)	Bradley, Desai, and Kim (1983)	(-) Withdrawn	(+) Withdrawn
<i>TARGET:</i> Withdrawn takeover bids may lead to share price increases for target firms. This increase itself may be one of the reasons the bid ultimately fails, as a bidder is likely to withdraw its bid if target shareholders demand too high a premium. The post-announcement CARs of target firms may also be positively influenced by the withdrawal of the bid. The reason is that investors get relieved that the bid is withdrawn and that they anticipate other, more profitable bids.			
<i>TARGET:</i> A bid withdrawal may lead to negative market reactions when investors fear that their firm's management blocked the takeover in order to protect its own interests, which diverge from those of the shareholders (Burkart and Panunzi, 2006).	Goergen and Renneboog (2004)		(-) Withdrawn

	Empirical evidence	Expected effect on Bidder's CARs	Expected effect on Target's CARs
<i>BIDDER & TARGET:</i> In pending acquisitions, the gains for bidder's and target's shareholders are expected to fall as a reaction to ongoing uncertainty	<i>Unknown</i>	(-) Pending	(-) Pending
<u>LEGAL STATUS OF THE TARGET FIRM:</u>			
<i>BIDDER:</i> Takeover bids for privately-held companies may lead to higher bidder returns than do bids for public firms. The reason is that the shares of privately-held firms are by definition illiquid that may create a price discount. Also, takeover negotiations with the owners of a private firm may have a better chance of succeeding than when a public tender offer has to be launched for a widely-held firm (Burkart, Gromb, and Panunzi, 1997). Moreover, an all-equity offer to a private firm may create an outside blockholder in the bidding firm and hence bring about more managerial discipline (Chang, 1998).	Moeller et al. (2004); Faccio et al. (2004); Fuller et al. (2002)	(+) Private target	
<i>BIDDER:</i> The acquisition of a private firm may entail considerably more risk for the acquirer due to the fact that the information available about the true value and growth potential of the firm may be less reliable. Therefore, an acquisition of a private target may be followed by negative market reaction	Bradley and Sundaram (2004)	(-) Private target	
<u>INDUSTRY SCOPE:</u>			
<i>BIDDER:</i> Although diversifying (or conglomerate) acquisitions are expected to create operational and/or financial synergies, the creation of diversified firms is associated with a number of disadvantages such as rent-seeking behavior by divisional managers (Scharfstein and Stein, 2000), bargaining problems within the firm (Rajan et al., 2000), or bureaucratic rigidity (Shin and Stulz, 1998). These disadvantages of diversification may outweigh the alleged synergies and result in wealth destruction for the shareholders of the bidding firm. Diversifying mergers themselves may be an outgrowth of the agency problems between managers and shareholders (Shleifer and Vishny, 1989). As such, they are expected to destroy value	Morck et al. (1990); Maquieira et al. (1998); Doukas et al. (2002)	(-) Diversifying acquisition	(+) Diversifying acquisition
<i>TARGET:</i> Investors expect bidders pursuing diversification strategies to bid more aggressively and hence pay higher takeover premiums than do bidders adhering to a focus strategy. This is because diversifying acquisitions are more likely to occur when bidding firms suffer from agency conflicts and free cash flow problems. In the literature, there is evidence that the managers of such firms often acquire unrelated businesses for personal reasons at the expense of shareholder value (e.g. for 'empire building' purposes), or that managerial hubris leads bidding firms to pay too high premiums.			
<u>MEANS OF PAYMENT:</u>			
<i>BIDDER:</i> If the managers of a bidding firm are convinced that the true value of their firm's shares is higher than the current share price, they will prefer not to issue equity (to finance an all-equity bid or a mixed offer) and will rather offer to pay with cash. Hence, the market may interpret the financing choice as a signal about a firm's under- or overvaluation and revise the share price of the firm offering cash (equity) upwards (downwards) (Myers and Majluf, 1984). Thus, a negative price correction is expected for all-equity bids and a positive one for all-cash bids.	Moeller et al (2004); Andrade et al. (2001); Franks et al. (1991)	(-) Equity payment (+) Cash payment	(-) Equity payment (+) Cash payment
<i>TARGET:</i> A cash bid is interpreted as a positive signal about the target firm's quality as the bidding firm is buying out the target shareholders and is hence not willing to share future value increases. Hence, the target's share price rises more for an all-cash deal than for an equity exchange.			
<i>BIDDER & TARGET:</i> Shareholders of the bidding and target firms get wary about the deal when the terms of the takeover are not disclosed. They may suspect that the transaction may lead to the expropriation of their rights either by the management or by the controlling shareholder. Therefore, share prices of both firms are expected to decline	<i>Unknown</i>	(-) Undisclosed terms of transaction	(-) Undisclosed terms of transaction

SUB-PERIODS OF THE 5th TAKEOVER WAVE:

	Empirical evidence	Expected effect on Bidder's CARs	Expected effect on Target's CARs
<p><i>BIDDER</i>: The bidders bid more aggressively during the takeover wave peak, hence their gains are expected to decline</p> <p><i>TARGET</i>: Correspondingly, the gains to the target shareholders are expected to raise</p>	Shelton (2000)	(-) Peak of the takeover wave	(+) Peak of the takeover wave
<p><i>BIDDER & TARGET</i>: Takeovers occurring at a later stage of the wave may suffer from limited information processing, managerial hubris, and managerial self-interest and hence trigger lower returns to bidder and target shareholders than do those at the beginning of the wave (Harford, 2003)</p>	Harford (2003); Moeller et al. (2005)	(-) Later stage of the takeover wave	(-) Later stage of the takeover wave
<p><i>BIDDER</i>: High valuations realized during the periods of equity market booms increase managerial discretion, and make it possible for executives to make poor acquisitions when they have run out of good ones (Jensen, 2004). We expect more poor acquisitions in the later stage of the wave.</p>	Moeller et al. (2005)	(-) Peak and later stage of the takeover wave	

Table 2. Sample composition and characteristics of M&A deals

Panel A shows the number of all the takeover announcements and partitions this sample into: (i) domestic and cross-border deals; (ii) acquisitions of 100% control and acquisitions of partial control; (iii) friendly M&As, unopposed tender offers, and opposed (by the target's board) bids; (iv) completed, pending, and withdrawn bids; (v) privately held and public target firms; (vi) diversifying deals and focus-oriented transactions, and (vii) all-cash, all-equity, mixed offers and deals with undisclosed terms of transaction. Panel B provides the characteristics of takeover transaction for the whole sample and for the sub-samples of takeovers launched by UK and CE firms. Mean [Median] values of the variables are reported. All variables are defined in Appendix II.

<i>PANEL A: SAMPLE COMPOSITION BY M&A ANNOUNCEMENT YEAR</i>										
	1993	1994	1995	1996	1997	1998	1999	2000	2001	1993-2001
										% Num
Total number of M&As	171	229	228	229	229	292	411	408	222	2,419
% of all M&As in 1993-2001	7.1	9.5	9.4	9.5	9.5	12.1	17.0	16.9	9.2	100.0
% OF M&A DEALS BY CATEGORY:										
Domestic bid	76.6	74.7	69.7	73.4	69.9	66.1	68.1	65.9	67.6	69.5 1,681
Cross-border bid	23.4	25.3	30.3	26.6	30.1	33.9	31.9	34.1	32.4	30.5 738
Merger or Acquisition of 100%	55.6	54.1	60.5	62.9	60.3	37.7	37.2	41.7	39.6	60.0 1,451
Acquisition of Partial Control (< 100%)	44.4	45.9	39.5	37.1	39.7	62.3	62.8	58.3	60.4	40.0 968
Opposed (by target's board) bid	7.6	5.7	10.1	5.2	7.4	6.2	7.8	6.6	3.2	6.7 162
Tender offer (unopposed by target's board)	13.5	13.5	18.9	17.0	24.5	23.3	23.6	18.6	18.0	19.6 473
Friendly M&A	78.9	80.8	71.1	77.7	68.1	70.5	68.6	74.8	78.8	73.7 1784
Completed bid	75.4	77.3	81.6	82.5	83.4	86.0	83.7	76.5	73.0	80.2 1,941
Withdrawn bid	12.3	10.9	10.1	5.7	11.8	7.2	7.3	6.9	8.6	8.6 207
Pending bid	12.3	11.8	8.3	11.8	4.8	6.8	9.0	16.7	18.5	11.2 271
Private target	69.0	69.9	62.7	72.9	62.0	62.0	54.5	62.7	62.6	63.2 1,530
Listed target	31.0	30.1	37.3	27.1	38.0	38.0	45.5	37.3	37.4	36.8 889
Industry Focus (same 2-digit SIC code)	65.5	56.8	63.6	57.2	66.8	70.9	67.9	64.0	63.1	64.4 1,558
Diversification (different 2-digit SIC code)	34.5	43.2	36.4	42.8	33.2	29.1	32.1	36.0	36.9	35.6 861
All-Cash bid	28.1	32.3	36.8	39.7	43.7	38.4	43.1	40.4	39.2	38.8 938
All-Equity bid	19.3	15.7	13.6	11.4	17.9	10.3	14.6	15.0	14.0	14.4 349
Mixed (Cash-and-Equity) bid	26.3	16.2	19.7	23.1	14.0	17.8	16.5	14.7	18.9	17.9 434
Undisclosed terms	26.3	35.8	29.8	25.8	24.5	33.6	25.8	29.9	27.9	28.9 698

<i>PANEL B: CHARACTERISTICS OF M&A DEALS</i>						
	Whole Sample		UK bidders		CE bidders	
	Mean	[Med]	Mean	[Med]	Mean	[Med]
Transaction value (US\$ mln)	1,487	[24]	422	[16]	3,093	[59]
Percentage of target shares the bidding firm intended to own after the bid	87.3	[100.0]	95.1	[100.0]	81.3	[95.0]
Percentage of target shares the bidder accumulates prior to the bid (toehold)	4.6	[0.0]	2.3	[0.0]	6.4	[0.0]
§ Bidding firms that accumulate a toehold prior to the bid (%)	15.1		8.8		19.7	
§ Toehold they accumulate (%)	30.1	[33.3]	25.7	[29.4]	31.6	[34.5]
<i>Number of observations</i>	2419		995		1424	

Table 3. Sample composition by countries of bidding and target firms

This table shows the number of all the takeover announcements by country and partitions this sample by: (i) domestic and cross-border deals, (ii) friendly M&As (excluding tender offers), unopposed tender offers, and hostile bids, (iii) and target and bidder country.

		Domestic deals					Cross-border deals, Classification by bidder country					Cross-border deals, Classification by target country				
		All	% by country	Friendly M&A	Tender Offer	Opposed bid	All	% by country	Friendly M&A	Tender Offer	Opposed bid	All	% by country	Friendly M&A	Tender Offer	Opposed bid
1	Austria	11	0.7%	11	0	0	31	4.2%	30	1	0	20	2.7%	16	1	3
2	Belgium	23	1.4%	22	1	0	34	4.6%	28	5	1	14	1.9%	11	3	0
3	Bulgaria	0	0.0%	0	0	0	0	0.0%	0	0	0	2	0.3%	2	0	0
4	Croatia	0	0.0%	0	0	0	1	0.1%	1	0	0	6	0.8%	6	0	0
5	Cyprus	3	0.2%	3	0	0	2	0.3%	1	1	0	0	0.0%	0	0	0
6	Czech Rep.	9	0.5%	8	1	0	1	0.1%	1	0	0	25	3.4%	25	0	0
7	Denmark	30	1.8%	21	3	6	32	4.3%	25	6	1	21	2.8%	16	4	1
8	Estonia	0	0.0%	0	0	0	0	0.0%	0	0	0	13	1.8%	13	0	0
9	Finland	53	3.2%	52	0	1	32	4.3%	29	2	1	20	2.7%	19	0	1
10	France	219	13.0%	176	30	13	111	15.0%	92	10	9	89	12.0%	81	7	1
11	Germany	175	10.4%	165	8	2	89	12.0%	71	14	4	94	12.7%	91	2	1
13	Hungary	4	0.2%	4	0	0	5	0.7%	5	0	0	3	0.4%	3	0	0
14	Ireland	11	0.7%	6	4	1	27	3.6%	18	7	2	16	2.2%	10	5	1
15	Italy	39	2.3%	32	4	3	28	3.8%	24	3	1	44	5.9%	43	0	1
16	Latvia	0	0.0%	0	0	0	1	0.1%	1	0	0	4	0.5%	4	0	0
17	Lithuania	1	0.1%	1	0	0	0	0.0%	0	0	0	6	0.8%	5	1	0
18	Luxemburg	0	0.0%	0	0	0	7	0.9%	6	1	0	5	0.7%	4	1	0
19	Netherlands	2	0.1%	1	1	0	27	3.6%	16	10	1	45	6.1%	37	7	1
20	Norway	58	3.5%	44	9	5	32	4.3%	29	1	2	37	5.0%	23	7	7
21	Poland	22	1.3%	22	0	0	0	0.0%	0	0	0	37	5.0%	34	3	0
22	Portugal	1	0.1%	1	0	0	1	0.1%	1	0	0	11	1.5%	10	1	0
23	Romania	2	0.1%	2	0	0	0	0.0%	0	0	0	11	1.5%	11	0	0
24	Russia	10	0.6%	10	0	0	3	0.4%	3	0	0	10	1.4%	9	1	0
25	Slovenia	0	0.0%	0	0	0	0	0.0%	0	0	0	4	0.5%	2	2	0
26	Spain	46	2.7%	33	6	7	9	1.2%	4	5	0	33	4.5%	30	3	0
27	Sweden	102	6.1%	62	29	11	69	9.3%	59	7	3	48	6.5%	38	10	0
28	Switzerland	22	1.3%	19	1	2	39	5.3%	26	10	3	28	3.8%	22	4	2
29	UK	836	49.9%	483	274	79	159	21.5%	136	19	4	94	12.7%	41	40	13
	Total	1679	100.0%	1178	371	130	740	100.0%	606	102	32	740	100.0%	606	102	32

Table 4. Characteristics of bidding and target firms

This table reports financial, accounting, and control structure characteristics of bidding and target firms and partitions this sample into UK and CE firms. All variables are defined in Appendix II. The table reports the mean [median] values of variables. For binary variables, medians are omitted. The variables Blockholder >20% and Blockholder >60% are binary: they equal 1 if at least one blockholder reaches the specified percentage of voting rights. The mean values for these variables represent the percentage of firms with concentrated ownership in the analyzed sample. For private target companies, we assume that a single investor owns 100% of control. CE stands for Central European.

	BIDDING FIRM						TARGET FIRM					
	All bidders		UK bidders		CE bidders		All targets		UK targets		CE targets	
	Mean	[Med]	Mean	[Med]	Mean	[Med]	Mean	[Med]	Mean	[Med]	Mean	[Med]
<u>FINANCIAL CHARACTERISTICS:</u>												
Market value (US\$ mln)	2,572	[244]	2,418	[156]	2,691	[341]	929	[90]	699	[77]	1,159	[105]
Q-ratio	2.51	[1.17]	3.20	[1.49]	2.04	[0.98]	1.50	[0.98]	1.40	[1.02]	1.62	[0.89]
<i>Number of observations</i>	2,109		992		1,117		760		393		367	
<u>ACCOUNTING CHARACTERISTICS:</u>												
Total Assets (US\$ mn)	3,965	[316]	1,588	[136]	5,602	[468]	1,188	[153]	562	[103]	1,865	[245]
Sales / Total Assets	1.23	[1.17]	1.36	[1.24]	1.14	[1.03]	1.31	[1.22]	1.44	[1.30]	1.16	[1.12]
Cash Flow / Sales	0.07	[0.09]	0.07	[0.09]	0.08	[0.09]	0.09	[0.07]	0.05	[0.07]	0.14	[0.07]
Investments / Total Assets	0.02	[0.01]	0.01	[0.00]	0.03	[0.01]	0.02	[0.00]	0.01	[0.00]	0.03	[0.01]
Leverage	0.21	[0.18]	0.19	[0.15]	0.22	[0.21]	0.23	[0.20]	0.20	[0.18]	0.26	[0.24]
Collateral	0.31	[0.27]	0.34	[0.29]	0.29	[0.25]	0.38	[0.33]	0.41	[0.37]	0.35	[0.30]
Returns on Assets	0.28	[0.24]	0.36	[0.31]	0.22	[0.19]	0.28	[0.23]	0.37	[0.31]	0.18	[0.16]
<i>Number of observations</i>	2,271		992		1,279		2,122		928		1,194	
<u>CONTROL STRUCTURE:</u>												
Control (%)	31.7	[25.8]	13.6	[11.9]	38.8	[34.9]	78.4	[100.0]	74.2	[100.0]	81.4	[100.0]
§ Private Target	32.4	[26.7]	14.6	[10.6]	38.9	[35.0]	100.0	[100.0]	100.0	[100.0]	100.0	[100.0]
§ Listed Target	30.2	[23.0]	11.8	[8.3]	38.6	[34.9]	31.5	[26.9]	11.9	[9.9]	38.9	[34.9]
Blockholder >20%	0.58		0.08		0.77		0.89		0.77		0.93	
§ Private Target	0.60		0.10		0.78		1.00		1.00		1.00	
§ Listed Target	0.53		0.07		0.75		0.67		0.08		0.81	
Blockholder >60%	0.16		0.02		0.21		0.74		0.71		0.75	
§ Private Target	0.16		0.02		0.21		1.00		1.00		1.00	
§ Listed Target	0.15		0.01		0.21		0.14		0.01		0.19	
<i>Number of observations</i>	1,582		624		958		2,006		704		1,302	

Table 5. Cumulative average abnormal returns of bidding and target firms by takeover characteristics.

This table reports the average values of the CARs for bidding and target firms for 5 different event windows. T=0 stands for the day of the bid announcement. Abnormal returns are computed as the difference between the realized returns and the returns from the benchmark (the market model). The daily benchmark returns are based on the MSCI-Europe index and the parameters are estimated over a period of 240 days starting 300 days prior to the acquisition announcement. A non-parametric Corrado test (Corrado, 1989) are used to assess the significance of the CAARs. Indicators a/b/c correspond to the statistical significance at the 1%/5%/10% level, respectively. The CAARs are classified by different characteristics of the takeovers bid: geographical scope, type of acquisition, form of and attitude towards the bid, bid completion status, legal status of the target firm, industry scope, means of payment, and the sub-periods of the 5th takeover wave.

	Pre-event period [-40, -1]		Event day [T=0]		Event period [-1, +1]		Entire period (short) [-5, +5]		Entire period (long) [-60, +60]		Nr. Obs
	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	
<u>WHOLE SAMPLE:</u>											
§ <i>BIDDER</i>	0.39	(0.76)	0.53	(4.90 ^a)	0.72	(4.28 ^a)	0.79	(3.19 ^a)	-2.83	(-2.48 ^b)	2109
§ <i>TARGET</i>	11.49	(4.54 ^a)	9.13	(15.41 ^a)	12.47	(16.94 ^a)	15.83	(12.36 ^a)	26.70	(6.67 ^a)	760
<u>GEOGRAPHICAL SCOPE:</u>											
§ <i>BIDDER</i>											
Domestic bid	0.33	(0.51)	0.59	(4.36 ^a)	0.83	(3.95 ^a)	0.76	(2.56 ^b)	-2.49	(-1.80 ^c)	1456
Cross-border bid	0.53	(0.62)	0.39	(2.25 ^b)	0.47	(1.72 ^c)	0.84	(1.90 ^b)	-3.63	(-1.77 ^c)	653
<i>Diff. Domestic bid – Cross-border bid</i>	-0.20	(-6.29 ^a)	0.20	(5.04 ^a)	0.36	(5.17 ^a)	-0.07	(-1.13)	1.14	(23.40 ^a)	
§ <i>TARGET</i>											
Domestic bid	11.13	(10.53 ^a)	9.65	(13.10 ^a)	12.55	(15.24 ^a)	15.61	(16.15 ^a)	26.84	(12.04 ^a)	564
Cross-border bid	10.58	(10.25 ^a)	7.74	(6.13 ^a)	11.52	(7.42 ^a)	12.17	(2.60 ^c)	24.99	(10.22 ^a)	196
<i>Diff. Domestic bid – Cross-border bid</i>	0.55	(3.10 ^a)	1.91	(8.83 ^a)	1.02	(2.65 ^a)	3.44	(8.54 ^a)	1.85	(6.53 ^a)	
<u>TYPE OF ACQUISITION:</u>											
§ <i>BIDDER</i>											
Merger or Acquisition of 100%	1.32	(1.88 ^c)	0.61	(3.94 ^a)	0.92	(3.77 ^a)	1.04	(2.98 ^a)	-1.32	(-0.88)	1239
Acquisition of Majority Control (< 100%)	-0.94	(-1.27)	0.41	(2.94 ^a)	0.42	(2.03 ^b)	0.42	(1.28)	-5.15	(-2.91 ^a)	869
<i>Diff. M&A of 100% – M&A of Majority</i>	2.26	(34.39 ^a)	0.20	(6.59 ^a)	0.50	(13.50 ^a)	0.62	(13.83 ^a)	3.83	(38.69 ^a)	
§ <i>TARGET</i>											
Merger or Acquisition of 100%	13.09	(12.13 ^a)	11.55	(15.09 ^a)	15.61	(18.13 ^a)	19.46	(19.23 ^a)	31.26	(15.17 ^a)	563
Acquisition of Majority Control (< 100%)	6.92	(3.96 ^a)	2.17	(2.97 ^a)	3.46	(3.86 ^a)	5.44	(4.05 ^a)	13.58	(3.38 ^a)	196
<i>Diff. M&A of 100% – M&A of Majority</i>	6.17	(28.94 ^a)	9.38	(58.42 ^a)	12.16	(70.23 ^a)	14.02	(71.09 ^a)	17.68	(57.20 ^a)	
<u>FORM OF AND ATTITUDE TOWARDS THE BID:</u>											
§ <i>BIDDER</i>											
Opposed (by target's board) bid	1.63	(2.97 ^a)	-0.39	(-0.95)	-0.83	(-1.45)	-0.18	(-0.21)	-1.61	(2.29 ^b)	120
Tender offer (unopposed by target's board)	2.87	(2.55 ^b)	-0.37	(-1.48)	-0.45	(-1.14)	-0.29	(-0.52)	0.02	(0.01)	329
Friendly M&A	-0.37	(-0.61)	0.78	(6.27 ^a)	1.06	(5.50 ^a)	1.07	(3.74 ^a)	-4.35	(-3.21 ^a)	1,659

	Pre-event period [-40, -1]		Event day [T=0]		Event period [-1, +1]		Entire period (short) [-5, +5]		Entire period (long) [-60, +60]		Nr. Obs
	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	
<i>Diff. Tender Offer – Opposed bid</i>	1.24	(4.44 ^a)	0.02	(0.13)	0.38	(2.04 ^b)	-0.11	(-0.51)	-9.19	(-19.78 ^a)	
<i>Diff. Friendly M&A – Opposed bid</i>	-2.00	(-35.35 ^a)	1.17	(16.82 ^a)	1.89	(21.74 ^a)	1.25	(11.91 ^a)	-13.57	(-61.77 ^a)	
§ TARGET											
Opposed (by target's board) bid	14.86	(6.96 ^a)	15.47	(7.48 ^a)	17.62	(9.15 ^a)	22.36	(10.13 ^a)	43.85	(13.11 ^a)	120
Tender offer (unopposed by target's board)	13.97	(10.59 ^a)	12.07	(12.79 ^a)	16.12	(15.27 ^a)	20.19	(16.75 ^a)	32.24	(14.66 ^a)	380
Friendly M&A	6.20	(3.95 ^a)	2.75	(4.28 ^a)	4.59	(5.43 ^a)	6.25	(4.96 ^a)	10.22	(2.58 ^a)	259
<i>Diff. Tender Offer – Opposed bid</i>	-0.89	(-2.74 ^a)	-3.40	(-6.54 ^a)	-1.51	(-5.02 ^a)	-2.17	(-6.75 ^a)	-11.61	(-28.01 ^a)	
<i>Diff. Friendly M&A – Opposed bid</i>	-8.66	(-21.95 ^a)	-12.72	(-31.10 ^a)	-13.03	(-39.04 ^a)	-16.11	(-42.69 ^a)	-33.63	(-59.38 ^a)	
<u>BID COMPLETION STATUS:</u>											
§ BIDDER											
Completed bid	0.14	(0.25)	0.54	(4.62 ^a)	0.73	(4.08 ^a)	0.87	(3.22 ^a)	-2.79	(-2.13 ^b)	1705
Withdrawn bid	1.08	(3.53 ^a)	-0.43	(-1.31)	-0.56	(-1.01)	-0.37	(-0.42)	-3.69	(-2.28 ^b)	162
Pending bid	-1.05	(-0.65)	1.14	(2.77 ^a)	1.56	(2.37 ^b)	1.03	(1.22)	-6.38	(-1.98 ^b)	241
<i>Diff. Completed bid – Withdrawn bid</i>	-0.94	(-8.16 ^a)	0.97	(15.26 ^a)	1.29	(16.05 ^a)	1.24	(12.39 ^a)	-3.88	(-17.93 ^a)	
<i>Diff. Completed bid – Pending bid</i>	1.20	(10.97 ^a)	-0.60	(-11.51 ^a)	-0.84	(-12.75 ^a)	-0.17	(-2.15 ^b)	3.59	(22.60 ^a)	
§ TARGET											
Completed bid	12.27	(11.57 ^a)	9.20	(12.83 ^a)	12.29	(15.39 ^a)	15.86	(16.12 ^a)	27.85	(13.42 ^a)	568
Withdrawn bid	13.87	(6.49 ^a)	7.95	(5.46 ^a)	12.82	(6.31 ^a)	15.38	(6.98 ^a)	34.31	(7.29 ^a)	135
Pending bid	10.60	(3.87 ^a)	7.36	(3.03 ^a)	11.38	(3.99 ^a)	14.56	(3.81 ^a)	10.68	(4.86 ^a)	56
<i>Diff. Completed bid – Withdrawn bid</i>	-1.60	(-8.97 ^a)	1.25	(5.33 ^a)	-0.53	(-2.02 ^b)	0.48	(1.72 ^c)	-5.96	(-14.66 ^a)	
<i>Diff. Completed bid – Pending bid</i>	1.66	(2.20 ^b)	1.84	(2.19 ^b)	0.91	(1.02)	1.30	(1.28)	18.17	(11.26 ^a)	
<u>LEGAL STATUS OF THE TARGET FIRM:</u>											
§ BIDDER											
Private target	-0.05	(-0.70)	0.77	(6.15 ^a)	1.08	(5.42 ^a)	1.06	(3.53 ^a)	-2.86	(-3.12 ^a)	1532
Listed target	0.60	(3.37 ^a)	-0.12	(-0.56)	-0.25	(-0.83)	0.06	(0.15)	-1.35	(-0.78)	576
<i>Diff. Private target – Listed target</i>	-0.65	(-13.41 ^a)	0.89	(26.48 ^a)	1.34	(32.22 ^a)	1.00	(20.07 ^a)	-1.51	(-10.56 ^a)	
<u>INDUSTRY SCOPE:</u>											
§ BIDDER											
Industry Focus (same 2-digit SIC code)	1.43	(2.12 ^b)	0.63	(4.31 ^a)	0.85	(3.80 ^a)	0.98	(3.06 ^a)	-1.66	(-1.08)	1334
Diversification (different 2-digit SIC code)	-1.41	(-1.85 ^c)	0.36	(2.35 ^b)	0.49	(1.99 ^b)	0.45	(1.19)	-5.04	(-3.00 ^a)	774
<i>Diff. Diversification – Focus</i>	-2.84	(-42.61 ^a)	-0.27	(-9.01 ^a)	-0.36	(-9.56 ^a)	-0.53	(-11.43 ^a)	-3.39	(-33.96 ^a)	
§ TARGET											
Industry Focus (same 2-digit SIC code)	10.41	(9.18 ^a)	8.39	(11.56 ^a)	11.83	(13.76 ^a)	15.16	(14.56 ^a)	24.34	(10.34 ^a)	525
Diversification (different 2-digit SIC code)	13.92	(8.86 ^a)	10.78	(9.33 ^a)	13.91	(11.30 ^a)	17.36	(11.58 ^a)	31.98	(10.84 ^a)	234

	Pre-event period [-40, -1]		Event day [T=0]		Event period [-1, +1]		Entire period (short) [-5, +5]		Entire period (long) [-60, +60]		Nr. Obs
	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	
<i>Diff. Diversification – Focus</i>	3.50	(15.82 ^a)	2.39	(14.29 ^a)	2.07	(11.68 ^a)	2.21	(11.29 ^a)	7.63	(26.85 ^a)	
MEANS OF PAYMENT:											
§ BIDDER											
All-Cash bid	0.72	(0.90)	0.55	(3.55 ^a)	0.80	(3.47 ^a)	1.03	(2.74 ^a)	-0.90	(-0.52)	754
All-Equity bid	2.66	(1.68 ^c)	0.04	(0.09)	0.12	(0.19)	0.66	(0.75)	-2.16	(-0.61)	285
Mixed (Cash-and-Equity) bid	0.01	(0.01)	0.87	(3.33 ^a)	1.17	(2.73 ^a)	1.03	(1.71 ^c)	-2.82	(-0.86)	412
Undisclosed terms	-0.75	(-0.90)	0.51	(2.84 ^a)	0.60	(2.25 ^b)	0.41	(1.04)	-5.57	(-3.22 ^a)	657
<i>Diff. All-Cash bid – All-Equity bid</i>	-1.94	(-12.90 ^a)	0.51	(29.70 ^a)	0.67	(24.93 ^a)	0.38	(9.71 ^a)	1.26	(7.64 ^a)	
<i>Diff. All-Cash bid – Mixed bid</i>	0.70	(5.57 ^a)	-0.32	(-5.84 ^a)	-0.38	(-5.40 ^a)	0.00	(0.06)	1.92	(9.99 ^a)	
<i>Diff. All-Cash bid – Undisclosed bid</i>	1.46	(15.70 ^a)	0.03	(0.77)	0.19	(3.71 ^a)	0.63	(9.80 ^a)	4.67	(34.24 ^a)	
<i>Diff. All-Equity bid – Undisclosed bid</i>	3.40	(21.27 ^a)	-0.48	(-6.10 ^a)	-0.48	(-4.94 ^a)	0.25	(2.18 ^b)	3.41	(14.47 ^a)	
§ TARGET											
All-Cash bid	13.92	(10.56 ^a)	11.55	(12.09 ^a)	15.67	(15.03 ^a)	20.17	(15.74 ^a)	32.78	(13.23 ^a)	405
All-Equity bid	7.39	(4.45 ^a)	7.29	(5.92 ^a)	9.22	(6.73 ^a)	11.10	(7.29 ^a)	18.16	(5.00 ^a)	185
Mixed (Cash-and-Equity) bid	13.42	(5.28 ^a)	10.06	(7.43 ^a)	14.29	(8.80 ^a)	17.48	(9.89 ^a)	35.54	(8.64 ^a)	92
Undisclosed terms	8.34	(2.43 ^b)	0.48	(0.96)	1.31	(1.19)	2.48	(1.27)	4.66	(0.61)	77
<i>Diff. All-Cash bid – All-Equity bid</i>	6.03	(23.73 ^a)	3.77	(17.37 ^a)	6.45	(28.01 ^a)	9.07	(36.36 ^a)	14.62	(40.11 ^a)	
<i>Diff. All-Cash bid – Mixed bid</i>	-0.50	(-1.35)	-0.49	(-1.65 ^c)	1.37	(4.38 ^a)	2.69	(7.92 ^a)	-2.76	(-5.62 ^a)	
<i>Diff. All-Cash bid – Undisclosed bid</i>	5.07	(11.98 ^a)	10.57	(38.98 ^a)	14.36	(45.72 ^a)	17.69	(47.60 ^a)	28.12	(45.86 ^a)	
<i>Diff. All-Equity bid – Undisclosed bid</i>	-0.95	(-1.56)	6.80	(17.58 ^a)	7.91	(17.68 ^a)	8.62	(16.66 ^a)	13.50	(14.89 ^a)	
SUB-PERIODS OF THE 5th TAKEOVER WAVE:											
§ BIDDER											
1993-1996	-0.13	(-0.23)	0.32	(2.40 ^b)	0.46	(2.29 ^b)	0.65	(2.10 ^b)	0.52	(2.51 ^b)	761
1997-1999	0.68	(2.75 ^a)	0.79	(4.60 ^a)	1.25	(4.44 ^a)	1.26	(3.01 ^a)	-1.30	(-1.58)	792
2000-2001	0.67	(1.55)	0.45	(1.69 ^c)	0.31	(0.76)	0.30	(0.52)	-9.87	(-3.79 ^a)	555
<i>Diff. 1993/96 – 1997/99</i>	-0.81	(-9.7 ^a)	-0.47	(-12.48 ^a)	-0.79	(-16.80 ^a)	-0.61	(-10.51 ^a)	1.82	(14.82 ^a)	
<i>Diff. 1993/96 – 2000/01</i>	-0.80	(-7.81 ^a)	-0.13	(-2.59 ^a)	0.15	(2.42 ^b)	0.34	(4.74 ^a)	10.39	(71.16 ^a)	
<i>Diff. 1997/99 – 2000/01</i>	0.01	(0.07)	0.34	(6.75 ^a)	0.94	(14.82 ^a)	0.95	(12.51 ^a)	8.57	(50.97 ^a)	
§ TARGET											
1993-1996	7.87	(4.94 ^a)	7.57	(6.14 ^a)	10.26	(7.80 ^a)	13.07	(8.60 ^a)	25.14	(7.13 ^a)	217
1997-1999	13.17	(9.49 ^a)	10.26	(11.39 ^a)	14.40	(13.30 ^a)	18.06	(14.33 ^a)	31.08	(12.86 ^a)	334
2000-2001	12.59	(6.67 ^a)	8.92	(7.83 ^a)	11.68	(8.98 ^a)	15.15	(8.61 ^a)	21.29	(5.06 ^a)	208
<i>Diff. 1993/96 – 1997/99</i>	-5.30	(-20.39 ^a)	-2.69	(-12.27 ^a)	-4.14	(-17.78 ^a)	-4.98	(-19.87 ^a)	-5.94	(-16.29 ^a)	
<i>Diff. 1993/96 – 2000/01</i>	-4.73	(-14.07 ^a)	-1.35	(-4.85 ^a)	-1.41	(-4.85 ^a)	-2.08	(-6.37 ^a)	3.85	(7.69 ^a)	
<i>Diff. 1997/99 – 2000/01</i>	0.58	(2.09 ^b)	1.34	(6.16 ^a)	2.73	(11.55 ^a)	2.91	(10.99 ^a)	9.79	(25.16 ^a)	

Table 6. Cumulative abnormal returns for bidding and target firms by legal origin

Panel A reports the average values of the CARs for bidding and target firms in domestic acquisitions by legal origin. Panel B reports the CAARs for bidding and target firms in cross-border acquisitions classified by the legal origin of the bidder and target respectively. Countries are grouped according to their legal origin following the classification by LaPorta et al. (1998) and according to the EU enlargement process: *English legal origin* (Republic of Ireland and the UK), *German legal origin* (Austria, Germany, Switzerland), *French legal origin* (Belgium, France, Greece, Italy, Luxembourg, the Netherlands, Portugal, Spain), *Scandinavian legal origin* (Denmark, Iceland, Finland, Norway, Sweden,), *EU enlargement* (Bulgaria, Croatia, Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia). T=0 stands for the day of the bid announcement. Abnormal returns are computed as the difference between the realized and market model benchmark returns. For each firm we calculate daily benchmark returns using MSCI-Europe index returns and the market model parameters are estimated over 240 days starting 300 days prior to the acquisition announcement. A non-parametric test (Corrado, 1989) is used to assess the significance of the CAARs. a/b/c stand for statistical significance at 1%/5%/10%, respectively.

	Pre-event period [-40, -1] CAARs (%) (<i>t-stat</i>)		Event day [T=0] CAARs (%) (<i>t-stat</i>)		Event period [-1, +1] CAARs (%) (<i>t-stat</i>)		Entire period (short) [-5, +5] CAARs (%) (<i>t-stat</i>)		Entire period (long) [-60, +60] CAARs (%) (<i>t-stat</i>)		Nr. Obs
<u>DOMESTIC BIDS:</u>											
§ BIDDER											
English legal origin	0.67	(0.73)	0.41	(2.23 ^b)	0.50	(1.69 ^c)	0.49	(1.17)	-0.72	(-0.35)	744
German legal origin	-3.68	(-2.64 ^a)	0.85	(2.20 ^b)	0.59	(1.44)	0.36	(0.49)	-10.34	(-2.71 ^a)	184
Scandinavian legal origin	3.26	(1.96 ^b)	1.72	(3.34 ^a)	2.29	(3.17 ^a)	2.05	(2.39 ^b)	0.84	(0.25)	206
French legal origin	1.40	(0.97)	0.12	(0.57)	0.92	(2.36 ^b)	1.30	(2.10 ^b)	-1.20	(-0.43)	278
EU enlargement	-9.31	(-2.33 ^b)	0.32	(0.61)	-0.09	(-0.06)	-2.40	(-1.04)	-23.38	(-2.59 ^b)	44
§ TARGET											
English legal origin	14.21	(10.04 ^a)	13.66	(11.97 ^a)	17.64	(14.00 ^a)	21.87	(15.64 ^a)	36.79	(15.09 ^a)	306
German legal origin	6.57	(2.11 ^b)	2.30	(2.68 ^a)	4.42	(3.17 ^a)	5.71	(2.92 ^a)	6.40	(1.38)	48
Scandinavian legal origin	9.72	(3.93 ^a)	11.10	(5.79 ^a)	14.78	(7.12 ^a)	15.56	(6.60 ^a)	25.65	(5.40 ^a)	76
French legal origin	5.79	(2.25 ^b)	1.71	(3.13 ^a)	2.83	(3.18 ^a)	5.39	(3.20 ^a)	12.66	(1.76 ^c)	118
EU enlargement	11.93	(1.65)	-0.48	(-0.45)	0.54	(0.18)	1.28	(0.41)	8.15	(0.55)	16
<u>CROSS-BORDER BIDS:</u>											
§ BIDDER											
English legal origin	-0.20	(0.14)	0.18	(0.60)	0.36	(0.62)	1.46	(1.77 ^c)	-1.17	(-0.56)	174
German legal origin	2.28	(1.22)	0.43	(1.12)	0.66	(1.08)	1.29	(1.32)	-1.35	(-0.32)	137
Scandinavian legal origin	-0.68	(-0.43)	0.78	(1.66 ^c)	0.67	(1.15)	0.59	(0.78)	-5.11	(-1.46)	149
French legal origin	2.11	(1.47)	0.32	(1.18)	0.37	(0.84)	0.78	(1.10)	-1.00	(-0.33)	182
§ TARGET											
English legal origin	23.29	(5.29 ^a)	13.80	(6.04 ^a)	19.42	(7.52 ^a)	26.88	(8.93 ^a)	48.13	(7.86 ^a)	57
German legal origin	9.37	(2.88 ^a)	3.48	(2.34 ^b)	7.06	(3.46 ^a)	5.49	(1.15)	11.25	(2.00)	33
Scandinavian legal origin	7.24	(1.80 ^c)	12.38	(3.05 ^a)	17.32	(3.95 ^a)	19.28	(4.02 ^a)	22.71	(3.03 ^a)	38
French legal origin	10.13	(3.62 ^a)	4.26	(2.96 ^a)	7.12	(3.80 ^a)	13.40	(4.58 ^a)	26.72	(4.38 ^a)	52
EU enlargement	0.52	(0.08)	0.28	(0.20)	1.52	(0.53)	4.79	(1.13)	-16.19	(-1.25)	15

Table 7. Anticipated wealth creation for bidders' shareholders.

This table reports the results of the OLS regression of the bidder CARs for three different event windows and for the sub-samples of UK and Continental European (CE) bidders. Variable definitions are given in Appendix II. 'Heckman correction' indicates that a Heckman (1976) sample selection is applied to correct for potential bias due to bidder's endogenous choice of whether to participate in M&As or not. Where sample selection bias was found insignificant, we report estimates for OLS regression without Heckman's correction. For each variable we list the coefficient and the heteroskedasticity-consistent p-value. Indicators a/b/c stand for statistical significance at 1%/5%/10%, respectively.

	CAR [-60, -2]						CAR [-1, +1]						CAR [+2, +60]					
	All bidders		UK bidders		CE bidders		All bidders		UK bidders		CE bidders		All bidders		UK bidders		CE bidders	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	
	Coef	p-val																
Intercept	0.01	.515	0.05	.301	0.02	.520	0.00	.445	0.01	.656	-0.00	.619	0.01	.799	0.01	.613	-0.01	.821
Cross-border bid	0.00	.704	-0.02	.324	0.01	.472	-0.00	.229	-0.00	.720	-0.01	.122	0.01	.630	0.00	.916	0.01	.601
M&A of 100%	0.01	.764	-0.04	.112	0.03	.112	0.01^a	.000	0.02^b	.026	0.01^b	.015	-0.01	.696	-0.01	.642	0.00	.838
Opposed bid	0.03^a	.006	0.04^b	.028	0.03^a	.009	-0.02^b	.033	-0.03^b	.023	-0.01^b	.036	0.00	.937	0.05	.229	-0.02	.627
Tender offer	0.02	.509	0.01	.730	0.00	.904	-0.02^a	.009	-0.03^a	.008	-0.01	.504	-0.01	.530	-0.00	.965	0.01	.870
Withdrawn bid	0.00	.848	-0.01	.743	0.01	.779	-0.01	.396	0.00	.926	-0.02	.126	-0.03	.234	-0.09^a	0.04	0.00	.913
Pending bid	-0.03	.193	-0.03	.398	-0.02	.346	0.01	.291	0.02	.320	-0.00	.574	0.00	.814	0.01	.762	-0.00	.887
Private target	-0.01	.663	-0.01	.725	-0.01	.731	0.01^b	.044	0.02^c	.055	0.01^b	.021	-0.02	.258	0.00	.962	-0.03	.140
Diversification	-0.03^b	.034	-0.01	.453	-0.03^b	.042	-0.00	.316	-0.00	.763	-0.01	.215	-0.00	.968	-0.01	.424	0.01	.466
All-equity payment	0.03^b	.013	0.04^b	.013	-0.01	.111	-0.01^c	.090	-0.02^b	.017	-0.01^c	.057	-0.01	.441	-0.02	.465	0.00	.958
Undisclosed terms	-0.02	.200	0.00	.950	-0.03^c	.090	-0.01^b	.024	-0.01	.411	-0.01^c	.078	0.00	.814	-0.02	.659	0.02	.216
1997-1999	0.02	.297	0.02^b	.039	0.02	.552	0.01^b	.013	0.01	.265	0.02^a	.002	-0.01	.301	-0.03	.111	0.00	.947
2000-2001	0.04	.147	0.02^b	.035	0.05	.220	-0.00	.438	-0.02^b	.030	0.01	.286	-0.11^a	.000	-0.06^a	.003	-0.13^a	.000
Toehold	0.04	.505	-0.08	.481	0.06	.302	0.02	.225	0.04	.181	0.01	.633	0.12^b	.013	0.01	.919	0.15^b	.014
Run-up							0.07^b	.013	0.06^b	.044	0.09^b	.021	0.06^c	.088	0.04	.105	0.05^c	.076
Relative size	-0.04	.253	-0.09	.650	0.07	.402	-0.02	.395	-0.00	.962	-0.04^b	.036	-0.04	.423	-0.05	.742	-0.02	.825
(Bidder) Q-ratio	0.02^a	.000	0.02^a	.000	0.02	.300	0.00	.123	0.00	.352	0.00	.654	-0.02^a	.000	-0.01^a	.000	-0.02^a	.002
(Bidder) Leverage	-0.03	.804	0.02	.619	-0.00	.968	-0.03	.450	-0.07	.450	0.00	.942	0.21	.116	0.23	.284	0.20	.253
(Bidder) CFlow/TA	-1.54^a	.000	-1.46^a	.000	-1.67^a	.006	-0.11	.238	-0.34^c	.061	0.15	.493	0.53	.425	0.57	.247	0.38	.438
(Bidder) English	0.00	.748					-0.01^c	.057					0.02^b	.021				
(Bidder) Blockh>20%			0.04^c	.059	-0.02^c	.087			-0.04	.298	0.01	.449			-0.05	.585	0.02	.606
(Target) Collateral	-0.04	.723	-0.18	.276	0.21^b	.037	0.03	.293	0.02	.605	0.05	.070	0.08	.259	0.07	.578	0.09	.323
(Target) CFlow/TA	0.14	.395	0.33	.205	-0.03	.848	-0.00	.958	-0.00	.965	-0.02	.186	-0.29	.370	-0.26^b	.020	-0.30	.348
(Target) English	-0.00	.804					0.00	.945					-0.01	.802				
Heckman correction	No		No		Yes		No											
Nr. of observations	2109		624		958		2109		624		958		2109		624		958	
Adjusted-R ²	0.14		0.17		0.13		0.06		0.05		0.04		0.13		0.08		0.16	
F-value	2.75	.004	4.02	.001	3.29	.003	4.67	.000	3.30	.002	3.18	.003	9.23	.000	6.55	.000	7.38	.000

Table 8. Economic effects of the results reported in Table 7: Predicted change in the wealth of the bidding firm's shareholders around M&A announcement

This table reports the economic effects of the results of the regressions of the bidder's CARs for three different event windows and for the sub-samples of UK and Continental European (CE) bidding firms. The variable definitions are given in Appendix II. The numbers in the table represent the incremental changes in CARs (%) associated with a particular takeover characteristic (binary variables) or with a one standard deviation change in the reference variable (level variables). The effects that are statistically significant in the regression analysis are denoted in bold. For each event window and each subsample of the bidding and target firms, the table also reports the average CARs.

	CAR [-60, -2]			CAR [-1, +1]				CAR [+2, +60]				
	Expec. sign	All bidders	UK bidders	CE bidders	Expec. sign	All bidders	UK bidders	CE bidders	Expec. sign	All bidders	UK bidders	CE bidders
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<i>Reference: CAARs (%)</i>	0.64	0.95	-0.06	0.72	0.50	0.94	-3.35	-2.15	-4.55			
<i>Incremental change in CARs (%) associated with a particular takeover characteristic (binary variable=1):</i>												
Cross-border bid	0.46	-2.47	1.14	+/-	-0.47	-0.23	-0.68	0.59	0.32	0.82		
M&A of 100%	0.56	-4.28	2.98	+	1.38	1.71	1.22	-0.58	-1.04	0.33		
Opposed bid	3.20	3.86	2.78	-	-1.92	-3.22	-1.18	0.23	4.99	-1.92		
Tender offer	1.53	1.00	0.39	-	-1.64	-2.69	-0.61	-0.98	-0.13	0.63		
Withdrawn bid	0.47	-1.41	1.21	-	-0.74	0.12	-1.60	-	-3.22	-8.67	0.32	
Pending bid	-2.56	-2.80	-2.30	-	0.57	2.06	-0.36	-	0.39	1.16	-0.39	
Private target	-0.82	-1.09	-0.90	+	0.78	1.59	1.49	-	-2.03	0.29	-3.40	
Diversification	-2.67	-1.33	-3.47	-	-0.31	-0.14	-0.56	-0.09	-1.33	1.23		
All-equity payment	3.18	3.66	-0.53	-	-0.89	-1.79	-0.63	-1.33	-1.65	0.15		
Undisclosed terms	-2.09	0.27	-3.27	-	-1.02	-1.03	-0.90	0.35	-1.68	2.25		
1997-1999	2.17	1.75	2.24	-	0.97	0.67	1.56	-	-1.33	-2.86	0.09	
2000-2001	3.71	2.11	4.63	-	-0.33	-1.52	0.59	-	-10.82	-6.20	-13.18	
(Bidder) English	0.14				-1.12				2.40			
(Bidder) Blockh>20%		3.51	-2.37			-3.94	1.18			-5.35	2.23	
(Target) English	-0.02				0.04				-0.50			
<i>Incremental change in CARs (%) associated with a one standard deviation change in a particular takeover variable:</i>												
Toehold	0.45	-0.68	0.82		0.25	0.34	0.14		1.36	0.09	2.05	
Run-up					1.93	1.82	2.56		3.66	3.09	4.39	
Relative size	-0.89	-1.73	1.89		0.47	-0.09	-1.08		-0.89	-0.96	-0.54	
(Bidder) Q-ratio	10.23	12.92	7.79		1.22	1.63	0.88		-10.23	-6.46	-7.79	
(Bidder) Leverage	-0.49	0.36	0.03		-0.45	-1.26	0.02		3.42	4.13	3.00	
(Bidder) CFlow/TA	-16.66	-20.10	-13.46		-1.16	-4.68	1.21		5.73	7.85	3.06	
(Target) Collateral	-1.04	-4.88	5.22		-0.54	0.54	1.24		2.07	1.90	2.24	
(Target) CFlow/TA	1.67	3.59	-0.33		0.00	-0.06	-0.22		-3.47	-2.83	-3.30	

Table 9. Anticipated wealth creation for targets' shareholders.

This table reports the results of the OLS regression of the target CARs for three different event windows and for the sub-samples of UK and CE targets. Variable definitions are given in Appendix II. For each variable we list the coefficient and the heteroskedasticity-consistent p-value. a/b/c stand for statistical significance at 1%/5%/10%, respectively.

	CAR [-60, -2]						CAR [-1, +1]						CAR [+2, +60]					
	All targets		UK targets		CE targets		All targets		UK targets		CE targets		All targets		UK targets		CE targets	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	
	Coef	p-val	Coef	p-val	Coef	p-val	Coef	p-val	Coef	p-val	Coef	p-val	Coef	p-val	Coef	p-val	Coef	p-val
Intercept	-0.03	.556	-0.05	.638	0.04	.461	0.03	.135	0.06	.349	0.01	.572	0.12^a	.001	0.00	.949	0.19^a	.000
Cross-border bid	0.03	.418	0.13^b	.013	-0.02	.638	0.03^c	.096	0.03	.412	0.03^c	.056	-0.00	.873	0.02	.472	-0.02	.634
M&A of 100%	0.02	.543	0.01	.918	0.03	.582	0.05	.214	0.04	.246	0.06	.118	0.05^c	.064	-0.00	.987	0.09^b	.046
Opposed bid	0.09^b	.049	0.10^b	.028	0.12^c	.063	0.07^a	.002	0.13^b	.026	0.05^b	.034	0.07	.162	0.05	.314	0.09	.175
Tender offer	0.06	.102	0.11	.228	0.05	.228	0.04^b	.048	0.11^b	.020	0.04	.117	0.01	.721	0.02	.726	0.01	.842
Withdrawn bid	0.01	.762	0.07	.382	-0.03	.562	0.03	.214	0.08	.188	0.00	.928	-0.02	.596	0.06^c	.076	-0.08	.213
Pending bid	-0.02	.703	-0.11	.656	-0.03	.647	0.03	.316	0.05	.471	0.01	.247	-0.13^a	.003	-0.22	.103	-0.14^b	.014
Diversification	0.06^b	.036	0.05	.158	0.06^b	.032	0.02	.132	-0.00	.845	0.05^a	.002	0.01	.632	-0.02	.218	0.05	.175
All-equity payment	-0.05	.119	-0.04	.304	-0.06	.208	-0.06^a	.000	-0.08^a	.003	-0.04^b	.028	-0.02	.439	0.02	.303	-0.05	.285
Undisclosed terms	0.02	.281	0.02	.296	0.01	.139	-0.07^a	.010	-0.06	.485	-0.06^a	.007	-0.10^b	.016	-0.05	.941	-0.11^b	.034
1997-1999	0.08^a	.010	0.13^a	.004	0.05^b	.028	0.03^c	.089	0.03	.278	0.03	.104	-0.03	.203	0.03	.236	-0.13^a	.004
2000-2001	0.08^b	.032	0.01	.573	0.09^b	.018	0.02	.356	0.03	.462	0.02	.410	-0.07^b	.016	0.00	.954	-0.16^a	.001
Toehold	-0.17	.127	-0.15	.494	-0.19	.125	-0.12^b	.018	-0.07	.159	-0.29^b	.027	-0.22^a	.006	-0.08	.460	-0.28^b	.014
(Target) Run-up							0.09^a	.000	0.03	.219	0.16^a	.000	0.06^c	.070	0.04	.351	0.09^b	.016
Relative size	0.03	.783	0.04	.848	-0.04	.716	-0.03	.528	-0.10^c	.096	-0.00	.913	-0.04	.617	-0.08	.356	-0.09	.548
(Bidder) Q-ratio	0.00	.815	0.00	.449	-0.03	.275	-0.00	.438	-0.00	.281	-0.00	.865	-0.01	.200	-0.00	.292	-0.01	.716
(Bidder) Leverage	0.04	.712	-0.09	.644	0.16	.487	0.04	.604	0.10	.451	0.09	.434	0.01	.946	0.09	.368	-0.07	.792
(Bidder) Cflow/TA	-0.03	.944	-0.21	.548	0.28	.741	-0.05	.776	0.12	.667	-0.30	.198	0.36^c	.078	0.21^c	.074	0.45^b	.047
(Bidder) English	-0.06	.139					0.01	.683					0.00	.980				
(Bidder) Blockh>20%			-0.02	.289	0.00	.959			-0.01	.958	-0.04	.102			-0.01	.625	0.04	.316
(Target) Collateral	0.00	.920	-0.16	.103	0.34^b	.013	-0.00	.765	-0.04	.411	0.04	.817	-0.04	.251	-0.01	.799	-0.06	.507
(Target) CFlow/TA	-0.27	.123	-0.13	.630	-0.44	.159	0.03	.841	0.05	.712	0.02	.548	-0.10	.176	-0.11	.313	-0.22	.195
(Target) English	0.11^b	.016					0.05^b	.032					-0.01	.704				
(Target) Blockh>20%			-0.03	.886	-0.01	.762			0.06	.567	0.01	.722			0.01	.870	0.06	.161
Nr. of observations	758		251		225		758		251		225		758		251		225	
Adjusted-R ²	0.06		0.11		0.07		0.15		0.08		0.14		0.03		0.04		0.03	
F-value	3.72	.001	3.77	.001	4.58	.000	9.88	.000	3.52	.001	5.75	.000	2.94	.002	3.09	.002	2.80	.004

Table 10. Economic effects of the results reported in Table 9: Predicted change in the wealth of the target firm's shareholders around M&A announcement

This table reports the economic effects of the results of the regression of the target's CARs for three different event windows and for the sub-samples of UK and CE target firms. The variable definitions are given in Appendix II. The numbers in the table represent the incremental changes in CARs (%) associated with a particular takeover characteristic (binary variables) or with a one standard deviation change in the reference variable (level variables). The effects that are statistically significant in the regression analysis are denoted in bold. For each event window and each subsample of the bidding and target firms, the table also reports the average CARs.

	CAR [-60, -2]			CAR [-1, +1]				CAR [+2, +60]				
	Exp. sign	All targets	UK targets	CE targets	Exp. sign	All targets	UK targets	CE targets	Exp. sign	All targets	UK targets	CE targets
	(1)	(2)	(3)		(4)	(5)	(6)		(7)	(8)	(9)	
<i>Reference: CAARs (%)</i>		13.39	17.49	12.75		12.47	17.64	10.19		3.78	4.29	2.50
<i>Incremental change in CARs (%) associated with a particular takeover characteristic (binary variable=1):</i>												
Cross-border bid		2.59	13.27	-1.69	+/-	2.68	2.54	3.02		-0.40	1.87	-1.79
M&A of 100%		2.23	0.67	2.59	+	4.85	4.42	6.02		5.41	-0.05	9.49
Opposed bid		9.23	10.07	11.68	+	7.41	13.23	5.77		7.19	5.01	8.81
Tender offer		6.09	10.91	4.62	+	4.47	10.96	4.38		1.07	1.63	0.87
Withdrawn bid		1.42	7.48	-3.40	+/-	3.13	8.83	0.24	+/-	-2.09	5.75	-7.96
Pending bid		-2.28	-10.97	-2.84	-	2.90	4.84	0.96	-	-12.87	-21.69	-14.01
Diversification		5.78	5.44	5.95	+	2.15	-0.46	5.12		1.07	-2.43	5.31
All-equity payment		-4.72	-4.41	-5.53	-	-6.19	-8.03	-4.27		-1.99	2.35	-4.91
Undisclosed terms		1.95	1.64	0.86	-	-6.51	-6.11	-6.04		-9.61	-5.11	-11.28
1997-1999		8.32	13.47	4.61	+	2.73	2.89	3.09		-3.21	2.73	-12.78
2000-2001		7.52	1.15	8.92	-	1.56	2.78	1.61	-	-6.88	0.16	-15.75
(Bidder) English		-6.44				1.12				0.09		
(Bidder) Blockh>20%			-1.76	0.37			-0.54	-4.33			-1.18	3.59
(Target) English		11.06			+	5.37				-1.48		
(Target) Blockh>20%			-3.34	-1.41			6.48	1.08			0.84	6.01
<i>Incremental change in CARs (%) associated with a one standard deviation change in a particular takeover characteristic:</i>												
Run-up						2.45	0.78	4.65		1.63	1.04	2.62
Toehold		-1.92	-1.28	-2.59		-1.36	-0.60	-3.95		-2.49	-0.68	-3.82
Relative size		0.67	0.77	-1.08		-0.67	-1.92	0.11		-0.89	-1.54	-2.43
(Bidder) Q-ratio		1.02	1.01	-11.69		0.26	0.39	0.12		-5.12	0.52	-3.90
(Bidder) Leverage		0.65	-1.62	2.40		0.65	1.80	1.35		0.16	1.62	-1.05
(Bidder) CFlow/TA		-0.32	-2.89	2.26		-0.54	1.65	-2.42		3.89	2.89	3.63
(Target) Collateral		0.01	-4.33	8.45		0.02	-1.08	0.99		-1.04	-0.27	-1.49
(Target) CFlow/TA		-3.23	-1.41	-4.84		0.36	0.54	0.22		-1.20	-1.20	-2.42

The Performance of the European Market for Corporate Control: Evidence from the 5th Takeover Wave

Marina Martynova

The University of Sheffield Management School

and

Luc Renneboog

Tilburg University and European Corporate Governance Institute (ECGI)

Abstract:

For the 5th takeover wave, European M&As were expected to create significant takeover value: the announcement reactions were strongly positive for target shareholders (more than 35%) and the bidding shareholders also expected to gain a small though significant increase in market value of 0.5%. While, most of the expected takeover synergies are captured by the target firm shareholders, the combined value creation is significantly positive. However, the expected value strongly depends on the wave pattern, with optimistic expectations at the climax of the wave and a more pessimistic outlook at the decline. We establish that the characteristics of the target and bidding firms and of the bid itself have a significant impact on takeover returns. While some of our results have been documented for other markets of corporate control (e.g. US), a comparison of the UK and Continental European M&A markets reveals that the corporate environment is an important factor affecting the market reaction to takeovers: (i) In case a UK firm is taken over, the abnormal returns exceed those in bids involving a Continental European target. (ii) The presence of a large shareholder in the bidding firm has a significantly positive effect on the takeover returns in the UK and a negative one in Continental Europe. (iii) Weak investor protection and low disclosure environment in Continental Europe enable bidding firms to invent takeover strategies that allow them to act opportunistically towards target firm's incumbent shareholders; more specifically, partial acquisitions and acquisitions with undisclosed terms of transaction.

JEL codes: G34

Key words: takeovers, mergers and acquisitions, diversification, hostile takeovers, means of payment, cross-border acquisitions, private target, partial acquisitions

Acknowledgments: We acknowledge support from Rolf Visser for allowing us to use the databases of Deloitte Corporate Finance. We are grateful for valuable comments from Hans Degryse, Julian Franks, Marc Goergen, Steven Ongena, and Peter Szilagyi, as well as from the participants to M&A conference at Utrecht University, the NEWGOV conference at European University Institute (Florence), and seminars at Tilburg University. Luc Renneboog is grateful to the Netherlands Organization for Scientific Research for a replacement subsidy of the programme 'Shifts in Governance'; the authors also gratefully acknowledge support from the European Commission via the 'New Modes of Governance'-project (NEWGOV) led by the European University Institute in Florence; contract nr. CIT1-CT-2004-506392.

Contact details:

Corresponding author: Marina Martynova: The University of Sheffield Management School, 9 Mappin Street, S1 4DT Sheffield, UK; Tel: +44 (0) 114 222 3344; Fax: +44 (0) 114 222; Email: M.Martynova@sheffield.ac.uk
Luc Renneboog: Tilburg University, PO Box 90153, 5000 LE Tilburg, The Netherlands, Tel: + 31 13 466 8210; Fax: + 31 13 466 2875; Email: Luc.Renneboog@uvt.nl

1. Introduction

The fifth global wave of mergers and acquisitions (M&As) which took place in the 1990s stands out as the largest and most diverse of the last century. For the first time, Continental European (hereafter CE) firms were as eager to participate in the market for corporate control as their US and UK counterparts, such that European takeover activity hit levels similar to those experienced in the US. Since the middle of 2003, takeover activity has picked up in Europe, continuing the industry consolidation trend of the 1990s. Despite these developments, empirical research on M&A activity remain mostly confined to the UK and US and there is little known about how well the Continental European market for corporate control performs relative to other regions.

The purpose of this paper is twofold. First, we carry out an in-depth analysis of the performance of corporate takeovers conducted by European firms during the fifth takeover (1993-2001). Our sample comprises 2,419 mergers and acquisitions that involve companies from 28 European countries, including those from Central and Eastern Europe. The performance of European M&As is measured by the changes in the value of bidding and target firms in the period around the transaction announcement. As potential determinants of the takeover gains we consider the characteristics of the bidding and target firms and of the bid itself. This study contributes to the restricted literature on European M&As in several ways. First, in contrast to Goergen and Renneboog (2004) who examine only the largest European M&As, this paper studies both large and small takeover transactions. Moeller et al. (2003) document that the focus on large takeovers may give an incomplete picture of the impact of acquisitions on shareholder wealth, as large acquisitions tend to be less profitable than the small ones. Second, we examine takeover performance over the different phases of the fifth takeover wave. Indeed, a limitation of the existing European M&A studies (see e.g. Campa and Hernando, 2004) is their focus on takeovers conducted in the peak of the fifth takeover wave. For the US, Moeller et al. (2005) show that acquisitions in 1998-2001 generate large losses to bidding firms' shareholders, while earlier transactions in that decade result in positive gains.

The second purpose of this paper is to investigate whether a wide range of institutional structures and legal rules have an impact on how takeovers are perceived at their announcement. Continental European transactions are conducted in a corporate environment very different from that of the UK. In comparison to their British peers, companies from the Continent have a more concentrated ownership structure (Faccio and Lang 2002) and operate in an environment with weaker investor protection, less developed capital markets (LaPorta et al. 1998), and less strict

insider trading regulation (Bhattacharya and Daouk, 2004).¹ A growing literature advocates that the corporate environment influences the cost of capital, corporate performance, and the distribution of benefits among corporate stakeholders (e.g. La Porta et al., 1997, 2002; Mork et al., 2000; and Levine, 1998, 1999).² We argue that regulation is also likely to have an impact on the patterns of M&A activity. Hence, the main research question we ask in this paper is whether and to what extent the specifics of CE corporate governance and regulatory systems (relative to those of the UK) influence the anticipated performance of takeovers.

In a nutshell, our main findings are the following. We find that European M&As are expected to create takeover synergies since their announcements trigger substantial share price increases. However, most of the takeover gains are captured by the target firm shareholders: the cumulative abnormal returns (CARs) at the announcement captured by the targets amount to 9% on average, considerably larger than the (still statistically significant) 0.5% accruing to the bidding firms. We establish that the characteristics of the target and bidding firms and of the bid itself have a significant impact on takeover returns. First, hostile takeovers and tender offers trigger substantially larger price reactions to the target shareholders than do friendly M&As. Second, investors discount the bidder and target's share prices at the announcement of all-equity offers relative to cash bids. Third, target shareholders gain higher premiums in cross-border takeovers. Fourth, the acquisition of a private firm generates significantly positive abnormal returns for the bidder's shareholders. We also demonstrate that takeovers occurring when takeover activity is slowing down trigger lower gains to both bidder and target shareholders than do deals at the beginning of the wave.

While some of these results have been documented for other markets of corporate control (e.g. US), a comparison of the UK and CE M&A markets reveals that the corporate environment is an important factor affecting the market reaction to takeovers: (i) In case a UK firm is taken over, the abnormal returns exceed those in bids involving a CE target. This difference in premiums seems to be caused by a more strict takeover legislation in the UK than in the CE countries. The UK regulation protects the target shareholders better against expropriation by the bidder and gives them more power to extract higher premiums in takeover negotiations. (ii) The presence of a large shareholder in the bidding firm has a significantly positive effect on the takeover returns in the UK and a negative one in Continental Europe. This suggests that the market views the role of major

¹ It is important to note that mentioned above characteristics of the corporate environment in CE countries are valid for the period of the 1990s and may be no longer true for the later (earlier) periods.

² The empirical literature documents that weak corporate governance combined with weak enforcement of the law distorts the efficient allocation of resources, undermines the ability of companies to compete internationally, and hinders investment and economic development.

shareholders differently in the two corporate governance regimes. (iii) Weak investor protection and low disclosure environment in Continental Europe enable bidding firms to invent takeover strategies that allow them to act opportunistically towards target firm's incumbent shareholders; more specifically, partial acquisitions and acquisitions with undisclosed terms of transaction. Whereas these types of transactions are virtually non-existent in the UK, they prevail in a large number in CE countries. We find that such transactions lead to substantial losses to the shareholders of both bidding and target firms.

The rest of the paper is outlined as follows. In Section 2, we review the determinants of the share price reactions to takeover announcements and hypothesize potential differences between UK and CE M&As. Section 3 describes the data sources, sample statistics, and methodology, while section 4 investigates market reaction to takeover announcements and relates it to different takeover characteristics in a univariate analysis framework. In Section 5, we investigate the determinants of the announcement returns in a multivariate framework. Section 6 concludes.

2. The determinants of the market reaction to takeover announcements

2.1 Predictions of the existing literature

An M&A announcement brings new information to the market, such that investors' expectations about the firm's prospects are updated and reflected in the share prices.

Both the theoretical and empirical M&A literature have shown that a variety of attributes affect the value of bidding and target firms at the announcement of corporate takeovers.³ Empirical studies, mainly based on UK and US mergers and acquisitions, document that changes in the share price of the bidding and target firms at the takeover announcement depend on the characteristics of the transaction: the geographical scope of the takeover (domestic versus cross-border M&As), the form of and the attitude towards the bid (opposed bids, unopposed tender offers, friendly M&As), the success or failure of the negotiations (successfully completed or withdrawn bid), the legal status of the target firm (listed versus privately-held), the industry scope of the deal (focus versus diversification), the means of payment (all-cash, all-equity, mixed offer), and the sub-period of the takeover wave in which the bid was announced (the run-up, the peak and the decline of the wave). The market combines these pieces of information into a signal about the quality of the bidding and

³ For an overview of the evidence on the wealth effects of M&A activity and the motives for takeovers, see Jensen and Ruback (1983), Jarrell et al. (1988), Agrawal and Jaffe (2000), Bruner (2003), and Burkart and Panunzi (2006).

target firms and of the potential value creation. The share prices are then adjusted accordingly. Table 1 summarizes the theoretical predictions and empirical evidence on the relationship between takeover characteristics and the market reaction to takeover announcements.

2.2 CE versus UK corporate takeovers: potential differences

There are fundamental differences between the Anglo-American takeover markets, and that in Continental Europe: the typical CE firm has a more concentrated ownership structures (Faccio and Lang 2002), operates in an environment with weaker investor protection, and with less developed capital markets (LaPorta et al. 1998), and is subject to less strict insider trading regulations (Bhattacharya and Daouk, 2004).

These differences may affect corporate takeovers in several ways. First, CE bidding firms may adopt opportunistic takeover strategies such as partial acquisitions and acquisitions with undisclosed terms of transaction, which are prevented by law in the UK. Second, the market may regard takeovers by CE firms with large blockholders negatively, as these deals may result in expropriation of the bidder's minority shareholder rights. Such expropriation is facilitated in corporate governance regimes with weak legal minority protection.⁴ Third, a lack of efficient takeover regulation in Continental Europe makes target shareholders less powerful relative to the bidder, which allows the bidder to capture a larger part of takeover gains. Fourth, CE executive directors/investors who are informed about a forthcoming takeover may turn to illegal trading on inside information, whereas such behaviour is more effectively prevented in the UK. Below we discuss how these specific aspects of the CE market for corporate control may affect the bidder and target's share price reactions to takeover announcements

2.2.1. Opportunistic takeover strategies

Weak investor protection may enable acquirers to adopt takeover strategies that allow them to act opportunistically towards the target's incumbent shareholders (Bertrand et al., 2002). Partial acquisitions may turn the target's incumbent shareholders into minority shareholders, whose rights could be expropriated by the acquirer due to poor legal protection. That is, when the protection of minority shareholders is not addressed at the regulatory level, bidders may be tempted to use partial

⁴ Weak investor protection may also have a direct impact on the market valuation of takeover benefits. Bris and Cabolis (2005) document that the regulatory environment in both the bidding and target firms' countries have significant impact on premiums paid in M&As. The relationship between the level of investor protection and premiums paid in M&As is relatively complex and its analysis goes beyond the scope of this paper. We leave a detailed analysis of this relationship to a separate paper.

acquisitions to extract private benefits of control at the detriment of the target's shareholders. To protect the target shareholders from being expropriated by the bidder, regulators typically introduce a mandatory bid rule (Goergen et al., 2005). The rule obliges bidders acquiring a controlling share block to make an offer for all the remaining shares outstanding at a fair price.⁵ For instance, partial acquisitions of majority control are virtually impossible. However, the number of partial acquisitions may be high in countries where the mandatory bid rule is not enforced (such as Germany and Sweden). In these countries, we expect target shareholders to dislike partial acquisitions and react negatively to their announcements.

Acquisitions with undisclosed terms of transaction (such as means of payment and transaction value) are another strategy that enables bidding firms to behave opportunistically. When disclosure requirements are low, the management or the controlling shareholder of the bidding firm may conceal the details of the bid. When a takeover with undisclosed terms of transaction is announced, we expect investors to be aware of potential expropriation and react negatively.

2.2.2. The role of bidder's large blockholders in takeovers

The presence of a large shareholder in bidding firms may have a significant impact on the market reaction to takeover announcements. However, this impact may differ between countries (it may be positive for UK firms and negative for CE firms), as the market views the roles of the major shareholders in the two corporate governance regimes as being different. When ownership and control are dispersed, small shareholders cannot effectively monitor management and mitigate potential conflicts of interest between management and shareholders due to coordination problems. Ownership concentration resolves this problem, as major shareholders have strong incentives to monitor management and replace it in poorly performing companies (Franks et al., 2001). Therefore, investors may regard the presence of a large blockholder in a UK bidding company as a credible signal that the takeover decision is driven by motives of profit maximization.

However, the gains from having the firm's management monitored by a large blockholders may be wiped out by the agency costs associated with opportunistic behaviour of the blockholder towards minority shareholders. In takeover context, the costs arise when major blockholders use acquisitions as an instrument to transfer wealth from minority shareholders to themselves (Faccio and Stolin, 2004). This type of acquisitions is more likely to be observed in CE countries, where

⁵ The definitions of a controlling share block and fair price vary across countries. UK takeover regulation imposes a mandatory bid to be made when the bidder acquires 30% of the target firm's equity and the fair price to be equal to the highest price paid for pre-bid purchases (Goergen et al., 2005).

concentrated corporate ownership structures prevail but the rights of minority shareholders are relatively less protected. Since minority shareholders are likely to fear potential expropriation, we expect the market to react negatively to the announcements of takeovers by CE bidders controlled by a major shareholder.

2.2.3. Takeover regulation

Takeover regulation plays a crucial role in shaping the pattern of M&A activity. Importantly, it affects the distribution of the bargaining power and thereby of the takeover surplus between the bidder and the target. Regulatory provisions that make target shareholders more powerful relative to the bidder (such as the mandatory bid rule, the sell-out right, and takeover defence measures) redistribute the takeover surplus from the bidder to the target shareholders (Goergen et al., 2005). However, in countries lacking this type of regulation, most of the takeover surplus is captured by bidding firms leaving the target's shareholders with lower returns. Similarly, Rossi and Volpin (2004) report that targets earn higher premiums in countries where the mandatory bid requirement is enforced by law. Goergen et al. (2005) advocate that the UK has adopted a more strict takeover legislation than CE countries. Therefore, we expect higher takeover premiums to be offered in takeover bids made to British companies.

2.2.4. Insider trading

When insider trading is not effectively regulated, insiders are more likely to trade on non-public information (Bris, 2005). This implies that part of the valuation effect of takeovers is already incorporated in the share price prior to the announcement day (Bhattacharya et al., 2000). In this case, the takeover valuation effect is likely to be captured in the share price run-up realised prior to the bid. Bhattacharya and Daouk (2004) document that among European countries the UK has the toughest insider trading law. These are then CE countries where takeovers are preceded by illegal trading on inside information.⁶

3. Data sources, descriptive statistics and methodology

3.1 Sample selection

⁶ However, Bris (2005) shows that insider trading laws make profitable to violate them, and hence countries with the toughest regulation may face bouts of illegal activity.

We select our original sample of European acquisitions undertaken during the fifth takeover wave (1993-2001) from the Mergers and Acquisitions Database of the Securities Data Company (SDC). The SDC data were filtered down to intra-European domestic and cross-border takeovers, whereby both the acquirer and the target are from countries within Continental Europe and the UK. Our sample also includes deals involving firms from Central and Eastern Europe. We retain only those M&As that satisfy the following requirements: (i) the transaction involves a change in control⁷; (ii) either the bidder or target shares (or both) are traded on a European stock exchange; (iii) both parties in the transaction are independent corporations;⁸ (iv) neither the bidder nor the target is a financial institution (bank, unit trust, mutual fund or pension fund); (v) the period between two consecutive bids by the same acquirer is not less than 300 trading days;⁹ (vi) financial and accounting data for at least one of the participants of the transaction are available in DataStream or in the Amadeus, Fame or Reach databases of Bureau van Dijk.

The quality of the SDC data is verified by comparing its information on the announcement date, the companies' countries of origin, the transaction value, payment structure, share of control acquired, bid completion status, and the target's attitude towards the bid with information from the news announcements stored in LexisNexis, the Financial Times, and Factiva.¹⁰ We find that the SDC records for M&As from our sample frequently do not coincide with those of the other sources. These inconsistencies have been amended by replacing contradictory SDC information with the new one extracted from the news announcements. All in all, amendments were made in about 36% of our final sample.¹¹

The ownership and control structure of the bidding and target firms prior to the takeover announcement is collected from a variety of sources described in Appendix II. To control for dual class shares, pyramidal ownership structures, multiple control chains, and cross-holdings, all of which prevail in CE companies, we focus on corporate control structures rather than ownership structures. To identify the ultimate control structure of a firm, we follow the methodology presented

⁷ We require either that the transaction leads to a combination of the firms or that the acquirer who held less than 50% of the target's stock prior to the transaction acquires full control (increases its ownership position to more than 50%).

⁸ Divestitures and management buyouts are not included.

⁹ The reason is that we want to avoid contamination of the windows used to estimate systematic risk. Therefore, we exclude bids by the same acquirer within less than 300 trading days from the previous announcement (240 days estimation period ending 60 days before the event).

¹⁰ We consider all news announcements available in English, French, German, Dutch, Italian, Spanish, Swedish, Portuguese, Russian, Czech, and Polish languages. For the French, German, Italian, Spanish, Swedish, and Portuguese, we use WorldLingo online translator (www.worldlingo.com).

¹¹ The percentage refers to all M&As from our sample for which at least one deal characteristic reported in SDC does not coincide with that from the other sources and hence it was replaced. Most of the inconsistencies found in the SDC records regard the bid completion status, share of control acquired, and the transaction value.

in Barca and Becht (2001) and Faccio and Lang (2002). First, we consider only shares bearing voting rights. Second, as control depends on both direct and indirect ownership of voting equity, we accumulate the voting stakes directly or indirectly controlled by the same ultimate shareholder. When a target company is private, we assume that ownership and control concentration in this firm amounts to 100%.

3.2 Sample summary statistics

Our final sample of European M&A announcements consists of 2,419 deals involving firms from 28 European countries. The sample characteristics are described in tables 2 through 4.

3.2.1. Sample composition by deal characteristics

According to panel A of table 2, about 70% of the intra-European takeover bids target a domestic firm. The relative number of cross-border bids within Europe has been gradually increasing over time, starting with 23% in the beginning of the fifth takeover wave and reaching 32% in its end. Moeller and Schlingemann (2004) document a similar tendency for US takeovers.

Takeovers resulting in a full acquisition of the target's shares comprise 60% of the sample over the period 1993-2001. In the remaining deals, the bidder acquires majority control. The fraction of acquisitions of partial control has augmented near the end of the takeover wave. One reason is that there is a high number of large M&A transactions in 1998-2001, which are relatively more risky for the bidding firms and require considerable financial resources. A desire to diversify the risk of these mega-deals and limited financing capacity may force bidders not to bid for all the equity of target firms.

Our sample comprises 162 (7%) opposed (or hostile) bids, 473 (19%) unopposed tender offers and 1,784 (74%) friendly M&As. We classify an acquisition as *opposed* if the board of directors of the target firm responds negatively to the bidder's initial offer for whatever reason.¹² Further, within the *unopposed* takeovers, we also distinguish between bids conducted in form of a public tender offer (unopposed tender offers) and bids conducted in form of a merger or a private purchase of a control block (friendly M&As).¹³ Panel A of table 2 shows that the frequency of

¹² It should be noted that a negative response to the bid may result either from the target's bargaining strategy to extract a higher premium (Schwert, 2000), or from the target directors' viewpoint that the proposed strategic plan underlying the acquisition is incompatible with the target firm's own strategy (Lipton, 1985).

¹³ An *unopposed tender offer* is a public offer to the target shareholders asking them to sell their shares for cash and/or equity at a pre-specified price or equity exchange ratio, while the board of directors of the target firm does not respond negatively to the bid (issue negative comments about the bid). An acquisition is considered to be successful if a

friendly M&As is especially high in the beginning (1993-96) and in the end of the takeover wave (2000-01), whereas the frequency of unopposed tender offers is highest in the period of the takeover wave peak (1997-99). Opposed takeovers are least frequently observed when the takeover wave slows down (2000-01).

[Insert Table 2 about here]

About 9% of all takeovers in our sample ultimately fail as a consequence of successful opposition to the bid or a collapse of the friendly takeover negotiations. The rest of the sample is divided into successfully completed M&As (80%) and pending negotiations in which the bid has been announced but has not been completed or withdrawn (11%).¹⁴ In many of the pending bids, the bidder announces its intention to acquire control over the target firm, but the acquisition occurs in several steps. That is, at the announcement, the bidder acquires a large stake of, say, 25% and pledges to acquire control (the remaining 25-75%) in the near future. The relative number of withdrawn bids hits the highest levels in the beginning of the fifth takeover wave (1993-95), whereas pending acquisitions occur with high frequency in the end of the wave (2000-01).

Panel A of table 2 also indicates that a large part of takeover bids are made on privately held target firms (63%), while the remainder (37%) are bids on publicly owned targets listed on a stock exchange. The frequency of M&As involving public targets substantially increases in the second half of the takeover wave (1997-01), reaching its peak in 1999 (46% of the deals), when the M&A activity was at its strongest.

Expansion within the same industry seems to be a dominant takeover strategy during the 1990s. Sixty-four percent of all the M&A announcements refer to bidders and targets operating in the same sector or related industries¹⁵, while the remainder are diversifying acquisitions. The highest percent of focussed acquisitions is observed in 1997-99.

Of the 1,721 bids where the payment method is disclosed, the majority (54%) are all-cash offers. This percentage is lower than the 80% reported for European all-cash M&As in Faccio and

sufficient number of shares are tendered such that the bidder gains control over the target. A *merger* refers to the consolidation of the assets of two firms, which is approved by both the shareholders of the target and the shareholders of the bidding firms. Generally, the majority of 2/3 or more of shareholder votes of each firm is required for the merger to succeed (the required percentage may vary across countries). A *private purchase* of a control block refers to all transactions in which the bidder purchases a controlling share block by means other than a tender offer. This category usually comprises acquisitions of private targets or direct purchases of a share block from a large shareholder of the target firm.

¹⁴ We checked the status of all bids which were labeled as 'pending' in the SDC database. We used LexisNexis and Factiva and changed the completion status when pending bids were ultimately completed or withdrawn. For a number of bids, no further information was ever released in the financial press.

¹⁵ We define 'companies in related industries' as firms of which the primary 2-digit SIC codes coincide. Changing this definition to the 3-digit SIC classification, does not materially change the results in the remainder of the paper.

Masulis (2005). The difference may be driven by the exclusion of divestitures (acquisitions of other firms' subsidiaries) and cross-border acquisitions of US targets, which represent a substantial fraction of Faccio and Masulis' sample and are mostly pure cash offers. Panel A of table 2 reports that, of all the bids involving equity payments, about half are pure equity-exchange offers. The other half are mixed offers that consist of 53% cash, 47% stock, and less than 1% of loan notes, on average. Our sample also includes 698 bids (29% of the sample) that lack information about the method of payment and transaction value. The highest proportion of M&As with undisclosed transaction terms is observed in Austria (68% of all bids in the target's country), Germany (67% of all bids in the target's country), and Switzerland (57% of all bids in the target's country). None of UK target firms is involved in takeovers with undisclosed terms of transaction, as such lack of disclosure would violate UK transparency regulation.

In panel B of table 2, the characteristics of the takeover deals are detailed. We organize this information according to the geographical origin of the bidding firm (UK versus Continental Europe). The average takeover deal is worth US\$ 1,487 million. This figure is considerably influenced by outliers, as the median value of transactions barely exceeds US\$ 24 million.¹⁶ The average size of CE takeovers exceeds the size of their UK peers more than seven times.

Interestingly, bidders from the Continent intend to hold only 81% (95% median) of the target shares after the bid completion, while UK bidders seek to own 95% (100% median).¹⁷ Bidders' preferences regarding their ultimate ownership in the target firm are affected by takeover regulation. For instance, UK Takeover Code obliges bidders to make a mandatory bid to purchase all shares of the target firm after it has acquired a share block of 30%. However, this type of requirements was virtually non-existent in many CE countries (such as Germany and Sweden) during most of the 1990s.¹⁸ Therefore, compared to their UK peers, bidders from the Continent have more freedom in initiating acquisitions of partial control. The impact of takeover regulation on the takeover bids is

¹⁶ The largest acquisitions by year are: the US\$ 1.5 billion bid by Lagardere Group for Matra-Hachette (both are located in France); the US\$ 2.5 billion bid in 1994 by Enterprise Oil for Lasmo (both are UK firms); the US\$ 5.5 billion bid in 1995 by Granada Group for Forte (both are UK firms); the US\$ 30 billion bid in 1996 by Ciba-Geigy for Sandoz (both are located in Switzerland); the US\$ 3.5 billion bid in 1997 by Rallye for Casino Guichard Perrachon (both are French firms); the US\$ 35 billion bid in 1998 by Britain's Zeneca Group for Sweden's Astra; the US\$ 202 billion bid in 1999 by Vodafone for Mannesmann; the US\$ 14 billion bid in 2000 by Vodafone for Spain's Airtel; and the US\$ 7 billion bid in 2001 by Germany's E.ON (formerly Veba/Viag) for Britain's Powergen.

¹⁷ We focus on the percentage of the target's shares that the bidder *ex-ante* intends to own after the bid and not on the percentage that the bidder *obtains ex-post* because our sample comprises withdrawn and pending acquisitions, in which the bidder acquires less than or nothing of what it was intended. We also refer to the percent of target's shares the bidder *intends to own after the bid* and not on the percent of shares the bidder *intends to acquire* because some firms accumulate a stake in the target firm (toehold) already prior to the bid.

¹⁸ For a detailed overview of differences in takeover regulations across European countries and see Goergen et al. (2005)

further supported by evidence that the size of the toehold that UK bidders accumulate prior to the bid (averaged over the ones who have decided to do so) is about 25% with a median of 29%, just below the 30% mandatory bid threshold. The size of the toehold accumulated by CE bidders is somewhat higher: 32% (35% median).¹⁹

3.2.2. Sample composition by countries of bidding and target firms

Table 3 shows that the UK is the dominant market for corporate control in Europe: half of the domestic takeover transactions occur in the UK and one fifth of all the bidders in intra-European cross-border acquisitions are UK firms. Proportionally, UK firms are targeted less frequently: merely 12.7% of the European target firms are headquartered in the UK – a percentage similar to that for Germany and France. Unsurprisingly, given the dispersed nature of ownership in UK firms, most hostile bids are concentrated in this country: 61% of the domestic and 41% of the cross-border hostile bids (from the target firms' perspective) take place in the UK. The second and third largest markets for corporate control in Europe are Germany and France; they respectively account for 10% and 13% of all domestic bids, and 12% and 15% of all cross-border bids. Not to be underestimated is the Scandinavian M&A market, especially in its impact on cross-border takeover activity in Central Europe. Relative to the other major economies in Europe, takeover activity in Italy is remarkably low. Firms located in the countries that joined the European Union in 2004 are attractive takeover targets, being involved in 15% of all cross-border M&As. In contrast, the involvement of such firms as bidders in cross-border acquisitions is negligible, as is the domestic takeover market in Central Europe.

[Insert Table 3 about here]

3.2.3. Characteristics of the bidding and target firms

The characteristics of the bidding and target firms are reported in Table 4. Relative to target firms, bidders in European M&As tend to be larger and to have better growth opportunities (as reflected by the market capitalization and the Q-ratio). Also, bidding firms are somewhat less leveraged than targets (21% versus 23%, respectively). Target firms have a higher percentage of collateral (38%) than do bidders (31%). Table 4 also shows that the corporate performance (return

¹⁹ The difference in mean toeholds of UK and CE bidders is statistically significant at the 1% level. Importantly, only 9% of British firms actually decide to purchase a toehold. The figure is twice lower than the percent of bidders with a toehold in Continental Europe.

on assets (ROA), and cash flow to sales) and investment activity (capital investments to total assets) of targets and bidders are similar.

[Insert Table 4 about here]

Some attributes are significantly different between targets and bidders from the UK and Continental Europe. Table 4 shows that UK firms (both bidders and targets) outperform their CE peers in terms of sales, growth opportunities, and ROA. Furthermore, UK companies are less leveraged and have more collateral. These differences are likely to follow from differences in the regulatory environment of the UK and Continental Europe. A growing literature advocates that the legal system in the UK ensures better investor protection and corporate focus on shareholder value than do the corporate governance regimes of CE countries (La Porta et al., 1997). In turn, this may result in higher company valuations and growth potential (La Porta et al., 2002; Himmelberg et al., 2002).

UK and CE firms differ not only in terms of performance and capital structure, but also in terms of ownership and control. On average, the largest blockholder of a CE bidding firm ultimately controls 39% of the voting rights, which is significantly higher than the average voting stake (14%) held by the dominant shareholder of a UK bidding firm. For CE bidders, we detect at least one dominant shareholder with voting power in excess of 20% in more than three quarters of the firms, and a blockholder holding a large majority of voting rights (60% and more) in 21% of the firms.²⁰ In contrast, UK bidders are characterized by dispersed ownership structures, as only 8% have a shareholder with a significant blockholding of at least 20% of voting rights. The ultimate ownership structures of our bidders are similar to those reported for the UK and Continental Europe by Faccio and Lang (2002). Given that there is no mandatory ownership disclosure for privately held firms, we have to make an assumption that the ownership concentration amounts to 100%. The reason is that many non-listed firms are likely to be controlled by one or a group of large investors. On average, we find little difference between the control structures of target and bidder firms by region (the UK and Continental Europe).

3.3 Methodology

²⁰ When analyzing control structure data we follow Faccio and Lang's (2002) approach and focus on control thresholds of 20% and 60%. This ensures the comparability of our results with the literature on Continental European M&As that employs the Faccio and Lang (2002) ownership and control database (see e.g. Faccio and Masulis, 2005; Faccio and Stolin, 2006). We consider a firm to be widely held if there is no a shareholder with a stake of 20% or more. When we use alternative cut offs (e.g. the 25% threshold, a blocking minority), we do not find different results.

3.3.1. Abnormal returns and test statistics

In order to measure the short-term wealth effects prior to, at and after the takeover announcement, we apply an event study methodology. That is, the short-term shareholder wealth effect at the takeover announcement is computed as the sum of daily abnormal returns realized in the period starting 60 days prior and ending 60 days subsequent to the event day.²¹ We also consider alternative event windows within the [-60, +60] interval. Daily abnormal returns are computed as the difference between realized and market model benchmark returns. The market model uses the MSCI-Europe index and the parameters are estimated over 240 days starting 300 days prior to the acquisition announcement.²² To test for significance of the estimated abnormal returns, we use two parametric test statistics (the portfolio test and the standardized test) as proposed by Brown and Warner (1985) and the non-parametric Corrado test (Corrado, 1989).²³

3.3.2. Correction for potential sample selection bias

We recognize that the regression analysis of the share price reaction to takeover announcements may suffer from a censoring problem. The analyzed sample of successful, pending, and withdrawn M&As excludes deals in which bidders initially decided not to bid. Factors such as financial constraints, growth opportunities, and share price performance are likely to be important determinants of the bidder's decision (not) to perform a takeover. In other words, we may observe fewer takeovers by bidders with low cash holdings, high leverage, small size, underperforming share price, or poor growth opportunities, which may bias our test results. To control for this potential bias, we employ Heckman's (1976, 1979) procedure for a sample-selection correction. Applying a Probit analysis on the full sample of European firms (and subsamples of CE and UK firms), we estimate the probability that a firm will undertake an acquisition. The resulting parameters are used to compute Heckman's λ for each bidding firm in our sample. We include Heckman's λ as an

²¹ The event day is either the day of the announcement or the first trading day following the announcement in case the announcement is made on a non-trading day.

²² Our estimates of the abnormal returns are robust with respect to the different choices of the market index (local, European-wide, and worldwide index) and the estimation model of the benchmark returns (the estimated beta adjusted for mean-reversion (Blume, 1979), and non-synchronous trading (Dimson, 1979)). Changing the market index or the estimation model does not materially change the results in the remainder of the paper.

²³ The portfolio test statistic assumes that the CARs are larger for securities with a higher variance. Hence, equal weights are given to the returns of individual securities. The standardized test statistic assumes that the true CARs are constant across securities and gives more weight to the securities with a lower variance of the CARs. For reasons of conciseness, we only show the non-parametric test statistics; the results of the parametric tests do not change the interpretation of the results and are available upon request.

additional regressor into the regression analysis of the bidder's CARs. If the null hypothesis that Heckman's λ is insignificant cannot be rejected, censoring is not a significant problem in our sample and hence does not lead to sample selection biases in our estimation procedure.

4. Market reaction to takeover announcements (Univariate analysis)

In this section, we focus on univariate analyses of bidder and target CAARs realized in intra-European M&As. We relate the CAARs to the various characteristics of target and bidding firms and of the bid itself: these include the location of the target (domestic versus cross-border M&As), the type of the takeover (a full takeover versus the acquisition of majority control), the form of and the attitude towards the bid (opposed bids, unopposed tender offers, friendly M&As), the success or failure of the negotiations (successfully completed, pending, or withdrawn bid), the legal status of the target firm (listed versus privately-held), the business expansion strategy (focus versus diversification), the means of payment (all-cash, all-equity, mixed offer, or undisclosed means of payment), and the sub-period of the takeover wave in which the bid was announced (the run-up, the peak and the decline of the wave). We also investigate variation in the market reaction to takeover announcements across deals that involve firms of different legal origin.

4.1 Market reaction to takeover announcements: total sample

Table 5 reports that the announcement of a takeover bid accrues positive abnormal returns to the bidder shareholders: on the event day, a small average abnormal return of 0.5% is realized on average, though it is statistically significant at the 1% level. Over a 10-day window centred around the event day, the average CAAR amounts to 0.8%. Strikingly, the CAARs of bidding firms generated over the 3-month period subsequent to the bid are significantly negative (-3%). Figure 1 illustrates the evolution of the bidder CAARs daily over the [-60, +60] event window.

In comparison to the bidder CAARs, the price reactions for the target firms are substantial: on the event day, an abnormal return of 9% is realized on average (see table 5). The evolution of the target CAARs prior to and after the event day is reported in Figure 2. We find that there is a significant increase in the target share price in the two months (40 trading days) prior to the initial public announcement. On average, investors who own shares in the target firm two months prior to the event day and sell their shares at the end of the event day would earn a premium of 21% above

the expected return. The overall findings suggest that the majority of takeover deals is expected to generate synergy values, most of which are captured by the target firm shareholders.

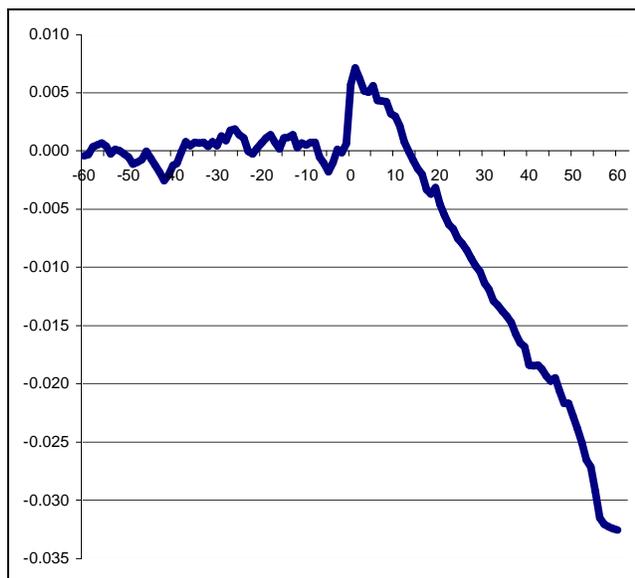


Figure 1. Bidder CAARs around the M&A announcement

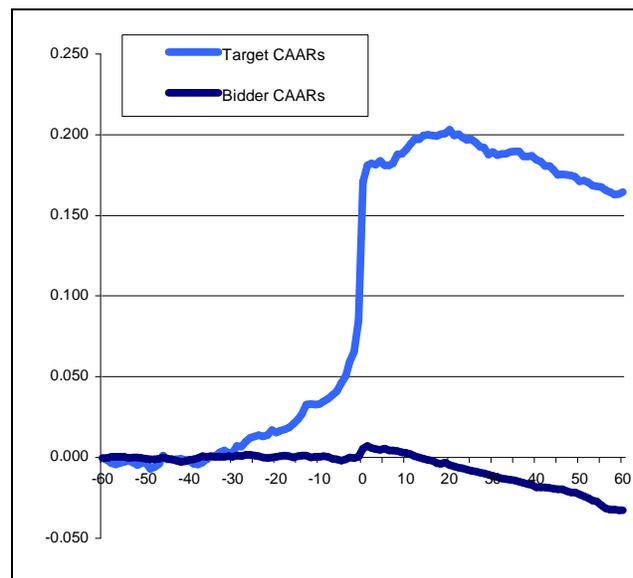


Figure 2. Target (and bidder) CAARs around the M&A announcement

Note: Figures 1 and 2 show the market reaction to the announcement of M&A transactions for bidding and target firms as well as the CAARs before and after the event (day 0). The benchmark used in the market model is the MSCI-Europe index returns; the model parameters are estimated over 240 days starting 300 days prior to the acquisition announcement.

[Insert Table 5 about here]

4.2 Market reaction to takeover announcements by deal characteristics

4.2.1. Geographical scope of transaction

We have mentioned that 70% of the intra-European M&As are domestic deals. Table 5 shows that bidding firms engaging in cross-border bids experience lower announcement effects than do those undertaking domestic acquisitions (0.4% versus 0.6%, respectively), and the difference is statistically significant. Subsequent to the event day, the negative price correction for bidding firms is larger in cross-border bids than in domestic ones (-3.6% versus -2.5%).

Investors of target companies also favour more domestic acquisitions. The announcement effect of domestic and cross-border targets amounts to 10% and 8%, respectively (Table 5). This difference is statistically significant. When we add the price run-up (40 trading days prior to the event), the difference increases to nearly 3% and remains statistically significant. Outperformance of domestic acquisitions relative to their cross-border peers (both in terms of the bidder's and target's

CAARs) suggests that market anticipates difficulties in managing the post-merger integration process between foreign firms and hence discount the expected takeover synergies.

4.2.2. Type of acquisition

The acquisitions of partial control have received little attention in the existing literature. This is because they are virtually non-existent in the US and UK. However, we find that this type of takeovers prevail in Continental Europe. Table 5 compares the announcement effect of partial acquisitions to that of full acquisitions. We find that bidding firm shareholders do not favour majority (or partial) control acquisitions (in contrast to the acquisition of full control). Table 5 documents that although the announcement effect of a majority acquisition is significantly positive (0.4%), it is somewhat lower than the announcement effect of a full takeover bid (0.6%). Also, an acquisition of majority interest is associated with significant negative abnormal returns both before and after the transaction announcement, whereas a full acquisition is preceded by a significant increase in the equity value of the bidding firm.

Target shareholders also dislike acquisitions of partial control. At the announcement day, the share price of a target subject to a full acquisition rises by 12%, which is more than five times larger than the abnormal return of a target subject to an acquisition of majority control (see Table 5). Investors who purchase target shares three months prior to a full takeover bid and sell the shares three months after the announcement earn a CAAR of 31%. In contrast, only 14% is acquired over the same period when the bid is made in order to obtain majority control only. The lower returns associated with bids for majority control may reflect concerns that a control transfer may lead to expropriation of the remaining minority shareholders.

4.2.3. Form of and attitude towards the bid

When we partition all bids into three subsamples based on the attitude and form of the bid: opposed (or hostile) bids, unopposed tender offers and friendly negotiated deals, we observe that bidder's shareholders clearly react differently to the announcements of those deals. On the event day, bidder share prices are subject to a negative price corrections in opposed bids and unopposed tender offers. The announcement of friendly M&As is greeted favorably by the market, as the abnormal returns are significantly positive (0.8%). However, friendly M&As are followed by remarkable share price decline over 3 months subsequent to the bid. It seems that the market reactions at the

announcement are overoptimistic and that the bidders' shareholders have second thoughts about the profitability of these transactions.

Expectedly, takeover bids opposed by the target's board generate the highest abnormal returns (15%) to the target shareholders on the announcement day. The announcement returns induced by opposed takeover bids are significantly higher than those induced by unopposed tender offers (12%) and friendly M&As (3%). Table 5 also unveils that there are large differences in the share price run-ups between friendly and hostile takeover bids. A hostile acquisition generates a CAAR of more than 30% over a 2-month period preceding and including the announcement day. In contrast, the target share prices significantly underperform in friendly M&As relative to opposed bids and unopposed tender offers both before and after the announcement. Over the holding period of 6 months centred around the event day, friendly M&As generate a CAAR of merely 10%, compared with 32% in tender offers and a considerable 44% in hostile bids.

4.2.4. Bid completion status

We also address the question as to whether the markets are able to predict the ultimate success or failure of the M&A negotiations. Table 5 reports that the announcement effect for unsuccessful bidders is negative (-0.6%), but not statistically significant from zero. The total wealth effects (over a 6-month time span) of completed, pending, and withdrawn takeovers range between -6% and -3%, with most losses occurring to bidding firms facing difficulties to complete the takeover negotiations (pending deals) or postponing the completion of the bid.

The event-day effect for target firms is significantly larger (by 1% to 2%) for successful bids than for failures and pending deals. However, over the 2-month window prior to and including the event day, there is no difference in the CAARs between failed and successful bids (21.8% versus 21.5%). For the same period, pending acquisitions underperform successful and withdrawn bids by 3 to 5%.

4.2.5. Legal status of the target firm

Table 5 shows that the announcement of a bid for a private firm induces significantly positive abnormal returns of 0.8% to the bidder's shareholders, whereas the announcement of a bid for a public firm results in an (insignificantly) negative return of -0.1%. The evidence is similar to that of Moeller et al. (2004) and Faccio et al. (2004). However, the post-announcement returns over longer time windows decline to almost -3% when the target firm is private and to -1.3% when it is publicly

listed (both are significant at the 1% level). This evidence suggests that market revise downward potential takeover synergies once more information about the true value and growth potential of the target firm is revealed.²⁴

4.2.6. Industry scope

Table 5 also compares the announcement period bidder firm CAARs in diversifying takeovers with those in industry-related (or focus-oriented) deals. Consistent with the conjecture for bidding companies that diversification destroys value on average (see table 1), we find that bidding firms have significantly higher short-run wealth effects around the announcements of business expansions within their core industry compared to the returns induced by announcements of diversifying acquisitions (0.63% versus 0.36%). Also, it appears that the market anticipates the focus strategy of the bidder, because there is a statistically significant run-up in the bidder's share price over the two-month period prior to the event day. While the share price increases by 1.4% preceding an intra-industry bid announcement, it declines by the same percentage preceding the announcement of a diversifying takeover.

When CAARs for target firms are considered, regardless of the length of the window, diversifying takeovers outperform deals with a focus strategy. Over the period including the announcement day and the price run-up, target shareholders in diversifying takeovers enjoy a CAAR of about 24% whereas those in takeovers with a focus strategy earn a CAAR of about 19%. This confirms that bidders may overpay for unrelated target firms and engage in more aggressive bidding strategies in diversifying takeovers.

4.2.7. Means of payment

Asymmetric information between the bidder's management and outside investors may influence the choice of the means of payment and the consequent market reaction. A negative price correction is expected for all-equity bids and a positive one for all-cash bids (table 1). Table 5 confirms that bidders' shareholders perceive offers involving cash payments more favourably (0.6% for all-cash and 0.9% for mixed bids) than all-equity offers (for which the abnormal returns are insignificantly different from zero). Furthermore, in the period following the bid announcement, the bidder share prices generally decline, but decline substantially more in bids involving equity

²⁴ Due to the low disclosure requirements for privately owned companies, reliable information is not available. This stands in sharp contrast to the public firms, which are constantly scrutinized by different regulatory bodies, media, and the public.

payments. The CAARs over a 6-month period in all-cash bids are not significantly different from zero (at -0.9%), whereas those in all-equity bids and mixed offers are significantly negative (-2.2% and -2.8% , respectively).

Table 5 shows that the target's share price reaction is also sensitive to the means of payment in a takeover bid. Regardless of the event window, the CAARs of cash offers bids are significantly higher than those of all-equity offers (at the 1% significance level). Acquisitions where the payment method is undisclosed do not lead to a significant price change at the announcement. The lack of information on such bids is even penalized by the market as the share price decreases by 4% over three-month period subsequent to the event day.

4.2.8. The sub-periods of the 5th takeover wave

Table 5 shows significant differences between the price reactions to bids for the three sub-periods of the takeover wave. The sum of the price run-ups and the announcement effects for takeover bids at the beginning, peak and decline of the wave are 0.19%, 1.47% and 1.12%, respectively. However, when we calculate CAARs over somewhat longer time windows (e.g. 6 months), it seems that bidder shareholders realise that the bids may have been excessive at the peak and at the decline over the takeover wave: the CAARs amount to 0.52% in 1993-96, -1.30% in 1997-99 and -9.87% in 2000-01.²⁵ It should be noted that the substantial decline subsequent to the M&A peak is already corrected for the strong downward equity market movement. From the middle of 2000, the M&A climate turned bleak and the stock market decline made bidder shareholders very pessimistic about future synergistic gains. Thus, our evidence shows that from the perspective of bidding firms, sweet M&As turned sour due to such reasons as managerial hubris, self-interest, and herding (see table 1).

Target shareholders gain the most at the peak of the takeover wave. Table 5 shows that, at the announcement day, target firms gain an average premium of 8% prior to 1997, 10% in 1997-99, and 9% in 2000-01. The differences are statistically significant at the 1% level. The second stage of the takeover wave also stands out in terms of the price run-up for target firms: it amounts to 13% (up from 8% observed in 1993-1996). Over longer time windows, for instance over a 6-month window symmetrically centred around the event day, the post-1999 bids yield lower CAARs (21%) than do those in 1997-1999 (31%) and those before 1997 (25%).

²⁵ This result is unlikely to be driven by outliers, as the median value of CARs over window $[-60, +60]$ for takeovers in 2000-2001 equals -5.4% (Q25= -24% and Q75= 21%).

4.3 Market reaction to takeover announcements by the legal origin of bidder and target

Rossi and Volpin (2004) show that the legal environment and takeover regulation are important determinants of the takeover gains. They report that takeover premiums are higher in countries with higher shareholder protection and in countries where the mandatory bid requirement is enforced by law. To control for the impact of the legal environment on takeover premiums, we classify all acquisitions into five groups according to the legal origin of the bidder and target countries, following La Porta et al. (1998). Countries from the former communist block are classified according to their (staged) accession to the European Union, as this event has had an important impact on their corporate legislation.

4.3.1. Domestic acquisitions

Table 6 shows that bidder share price reactions to domestic bids vary considerably by legal origin of the firm. Bidding firms of common law and German and Scandinavian civil law countries earn significantly positive wealth gains at the announcement. Conversely, the wealth changes incurred by bidders from French civil law countries and the new and prospective EU entrants are insignificantly different from zero. Over a 6-month time window symmetrically around the event date, the share price movements are either negative (for firms from German civil law countries and the new and prospective EU entrants) or statistically insignificant (for firms from UK common law and French and Scandinavian civil law countries).

Table 6 further documents that the legal origin of the target country also has a clear impact on target abnormal returns in domestic deals. Target firms from English common law countries experience very large wealth effects over all event windows. Importantly, target firms from Scandinavian civil law countries where the corporate governance legislation and the institutional financial environment are close to those in the UK (LaPorta et al., 1998), also exhibit strongly positive CAARs (of 21% over the event day and the price run-up period). While target firms from the countries that either joined the EU in 2004 or are expected to join in 2007 have the lowest announcement effect (-0.5%), those from French and German civil law countries also earn particularly low CAARs of 1.7% and 2.3%, respectively.

[Insert Table 6 about here]

4.3.2. Cross-border acquisitions

Turning to cross-border acquisitions in table 6, we show that bidding firms of German, Scandinavian, and French legal origins earn higher announcement returns than do firms of English legal origin: the announcement effects are 0.5% (average across the three legal origins) and 0.2% respectively. The difference is statistically significant at the 1% level. Companies incorporated in countries of Scandinavian legal origin are expected to benefit from the announcement of cross-border takeovers most (0.8%).

The premiums offered in cross-border takeovers are significantly higher for the target firms from English common law countries than for those from the civil law countries: 13.8% versus 5.9% at the announcement (averaged across other countries). Adding the price run-up to the announcement effect, the numbers increase to even 37% and 14%, respectively. Importantly, the corresponding effect for targets from the new and prospective EU entrants is insignificantly different from zero. Given that the corporate governance regime of the bidding firm is imposed on the target firm (Bris and Cabolis, 2004; and Rossi and Volpin, 2004), it is also important to classify the target firm wealth effects by the legal origin of the bidder country.²⁶ We find that the differences in target share price reactions are now less outspoken. Still, the announcement period abnormal returns remain the highest when the legal origin of the bidder country is English common law.²⁷

5. Determinants of the market reaction to takeover announcements (Multivariate analysis)

The results of the univariate analysis suggest that the market reaction to takeover announcements varies across takeover bids with different characteristics. We now turn to exploring which of the effects documented in the previous section dominates in a multivariate analysis framework. In section 2 we conjecture that the characteristics of the takeover bid convey a signal to the market about the quality of the bidding and target firms and of the potential value creation in the takeover. Therefore, the release of information about the takeover induces investors to update their expectations about the bidding and target firms' prospects. Thus, we expect the takeover characteristics to explain a substantial part of variation in the bidder and target's share price changes in the period around the takeover announcement. As additional proxies for the quality of the bidders

²⁶ According to international law, when a foreign firm acquires 100% of a domestic firm, the nationality of the latter changes. Hence, the target firm adopts the accounting standards, disclosure practices, and governance structures of the acquiring firm.

²⁷ The CAARs of the bidding and target firms by country of origin are available upon request.

and targets and potential takeover synergies we also consider the financial and operating performance of these firms and their corporate control structures.

Information about takeovers is incorporated into the share prices in three steps. First, some investors or insiders trade on private information or rumours. Second, the major flow of reliable information is released to the market at the first public announcement of the takeover deal. At the announcement day, investors learn about the objective of the bidding firm, the target's attitude towards the bid, and the initial terms of the deal. Third, additional information about the takeover is obtained in the post-announcement period. This typically regards the failure or a success of the bid, a better estimate of the synergy values, and the ultimate terms of the transaction. Since the information revealed at each step is likely to affect market expectations about the bidder and target's prospects, we model market reaction to takeover announcements consisting of three components: the pre-event, announcement, and the after-event effects. In separate regressions, we investigate the factors that affect the CARs realized prior to the bid over the period $[-60, -2]$ days, over the 3 days around the bid announcement, and subsequent to the bid over the period $[+2, +60]$ days. Given that we expect to observe fundamental differences between M&As involving UK and CE firms (see section 2), we also run the regressions for these two types of deals separately.

5.1. Bidder's cumulative abnormal returns

The determinants of the market reaction to takeover announcements for bidding firms are reported in table 7 and their economic effects are in table 8. The analysis of bidder returns may be subject to a sample selection bias, as bidders may already have specific characteristics (independent of the takeover decision) that generate a specific level of returns. To control for this potential bias, we apply Heckman's procedure for sample-selection correction (see section 3.3.2).²⁸

5.1.1. Bidder pre-announcement returns

The pre-announcement returns on the shares of a bidding firm over the period starting 3 months and ending 2 days before the event are positively influenced by the bidder's Tobin's Q (see model 1 in tables 7 and 8). An increase in the Q-ratio by one standard deviation leads to an incremental rise in the bidder's run-up premium of 1023 basis points (see table 8). This suggests that investors value corporate takeovers more when the bidding firm has better growth opportunities. In

²⁸ The fourth row from the bottom of table 7 indicates regressions for which censoring is found to be a significant problem and the correction for the sample selection bias is applied. The correction is needed for the pre-bid CARs in the sub-sample of CE bids.

contrast, investors are wary when a bidding firm with high cash flow reserves makes a takeover bid. In such cases, legitimate doubts arise about the true motives for the takeover: cash surpluses are likely to be used for managerial empire building (Jensen, 1986). Accordingly, a one standard deviation increase in the bidder's cash flows reduces the run-up effect by 1666 basis points.

Since hostile takeovers are often launched after unsuccessful private negotiations with the target management, these deals are likely to be anticipated by the market due to information leakages or insider trading. We confirm that this is the case: the pre-announcement CAARs in hostile takeovers are substantially higher than those in unopposed bids (the difference amounts to 320 basis points). The fact that takeovers are preceded by a substantial positive increase in the share price of bidding firms also suggests that these deals are expected to create value. However, the announcement effect itself triggers a negative reaction in bidder share prices (see Section 5.2.1). At this point, bidder shareholders may fear the emergence of a bidding war which may erode the potential synergistic value.

While the above findings are valid for both UK and CE bidders, the decomposition of the sample based on the location of the bidding firms reveals some differences (see models 2 and 3). Diversifying takeover bids are associated with a decrease in the pre-announcement CARs for bidding firms. However, this result is largely driven by CE bidders. For these firms, the run-up premium in diversifying takeovers is 347 basis points lower than in industry-related deals. The pre-announcement change in the share price of CE bidding firms also incorporates the negative effect of a forthcoming takeover with undisclosed terms of transaction (-327 basis points). Also, CE investors favour acquisitions of targets with high collateral. An acquisition of a target with high collateral may increase the European bidder's capacity to issue new debt at favorable terms (Rajan and Zingales, 1998). A one standard deviation increase in the target firm's collateral leads to a 522 basis point increase in the run-up premium of Continental bidders.

For the UK sub-sample, the returns over the pre-announcement period are 366 basis points higher when bidders use equity as a means of payment. This signifies that bidders take advantage of a temporary overvaluation of their equity and use it as cheap currency for acquiring real assets.²⁹ As

²⁹ If the managers of a bidding firm know that the firm's shares are worth more than their current market price, they will prefer to pay for the acquisition with cash. Conversely, if the bidder's management believes that the shares are overvalued, they prefer to offer equity. Also, Shleifer and Vishny (2003) and Rhodes-Kropf and Vishwanathan (2003) argue that overvalued bidders use equity to buy real assets of undervalued (or less overvalued) targets to take advantage of the mispricing premium over the longer term when the overvaluation may be corrected. In both cases, strong performance of the bidder's share price is an important determinant of the bidder's decision to use equity as a means of payment.

the takeover wave progresses, it seems that there are more information leakages prior to the public announcements of UK bids, or that takeovers in the UK are more predictable. M&As undertaken in the late 1990s are associated with significantly higher share price run-ups than those made in 1993-96.

The presence of a large shareholder in bidding firms also has a significant impact on the bidder abnormal returns. However, this impact is positive for UK firms and negative for CE firms. The presence of a blockholder with a control stake of at least 20% leads to a rise in the pre-announcement CARs of UK bidders by 351 basis points but to a reduction in the CARs of CE bidders by 237 basis points. This result confirms that the market views the roles of the major shareholders in UK and CE firms as being different. Investors regard the presence of a large blockholder in a UK company as a credible signal that the takeover decision is driven by motives of profit maximization, while minority shareholders of the CE bidders with a controlling shareholder fear expropriation.

[Insert about here Tables 7 and 8]

5.1.2. The bidder's announcement effect

On the announcement day, when information about the takeover bid is made public, investors assess (or adjust their assessment of) the potential takeover synergies and re-consider their valuation of the bidding and target firms. Model 4 in table 7 shows that the announcement of a hostile takeover or of a tender offer triggers a significant negative price correction for bidding firms. The correction amounts to reductions of 192 and 164 basis points in the announcement returns for hostile bids and tender offers, respectively (see table 8). This result is due to shareholder concerns that their firm will offer too high a premium. An all-equity offer also forces investors to adjust the bidder's share price downward. Announcement CARs in all-equity deals are 89 basis points lower than the CARs in deals that involve cash payments. One dominant explanation is that an equity payment conveys the signal that the bidder's share price is overvalued, which in turn triggers an adverse revaluation effect.

A significant positive announcement effect on returns to the bidding firms is observed in takeover bids for private targets (78 basis points). The literature formulates several explanations for this phenomenon (see e.g. Faccio et al., 2005). First, illiquid (privately-held) shares are likely to be sold at a discount. Second, private negotiations with the controlling shareholder of an unlisted firm are likely to result in lower costs of transferring control compared to open market purchases from

dispersed shareholders (Burkart, Gromb, and Panunzi, 1997). Third, an all-equity offer to a private firm may create an outside blockholder in the bidding firm and hence bring about more managerial discipline (Chang, 1998).

Acquisitions of full control (100% of the equity) are also associated with higher bidder announcement returns than are acquisitions of majority control; the difference amounts to 138 basis points. Takeover deals with undisclosed terms are an important concern for the investors of CE bidding firms: concealed information about the transaction value and the means of payment costs bidding firms 90 basis points in the announcement premium (see models 5 and 6). Investors are wary that the terms of the deal are not disclosed when it is aimed at expropriating their rights either by management or by the controlling shareholder.

A negative price correction for CE bidders also takes place when a relatively large target is approached. A one standard deviation increase in the relative size of the transaction reduces the bidder's announcement effect by 108 basis points. Two explanations are possible. First, this negative price correction expresses the information asymmetries between bidding and target firms. Uncertainty about the true market value of the target firm reflects the possibility that the bidder may incur substantial losses in case of a post-acquisition adverse revaluation of the target's assets. The magnitude of these potential revaluation losses depends on the relative size of the target firm. Second, as larger firms generally require a more complex management structure to operate effectively, the post-acquisition integration may be a relatively more difficult process. Investors fear that their firm will bear additional costs associated with these difficulties and adjust the firm's value downward.

UK investors seem to dislike acquisitions by bidding firms holding excessive cash reserves (see model 5). A one standard deviation increase in the bidder's cash flow is associated with a reduction in the announcement CARs by 468 basis points. Investors fear that high free cash flow encourages management to undertake value-destroying acquisitions. In addition, when takeover activity was slowing down in 2000-2001, UK deals were associated with significantly lower announcement returns than similar bids in the earlier periods (the difference is 152 basis points). This may reflect that investors get wary when the investment climate deteriorates and the stock market declines. In such periods, the market (belatedly) starts realizing that there is a danger of overpaying due to managerial hubris and self-interest.

5.1.3. Bidder post-announcement returns

Bidding firm CARs realized over the three months subsequent to the event day exhibit a persistently declining trend. Our analysis reveals that M&As initiated in the late 1990s trigger significant negative returns subsequent to the event day. In these deals, the post-announcement bidder CARs are reduced by 1082 basis points (see model 7 in tables 7 and 8). The negative coefficient on the bidder's Q-ratio reflects the market's reassessment of 'glamour' firms. As suggested by Rau and Vermaelen (1998), glamour firms tend to overestimate their ability to create synergies in takeovers, and are more likely to overpay than are value firms. When these circumstances of the bid become clear, the market reassesses the quality of the bidder and adjusts the share price accordingly. A one standard deviation increase in the bidder's Q-ratio reduces the post-announcement returns by 1023 basis points.

There is evidence that the announcement and post-announcement valuation effects increase with the bidder's share price performance prior to the takeover bid.³⁰ The evidence is consistent with a behavioural finance point of view: the positive relation between run-up and mark-up premiums may result from the fact that investors tend to overestimate the potential gains in takeovers launched by outperforming bidders.

Withdrawn takeover bids seem to be disliked by the market. However, this effect occurs only with respect to UK bidders (see models 8 and 9). Failure to complete a takeover deal costs UK bidding firms 867 basis points of their post-announcement returns. CE investors revise their expectations about takeover gains upwards if the bidder has accumulated a toehold in the target firm prior to the bid. A one standard deviation increase in the toehold leads to an increase of 205 basis points in the post-announcement CARs. Apart from the difference in the reaction to the announcement of a withdrawn bid and the effect of a toehold, the patterns of post-announcement share price changes in UK and CE bidders are very similar.

5.2. Targets' Cumulative Abnormal Returns

Table 9 exhibits the determinants of target firm share price changes around takeover announcements. The economic effect of the estimated parameters is reported in table 10.

5.2.1. Targets' pre-announcement returns

³⁰ Although this relationship has significant predictive power for the bidder CARs, the economic significance is small. A 100-basis points increase in the bidder CARs prior to the bid leads to an increase in the announcement and post-announcement premiums of merely 7 and 6 basis points, respectively.

Over the three months prior to hostile bid announcements, target shareholders can pocket significantly higher cumulative abnormal returns than they can prior to friendly M&As. The anticipation of a hostile takeover is associated with a 923 basis point increase in the target's pre-announcement returns (model 1 in tables 9 and 10). This confirms that hostile bids are more likely to be anticipated, or that some degree of insider trading or trading on rumours takes place. Also, firms that were targeted during the peak period of the fifth takeover wave (1997-99) experienced a very substantial pre-announcement share price increase compared to the companies targeted at the beginning (1993-1996) and at the end (2000-2001) of the wave (the difference is 832 basis points). It seems that paying too high a price for a target firm is more likely to occur when takeover activity is at its peak because the bids become more aggressive and are more likely to trigger opposition by the target firm. UK targets experience significantly higher share price run-ups than do other targets in our sample: the difference amounts to 1106 basis points.

Partitioning our sample into UK and CE targets, we find that the significant premiums paid for UK targets are mainly driven by cross-border acquisitions (see models 2 and 3). The anticipation of a cross-border acquisition leads to an additional run-up premium of 1327 basis points for UK targets. This stands in sharp contrast with the statistically insignificant reduction in the run-up of CE targets by 169 basis points. For CE targets, pre-announcement CARs increase with collateral: a one standard deviation increase in the collateral leads to an 845 basis point increase in returns. Diversification also triggers significant anticipations of wealth increases for CE targets. For those companies, an incremental premium of 595 basis points is realized. Investors expect bidders pursuing diversification strategies to bid more aggressively and hence pay higher takeover premiums than do bidders adhering to a focus strategy.

[Insert about here Tables 9 and 10]

5.2.2. Target announcement returns

In addition to a considerable share price run-up, target shareholders can make substantial gains upon the actual announcement of a hostile bid (model 4 in table 10). The difference in the returns of hostile and unopposed bids amounts to 741 basis points. The announcement of a tender offer is another important factor increasing the value of the target firm (447 basis points). Both results are in line with the hold-out argument: the bidder needs to pay a higher premium to induce small target's shareholders to sell their shares. As such, the more diffuse the target's control structure the higher is the premium paid. This conjecture may also explain the substantially larger

wealth effects of hostile bids and tender offers for UK relative to CE targets (see models 5 and 6). One reason is that dispersed ownership structures prevail in the UK but not in Continental Europe. The difference between the announcement effects for UK and CE targets is further confirmed by the significant positive coefficient of the English legal origin indicator variable (model 4). Target companies from English common law countries accumulate markedly higher announcement premiums than do firms from civil law countries (the difference amounts to 537 basis points).

The announcement premium accrued to target shareholders is 273 basis points higher at the peak than at the beginning and the end of the takeover wave. Higher premiums (by 268 basis points) are also observed in cross-border acquisitions. When the terms of the deal remain undisclosed or when the offer involves an equity exchange, the bidder's share price declines by 619 and 651 basis points, respectively.

There is a significant positive relation between the share price run-up and announcement returns of CE target firms. A run-up premium of 100 basis points leads to an additional return of 16 basis points at the bid announcement (model 6). This result stands in sharp contrast to Schwert (1996) who does not find such a relation for the US. Remarkably, Table 9 does not report such a relation for UK target firms either (model 5). The significant relation between mark-up and run-up premiums for CE targets suggests that the share price run-up, frequently caused by insider trading (Schwert, 1996; Meulbroek, 1992), is harmful to bidding firms as it significantly raises the price paid to acquire control.

Another feature of M&As involving CE targets is the negative relation between the bidder's toehold and the announcement premium accrued to target shareholders. A one standard deviation increase in the bidder's pre-bid ownership of target shares leads to a 395 basis point reduction in the target announcement returns. Betton and Eckbo (2000) report similar evidence for US firms. They explain that a larger toehold implies a higher probability of the relatively low target payoff in the single-bid successful outcome.³¹ The relation between the toehold and the announcement effect is insignificant however for UK firms.³²

We also observe that the shareholders of CE targets are the main winners in diversified takeovers. Diversifying bids are associated with a premium which is 512 basis points higher than that in focus-oriented deals. When a UK company is acquired, the relative size of the transaction

³¹ A larger toehold reduces the overall takeover price a bidder will have to pay (Grossman and Hart, 1980; Shleifer and Vishny, 1986).

³² The lack of significance may be explained by the fact that only 9% of the UK bidders actually acquire a toehold in the target firm prior to the bid. In contrast, 20% of Continental firms launch a takeover with a positive toehold.

matters: a one standard deviation increase in the relative size leads to a reduction of 192 basis points in the target's announcement premium. Withdrawn takeover bids lead to significant share price increases (883 basis points) for the UK target firms. This increase itself may be one of the reasons a bid ultimately fails, as a bidder is likely to withdraw its bid if target shareholders demand too high a premium.

5.2.3. *Target post-announcement returns*

The models explaining the post-announcement returns accrued to target shareholders have low explanatory power because these share prices remain relatively unchanged. As model 7 in table 10 shows, the target abnormal returns decrease by 961 basis points when the takeover terms are not disclosed, and by 1287 basis points when the bidder faces difficulties in completing the transaction. In contrast, the CARs increase after the announcement of a full acquisition (by 541 basis points). As in the case of the announcement CARs, the share price run-up positively affects post-bid target returns. This indicates that these are additional costs to the bidding firm triggered by pre-announcement leakages of information. However, the negative coefficient on the toehold variable indicates that bidding firms pay a lower total price when they acquire a toehold in the target firm prior to the bid. Takeover bids made in the period of the peak and decline of the takeover wave are associated with a significantly negative post-announcement stock price revaluation (by 321 and 688 basis points, respectively). However, all the effects mentioned in this subsection are only significant for CE target companies (model 9). In the UK, the post-announcement CARs of target firms are positively influenced by a withdrawal of the bid (model 8). It seems that investors are relieved that the bid is withdrawn and that they anticipate other, more profitable bids.

The only common effect for both UK and CE targets is the positive relation between the targets' post-bid returns and cash flows (see models 8 and 9). A one standard deviation increase in a target firm's cash flow triggers an increase in the post-announcement premium of 389 basis points. On the one hand, this suggests that negotiations between target shareholders and the bidder are ongoing and that a cash-rich target has better opportunities to negotiate a higher premium. On the other hand, this result is also in line with the conjecture that a cash-rich target is more able to apply anti-takeover measures such as share buy-backs or an increase in dividend payout, which make its acquisition more costly for the bidder.

6. Conclusions

This paper has examined the determinants of the market reaction to the announcements of European corporate takeovers that took place during the period 1993-2001, the fifth takeover wave. We document that the majority of takeover deals is expected to generate synergy values: they trigger substantial share price increases at the announcement, most of which are captured by the target firm shareholders. We find large announcement effects (of 9%) for the target firms compared to a (statistically significant) announcement effect of merely 0.5% for the bidding firms. Analysis of pre-bid cumulative abnormal returns reveals that bidder and target price reactions are not limited to the announcement day but commence already more than two months prior to the initial public announcement. Including the price run-up, the cumulative abnormal returns increase to 21% for the targets and 0.9% for the bidders. Subsequent to the event day, negative revaluations of the bidder and target's share prices occur.

We show that there is systematic variation in the valuation effects of takeovers with different characteristics, and these findings are valid for both UK and Continental European firms. First, hostile takeovers and tender offers trigger substantially larger price reactions to the target shareholders than do friendly M&As. Second, investors adjust downwards both the bidder and target's share prices at the announcement of all-equity offers. Third, target shareholders gain higher premiums in cross-border takeovers. Fourth, an acquisition of a private firm triggers significantly positive abnormal returns to the bidder's shareholders. We also demonstrate that takeovers occurring when takeover activity is slowing down trigger lower gains to both bidder and target shareholders than do deals at the beginning of the wave.

We also detect some fundamental differences between takeovers in the UK and Continental Europe. First, the shareholders of UK target firms are able to pocket significantly higher returns than their Continental European peers. We relate this difference in premiums to a more strict takeover legislation in the UK than in the Continental European countries, which protects the UK target shareholders from expropriation by the bidder and gives these target shareholders more power to extract higher premiums in takeover negotiations.

Second, the presence of a large shareholder in the bidding firm has a significantly positive impact in the UK and a negative one in Continental Europe. This evidence suggests that investors view the roles of the major shareholders in UK and Continental European firms as fundamentally different. The presence of a large blockholder in a UK bidder company is regarded as a credible signal that the takeover decision is driven by motives of profit maximization. In contrast, the

presence of a controlling shareholder in a Continental European firm may be interpreted as a signal that the takeover may also expropriate the firm's minority shareholders. The lack of an efficient takeover regulation and weak protection of shareholders in Continental Europe is likely to account for this difference.

Third, there is evidence of a significantly positive relation between mark-up and run-up premiums to bidder and target firms from Continental Europe. This finding stands in sharp contrast to Schwert (1996) who does not find such a relation for the US. Our analysis shows that the UK market exhibits no such a relation either. The run-up premium is typically caused by insider trading, which is less regulated in Continental Europe than in the UK. Therefore, the positive relation between run-up and mark-up premiums indicates that insider trading is harmful to Continental European bidding firms, as it significantly raises the price paid to acquire target shares. This in turn, may discourage potential bidders from making a takeover bid.

Finally, the Continental European market is also distinct in that there are a high number of takeover bids where the transaction terms remain undisclosed. Such transactions lead to substantial losses to the shareholders of both bidding and target firms. Similarly, acquisitions of partial control, virtually non-existent in the UK but prevailing in Continental Europe, trigger significantly lower share price reactions at their announcement. This evidence suggests that Continental European regulators who want to facilitate efficient corporate restructuring in their countries need to introduce measures to prevent takeovers leading to expropriation of the bidder and target's (minority) shareholders.

7. References:

- Agrawal, A. and Jaffe, J., 2000, The post-merger performance puzzle, in A. Gregory and C. Cooper (eds.), *Advances in Mergers and Acquisitions*, volume 1, Amsterdam: JAI Press, 7–41
- Agrawal, A. and Mandelker, G., 1987, Managerial incentives and corporate investment and financing decisions, *Journal of Finance* 42, 823–37.
- Amihud, Y., and B. Lev, 1981, Risk Reduction as a Managerial Motive for Conglomerate Mergers, *Bell Journal of Economics* 12, 605-617.
- Andrade, G., M. L. Mitchell, and E. Stafford, 2001, New Evidence and Perspectives on Mergers, *Journal of Economic Perspectives* 15 (2), 103-120.
- Asquith, P., R. Bruner, and D. Mullins, 1983, The Gains to Bidding Firms From Merger, *Journal of Financial Economics* 11 (1), 121-139.
- Barca, F., and Becht, M., 2001, (eds) *The Control of Corporate Europe*, Oxford: Oxford University Press
- Bhide, A., 1990, Reversing corporate diversification, *Journal of Applied Corporate Finance* 3, 70-81.
- Blume, M., 1979, Betas and their Regression Tendencies: Some Further Evidence, *Journal of Finance* 34, 265-267
- Bradley, M., A. Desai, and E.H. Kim, 1988, Synergistic Gains from Corporate Acquisitions and Their Division Between the Stockholders of Target and Acquiring Firms, *Journal of Financial Economics* 21 (1), 3-40.
- Bradley, M., and Sundaram, A., 2004, Do Acquisitions Drive Performance or Does Performance Drive Acquisitions?, *SSRN Working Paper*
- Bris, A., and C. Cabolis, 2004, The Value of Investor Protection: Firm Evidence from Cross-Border Mergers, *Yale ICF Working Paper No. 02-32*.
- Brown, S.J., and J.B. Warner, 1985, Using Daily Stock Returns: The Case of Event Studies, *Journal of Financial Economics* 14 (1), 3-31.
- Bruner, R.F, 2003, Does M&A Pay?, Chapter 3 in R.F. Bruner, *Applied Merges and Acquisitions*, Wiley Finance.
- Burkart, M., 1995, Initial shareholdings and overbidding in takeover contests, *Journal of Finance* 50 (5), 1491-1515.
- Burkart, M., D. Gromb, and F. Panunzi, 1997, Large shareholders, monitoring, and the value of the firm, *Quarterly Journal of Economics* 112 (3), 693-728.
- Burkart, M., and F. Panunzi, 2006, Takeovers, *ECGI - Finance Working Paper No. 118/2006*
- Campbell, C.J., and C.E. Wasley, 1996, Measuring Abnormal Daily Trading Volume for Samples of NYSE/ASE and NASDAQ Securities Using Parametric and Nonparametric Test Statistics, *Review of Quantitative Finance and Accounting* 6 (3), 309-326.
- Campbell, J.Y., A.W. Lo, and A.C. MacKinlay, 1997, (eds.) *The econometrics of financial markets*, Princeton University Press: Princeton, N.J.
- Cebenoan, A., G. Papaioannou, and N. Travlos, 1992, Foreign takeover activity in the US and wealth effects for target firm shareholders, *Financial Management* 21, 58–68.
- Chang, S. 1998, Takeovers of privately held targets, methods of payment, and bidder returns, *Journal of Finance* 53, 773-784.
- Comment, R., and G. Jarrell, 1995, Corporate Focus and Stock Returns, *Journal of Financial Economics* 37, 67-88.
- Conn, R., A.D. Cosh, P.M. Guest, and A. Hughes, 2005, The Impact on U.K. Acquirers of Domestic, Cross-Border, Public and Private Acquisitions, *Journal of Business Finance and Accounting*, forthcoming.
- Corrado, C.J., 1989, A Nonparametric Test for Abnormal Security-Price Performance in Event Studies, *Journal of Financial Economics* 23 (2), 385-95
- Danbolt, J., 2004, Target company cross-border effects in acquisitions into the UK, *European Financial Management* 10 (1), 83-108.
- Dennis, D. K. and J. J. McConnell, 1986, Corporate mergers and security returns, *Journal of Financial Economics* 16, 143-187.
- Dewenter, K., 1995, Does the market react differently to domestic and foreign takeover announcements? Evidence from the US chemical and retail industries, *Journal of Financial Economics* 37, 421–441.
- Dimson, E., 1979, Risk measurement when shares are subject to infrequent trading, *Journal of Financial Economics* 7, 197–226.
- Faccio, M., and L. Lang, 2002, The Ultimate Ownership of Western European Corporations, *Journal of Financial Economics* 65 (3), 365-395.
- Faccio, M., J. McConnell, and D. Stolin, 2005, Returns to Acquirers of Listed and Unlisted Targets, *Journal of Financial and Quantitative Analysis*, forthcoming
- Faccio, M., and R. W. Masulis, 2005, The Choice of Payment Method in European Mergers and Acquisitions, *Journal of Finance* 60 (3), 1345-1388.

- Faccio, M., and D. Stolin, 2004, Expropriation vs. proportional sharing in corporate acquisitions, *Journal of Business*, forthcoming.
- Franks, J., and R. Harris, 1989, Shareholder wealth effects of corporate takeovers: the U.K. experience 1955-1985, *Journal of Financial Economics* 23, 225-249.
- Franks, J., and C. Mayer, 1996, Hostile takeovers and the correction of managerial failure, *Journal of Financial Economics* 40, 163-181.
- Franks, J., C. Mayer, and L. Renneboog, 2001, Who Disciplines Management in Poorly Performing Companies?, *Journal of Financial Intermediation* 14, 943-977.
- Franks, J., R. Harris, and S. Titman, 1991, The Postmerger Share-Price Performance of Acquiring Firms, *Journal of Financial Economics* 29, 81-96.
- Froot, K., and J. Stein, 1991, Exchange rates and foreign direct investments: an imperfect capital markets approach, *Quarterly Journal of Economics*, 1191-1217.
- Fuller, K., J. Netter, and M. Stegemoller, 2002, What do Returns to Acquiring Firms Tell Us? Evidence from Firms that Make Many Acquisitions, *Journal of Finance* 57(4), 1763-1793.
- Goergen, M., and L. Renneboog, 2004, Shareholder Wealth Effects of European Domestic and Cross-Border Takeover Bids, *European Financial Management* 10 (1), 9-45.
- Goergen, M., M. Martynova, and L. Renneboog, 2005, Corporate Governance Convergence: Evidence From Takeover Regulation Reforms, *Oxford Review of Economic Policy*, 21 (2), 243-268.
- Gregory, A., 1997, An examination of the long run performance of UK acquiring firms, *Journal of Business Finance and Accounting* 24, 971-1002.
- Grossman, S.J., and O.D. Hart, 1980, Takeover bids, the free-rider problem and the theory of the corporation, *Bell Journal of Economics* 11, 42-64.
- Harford, J., 2003, Efficient and Distortional Components to Industry Merger Waves, *Unpublished Working Paper*, AFA 2004 San Diego Meetings.
- Healy, P. M., K. G. Palepu, and R. S. Ruback, 1992, Does corporate performance improve after mergers?, *Journal of Financial Economics* 31, 135-175.
- Healy, P., K. Palepu, and R. Ruback, 1997, Which takeovers are profitable: strategic or financial?, *Sloan Management Review* 38, 45-57.
- Heckman, J., 1976, The common structure of statistical models of truncation, sample selection, and limited dependent variables and a sample estimator for such models, *Annals of Economic and Social Measurement* 5 (4), 475
- Heckman, J., 1979, Sample selection bias as a specification error, *Econometrica* 47 (1), 153-162.
- Higgins, R. and L. Schall, 1975, Corporate Bankruptcy and Conglomerate Merger, *Journal of Finance* 30(1), 93-113.
- Hirshleifer, D., and S. Titman, 1990, Share Tendering Strategies and the Success of Hostile Takeover Bids, *Journal of Political Economy* 98 (2), 295
- Jarrell, G., J. Brickley, and J. Netter, 1988, The market for corporate control: the empirical evidence since 1980, *Journal of Economic Perspectives* 2, 49-68.
- Jarrell, G. and A. Poulsen, 1989, The Returns to Acquiring Firms in Tender Offers: Evidence from Three Decades, *Financial Management* 18 (3), 12-19.
- Jensen, M., 1986, Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers, *American Economic Review* 76 (2), 323-329.
- Jensen, M., 1988, Takeovers: Their Causes and Consequences, *Journal of Economic Perspectives* 2, 21-48.
- Jensen, M., 2004, Agency Costs of Overvalued Equity, *Harvard NOM Working Paper* No. 04-26; *ECGI - Finance Working Paper* No. 39/2004.
- Jensen, M., and W. Meckling, 1976, Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure, *Journal of Financial Economics* 3 (4), 305-360.
- Jensen, M., and R. Ruback, 1983, The market for corporate control: The scientific evidence, *Journal of Financial Economics* 11, 5-50.
- Kang, J., 1993, The international market for corporate control – mergers and acquisitions of US firms by Japanese firms, *Journal of Financial Economics* 11, 345-71.
- Kaplan, S. and M. Weisbach, 1992, The Success of Acquisitions: Evidence From Divestitures, *Journal of Finance* 47 (1), 107-138.
- La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny, 1997, Law and Finance, *Journal of Political Economy* 106, 1113-1155.
- Lang, L., R. Stulz, and R. Walkling, 1989, Managerial Performance, Tobin's Q, and the Gains from Successful Tender Offers, *Journal of Financial Economics* 24 (1), 137-154.
- Lang, L., R. Stulz and R. Walkling, 1991, A Test of the Free Cash Flow Hypothesis: The Case of Bidder Returns, *Journal of Financial Economics* 29(2), 315-335.

- Lewellen, W., 1971, A Pure Financial Rationale for the Conglomerate Merger, *Journal of Finance* 26, 521-545.
- Loderer, C., and K. Martin, 1990, Corporate Acquisitions by Listed Firms: The Experience of a Comprehensive Sample, *Financial Management* 19 (4), 17-33.
- Martin, K., and J. McConnell, 1991, Corporate Performance, Corporate Takeovers, and Management Turnover, *Journal of Finance* 46, 671-687.
- Maloney M., R. McCormick, and M. Mitchell, 1993, Managerial Decision making and Capital Structure, *Journal of Business* 66 (2), 189
- Maquiera, C., W. Megginson, and L. Nail, 1998, Wealth Creation Versus Wealth Redistributions in Pure Stock-For-Stock Mergers, *Journal of Financial Economics* 48 (1), 3-33.
- Meulbroek, L.A., 1992, An Empirical Analysis of Illegal Insider Trading, *Journal of Finance* 47 (5), 1661
- Moeller, S., and F. Schlingemann, 2005, Global Diversification and Bidder Gains: A Comparison Between Cross-border and Domestic Acquisitions, *Journal of Banking and Finance* 29, 533-564.
- Moeller, S., F. Schlingemann, and R. Stulz, 2004, Firm size and the gains from acquisitions, *Journal of Financial Economics* 73, 201-228.
- Moeller, S., F. Schlingemann, and R. Stulz, 2005, Wealth Destruction on a Massive Scale? A Study of Acquiring-Firm Returns in the Recent Merger Wave, *Journal of Finance* 60 (2), 757-782
- Morck, R., A. Shleifer, and R. Vishny, 1990, Do Managerial Objectives Drive Bad Acquisitions?, *Journal of Finance* 45 (1), 31-48.
- Morck, R., B. Yeung, and W. Yu, 2000, The information content of stock markets: Why do emerging markets have synchronous stock price movements?, *Journal of Financial Economics* 58, 215-260.
- Mulherin, J.H., and A.L. Boone, 2000, Comparing Acquisitions and Divestitures, *Journal of Corporate Finance* 6, 117-139.
- Nenova, T., 2003, The value of corporate votes and control benefits: A cross-country analysis, *Journal of Financial Economics* 68, 325-351.
- Rajan, R., H. Servaes, and L. Zingales, 2000, The cost of diversity: The diversification discount and inefficient investment, *Journal of Finance* 55, 2537-2564.
- Rajan, R., and L. Zingales, 1995, What do we know about capital structure? Some evidence from international data, *Journal of Finance* 50 (5), 1421.
- Rau, P.R. and T. Vermaelen, 1998, Glamour, value and the post-acquisition performance of acquiring firms, *Journal of Financial Economics* 49, 223-253.
- Ravenscraft, D.J. and F.M. Scherer, 1989, The Profitability of Mergers, *International Journal of Industrial Organization* 7, 101-116.
- Roll, R., 1986, The Hubris Hypothesis of Corporate Takeovers, *Journal of Business* 59, 197-216.
- Rossi, S., and P. Volpin, 2004, Cross-Country Determinants of Mergers and Acquisitions, *Journal of Financial Economics* 74(2), 277-304.
- Scharfstein, D., and J. Stein, 2000. The dark side of internal capital markets: Divisional rent-seeking and inefficient investment, *Journal of Finance* 55, 2537-2564.
- Schoenberg, R., 1999, Cultural Compatibility in International Acquisitions in F. Burton, M. Chapman, and A. Cross (eds.) *International business organization: Subsidiary management, entry strategies and emerging markets*, Academy of International Business series. New York: St. Martin's Press; London: Macmillan Press, 294-306
- Schwert, G.W., 1996, Markup Pricing in Mergers and Acquisitions, *Journal of Financial Economics* 41 (2), 153-162.
- Schwert, G.W., 2000, Hostility in takeovers: In the Eyes of the Beholder?, *Journal of Finance* 55(6), 2599-2640.
- Servaes, H. and M. Zenner, 1994, Taxes and the returns to foreign acquisitions in the United States, *Financial Management*, 42-56.
- Servaes, H., 1991, Tobin's Q and the Gains from Takeovers, *Journal of Finance* 46 (1), 409-419.
- Shelton, L. M., 2000, Merger market dynamics: insights into behaviour of target and bidder firms, *Journal of Economic Behavior & Organization* 41, 363-383.
- Shin H. and R. Stulz, 1998, Are Internal Capital Markets Efficient?, *Quarterly Journal of Economics* 113 (2), 531-552.
- Shleifer, A., and R. Vishny, 1989, Management Entrenchment: The Case of Manager-Specific Investments, *Journal of Financial Economics* 25 (1), 123-139.
- Smith, R.L., and J.H. Kim, 1994, The Combined Effects of Free Cash Flow and Financial Slack on Bidder and Target Stock Returns, *Journal of Business* 67 (2), 281-310.
- Wansley, J., W. Lane, and H. Yang, 1983, Shareholder returns to US acquired firms and domestic acquisitions, *Journal of Business Finance and Accounting* 10, 647-656.
- White H., 1980, A heteroskedasticity-consistent covariance matrix estimator and a direct test for heteroskedasticity, *Econometrica* 48, 817-838.

Zingales, L., 1994, The value of the voting right: A study of the Milan Stock Exchange experience, *Review of Financial Studies* 7, 125-148.

Appendix I. Data sources of ownership and control.

The ownership and control data that are not available from the sources below are gathered from annual reports and the shareholder registers of national stock exchanges.

<i>Country</i>	<i>Data sources</i>
Austria	Prof. Dr. Klaus Gugler (<i>University of Vienna</i>); Faccio and Lang (2002)
Belgium	Prof. Dr. Christoph van der Elst (<i>Tilburg University</i>); Prof. Dr. Luc Renneboog (<i>Tilburg University</i>)
Cyprus	Stockwatch Cyprus (http://www.stockwatch.com.cy)
Czech Rep.	SCP- The Prague Securities Centre (http://www.scp.cz)
Denmark	Prof. Dr. Steen Thomsen and Mr. Michael Emil Olinger (<i>Copenhagen Business School</i>)
Estonia	Tallinn Stock Exchange (http://www.ee.omxgroup.com)
Finland	Prof. Dr. Benjamin Maury (<i>HANKEN Swedish School of Economics and Business Administration</i>)
France	Prof. Dr. Alain Alcouffe (<i>Toulouse University</i>); Faccio and Lang (2002)
Germany	Prof. Dr. Luc Renneboog (<i>Tilburg University</i>); Prof. Dr. Ekkehart Boehmer (<i>Texas A&M University</i>); Faccio and Lang (2002)
Ireland	Thomson Financial Research: annual reports of individual firms; Faccio and Lang (2002)
Italy	Prof. Dr. Marcello Bianchi (<i>CONSOB</i>)
Latvia	Riga Stock Exchange (http://www.rfb.lv); Dr. Anete Pajuste (<i>Riga Business School</i>)
Lithuania	Vilnius Stock Exchange (http://www.nse.lt)
Netherlands	Annual reports and the <i>Financieele Dagblad</i>
Norway	Prof. Dr. Bernt Arne Odegaard (<i>Norwegian School of Management BI</i>)
Poland	Dr. Grzegorz Trojanowski (<i>University of Exeter</i>)
Portugal	Prof. Dr. Carlos Ferreira Alves (<i>Porto University</i>); Mr. Pedro Verga Matos (<i>Universidade Técnica de Lisboa</i>); CMVM - Comissão do Mercado de Valores Mobiliários (www.cmvm.pt)
Romania	Bucharest Stock Exchange (http://www.bvb.ro)
Slovenia	Dr. Aleksandra Gregoric (<i>Ljubljana University</i>)
Spain	Prof. Dr. Rafael Crespí (<i>Universitat de les Illes Balears</i>); CNMV- Comisión Nacional del Mercado de Valores (http://www.cnmv.es)
Sweden	Prof. Dr. Martin Holmen (<i>Uppsala University</i>)
Switzerland	Dr. Markus Schmid (<i>University of Basel</i>); Mr. Diego Dimitri Liechti (<i>Universität Bern</i>): data source Swiss Stock Guide (<i>Schweizer Aktienführer</i>)
UK	Dr. Grzegorz Trojanowski (<i>University of Exeter</i>); Faccio and Lang (2002); Thomson Financial Research: annual reports of individual firms

Appendix II. Variable Definitions

<i>Variable</i>	<i>Definition</i>
1997-1999	Indicator equals one if the bid was initiated in the period between January 1, 1997 and December 31, 1999 (the climax of the 5 th takeover wave); equals zero otherwise. Source: <i>SDC</i>
2000-2001	Indicator equals one if the bid was initiated in the period between January 1, 2000 and December 31, 2001 (the decline of the 5 th takeover wave); equals zero otherwise. Source: <i>SDC</i>
All-cash payment	Indicator equals one if the acquisition is fully paid with cash, and equals zero otherwise. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
All-equity payment	Indicator equals one if the acquisition is fully paid with equity, and equals zero otherwise. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Blockh>20%	Indicator equals one if the firm is controlled by a blockholder owning a voting stake of 20% and more prior to the takeover. Source: see Appendix II.
Blockh>60%	Indicator equals one if the firm is controlled by a blockholder owning a voting stake of 60% and more prior to the takeover. Source: see Appendix II.
CFlow/TA	Ratio of total cash flow (including cash flow from operating, financial, and investment activities) to total assets, at the year-end prior to the deal announcement. Source: <i>SDC and Amadeus/Fame/Reach and DataStream</i> .
Collateral	Ratio of tangible assets to total assets; both refer to the year prior to the deal announcement. Source: computed based on <i>Amadeus/Fame/Reach and DataStream</i> .
Control (%)	Ultimate voting stake owned by the bidder's largest shareholder. Source: see Appendix II.
Cross-border bid	Indicator equals one if the bidder and target are from different countries, and equals zero otherwise. Source: <i>SDC and LexisNexis, Factiva, and Financial Times</i>
Diversification	Indicator equals one if the bidder and target operate in different industries (their primary 2-digit SIC codes do not coincide), and equals zero otherwise. Source: <i>SDC and Amadeus/Fame/Reach</i>
English	Indicator equals one if the firm is incorporated in a country of English legal origin (Ireland and the UK), and equals zero otherwise. Source: computed based on the <i>LaPorta et al. (1997)</i> classification
Investments/TA	Ratio of total investments to total assets, both refer to the year-end prior to the deal announcement. Source: <i>Amadeus/Fame/Reach and DataStream</i>
Leverage	Ratio of total debt to total assets at the year-end prior to the deal announcement. Source: computed based on <i>Amadeus/Fame/Reach and DataStream</i>
Friendly M&A	Indication equals one if the takeover is not qualified as an opposed (by the target firm) bid or as an unopposed tender offer (see Opposed bid and Tender offer); it is zero otherwise. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
M&A of 100%	When CARs over windows [-60, -2] and [-1, +1] are analyzed, the indicator equals one if the bidder intends to hold 100% of the share capital of the target firm after the bid completion, and equals zero otherwise. When CARs over window [+2, +60] are analyzed, the indicator equals one if the bidder owns 100% of share capital of the target firm after the bid completion, and equals zero otherwise. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Market value	Market capitalization of the bidding firm 60 days prior to the initial bid announcement. Source: <i>Amadeus and DataStream</i>
Opposed (by the target's board) bid	Indicator equals one if the initial takeover offer meets a negative reaction by the management of the target firm or if a competing bid is made. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Pending bid	Indicator equals one if the bid has been announced but has not been completed or withdrawn afterwards. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Private target	Indicator equals one if target firm was a stand-alone firm not listed on any stock exchange at the moment of the bid announcement, and is zero otherwise. Source: <i>SDC and Amadeus/Fame/Reach</i>
Q-ratio	Ratio of market value of equity (ordinary and preferred) plus book value of debt over the sum of book value of equity and book value of debt. The market value of equity is taken 60 days prior to deal announcement, book value of equity and debt are at year-end prior to deal announcement. Source: <i>Amadeus/Fame/Reach and DataStream</i>
Relative size	The ratio of transaction value over the sum of the transaction value plus the bidder's market capitalization. If the transaction value is undisclosed, we employ the product of the percentage of share capital acquired and the book value of the target firm's assets one year prior to the bid as a proxy. Source: <i>SDC, LexisNexis, Factiva, and Financial Times and Amadeus/Fame/Reach and DataStream</i>
Returns on Assets	Ratio of net income to total assets, both refer to the year-end prior to deal announcement. Source: <i>Amadeus/Fame/Reach and DataStream</i>

<i>Variable</i>	<i>Definition</i>
Run-up	Cumulative abnormal returns (CARs) of bidder/target over the window [-60, -2] preceding the day of the deal announcement. The market model is adjusted for thin-trading and reversion to the mean over the period of 300 to 60 days before M&A announcement; the market index is the MSCI Europe index. Source: <i>DataStream</i>
Sales/TA	Ratio of sales revenues to total assets; both refer to the year-end prior to the deal announcement. Source: <i>Amadeus/Fame/Reach and DataStream</i>
Tender offer (unopposed by the target's board)	Indicator equals one if the bidder makes a public offer to purchase shares of the target firm and the takeover is not classified as opposed (see Opposed bid); and is zero otherwise. Generally, an unopposed tender offer is a public offer to the target shareholders asking them to sell their shares for cash and/or equity at a pre-specified price or equity exchange ratio, while the board of directors of the target firm does not issue negative statements about the bid. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Toehold	Percentage of the target firm shares that the bidder had accumulated prior to the bid announcement. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Total assets	Total assets of the firm at the year-end prior to deal announcement. Source: <i>DataStream and Amadeus/Fame/Reach</i>
Undisclosed terms	This indicator variable equals one if the terms of the transaction such as the means of payment or the transaction value are not disclosed, and equals zero otherwise. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Withdrawn bid	Indicator equals one if the bid was ultimately unsuccessful, and equals zero otherwise. Source: <i>SDC, LexisNexis, Factiva, and Financial Times</i>

Table 1. Determinants of the anticipated gains to the bidder's and target's shareholders

	Empirical evidence	Expected effect on Bidder's CARs	Expected effect on Target's CARs
<u>GEOGRAPHICAL SCOPE:</u>			
<i>BIDDER & TARGET:</i> In cross-border acquisitions, bidding and target firms are likely to benefit by taking advantage of imperfections in international capital, factor, and product markets (Hymer, 1976); by internalising the R&D capabilities of target companies (Eun et al., 1996); and by expanding their businesses into new markets (as a response to globalisation trends).	Eun et al. (1996);	(+) Cross-border takeover	(+) Cross-border takeover
<i>BIDDER & TARGET:</i> Regulatory and cultural differences between the bidder and target countries may lead to difficulties in managing the post-merger process and hence failure to achieve merger synergies. Anticipating such difficulties in cross-border bids, the market may discount the expected takeover gains (Schoenberg, 1999).	Conn et al. (2005); Moeller and Schlingemann (2004)	(-) Cross-border takeover	(-) Cross-border takeover
<u>TYPE OF ACQUISITION:</u>			
<i>BIDDER:</i> Partial acquisitions are likely to take place when the acquisition is too risky or the bidding firm has insufficient financing capacity to acquire 100% of the target equity. Partial acquisitions are also associated with potential conflicts of interest that may arise between the bidder and the remaining target shareholders after the acquisition. Hence, the market is expected to react less favourably to partial acquisitions than to full acquisitions.	<i>Unknown</i>	(+) M&A of 100%	(+) M&A of 100%
<i>TARGET:</i> Bidding firms may use partial acquisitions (acquisitions of majority control but not of 100% control) to expropriate the target firms' minority shareholders (Faccio and Stolin, 2004). It follows that such acquisitions may create less value and are associated with significantly lower returns to the target shareholders than are acquisitions in which the bidder intends to obtain full control (100% of the equity).			
<u>FORM OF AND ATTITUDE TOWARDS THE BID:</u>			
<i>BIDDER:</i> Shareholders of the bidding firms fear that their firm will offer too high a premium if the target's management opposes the bid or if the offer is made directly to the target shareholders (bypassing the board of directors). The anticipated upward revisions in the offer premium erode the synergy values accruing to the bidder.	Franks and Mayer (1996); Gregory (1997); Goergen and Renneboog (2004)	(-) Opposed (or hostile) bid (-) Tender offer	(+) Opposed (or hostile) bid (+) Tender offer
<i>TARGET:</i> Market expects that opposition against the bid will lead to the upward movement of the target's share price at the announcement of a hostile bid.			
<u>BID COMPLETION STATUS:</u>			
<i>BIDDER:</i> If takeovers are positive net present value investments, then unsuccessful bidder returns should reflect the loss of profitable investment opportunities (Ruback, 1983)	Bradley, Desai, and Kim (1983)	(-) Withdrawn	(+) Withdrawn
<i>TARGET:</i> Withdrawn takeover bids may lead to share price increases for target firms. This increase itself may be one of the reasons the bid ultimately fails, as a bidder is likely to withdraw its bid if target shareholders demand too high a premium. The post-announcement CARs of target firms may also be positively influenced by the withdrawal of the bid. The reason is that investors get relieved that the bid is withdrawn and that they anticipate other, more profitable bids.			
<i>TARGET:</i> A bid withdrawal may lead to negative market reactions when investors fear that their firm's management blocked the takeover in order to protect its own interests, which diverge from those of the shareholders (Burkart and Panunzi, 2006).	Goergen and Renneboog (2004)		(-) Withdrawn

	Empirical evidence	Expected effect on Bidder's CARs	Expected effect on Target's CARs
<i>BIDDER & TARGET:</i> In pending acquisitions, the gains for bidder's and target's shareholders are expected to fall as a reaction to ongoing uncertainty	<i>Unknown</i>	(-) Pending	(-) Pending
<u>LEGAL STATUS OF THE TARGET FIRM:</u>			
<i>BIDDER:</i> Takeover bids for privately-held companies may lead to higher bidder returns than do bids for public firms. The reason is that the shares of privately-held firms are by definition illiquid that may create a price discount. Also, takeover negotiations with the owners of a private firm may have a better chance of succeeding than when a public tender offer has to be launched for a widely-held firm (Burkart, Gromb, and Panunzi, 1997). Moreover, an all-equity offer to a private firm may create an outside blockholder in the bidding firm and hence bring about more managerial discipline (Chang, 1998).	Moeller et al. (2004); Faccio et al. (2004); Fuller et al. (2002)	(+) Private target	
<i>BIDDER:</i> The acquisition of a private firm may entail considerably more risk for the acquirer due to the fact that the information available about the true value and growth potential of the firm may be less reliable. Therefore, an acquisition of a private target may be followed by negative market reaction	Bradley and Sundaram (2004)	(-) Private target	
<u>INDUSTRY SCOPE:</u>			
<i>BIDDER:</i> Although diversifying (or conglomerate) acquisitions are expected to create operational and/or financial synergies, the creation of diversified firms is associated with a number of disadvantages such as rent-seeking behavior by divisional managers (Scharfstein and Stein, 2000), bargaining problems within the firm (Rajan et al., 2000), or bureaucratic rigidity (Shin and Stulz, 1998). These disadvantages of diversification may outweigh the alleged synergies and result in wealth destruction for the shareholders of the bidding firm. Diversifying mergers themselves may be an outgrowth of the agency problems between managers and shareholders (Shleifer and Vishny, 1989). As such, they are expected to destroy value	Morck et al. (1990); Maquieira et al. (1998); Doukas et al. (2002)	(-) Diversifying acquisition	(+) Diversifying acquisition
<i>TARGET:</i> Investors expect bidders pursuing diversification strategies to bid more aggressively and hence pay higher takeover premiums than do bidders adhering to a focus strategy. This is because diversifying acquisitions are more likely to occur when bidding firms suffer from agency conflicts and free cash flow problems. In the literature, there is evidence that the managers of such firms often acquire unrelated businesses for personal reasons at the expense of shareholder value (e.g. for 'empire building' purposes), or that managerial hubris leads bidding firms to pay too high premiums.			
<u>MEANS OF PAYMENT:</u>			
<i>BIDDER:</i> If the managers of a bidding firm are convinced that the true value of their firm's shares is higher than the current share price, they will prefer not to issue equity (to finance an all-equity bid or a mixed offer) and will rather offer to pay with cash. Hence, the market may interpret the financing choice as a signal about a firm's under- or overvaluation and revise the share price of the firm offering cash (equity) upwards (downwards) (Myers and Majluf, 1984). Thus, a negative price correction is expected for all-equity bids and a positive one for all-cash bids.	Moeller et al (2004); Andrade et al. (2001); Franks et al. (1991)	(-) Equity payment (+) Cash payment	(-) Equity payment (+) Cash payment
<i>TARGET:</i> A cash bid is interpreted as a positive signal about the target firm's quality as the bidding firm is buying out the target shareholders and is hence not willing to share future value increases. Hence, the target's share price rises more for an all-cash deal than for an equity exchange.			
<i>BIDDER & TARGET:</i> Shareholders of the bidding and target firms get wary about the deal when the terms of the takeover are not disclosed. They may suspect that the transaction may lead to the expropriation of their rights either by the management or by the controlling shareholder. Therefore, share prices of both firms are expected to decline	<i>Unknown</i>	(-) Undisclosed terms of transaction	(-) Undisclosed terms of transaction

SUB-PERIODS OF THE 5th TAKEOVER WAVE:

	Empirical evidence	Expected effect on Bidder's CARs	Expected effect on Target's CARs
<p><i>BIDDER</i>: The bidders bid more aggressively during the takeover wave peak, hence their gains are expected to decline</p> <p><i>TARGET</i>: Correspondingly, the gains to the target shareholders are expected to raise</p>	Shelton (2000)	(-) Peak of the takeover wave	(+) Peak of the takeover wave
<p><i>BIDDER & TARGET</i>: Takeovers occurring at a later stage of the wave may suffer from limited information processing, managerial hubris, and managerial self-interest and hence trigger lower returns to bidder and target shareholders than do those at the beginning of the wave (Harford, 2003)</p>	Harford (2003); Moeller et al. (2005)	(-) Later stage of the takeover wave	(-) Later stage of the takeover wave
<p><i>BIDDER</i>: High valuations realized during the periods of equity market booms increase managerial discretion, and make it possible for executives to make poor acquisitions when they have run out of good ones (Jensen, 2004). We expect more poor acquisitions in the later stage of the wave.</p>	Moeller et al. (2005)	(-) Peak and later stage of the takeover wave	

Table 2. Sample composition and characteristics of M&A deals

Panel A shows the number of all the takeover announcements and partitions this sample into: (i) domestic and cross-border deals; (ii) acquisitions of 100% control and acquisitions of partial control; (iii) friendly M&As, unopposed tender offers, and opposed (by the target's board) bids; (iv) completed, pending, and withdrawn bids; (v) privately held and public target firms; (vi) diversifying deals and focus-oriented transactions, and (vii) all-cash, all-equity, mixed offers and deals with undisclosed terms of transaction. Panel B provides the characteristics of takeover transaction for the whole sample and for the sub-samples of takeovers launched by UK and CE firms. Mean [Median] values of the variables are reported. All variables are defined in Appendix II.

<i>PANEL A: SAMPLE COMPOSITION BY M&A ANNOUNCEMENT YEAR</i>										
	1993	1994	1995	1996	1997	1998	1999	2000	2001	1993-2001
										% Num
Total number of M&As	171	229	228	229	229	292	411	408	222	2,419
% of all M&As in 1993-2001	7.1	9.5	9.4	9.5	9.5	12.1	17.0	16.9	9.2	100.0
% OF M&A DEALS BY CATEGORY:										
Domestic bid	76.6	74.7	69.7	73.4	69.9	66.1	68.1	65.9	67.6	69.5 1,681
Cross-border bid	23.4	25.3	30.3	26.6	30.1	33.9	31.9	34.1	32.4	30.5 738
Merger or Acquisition of 100%	55.6	54.1	60.5	62.9	60.3	37.7	37.2	41.7	39.6	60.0 1,451
Acquisition of Partial Control (< 100%)	44.4	45.9	39.5	37.1	39.7	62.3	62.8	58.3	60.4	40.0 968
Opposed (by target's board) bid	7.6	5.7	10.1	5.2	7.4	6.2	7.8	6.6	3.2	6.7 162
Tender offer (unopposed by target's board)	13.5	13.5	18.9	17.0	24.5	23.3	23.6	18.6	18.0	19.6 473
Friendly M&A	78.9	80.8	71.1	77.7	68.1	70.5	68.6	74.8	78.8	73.7 1784
Completed bid	75.4	77.3	81.6	82.5	83.4	86.0	83.7	76.5	73.0	80.2 1,941
Withdrawn bid	12.3	10.9	10.1	5.7	11.8	7.2	7.3	6.9	8.6	8.6 207
Pending bid	12.3	11.8	8.3	11.8	4.8	6.8	9.0	16.7	18.5	11.2 271
Private target	69.0	69.9	62.7	72.9	62.0	62.0	54.5	62.7	62.6	63.2 1,530
Listed target	31.0	30.1	37.3	27.1	38.0	38.0	45.5	37.3	37.4	36.8 889
Industry Focus (same 2-digit SIC code)	65.5	56.8	63.6	57.2	66.8	70.9	67.9	64.0	63.1	64.4 1,558
Diversification (different 2-digit SIC code)	34.5	43.2	36.4	42.8	33.2	29.1	32.1	36.0	36.9	35.6 861
All-Cash bid	28.1	32.3	36.8	39.7	43.7	38.4	43.1	40.4	39.2	38.8 938
All-Equity bid	19.3	15.7	13.6	11.4	17.9	10.3	14.6	15.0	14.0	14.4 349
Mixed (Cash-and-Equity) bid	26.3	16.2	19.7	23.1	14.0	17.8	16.5	14.7	18.9	17.9 434
Undisclosed terms	26.3	35.8	29.8	25.8	24.5	33.6	25.8	29.9	27.9	28.9 698

<i>PANEL B: CHARACTERISTICS OF M&A DEALS</i>						
	Whole Sample		UK bidders		CE bidders	
	Mean	[Med]	Mean	[Med]	Mean	[Med]
Transaction value (US\$ mln)	1,487	[24]	422	[16]	3,093	[59]
Percentage of target shares the bidding firm intended to own after the bid	87.3	[100.0]	95.1	[100.0]	81.3	[95.0]
Percentage of target shares the bidder accumulates prior to the bid (toehold)	4.6	[0.0]	2.3	[0.0]	6.4	[0.0]
§ Bidding firms that accumulate a toehold prior to the bid (%)	15.1		8.8		19.7	
§ Toehold they accumulate (%)	30.1	[33.3]	25.7	[29.4]	31.6	[34.5]
<i>Number of observations</i>	<i>2419</i>		<i>995</i>		<i>1424</i>	

Table 3. Sample composition by countries of bidding and target firms

This table shows the number of all the takeover announcements by country and partitions this sample by: (i) domestic and cross-border deals, (ii) friendly M&As (excluding tender offers), unopposed tender offers, and hostile bids, (iii) and target and bidder country.

		Domestic deals					Cross-border deals, Classification by bidder country					Cross-border deals, Classification by target country				
		All	% by country	Friendly M&A	Tender Offer	Opposed bid	All	% by country	Friendly M&A	Tender Offer	Opposed bid	All	% by country	Friendly M&A	Tender Offer	Opposed bid
1	Austria	11	0.7%	11	0	0	31	4.2%	30	1	0	20	2.7%	16	1	3
2	Belgium	23	1.4%	22	1	0	34	4.6%	28	5	1	14	1.9%	11	3	0
3	Bulgaria	0	0.0%	0	0	0	0	0.0%	0	0	0	2	0.3%	2	0	0
4	Croatia	0	0.0%	0	0	0	1	0.1%	1	0	0	6	0.8%	6	0	0
5	Cyprus	3	0.2%	3	0	0	2	0.3%	1	1	0	0	0.0%	0	0	0
6	Czech Rep.	9	0.5%	8	1	0	1	0.1%	1	0	0	25	3.4%	25	0	0
7	Denmark	30	1.8%	21	3	6	32	4.3%	25	6	1	21	2.8%	16	4	1
8	Estonia	0	0.0%	0	0	0	0	0.0%	0	0	0	13	1.8%	13	0	0
9	Finland	53	3.2%	52	0	1	32	4.3%	29	2	1	20	2.7%	19	0	1
10	France	219	13.0%	176	30	13	111	15.0%	92	10	9	89	12.0%	81	7	1
11	Germany	175	10.4%	165	8	2	89	12.0%	71	14	4	94	12.7%	91	2	1
13	Hungary	4	0.2%	4	0	0	5	0.7%	5	0	0	3	0.4%	3	0	0
14	Ireland	11	0.7%	6	4	1	27	3.6%	18	7	2	16	2.2%	10	5	1
15	Italy	39	2.3%	32	4	3	28	3.8%	24	3	1	44	5.9%	43	0	1
16	Latvia	0	0.0%	0	0	0	1	0.1%	1	0	0	4	0.5%	4	0	0
17	Lithuania	1	0.1%	1	0	0	0	0.0%	0	0	0	6	0.8%	5	1	0
18	Luxemburg	0	0.0%	0	0	0	7	0.9%	6	1	0	5	0.7%	4	1	0
19	Netherlands	2	0.1%	1	1	0	27	3.6%	16	10	1	45	6.1%	37	7	1
20	Norway	58	3.5%	44	9	5	32	4.3%	29	1	2	37	5.0%	23	7	7
21	Poland	22	1.3%	22	0	0	0	0.0%	0	0	0	37	5.0%	34	3	0
22	Portugal	1	0.1%	1	0	0	1	0.1%	1	0	0	11	1.5%	10	1	0
23	Romania	2	0.1%	2	0	0	0	0.0%	0	0	0	11	1.5%	11	0	0
24	Russia	10	0.6%	10	0	0	3	0.4%	3	0	0	10	1.4%	9	1	0
25	Slovenia	0	0.0%	0	0	0	0	0.0%	0	0	0	4	0.5%	2	2	0
26	Spain	46	2.7%	33	6	7	9	1.2%	4	5	0	33	4.5%	30	3	0
27	Sweden	102	6.1%	62	29	11	69	9.3%	59	7	3	48	6.5%	38	10	0
28	Switzerland	22	1.3%	19	1	2	39	5.3%	26	10	3	28	3.8%	22	4	2
29	UK	836	49.9%	483	274	79	159	21.5%	136	19	4	94	12.7%	41	40	13
	Total	1679	100.0%	1178	371	130	740	100.0%	606	102	32	740	100.0%	606	102	32

Table 4. Characteristics of bidding and target firms

This table reports financial, accounting, and control structure characteristics of bidding and target firms and partitions this sample into UK and CE firms. All variables are defined in Appendix II. The table reports the mean [median] values of variables. For binary variables, medians are omitted. The variables Blockholder >20% and Blockholder >60% are binary: they equal 1 if at least one blockholder reaches the specified percentage of voting rights. The mean values for these variables represent the percentage of firms with concentrated ownership in the analyzed sample. For private target companies, we assume that a single investor owns 100% of control. CE stands for Central European.

	BIDDING FIRM						TARGET FIRM					
	All bidders		UK bidders		CE bidders		All targets		UK targets		CE targets	
	Mean	[Med]	Mean	[Med]	Mean	[Med]	Mean	[Med]	Mean	[Med]	Mean	[Med]
<u>FINANCIAL CHARACTERISTICS:</u>												
Market value (US\$ mln)	2,572	[244]	2,418	[156]	2,691	[341]	929	[90]	699	[77]	1,159	[105]
Q-ratio	2.51	[1.17]	3.20	[1.49]	2.04	[0.98]	1.50	[0.98]	1.40	[1.02]	1.62	[0.89]
<i>Number of observations</i>	2,109		992		1,117		760		393		367	
<u>ACCOUNTING CHARACTERISTICS:</u>												
Total Assets (US\$ mn)	3,965	[316]	1,588	[136]	5,602	[468]	1,188	[153]	562	[103]	1,865	[245]
Sales / Total Assets	1.23	[1.17]	1.36	[1.24]	1.14	[1.03]	1.31	[1.22]	1.44	[1.30]	1.16	[1.12]
Cash Flow / Sales	0.07	[0.09]	0.07	[0.09]	0.08	[0.09]	0.09	[0.07]	0.05	[0.07]	0.14	[0.07]
Investments / Total Assets	0.02	[0.01]	0.01	[0.00]	0.03	[0.01]	0.02	[0.00]	0.01	[0.00]	0.03	[0.01]
Leverage	0.21	[0.18]	0.19	[0.15]	0.22	[0.21]	0.23	[0.20]	0.20	[0.18]	0.26	[0.24]
Collateral	0.31	[0.27]	0.34	[0.29]	0.29	[0.25]	0.38	[0.33]	0.41	[0.37]	0.35	[0.30]
Returns on Assets	0.28	[0.24]	0.36	[0.31]	0.22	[0.19]	0.28	[0.23]	0.37	[0.31]	0.18	[0.16]
<i>Number of observations</i>	2,271		992		1,279		2,122		928		1,194	
<u>CONTROL STRUCTURE:</u>												
Control (%)	31.7	[25.8]	13.6	[11.9]	38.8	[34.9]	78.4	[100.0]	74.2	[100.0]	81.4	[100.0]
§ Private Target	32.4	[26.7]	14.6	[10.6]	38.9	[35.0]	100.0	[100.0]	100.0	[100.0]	100.0	[100.0]
§ Listed Target	30.2	[23.0]	11.8	[8.3]	38.6	[34.9]	31.5	[26.9]	11.9	[9.9]	38.9	[34.9]
Blockholder >20%	0.58		0.08		0.77		0.89		0.77		0.93	
§ Private Target	0.60		0.10		0.78		1.00		1.00		1.00	
§ Listed Target	0.53		0.07		0.75		0.67		0.08		0.81	
Blockholder >60%	0.16		0.02		0.21		0.74		0.71		0.75	
§ Private Target	0.16		0.02		0.21		1.00		1.00		1.00	
§ Listed Target	0.15		0.01		0.21		0.14		0.01		0.19	
<i>Number of observations</i>	1,582		624		958		2,006		704		1,302	

Table 5. Cumulative average abnormal returns of bidding and target firms by takeover characteristics.

This table reports the average values of the CARs for bidding and target firms for 5 different event windows. T=0 stands for the day of the bid announcement. Abnormal returns are computed as the difference between the realized returns and the returns from the benchmark (the market model). The daily benchmark returns are based on the MSCI-Europe index and the parameters are estimated over a period of 240 days starting 300 days prior to the acquisition announcement. A non-parametric Corrado test (Corrado, 1989) are used to assess the significance of the CAARs. Indicators a/b/c correspond to the statistical significance at the 1%/5%/10% level, respectively. The CAARs are classified by different characteristics of the takeovers bid: geographical scope, type of acquisition, form of and attitude towards the bid, bid completion status, legal status of the target firm, industry scope, means of payment, and the sub-periods of the 5th takeover wave.

	Pre-event period [-40, -1]		Event day [T=0]		Event period [-1, +1]		Entire period (short) [-5, +5]		Entire period (long) [-60, +60]		Nr. Obs
	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	
<u>WHOLE SAMPLE:</u>											
§ <i>BIDDER</i>	0.39	(0.76)	0.53	(4.90 ^a)	0.72	(4.28 ^a)	0.79	(3.19 ^a)	-2.83	(-2.48 ^b)	2109
§ <i>TARGET</i>	11.49	(4.54 ^a)	9.13	(15.41 ^a)	12.47	(16.94 ^a)	15.83	(12.36 ^a)	26.70	(6.67 ^a)	760
<u>GEOGRAPHICAL SCOPE:</u>											
§ <i>BIDDER</i>											
Domestic bid	0.33	(0.51)	0.59	(4.36 ^a)	0.83	(3.95 ^a)	0.76	(2.56 ^b)	-2.49	(-1.80 ^c)	1456
Cross-border bid	0.53	(0.62)	0.39	(2.25 ^b)	0.47	(1.72 ^c)	0.84	(1.90 ^b)	-3.63	(-1.77 ^c)	653
<i>Diff. Domestic bid – Cross-border bid</i>	-0.20	(-6.29 ^a)	0.20	(5.04 ^a)	0.36	(5.17 ^a)	-0.07	(-1.13)	1.14	(23.40 ^a)	
§ <i>TARGET</i>											
Domestic bid	11.13	(10.53 ^a)	9.65	(13.10 ^a)	12.55	(15.24 ^a)	15.61	(16.15 ^a)	26.84	(12.04 ^a)	564
Cross-border bid	10.58	(10.25 ^a)	7.74	(6.13 ^a)	11.52	(7.42 ^a)	12.17	(2.60 ^c)	24.99	(10.22 ^a)	196
<i>Diff. Domestic bid – Cross-border bid</i>	0.55	(3.10 ^a)	1.91	(8.83 ^a)	1.02	(2.65 ^a)	3.44	(8.54 ^a)	1.85	(6.53 ^a)	
<u>TYPE OF ACQUISITION:</u>											
§ <i>BIDDER</i>											
Merger or Acquisition of 100%	1.32	(1.88 ^c)	0.61	(3.94 ^a)	0.92	(3.77 ^a)	1.04	(2.98 ^a)	-1.32	(-0.88)	1239
Acquisition of Majority Control (< 100%)	-0.94	(-1.27)	0.41	(2.94 ^a)	0.42	(2.03 ^b)	0.42	(1.28)	-5.15	(-2.91 ^a)	869
<i>Diff. M&A of 100% – M&A of Majority</i>	2.26	(34.39 ^a)	0.20	(6.59 ^a)	0.50	(13.50 ^a)	0.62	(13.83 ^a)	3.83	(38.69 ^a)	
§ <i>TARGET</i>											
Merger or Acquisition of 100%	13.09	(12.13 ^a)	11.55	(15.09 ^a)	15.61	(18.13 ^a)	19.46	(19.23 ^a)	31.26	(15.17 ^a)	563
Acquisition of Majority Control (< 100%)	6.92	(3.96 ^a)	2.17	(2.97 ^a)	3.46	(3.86 ^a)	5.44	(4.05 ^a)	13.58	(3.38 ^a)	196
<i>Diff. M&A of 100% – M&A of Majority</i>	6.17	(28.94 ^a)	9.38	(58.42 ^a)	12.16	(70.23 ^a)	14.02	(71.09 ^a)	17.68	(57.20 ^a)	
<u>FORM OF AND ATTITUDE TOWARDS THE BID:</u>											
§ <i>BIDDER</i>											
Opposed (by target's board) bid	1.63	(2.97 ^a)	-0.39	(-0.95)	-0.83	(-1.45)	-0.18	(-0.21)	-1.61	(2.29 ^b)	120
Tender offer (unopposed by target's board)	2.87	(2.55 ^b)	-0.37	(-1.48)	-0.45	(-1.14)	-0.29	(-0.52)	0.02	(0.01)	329
Friendly M&A	-0.37	(-0.61)	0.78	(6.27 ^a)	1.06	(5.50 ^a)	1.07	(3.74 ^a)	-4.35	(-3.21 ^a)	1,659

	Pre-event period [-40, -1]		Event day [T=0]		Event period [-1, +1]		Entire period (short) [-5, +5]		Entire period (long) [-60, +60]		Nr. Obs
	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	
<i>Diff. Tender Offer – Opposed bid</i>	1.24	(4.44 ^a)	0.02	(0.13)	0.38	(2.04 ^b)	-0.11	(-0.51)	-9.19	(-19.78 ^a)	
<i>Diff. Friendly M&A – Opposed bid</i>	-2.00	(-35.35 ^a)	1.17	(16.82 ^a)	1.89	(21.74 ^a)	1.25	(11.91 ^a)	-13.57	(-61.77 ^a)	
§ TARGET											
Opposed (by target's board) bid	14.86	(6.96 ^a)	15.47	(7.48 ^a)	17.62	(9.15 ^a)	22.36	(10.13 ^a)	43.85	(13.11 ^a)	120
Tender offer (unopposed by target's board)	13.97	(10.59 ^a)	12.07	(12.79 ^a)	16.12	(15.27 ^a)	20.19	(16.75 ^a)	32.24	(14.66 ^a)	380
Friendly M&A	6.20	(3.95 ^a)	2.75	(4.28 ^a)	4.59	(5.43 ^a)	6.25	(4.96 ^a)	10.22	(2.58 ^a)	259
<i>Diff. Tender Offer – Opposed bid</i>	-0.89	(-2.74 ^a)	-3.40	(-6.54 ^a)	-1.51	(-5.02 ^a)	-2.17	(-6.75 ^a)	-11.61	(-28.01 ^a)	
<i>Diff. Friendly M&A – Opposed bid</i>	-8.66	(-21.95 ^a)	-12.72	(-31.10 ^a)	-13.03	(-39.04 ^a)	-16.11	(-42.69 ^a)	-33.63	(-59.38 ^a)	
<u>BID COMPLETION STATUS:</u>											
§ BIDDER											
Completed bid	0.14	(0.25)	0.54	(4.62 ^a)	0.73	(4.08 ^a)	0.87	(3.22 ^a)	-2.79	(-2.13 ^b)	1705
Withdrawn bid	1.08	(3.53 ^a)	-0.43	(-1.31)	-0.56	(-1.01)	-0.37	(-0.42)	-3.69	(-2.28 ^b)	162
Pending bid	-1.05	(-0.65)	1.14	(2.77 ^a)	1.56	(2.37 ^b)	1.03	(1.22)	-6.38	(-1.98 ^b)	241
<i>Diff. Completed bid – Withdrawn bid</i>	-0.94	(-8.16 ^a)	0.97	(15.26 ^a)	1.29	(16.05 ^a)	1.24	(12.39 ^a)	-3.88	(-17.93 ^a)	
<i>Diff. Completed bid – Pending bid</i>	1.20	(10.97 ^a)	-0.60	(-11.51 ^a)	-0.84	(-12.75 ^a)	-0.17	(-2.15 ^b)	3.59	(22.60 ^a)	
§ TARGET											
Completed bid	12.27	(11.57 ^a)	9.20	(12.83 ^a)	12.29	(15.39 ^a)	15.86	(16.12 ^a)	27.85	(13.42 ^a)	568
Withdrawn bid	13.87	(6.49 ^a)	7.95	(5.46 ^a)	12.82	(6.31 ^a)	15.38	(6.98 ^a)	34.31	(7.29 ^a)	135
Pending bid	10.60	(3.87 ^a)	7.36	(3.03 ^a)	11.38	(3.99 ^a)	14.56	(3.81 ^a)	10.68	(4.86 ^a)	56
<i>Diff. Completed bid – Withdrawn bid</i>	-1.60	(-8.97 ^a)	1.25	(5.33 ^a)	-0.53	(-2.02 ^b)	0.48	(1.72 ^c)	-5.96	(-14.66 ^a)	
<i>Diff. Completed bid – Pending bid</i>	1.66	(2.20 ^b)	1.84	(2.19 ^b)	0.91	(1.02)	1.30	(1.28)	18.17	(11.26 ^a)	
<u>LEGAL STATUS OF THE TARGET FIRM:</u>											
§ BIDDER											
Private target	-0.05	(-0.70)	0.77	(6.15 ^a)	1.08	(5.42 ^a)	1.06	(3.53 ^a)	-2.86	(-3.12 ^a)	1532
Listed target	0.60	(3.37 ^a)	-0.12	(-0.56)	-0.25	(-0.83)	0.06	(0.15)	-1.35	(-0.78)	576
<i>Diff. Private target – Listed target</i>	-0.65	(-13.41 ^a)	0.89	(26.48 ^a)	1.34	(32.22 ^a)	1.00	(20.07 ^a)	-1.51	(-10.56 ^a)	
<u>INDUSTRY SCOPE:</u>											
§ BIDDER											
Industry Focus (same 2-digit SIC code)	1.43	(2.12 ^b)	0.63	(4.31 ^a)	0.85	(3.80 ^a)	0.98	(3.06 ^a)	-1.66	(-1.08)	1334
Diversification (different 2-digit SIC code)	-1.41	(-1.85 ^c)	0.36	(2.35 ^b)	0.49	(1.99 ^b)	0.45	(1.19)	-5.04	(-3.00 ^a)	774
<i>Diff. Diversification – Focus</i>	-2.84	(-42.61 ^a)	-0.27	(-9.01 ^a)	-0.36	(-9.56 ^a)	-0.53	(-11.43 ^a)	-3.39	(-33.96 ^a)	
§ TARGET											
Industry Focus (same 2-digit SIC code)	10.41	(9.18 ^a)	8.39	(11.56 ^a)	11.83	(13.76 ^a)	15.16	(14.56 ^a)	24.34	(10.34 ^a)	525
Diversification (different 2-digit SIC code)	13.92	(8.86 ^a)	10.78	(9.33 ^a)	13.91	(11.30 ^a)	17.36	(11.58 ^a)	31.98	(10.84 ^a)	234

	Pre-event period [-40, -1]		Event day [T=0]		Event period [-1, +1]		Entire period (short) [-5, +5]		Entire period (long) [-60, +60]		Nr. Obs
	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	CAARs (%)	(t-stat)	
<i>Diff. Diversification – Focus</i>	3.50	(15.82 ^a)	2.39	(14.29 ^a)	2.07	(11.68 ^a)	2.21	(11.29 ^a)	7.63	(26.85 ^a)	
MEANS OF PAYMENT:											
§ BIDDER											
All-Cash bid	0.72	(0.90)	0.55	(3.55 ^a)	0.80	(3.47 ^a)	1.03	(2.74 ^a)	-0.90	(-0.52)	754
All-Equity bid	2.66	(1.68 ^c)	0.04	(0.09)	0.12	(0.19)	0.66	(0.75)	-2.16	(-0.61)	285
Mixed (Cash-and-Equity) bid	0.01	(0.01)	0.87	(3.33 ^a)	1.17	(2.73 ^a)	1.03	(1.71 ^c)	-2.82	(-0.86)	412
Undisclosed terms	-0.75	(-0.90)	0.51	(2.84 ^a)	0.60	(2.25 ^b)	0.41	(1.04)	-5.57	(-3.22 ^a)	657
<i>Diff. All-Cash bid – All-Equity bid</i>	-1.94	(-12.90 ^a)	0.51	(29.70 ^a)	0.67	(24.93 ^a)	0.38	(9.71 ^a)	1.26	(7.64 ^a)	
<i>Diff. All-Cash bid – Mixed bid</i>	0.70	(5.57 ^a)	-0.32	(-5.84 ^a)	-0.38	(-5.40 ^a)	0.00	(0.06)	1.92	(9.99 ^a)	
<i>Diff. All-Cash bid – Undisclosed bid</i>	1.46	(15.70 ^a)	0.03	(0.77)	0.19	(3.71 ^a)	0.63	(9.80 ^a)	4.67	(34.24 ^a)	
<i>Diff. All-Equity bid – Undisclosed bid</i>	3.40	(21.27 ^a)	-0.48	(-6.10 ^a)	-0.48	(-4.94 ^a)	0.25	(2.18 ^b)	3.41	(14.47 ^a)	
§ TARGET											
All-Cash bid	13.92	(10.56 ^a)	11.55	(12.09 ^a)	15.67	(15.03 ^a)	20.17	(15.74 ^a)	32.78	(13.23 ^a)	405
All-Equity bid	7.39	(4.45 ^a)	7.29	(5.92 ^a)	9.22	(6.73 ^a)	11.10	(7.29 ^a)	18.16	(5.00 ^a)	185
Mixed (Cash-and-Equity) bid	13.42	(5.28 ^a)	10.06	(7.43 ^a)	14.29	(8.80 ^a)	17.48	(9.89 ^a)	35.54	(8.64 ^a)	92
Undisclosed terms	8.34	(2.43 ^b)	0.48	(0.96)	1.31	(1.19)	2.48	(1.27)	4.66	(0.61)	77
<i>Diff. All-Cash bid – All-Equity bid</i>	6.03	(23.73 ^a)	3.77	(17.37 ^a)	6.45	(28.01 ^a)	9.07	(36.36 ^a)	14.62	(40.11 ^a)	
<i>Diff. All-Cash bid – Mixed bid</i>	-0.50	(-1.35)	-0.49	(-1.65 ^c)	1.37	(4.38 ^a)	2.69	(7.92 ^a)	-2.76	(-5.62 ^a)	
<i>Diff. All-Cash bid – Undisclosed bid</i>	5.07	(11.98 ^a)	10.57	(38.98 ^a)	14.36	(45.72 ^a)	17.69	(47.60 ^a)	28.12	(45.86 ^a)	
<i>Diff. All-Equity bid – Undisclosed bid</i>	-0.95	(-1.56)	6.80	(17.58 ^a)	7.91	(17.68 ^a)	8.62	(16.66 ^a)	13.50	(14.89 ^a)	
SUB-PERIODS OF THE 5th TAKEOVER WAVE:											
§ BIDDER											
1993-1996	-0.13	(-0.23)	0.32	(2.40 ^b)	0.46	(2.29 ^b)	0.65	(2.10 ^b)	0.52	(2.51 ^b)	761
1997-1999	0.68	(2.75 ^a)	0.79	(4.60 ^a)	1.25	(4.44 ^a)	1.26	(3.01 ^a)	-1.30	(-1.58)	792
2000-2001	0.67	(1.55)	0.45	(1.69 ^c)	0.31	(0.76)	0.30	(0.52)	-9.87	(-3.79 ^a)	555
<i>Diff. 1993/96 – 1997/99</i>	-0.81	(-9.7 ^a)	-0.47	(-12.48 ^a)	-0.79	(-16.80 ^a)	-0.61	(-10.51 ^a)	1.82	(14.82 ^a)	
<i>Diff. 1993/96 – 2000/01</i>	-0.80	(-7.81 ^a)	-0.13	(-2.59 ^a)	0.15	(2.42 ^b)	0.34	(4.74 ^a)	10.39	(71.16 ^a)	
<i>Diff. 1997/99 – 2000/01</i>	0.01	(0.07)	0.34	(6.75 ^a)	0.94	(14.82 ^a)	0.95	(12.51 ^a)	8.57	(50.97 ^a)	
§ TARGET											
1993-1996	7.87	(4.94 ^a)	7.57	(6.14 ^a)	10.26	(7.80 ^a)	13.07	(8.60 ^a)	25.14	(7.13 ^a)	217
1997-1999	13.17	(9.49 ^a)	10.26	(11.39 ^a)	14.40	(13.30 ^a)	18.06	(14.33 ^a)	31.08	(12.86 ^a)	334
2000-2001	12.59	(6.67 ^a)	8.92	(7.83 ^a)	11.68	(8.98 ^a)	15.15	(8.61 ^a)	21.29	(5.06 ^a)	208
<i>Diff. 1993/96 – 1997/99</i>	-5.30	(-20.39 ^a)	-2.69	(-12.27 ^a)	-4.14	(-17.78 ^a)	-4.98	(-19.87 ^a)	-5.94	(-16.29 ^a)	
<i>Diff. 1993/96 – 2000/01</i>	-4.73	(-14.07 ^a)	-1.35	(-4.85 ^a)	-1.41	(-4.85 ^a)	-2.08	(-6.37 ^a)	3.85	(7.69 ^a)	
<i>Diff. 1997/99 – 2000/01</i>	0.58	(2.09 ^b)	1.34	(6.16 ^a)	2.73	(11.55 ^a)	2.91	(10.99 ^a)	9.79	(25.16 ^a)	

Table 6. Cumulative abnormal returns for bidding and target firms by legal origin

Panel A reports the average values of the CARs for bidding and target firms in domestic acquisitions by legal origin. Panel B reports the CAARs for bidding and target firms in cross-border acquisitions classified by the legal origin of the bidder and target respectively. Countries are grouped according to their legal origin following the classification by LaPorta et al. (1998) and according to the EU enlargement process: *English legal origin* (Republic of Ireland and the UK), *German legal origin* (Austria, Germany, Switzerland), *French legal origin* (Belgium, France, Greece, Italy, Luxembourg, the Netherlands, Portugal, Spain), *Scandinavian legal origin* (Denmark, Iceland, Finland, Norway, Sweden,), *EU enlargement* (Bulgaria, Croatia, Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia). T=0 stands for the day of the bid announcement. Abnormal returns are computed as the difference between the realized and market model benchmark returns. For each firm we calculate daily benchmark returns using MSCI-Europe index returns and the market model parameters are estimated over 240 days starting 300 days prior to the acquisition announcement. A non-parametric test (Corrado, 1989) is used to assess the significance of the CAARs. a/b/c stand for statistical significance at 1%/5%/10%, respectively.

	Pre-event period [-40, -1] CAARs (%) (<i>t-stat</i>)		Event day [T=0] CAARs (%) (<i>t-stat</i>)		Event period [-1, +1] CAARs (%) (<i>t-stat</i>)		Entire period (short) [-5, +5] CAARs (%) (<i>t-stat</i>)		Entire period (long) [-60, +60] CAARs (%) (<i>t-stat</i>)		Nr. Obs
DOMESTIC BIDS:											
§ BIDDER											
English legal origin	0.67	(0.73)	0.41	(2.23 ^b)	0.50	(1.69 ^c)	0.49	(1.17)	-0.72	(-0.35)	744
German legal origin	-3.68	(-2.64 ^a)	0.85	(2.20 ^b)	0.59	(1.44)	0.36	(0.49)	-10.34	(-2.71 ^a)	184
Scandinavian legal origin	3.26	(1.96 ^b)	1.72	(3.34 ^a)	2.29	(3.17 ^a)	2.05	(2.39 ^b)	0.84	(0.25)	206
French legal origin	1.40	(0.97)	0.12	(0.57)	0.92	(2.36 ^b)	1.30	(2.10 ^b)	-1.20	(-0.43)	278
EU enlargement	-9.31	(-2.33 ^b)	0.32	(0.61)	-0.09	(-0.06)	-2.40	(-1.04)	-23.38	(-2.59 ^b)	44
§ TARGET											
English legal origin	14.21	(10.04 ^a)	13.66	(11.97 ^a)	17.64	(14.00 ^a)	21.87	(15.64 ^a)	36.79	(15.09 ^a)	306
German legal origin	6.57	(2.11 ^b)	2.30	(2.68 ^a)	4.42	(3.17 ^a)	5.71	(2.92 ^a)	6.40	(1.38)	48
Scandinavian legal origin	9.72	(3.93 ^a)	11.10	(5.79 ^a)	14.78	(7.12 ^a)	15.56	(6.60 ^a)	25.65	(5.40 ^a)	76
French legal origin	5.79	(2.25 ^b)	1.71	(3.13 ^a)	2.83	(3.18 ^a)	5.39	(3.20 ^a)	12.66	(1.76 ^c)	118
EU enlargement	11.93	(1.65)	-0.48	(-0.45)	0.54	(0.18)	1.28	(0.41)	8.15	(0.55)	16
CROSS-BORDER BIDS:											
§ BIDDER											
English legal origin	-0.20	(0.14)	0.18	(0.60)	0.36	(0.62)	1.46	(1.77 ^c)	-1.17	(-0.56)	174
German legal origin	2.28	(1.22)	0.43	(1.12)	0.66	(1.08)	1.29	(1.32)	-1.35	(-0.32)	137
Scandinavian legal origin	-0.68	(-0.43)	0.78	(1.66 ^c)	0.67	(1.15)	0.59	(0.78)	-5.11	(-1.46)	149
French legal origin	2.11	(1.47)	0.32	(1.18)	0.37	(0.84)	0.78	(1.10)	-1.00	(-0.33)	182
§ TARGET											
English legal origin	23.29	(5.29 ^a)	13.80	(6.04 ^a)	19.42	(7.52 ^a)	26.88	(8.93 ^a)	48.13	(7.86 ^a)	57
German legal origin	9.37	(2.88 ^a)	3.48	(2.34 ^b)	7.06	(3.46 ^a)	5.49	(1.15)	11.25	(2.00)	33
Scandinavian legal origin	7.24	(1.80 ^c)	12.38	(3.05 ^a)	17.32	(3.95 ^a)	19.28	(4.02 ^a)	22.71	(3.03 ^a)	38
French legal origin	10.13	(3.62 ^a)	4.26	(2.96 ^a)	7.12	(3.80 ^a)	13.40	(4.58 ^a)	26.72	(4.38 ^a)	52
EU enlargement	0.52	(0.08)	0.28	(0.20)	1.52	(0.53)	4.79	(1.13)	-16.19	(-1.25)	15

Table 7. Anticipated wealth creation for bidders' shareholders.

This table reports the results of the OLS regression of the bidder CARs for three different event windows and for the sub-samples of UK and Continental European (CE) bidders. Variable definitions are given in Appendix II. 'Heckman correction' indicates that a Heckman (1976) sample selection is applied to correct for potential bias due to bidder's endogenous choice of whether to participate in M&As or not. Where sample selection bias was found insignificant, we report estimates for OLS regression without Heckman's correction. For each variable we list the coefficient and the heteroskedasticity-consistent p-value. Indicators a/b/c stand for statistical significance at 1%/5%/10%, respectively.

	CAR [-60, -2]						CAR [-1, +1]						CAR [+2, +60]					
	All bidders		UK bidders		CE bidders		All bidders		UK bidders		CE bidders		All bidders		UK bidders		CE bidders	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	
	Coef	p-val																
Intercept	0.01	.515	0.05	.301	0.02	.520	0.00	.445	0.01	.656	-0.00	.619	0.01	.799	0.01	.613	-0.01	.821
Cross-border bid	0.00	.704	-0.02	.324	0.01	.472	-0.00	.229	-0.00	.720	-0.01	.122	0.01	.630	0.00	.916	0.01	.601
M&A of 100%	0.01	.764	-0.04	.112	0.03	.112	0.01^a	.000	0.02^b	.026	0.01^b	.015	-0.01	.696	-0.01	.642	0.00	.838
Opposed bid	0.03^a	.006	0.04^b	.028	0.03^a	.009	-0.02^b	.033	-0.03^b	.023	-0.01^b	.036	0.00	.937	0.05	.229	-0.02	.627
Tender offer	0.02	.509	0.01	.730	0.00	.904	-0.02^a	.009	-0.03^a	.008	-0.01	.504	-0.01	.530	-0.00	.965	0.01	.870
Withdrawn bid	0.00	.848	-0.01	.743	0.01	.779	-0.01	.396	0.00	.926	-0.02	.126	-0.03	.234	-0.09^a	0.04	0.00	.913
Pending bid	-0.03	.193	-0.03	.398	-0.02	.346	0.01	.291	0.02	.320	-0.00	.574	0.00	.814	0.01	.762	-0.00	.887
Private target	-0.01	.663	-0.01	.725	-0.01	.731	0.01^b	.044	0.02^c	.055	0.01^b	.021	-0.02	.258	0.00	.962	-0.03	.140
Diversification	-0.03^b	.034	-0.01	.453	-0.03^b	.042	-0.00	.316	-0.00	.763	-0.01	.215	-0.00	.968	-0.01	.424	0.01	.466
All-equity payment	0.03^b	.013	0.04^b	.013	-0.01	.111	-0.01^c	.090	-0.02^b	.017	-0.01^c	.057	-0.01	.441	-0.02	.465	0.00	.958
Undisclosed terms	-0.02	.200	0.00	.950	-0.03^c	.090	-0.01^b	.024	-0.01	.411	-0.01^c	.078	0.00	.814	-0.02	.659	0.02	.216
1997-1999	0.02	.297	0.02^b	.039	0.02	.552	0.01^b	.013	0.01	.265	0.02^a	.002	-0.01	.301	-0.03	.111	0.00	.947
2000-2001	0.04	.147	0.02^b	.035	0.05	.220	-0.00	.438	-0.02^b	.030	0.01	.286	-0.11^a	.000	-0.06^a	.003	-0.13^a	.000
Toehold	0.04	.505	-0.08	.481	0.06	.302	0.02	.225	0.04	.181	0.01	.633	0.12^b	.013	0.01	.919	0.15^b	.014
Run-up							0.07^b	.013	0.06^b	.044	0.09^b	.021	0.06^c	.088	0.04	.105	0.05^c	.076
Relative size	-0.04	.253	-0.09	.650	0.07	.402	-0.02	.395	-0.00	.962	-0.04^b	.036	-0.04	.423	-0.05	.742	-0.02	.825
(Bidder) Q-ratio	0.02^a	.000	0.02^a	.000	0.02	.300	0.00	.123	0.00	.352	0.00	.654	-0.02^a	.000	-0.01^a	.000	-0.02^a	.002
(Bidder) Leverage	-0.03	.804	0.02	.619	-0.00	.968	-0.03	.450	-0.07	.450	0.00	.942	0.21	.116	0.23	.284	0.20	.253
(Bidder) CFlow/TA	-1.54^a	.000	-1.46^a	.000	-1.67^a	.006	-0.11	.238	-0.34^c	.061	0.15	.493	0.53	.425	0.57	.247	0.38	.438
(Bidder) English	0.00	.748					-0.01^c	.057					0.02^b	.021				
(Bidder) Blockh>20%			0.04^c	.059	-0.02^c	.087			-0.04	.298	0.01	.449			-0.05	.585	0.02	.606
(Target) Collateral	-0.04	.723	-0.18	.276	0.21^b	.037	0.03	.293	0.02	.605	0.05	.070	0.08	.259	0.07	.578	0.09	.323
(Target) CFlow/TA	0.14	.395	0.33	.205	-0.03	.848	-0.00	.958	-0.00	.965	-0.02	.186	-0.29	.370	-0.26^b	.020	-0.30	.348
(Target) English	-0.00	.804					0.00	.945					-0.01	.802				
Heckman correction	No		No		Yes		No											
Nr. of observations	2109		624		958		2109		624		958		2109		624		958	
Adjusted-R ²	0.14		0.17		0.13		0.06		0.05		0.04		0.13		0.08		0.16	
F-value	2.75	.004	4.02	.001	3.29	.003	4.67	.000	3.30	.002	3.18	.003	9.23	.000	6.55	.000	7.38	.000

Table 8. Economic effects of the results reported in Table 7: Predicted change in the wealth of the bidding firm's shareholders around M&A announcement

This table reports the economic effects of the results of the regressions of the bidder's CARs for three different event windows and for the sub-samples of UK and Continental European (CE) bidding firms. The variable definitions are given in Appendix II. The numbers in the table represent the incremental changes in CARs (%) associated with a particular takeover characteristic (binary variables) or with a one standard deviation change in the reference variable (level variables). The effects that are statistically significant in the regression analysis are denoted in bold. For each event window and each subsample of the bidding and target firms, the table also reports the average CARs.

	CAR [-60, -2]			CAR [-1, +1]				CAR [+2, +60]				
	Expec. sign	All bidders	UK bidders	CE bidders	Expec. sign	All bidders	UK bidders	CE bidders	Expec. sign	All bidders	UK bidders	CE bidders
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<i>Reference: CAARs (%)</i>	0.64	0.95	-0.06	0.72	0.50	0.94	-3.35	-2.15	-4.55			
<i>Incremental change in CARs (%) associated with a particular takeover characteristic (binary variable=1):</i>												
Cross-border bid	0.46	-2.47	1.14	+/-	-0.47	-0.23	-0.68	0.59	0.32	0.82		
M&A of 100%	0.56	-4.28	2.98	+	1.38	1.71	1.22	-0.58	-1.04	0.33		
Opposed bid	3.20	3.86	2.78	-	-1.92	-3.22	-1.18	0.23	4.99	-1.92		
Tender offer	1.53	1.00	0.39	-	-1.64	-2.69	-0.61	-0.98	-0.13	0.63		
Withdrawn bid	0.47	-1.41	1.21	-	-0.74	0.12	-1.60	-	-3.22	-8.67	0.32	
Pending bid	-2.56	-2.80	-2.30	-	0.57	2.06	-0.36	-	0.39	1.16	-0.39	
Private target	-0.82	-1.09	-0.90	+	0.78	1.59	1.49	-	-2.03	0.29	-3.40	
Diversification	-2.67	-1.33	-3.47	-	-0.31	-0.14	-0.56	-0.09	-1.33	1.23		
All-equity payment	3.18	3.66	-0.53	-	-0.89	-1.79	-0.63	-1.33	-1.65	0.15		
Undisclosed terms	-2.09	0.27	-3.27	-	-1.02	-1.03	-0.90	0.35	-1.68	2.25		
1997-1999	2.17	1.75	2.24	-	0.97	0.67	1.56	-	-1.33	-2.86	0.09	
2000-2001	3.71	2.11	4.63	-	-0.33	-1.52	0.59	-	-10.82	-6.20	-13.18	
(Bidder) English	0.14				-1.12				2.40			
(Bidder) Blockh>20%		3.51	-2.37			-3.94	1.18			-5.35	2.23	
(Target) English	-0.02				0.04				-0.50			
<i>Incremental change in CARs (%) associated with a one standard deviation change in a particular takeover variable:</i>												
Toehold	0.45	-0.68	0.82		0.25	0.34	0.14		1.36	0.09	2.05	
Run-up					1.93	1.82	2.56		3.66	3.09	4.39	
Relative size	-0.89	-1.73	1.89		0.47	-0.09	-1.08		-0.89	-0.96	-0.54	
(Bidder) Q-ratio	10.23	12.92	7.79		1.22	1.63	0.88		-10.23	-6.46	-7.79	
(Bidder) Leverage	-0.49	0.36	0.03		-0.45	-1.26	0.02		3.42	4.13	3.00	
(Bidder) CFlow/TA	-16.66	-20.10	-13.46		-1.16	-4.68	1.21		5.73	7.85	3.06	
(Target) Collateral	-1.04	-4.88	5.22		-0.54	0.54	1.24		2.07	1.90	2.24	
(Target) CFlow/TA	1.67	3.59	-0.33		0.00	-0.06	-0.22		-3.47	-2.83	-3.30	

Table 9. Anticipated wealth creation for targets' shareholders.

This table reports the results of the OLS regression of the target CARs for three different event windows and for the sub-samples of UK and CE targets. Variable definitions are given in Appendix II. For each variable we list the coefficient and the heteroskedasticity-consistent p-value. a/b/c stand for statistical significance at 1%/5%/10%, respectively.

	CAR [-60, -2]						CAR [-1, +1]						CAR [+2, +60]					
	All targets		UK targets		CE targets		All targets		UK targets		CE targets		All targets		UK targets		CE targets	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	
	Coef	p-val	Coef	p-val	Coef	p-val	Coef	p-val	Coef	p-val	Coef	p-val	Coef	p-val	Coef	p-val	Coef	p-val
Intercept	-0.03	.556	-0.05	.638	0.04	.461	0.03	.135	0.06	.349	0.01	.572	0.12^a	.001	0.00	.949	0.19^a	.000
Cross-border bid	0.03	.418	0.13^b	.013	-0.02	.638	0.03^c	.096	0.03	.412	0.03^c	.056	-0.00	.873	0.02	.472	-0.02	.634
M&A of 100%	0.02	.543	0.01	.918	0.03	.582	0.05	.214	0.04	.246	0.06	.118	0.05^c	.064	-0.00	.987	0.09^b	.046
Opposed bid	0.09^b	.049	0.10^b	.028	0.12^c	.063	0.07^a	.002	0.13^b	.026	0.05^b	.034	0.07	.162	0.05	.314	0.09	.175
Tender offer	0.06	.102	0.11	.228	0.05	.228	0.04^b	.048	0.11^b	.020	0.04	.117	0.01	.721	0.02	.726	0.01	.842
Withdrawn bid	0.01	.762	0.07	.382	-0.03	.562	0.03	.214	0.08	.188	0.00	.928	-0.02	.596	0.06^c	.076	-0.08	.213
Pending bid	-0.02	.703	-0.11	.656	-0.03	.647	0.03	.316	0.05	.471	0.01	.247	-0.13^a	.003	-0.22	.103	-0.14^b	.014
Diversification	0.06^b	.036	0.05	.158	0.06^b	.032	0.02	.132	-0.00	.845	0.05^a	.002	0.01	.632	-0.02	.218	0.05	.175
All-equity payment	-0.05	.119	-0.04	.304	-0.06	.208	-0.06^a	.000	-0.08^a	.003	-0.04^b	.028	-0.02	.439	0.02	.303	-0.05	.285
Undisclosed terms	0.02	.281	0.02	.296	0.01	.139	-0.07^a	.010	-0.06	.485	-0.06^a	.007	-0.10^b	.016	-0.05	.941	-0.11^b	.034
1997-1999	0.08^a	.010	0.13^a	.004	0.05^b	.028	0.03^c	.089	0.03	.278	0.03	.104	-0.03	.203	0.03	.236	-0.13^a	.004
2000-2001	0.08^b	.032	0.01	.573	0.09^b	.018	0.02	.356	0.03	.462	0.02	.410	-0.07^b	.016	0.00	.954	-0.16^a	.001
Toehold	-0.17	.127	-0.15	.494	-0.19	.125	-0.12^b	.018	-0.07	.159	-0.29^b	.027	-0.22^a	.006	-0.08	.460	-0.28^b	.014
(Target) Run-up							0.09^a	.000	0.03	.219	0.16^a	.000	0.06^c	.070	0.04	.351	0.09^b	.016
Relative size	0.03	.783	0.04	.848	-0.04	.716	-0.03	.528	-0.10^c	.096	-0.00	.913	-0.04	.617	-0.08	.356	-0.09	.548
(Bidder) Q-ratio	0.00	.815	0.00	.449	-0.03	.275	-0.00	.438	-0.00	.281	-0.00	.865	-0.01	.200	-0.00	.292	-0.01	.716
(Bidder) Leverage	0.04	.712	-0.09	.644	0.16	.487	0.04	.604	0.10	.451	0.09	.434	0.01	.946	0.09	.368	-0.07	.792
(Bidder) Cflow/TA	-0.03	.944	-0.21	.548	0.28	.741	-0.05	.776	0.12	.667	-0.30	.198	0.36^c	.078	0.21^c	.074	0.45^b	.047
(Bidder) English	-0.06	.139					0.01	.683					0.00	.980				
(Bidder) Blockh>20%			-0.02	.289	0.00	.959			-0.01	.958	-0.04	.102			-0.01	.625	0.04	.316
(Target) Collateral	0.00	.920	-0.16	.103	0.34^b	.013	-0.00	.765	-0.04	.411	0.04	.817	-0.04	.251	-0.01	.799	-0.06	.507
(Target) CFlow/TA	-0.27	.123	-0.13	.630	-0.44	.159	0.03	.841	0.05	.712	0.02	.548	-0.10	.176	-0.11	.313	-0.22	.195
(Target) English	0.11^b	.016					0.05^b	.032					-0.01	.704				
(Target) Blockh>20%			-0.03	.886	-0.01	.762			0.06	.567	0.01	.722			0.01	.870	0.06	.161
Nr. of observations	758		251		225		758		251		225		758		251		225	
Adjusted-R ²	0.06		0.11		0.07		0.15		0.08		0.14		0.03		0.04		0.03	
F-value	3.72	.001	3.77	.001	4.58	.000	9.88	.000	3.52	.001	5.75	.000	2.94	.002	3.09	.002	2.80	.004

Table 10. Economic effects of the results reported in Table 9: Predicted change in the wealth of the target firm's shareholders around M&A announcement

This table reports the economic effects of the results of the regression of the target's CARs for three different event windows and for the sub-samples of UK and CE target firms. The variable definitions are given in Appendix II. The numbers in the table represent the incremental changes in CARs (%) associated with a particular takeover characteristic (binary variables) or with a one standard deviation change in the reference variable (level variables). The effects that are statistically significant in the regression analysis are denoted in bold. For each event window and each subsample of the bidding and target firms, the table also reports the average CARs.

	CAR [-60, -2]			CAR [-1, +1]				CAR [+2, +60]				
	Exp. sign	All targets	UK targets	CE targets	Exp. sign	All targets	UK targets	CE targets	Exp. sign	All targets	UK targets	CE targets
	(1)	(2)	(3)		(4)	(5)	(6)		(7)	(8)	(9)	
<i>Reference: CAARs (%)</i>		13.39	17.49	12.75		12.47	17.64	10.19		3.78	4.29	2.50
<i>Incremental change in CARs (%) associated with a particular takeover characteristic (binary variable=1):</i>												
Cross-border bid		2.59	13.27	-1.69	+/-	2.68	2.54	3.02		-0.40	1.87	-1.79
M&A of 100%		2.23	0.67	2.59	+	4.85	4.42	6.02		5.41	-0.05	9.49
Opposed bid		9.23	10.07	11.68	+	7.41	13.23	5.77		7.19	5.01	8.81
Tender offer		6.09	10.91	4.62	+	4.47	10.96	4.38		1.07	1.63	0.87
Withdrawn bid		1.42	7.48	-3.40	+/-	3.13	8.83	0.24	+/-	-2.09	5.75	-7.96
Pending bid		-2.28	-10.97	-2.84	-	2.90	4.84	0.96	-	-12.87	-21.69	-14.01
Diversification		5.78	5.44	5.95	+	2.15	-0.46	5.12		1.07	-2.43	5.31
All-equity payment		-4.72	-4.41	-5.53	-	-6.19	-8.03	-4.27		-1.99	2.35	-4.91
Undisclosed terms		1.95	1.64	0.86	-	-6.51	-6.11	-6.04		-9.61	-5.11	-11.28
1997-1999		8.32	13.47	4.61	+	2.73	2.89	3.09		-3.21	2.73	-12.78
2000-2001		7.52	1.15	8.92	-	1.56	2.78	1.61	-	-6.88	0.16	-15.75
(Bidder) English		-6.44				1.12				0.09		
(Bidder) Blockh>20%			-1.76	0.37			-0.54	-4.33			-1.18	3.59
(Target) English		11.06			+	5.37				-1.48		
(Target) Blockh>20%			-3.34	-1.41			6.48	1.08			0.84	6.01
<i>Incremental change in CARs (%) associated with a one standard deviation change in a particular takeover characteristic:</i>												
Run-up						2.45	0.78	4.65		1.63	1.04	2.62
Toehold		-1.92	-1.28	-2.59		-1.36	-0.60	-3.95		-2.49	-0.68	-3.82
Relative size		0.67	0.77	-1.08		-0.67	-1.92	0.11		-0.89	-1.54	-2.43
(Bidder) Q-ratio		1.02	1.01	-11.69		0.26	0.39	0.12		-5.12	0.52	-3.90
(Bidder) Leverage		0.65	-1.62	2.40		0.65	1.80	1.35		0.16	1.62	-1.05
(Bidder) CFlow/TA		-0.32	-2.89	2.26		-0.54	1.65	-2.42		3.89	2.89	3.63
(Target) Collateral		0.01	-4.33	8.45		0.02	-1.08	0.99		-1.04	-0.27	-1.49
(Target) CFlow/TA		-3.23	-1.41	-4.84		0.36	0.54	0.22		-1.20	-1.20	-2.42