

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)

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This paper carries out an in-depth analysis of the performance of corporate takeovers involving European firms during the fifth takeover wave. The study produces an extensive set of results. We find that European M&As are expected to create takeover synergies as their announcements trigger substantial share price increases. Most of the takeover gains are captured by the target firm's shareholders. We show that the characteristics of the target and bidding firms and of the bid itself explain a significant part of the takeover returns. A comparison of the UK and Continental European M&A markets reveals that the abnormal returns of UK targets substantially exceed those of Continental European firms. (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 in Continental Europe enable bidding firms to adopt takeover strategies allowing them to act opportunistically towards the target firm's incumbent shareholders.

JEL codes: G34

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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

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This paper carries out an in-depth analysis of the performance of corporate takeovers involving European firms during the fifth takeover wave. The study produces an extensive set of results. We find that European M&As are expected to create takeover synergies as their announcements trigger substantial share price increases. Most of the takeover gains are captured by the target firm's shareholders. We show that the characteristics of the target and bidding firms and of the bid itself explain a significant part of the takeover returns. A comparison of the UK and Continental European M&A markets reveals that the abnormal returns of UK targets substantially exceed those of Continental European firms. (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 in Continental Europe enable bidding firms to adopt takeover strategies allowing them to act opportunistically towards the target firm's incumbent shareholders.

1. Introduction

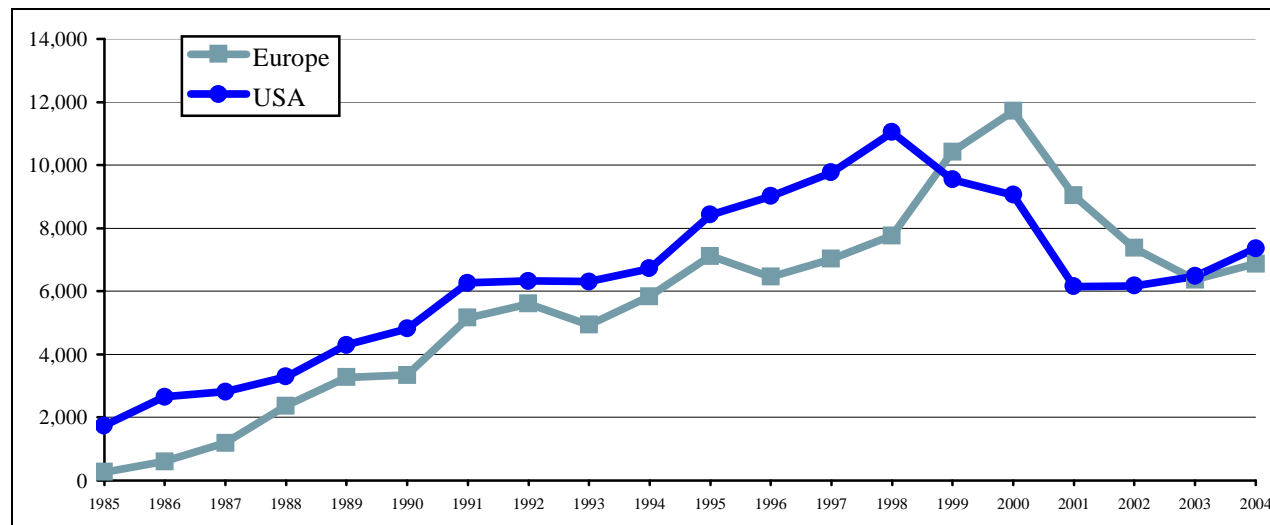
Mergers and acquisitions (M&As) come in waves. Thus far, five waves have been identified: that of the early 1900s, the 1920s, the 1960s, the 1980s, and the 1990s.¹ Of these, the most recent – the fifth - wave was particularly remarkable in terms of size and geographical dispersion. For the first time, European firms were as eager to participate in takeovers as their US counterparts: M&A activity in Europe hit levels similar to those experienced in the US (see figure 1). M&A activity collapsed in the middle of 2000 and remained significantly below the peak of 1999-2000 until the end of 2003. Subsequently, takeover market activity picked up but slowed down in 2007 due to the worldwide sub-prime and credit crisis. Despite this remarkable growth in the number and total value of European M&As, empirical research on M&A activity remains mostly confined to the US and little is known about how well the European market for corporate control performs relative to other regions. A study of the European takeover market is also worthwhile because the Continental European companies operate in a corporate governance regime which is very different from that of the US (La Porta et al., 1997).

The purpose of this paper is to carry out an in-depth analysis of the performance of corporate takeovers involving European firms during the fifth takeover wave. Our sample comprises 2,419 M&As with companies from 28 European countries, including those from Central and Eastern Europe. We estimate abnormal returns of the bidding and target firms around the takeover announcement day and investigate the returns' determinants. We also examine the differences in the UK and Continental European (CE) markets for corporate control. In comparison to their UK peers, Continental European companies have a more concentrated ownership structure (Faccio and Lang 2002), and operate in an environment with weaker investor protection (La Porta et al. 1997) and

¹ The 1990s takeover wave occurred in the US, Europe and to some extent in Asia, and is often labeled the 'fifth' takeover wave. This wave picked up in the early 1990s and collapsed mid 2000 with the abrupt decline of the stock markets following the bursting of the internet/high tech bubble. Strictly speaking, the numbering of the takeover waves refers to the US because prior to the 1960s, M&A activity in other regions was either modest or quality data are missing. For an overview of the takeover waves see Martynova and Renneboog (2006, 2008a).

less developed capital markets (La Porta et al. 1998).² We investigate whether and to what extent these characteristics of the corporate governance and regulatory regimes influence the anticipated profitability of the takeovers in these regions.

Figure 1. The evolution of the European and US takeover markets since 1985, total number of deals



Source: Thomson Financial Securities Data

Our study contributes to the M&A literature in the following ways. First, in contrast to Goergen and Renneboog (2004) who examine only the largest European M&As, this paper studies large, medium-sized, and small takeover transactions. Moeller et al. (2003) document that a 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 smaller ones. We also examine the 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 at 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 yield significantly positive bidder gains. Our analysis confirms that both the size of M&As and the deal timing (before, during, or after the takeover wave peak) have a significant impact on the takeover announcement returns.

Second, we reveal that the M&A market in Continental Europe is characterized by a high number of partial takeovers (of less than 100% of the equity) and of takeovers with undisclosed terms (such as the means of payment or even the transaction value). This results from weak takeover regulation and transparency requirements in the 1990s. It should be noted that such types of takeovers are virtually non-existent in the UK. Partial takeovers and takeovers with low information disclosure are more prone to expropriation of the rights of the bidder's and target's (minority) shareholders by the bidding firm's management or a large blockholder. In line with this conjecture, we find that such transactions trigger substantial losses to the shareholders of both the bidder and the

² Thus, Goergen et al. (2005) note that since the late 1990s, many regulatory changes were introduced in Continental Europe leading to a strengthening of investor rights.

target. To our best knowledge, this is the first study that investigates partial takeovers and M&As with undisclosed terms.

Third, this is also the first study that contrasts the roles of large blockholders in corporate takeovers conducted in the CE and UK corporate governance systems. Due to weaker legal protection of the rights of minority shareholders in Continental Europe in the 1990s (see Goergen et al., 2005 and Martynova and Renneboog, 2008b), large blockholders may use acquisitions as an instrument to transfer wealth from minority shareholders to themselves (Faccio and Stolin, 2004). As minority shareholders are likely to fear potential expropriation, the market may react negatively to the announcements of takeovers by CE firms controlled by a blockholder. This argument, however, cannot be extended to the UK as minority shareholder rights are here better protected by law. Instead, shareholders of UK firms expect a blockholder to monitor corporate decisions and prevent M&As driven by managerial empire building motives. Our findings support this view: the presence of a large shareholder in the bidding firm has a significantly positive impact on bidder run-up returns in the UK but a negative one in Continental Europe.

Fourth, the release of takeover information is not limited to the first public bid announcement but additional important information may also be released to the market prior and subsequent to the bid. Therefore, in time windows spanning 6 months, we also consider pre-announcement and post-announcement returns. The pre-announcement returns capture the effect of possible information leakage, insider trading, or market anticipation of the takeover deal, while the post-announcement returns capture market corrections for the initial under- or overreaction and the market assessment of additional information released after the bid announcement. Our findings confirm that focusing only on the bid announcement day gives an incomplete picture of the takeover returns and their determinants. In particular, we find that *hostile takeovers* are expected to create more value but that this value is incorporated to some extent in the bidder's and target's share price already prior to the bid announcement. Another important finding is that bidding firms do benefit from accumulating a *toehold stake* in the target firm but these benefits are reflected in bidder returns subsequent to the takeover announcement.

Finally, our results show that the majority of European takeover deals are expected to generate synergy value: they trigger substantial share price increases at the announcement, most of which are captured by the target's shareholders. We find large announcement effects (of 9.13%) for the targets relative to a (statistically significant) announcement effect of 0.53% for the bidders. Analysis of the pre-bid cumulative abnormal returns (CAARs) reveals that bidder and target price reactions already commence more than two months prior to the takeover announcement. Including the price run-up, the CAARs increase to 20.62% for targets and 0.92% for bidders. Subsequent to the event day, negative revaluations of the bidder and target share prices occur. Among the takeover characteristics that have a significant impact on bidder and target returns (in addition to the ones already mentioned above) we find that (i) *deal hostility* increases target but decreases bidder announcement returns; (ii) the *private status of the target* is associated with higher bidder returns; and (iii) an *equity payment* leads to a decrease in both bidder and target returns. We further document that the shareholders of UK target firms earn significantly higher returns than their CE peers. However, the reverse is true for the bidding firms: UK bidders face lower returns. Our results also reveal that relative to their CE counterparts, UK investors are able to assess takeover gains more accurately on the deal announcement day as there are fewer post-announcement corrections.

The remainder of the paper is outlined as follows. In Section 2, we review the determinants of the share price reactions to takeover announcements. Section 3 describes the data sources, sample statistics, and

methodology, while section 4 investigates the market reaction to takeover announcements and relates it to different takeover characteristics in a univariate framework. In Section 5, we investigate the determinants of the announcement returns in a multivariate model. Section 6 concludes.

2. Takeover profitability and its determinants

2.1 The measuring of takeover profitability

Although takeovers affect a wide range of corporate stakeholders, e.g. shareholders, bondholders, managers, employees, and consumers, the finance literature usually evaluates their profitability from the perspective of shareholders. This is because shareholders are the residual owners of the company and a focus on shareholder value yields an efficient evaluation criterion (Becht, Bolton, and Röell, 2005). Event studies analyzing share price changes on the day of the takeover announcement are the dominant approach to measure takeover profitability. This hinges on the assumption that an M&A announcement brings new information about the bidding and target firms to the market, such that investors update their expectations about the firms' future earnings, which is then reflected in the share price. An incremental change in the share price of the bidding and target firms on the day of the deal announcement is the expected NPV of the takeover. The incremental share price change is measured by the abnormal returns which is the difference between the realized and a benchmark return. The latter is the return that would be generated in case the takeover bid would not have taken place. A takeover is expected to generate shareholder value if it is associated with a non-negative abnormal return on the announcement day, i.e. shareholder wealth is expected to increase.

At the takeover announcement day, important information is released to the market: investors usually learn about the objective of the bidding firm, the target's attitude towards the bid, and the value and initial terms of the deal. Although in event studies the event is the day of the first public takeover announcement, takeover information may already be released to the market prior to the announcement day as some investors or insiders may trade on private information or rumors. Additional information about the takeover may be revealed in the post-announcement period. This information typically regards the failure or a success of the bid, a more accurate estimate of the synergy value, and the ultimate terms of the transaction. To capture the total shareholder wealth effect of a takeover, one should therefore also take into account the market reactions measured over a period prior and subsequent to the takeover announcement.

Obviously, the event study approach only leads to meaningful results if the assumption of capital markets efficiency is upheld, i.e. if individual investors form expectations rationally, markets aggregate information efficiently, and prices incorporate all available information instantaneously. If this assumption is violated, the market may under- or overreact to the takeover announcement. If this is the case, significant negative or positive post-announcement reactions reflect the correction of initially inaccurate predictions.

2.2 The determinants of the takeover announcement returns

Both the theoretical and empirical M&A literature have shown that a variety of factors affect the takeover announcement returns.³ Empirical US studies document that changes in the bidder and target share prices at the announcement depend on the attributes of the M&A transaction and the characteristics of the bidding and target firms. As our study covers M&As in countries with different corporate governance regimes, we will also hypothesize that takeover returns depend on the legal origin and the ownership structure of the bidding and target firms. This section summarizes the theoretical predictions and the empirical evidence on the expected relationships.

2.2.1 Takeover characteristics

The following transaction attributes are likely to affect bidder and target takeover returns: the geographical scope of the bid (domestic versus cross-border M&A); the form of and the attitude towards the bid (hostile versus unopposed bids, and negotiated deals versus tender offers), the legal status of the target firm (public versus privately-held), the industry relatedness of the bidding and target firms (a focus versus diversification strategy of the bidder), the type of acquisition (full versus partial acquisitions), the means of payment (all-cash, all-equity, mixed offer), deal transparency (fully disclosed versus partially undisclosed transaction terms), and the timing of the takeover (before, at, or after the takeover wave peak).

Bidding (and target) firms participating in *cross-border mergers and acquisitions* are likely to benefit by taking advantage of imperfections in international capital, factor, and product markets (Hymer, 1976); by internalising the R&D capacity of foreign target companies (Eun et al., 1996); and by expanding their businesses into new markets (as a response to globalisation). As any of these synergies are unavailable to firms involved in domestic M&As, the takeover wealth effect may *ceteris paribus* be higher in cross-border deals. However, Schoenberg (1999) argues that the regulatory and cultural differences between the bidder and target's countries may induce difficulties in the post-merger consolidation process and hence failure to achieve the envisaged merger synergies. Anticipating such difficulties in cross-border bids, the market may discount the expected takeover gains. Conn et al. (2005) and Moeller and Schlingemann (2005) provide evidence consistent with this latter prediction.

Hostile takeovers (opposed bids) and unopposed tender offers are frequently associated with lower takeover wealth effects to the bidder shareholders (see e.g. Gregory, 1997; Franks and Mayer, 1996; Goergen and Renneboog, 2004). The reason is that the shareholders of the bidding firms fear that their firm will offer too high a premium if the target 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 will erode the synergy values accruing to the bidder's shareholders. Conversely, the higher wealth effects for the targets reflect that opposition against the bid may be a profitable bargaining strategy to extract a higher offer price.

Takeover bids on privately-held companies may lead to bidder returns exceeding those obtained in the bids on public firms (see e.g. Moeller et al., 2004; Faccio et al., 2004). The reason is that the shares of privately-held firms are by definition illiquid, which may create a price discount. Also, takeover negotiations with the owners of private firms may have a better chance of succeeding than when a public tender offer has to be launched for a widely-held firm. However, the acquisition of a private firm may also entail considerably more risk

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 Martynova and Renneboog (2008a).

due to the fact that the available information about the firm's true value and growth potential may be less reliable.⁴ Bradley and Sundaram (2004) do indeed show that acquisitions of private targets lead to a decrease in the takeover wealth effect.

Although *diversifying (or conglomerate) acquisitions* are expected to create operational and financial synergies, the creation of diversified firms is associated with a number of hitches 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 bidder's shareholders. Diversifying mergers themselves may be an outgrowth of agency conflicts between managers and shareholders (Shleifer and Vishny, 1989). As such, M&As between companies operating in unrelated industries are expected to trigger lower takeover returns to the bidder's shareholders (see e.g. Maquieira et al., 1998; Doukas et al. 2002). Conversely, the wealth effects to the shareholders of the target firm are likely to be higher in diversifying M&As. The reason is that investors expect bidders pursuing diversification strategies to bid more aggressively and hence pay higher takeover premiums than bidders adhering to a focus strategy.

Partial acquisitions (of less than 100% of the equity) are likely to lead to lower takeover returns to the target's shareholders than acquisitions in which a bidder obtains full control. Bidding firms may indeed use partial acquisitions as an instrument to transfer wealth from the target's minority shareholders to themselves, for example by using pyramidal control chains (La Porta et. al., 1999; Bertrand and Mullainathan, 2003). The incidence of partial acquisitions depends on the extent to which the extraction of private benefits is tolerated by the legal and judiciary systems. The highest incidence of M&As is expected in countries where rights of minority shareholders have little protection, i.e. where private benefits of control are high. 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 occurred in high numbers in Continental Europe in the 1990s.⁵

The means of payment is another important transaction characteristic that affects the short-term wealth effects of a takeover. *All-cash takeovers* are expected to generate higher returns to the bidder and target's shareholders than *all-equity deals* (see e.g. Moeller et al, 2004; Andrade et al., 2001; Martynova and Renneboog, 2008d). The dominant explanation is that investors consider an equity offer as a signal that the bidder's shares are overpriced and hence adjust the share price downwards (Myers and Majluf, 1984). This is in line with the fact that managers attempt to time equity issues to coincide with surging stock markets or even with the peak of the stock market cycle. A cash offer 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 with them. Hence, the wealth effect to the target's shareholders is higher in all-cash takeovers than in takeovers involving equity payments.

Whereas most bidding companies disclose the means of payment and transaction value, some companies conceal this information. This is possible only in countries with low disclosure requirements (as it was the case in

⁴ 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.

⁵ The lack partial acquisitions in the UK is due to the effective use of the mandatory bid rule by the UK regulator. The rule obliges a bidder that has acquired a 30% share block to make an offer for all the remaining shares at a fair price, so that partial acquisitions become virtually impossible (Goergen et al. 2005). However, the number of partial acquisitions during the 1990s was especially high in those Continental European countries where the mandatory bid rule was not enforced by law (such as Germany and Sweden).

many Continental European countries in the 1990s). The announcement of an *acquisition with undisclosed terms of transaction* is expected to result in lower returns to the bidder's and target's shareholders, as they may suspect that a non-transparent deal may lead to the expropriation of their rights either by the bidder's management or by a controlling shareholder.⁶

Finally, Shelton (2000), Harford (2003), and Moeller et al. (2005) report that takeover returns to the bidder's shareholders decline *during and after takeover wave peaks*. This may be due to more aggressive bidding strategies, limited information processing, managerial hubris, and managerial self-interest, which characterize many M&As at the peak of a takeover wave. Also, Jensen (2004) argues that high valuations during the periods of equity market booms (which typically coincide with the peaks of M&A waves) increase managerial discretion, and forces executives to make poor acquisitions when they have run out of good ones.

2.2.2 Characteristics of the bidding and target firms

The bidder's characteristics that are likely to have an impact on the short term wealth effects are firm size, Tobin's Q, leverage, cash flows, and the pre-announcement share price run-up. The *size of the bidder* is considered as a proxy for managerial hubris (Roll, 1986), as larger acquirers tend to overpay in takeovers (Moeller et al, 2004). Therefore, bidder takeover returns are expected to decrease with firm size. The *bidder's Q-ratio* is a proxy for the firm's growth potential and the quality of internal corporate governance. Lang, Stulz, and Walkling (1989) and Servaes (1991) document higher returns for bidders with higher Q-ratios. In contrast, Moeller et al. (2004) find a negative relationship between the bidder returns and the Q-ratios for their sample of US takeovers conducted in the 1990s. Therefore, the expected effect of the bidder's Q-ratio on returns is ambiguous. A significant relationship is expected between the takeover returns and the *bidder's cash flows and leverage*, as these characteristics should discern the acquisitions driven by free cash flow motives (Jensen, 1986). Bidders with high cash flow and low leverage are more likely to make value-destroying acquisitions. Finally, the market reaction to the takeover announcement may depend on the bidder's prior share performance, as measured by the *bidder's pre-announcement share price run-up*.

Not only the bidder's *leverage and cash flows* may influence the short term wealth effects but also those of the target because a bidder is likely to pay a higher premium for a target with lower leverage and higher cash flows. The shareholders of target firms with high growth opportunities (high *Q-ratio*) and good prior share performance (high *pre-announcement share price run-up*) are also likely to earn higher returns.

Amongst the other bidder and target's characteristics that may affect the announcement returns are the relative size of the target and the bidder's toehold stake. Higher uncertainty about the target's true market value implies a higher probability that a bidder may incur substantial losses in the case of a post-acquisition adverse revaluation of the acquired assets. The magnitude of the potential revaluation losses to the bidder increases with the *target firm's relative size* (Hansen, 1987). Also, as larger firms generally require a more complex management structure to operate effectively, the post-acquisition integration of a relatively large target may be a difficult process. Investors may fear that their firm will bear these additional integration costs and adjust their estimate of the takeover synergies downwards. Therefore, bidder announcement returns are expected to decrease with the relative size of target.

⁶ Most of the takeovers with concealed information are takeovers of private German, Swiss, Austrian, and Eastern European targets.

Bidders can make substantial profits on the *toehold stake* they have built up prior to the takeover. The larger the toehold, the lower the number of shares for which the bidder pays the full takeover premium (Grossman and Hart, 1980; Shleifer and Vishny, 1986). Therefore, the larger the toehold stake prior to the bid, the lower the average takeover price a bidder will have paid. Betton and Eckbo (2000) find that the shareholders of US targets earn significantly lower takeover premiums if the bidder has accumulated a substantial toehold. Despite this evidence, only a small number of bidders actually acquire a toehold prior to the takeover, which is rather surprising.

2.2.3 Legal origin and ownership structure

The UK and Continental Europe represent two opposite corporate governance regimes: the market-based and the blockholder-based system, respectively. The UK system relies on legal rules largely resulting from case law and on the effective legal enforcement of shareholder rights. The blockholder-based system of CE relies on codified law and emphasizes rules protecting stakeholders such as creditors and employees. A growing literature advocates that the legal system in the UK ensures better investor protection and a stronger corporate focus on shareholder value than the corporate governance regimes of the CE countries (La Porta et al., 1997). Better investor protection may result in lower agency costs, and higher company valuations and growth potential (La Porta et al., 2002; Himmelberg et al., 2002). Extending these arguments to M&As, we expect takeovers by UK firms to yield higher returns to the bidder and target's shareholders than takeovers by CE firms.⁷

UK and CE corporate governance systems differ not only in terms of their legal rules, but also in terms of corporate ownership and control. Most Continental European companies are characterized by majority or near-majority stakes held by one investor or an investor group. In contrast, UK firms predominantly have dispersed equity (Faccio and Lang, 2002). The differences in control concentration across firms may have a significant impact on the market reaction to takeover announcements as large blockholders are able to control corporate decisions and hence monitor the quality of M&As in which their firm is involved. Therefore, investors may regard the presence of a large blockholder in a bidding company as a guarantee that the takeover decision is driven by motives of shareholder wealth maximization, which translates into higher takeover returns.

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 a takeover context, these 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 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 negative market reactions to the announcements of takeovers by CE firms controlled by a large shareholder.

3. Data sources, descriptive statistics and methodology

⁷ The level of investor protection may also have a direct impact on the market valuation of takeover benefits. Bris and Cabolis (2007) document that the regulatory environment in both the bidding and target firms' countries have a significant impact on the premiums paid. 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 (see Martynova and Renneboog, 2008c).

Sample selection

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 control⁸; (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;⁹ (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;¹⁰ (vi) share price data for at least one of the participants of the transaction is available in DataStream; (vii) accounting data is available 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. 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). 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 necessary 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 rather than ownership. To identify the ultimate control structure of a firm, we follow the methodology presented 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 1 through 3.

⁸ 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%).

⁹ Divestitures and management buyouts are not included.

¹⁰ 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).

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.

3.2.1. Sample composition by takeover characteristics

Table 1 presents sample composition by deal characteristics. It reveals that 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.

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 made in the form of a public tender offer (unopposed tender offers) and bids made in the form of a merger or a private purchase of a control block (friendly M&As).¹³ The frequency of 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 1 about here]

A large part of takeover bids are made for *privately-held target firms* (63%), while the remainder (37%) are bids on public 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* was 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 industries¹⁴, while the remainder are diversifying acquisitions. The highest percent of focused acquisitions is observed in 1997-99.

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 the limited financing capacity may force bidders not to bid for all of the equity of target firms.

Of the 1,721 bids for which 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 Masulis (2005). The difference may be explained 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. Table 1 shows that, of all the bids involving equity payments, about half are pure equity-

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 See Appendix II for our definitions of opposed bids, unopposed tender offers, and friendly M&As.

¹⁴ 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.

exchange offers. The other half are mixed offers that consist of 53% cash, 47% equity, 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). This is likely due to low disclosure requirements in these countries during the 1990s. In contrast, none of UK target firms is involved in takeovers with undisclosed terms of transaction, as such a lack of disclosure would violate UK transparency regulation.

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

Table 2 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 10.4% and 13.0% of all domestic bids, and 12.0% and 15.0% 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, they are 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 2 about here]

3.2.3. *Characteristics of the bidding and target firms*

The characteristics of the bidding and target firms are reported in Table 3. 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 bidders (31%). Table 3 also shows that the corporate performance (return on assets and cash flow to sales) and investment activity (capital investments to total assets) of targets and bidders are similar.

[Insert Table 3 about here]

Some characteristics are significantly different between targets and bidders from the UK and Continental Europe. Table 3 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.

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. 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 the 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 the assumption that the ownership concentration amounts to 100%. The reason is that many non-listed firms are likely to be controlled by one large investor or an investor group. 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

3.3.1. *Abnormal returns and test statistics*

We compute the takeover announcement returns as the sum of daily abnormal returns realized in the period starting 1 day prior and ending 1 day subsequent to the event day.¹⁵ We also consider alternative event windows within the [-60, +60] interval to capture the pre-announcement and post-announcement effects. 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.¹⁶ To test for significance of the estimated abnormal returns, we use two parametric test statistics (the portfolio test and the standardized test) as defined by Brown and Warner (1985) and the Corrado non-parametric test (Corrado, 1989).¹⁷

3.3.2. *Multivariate regression analysis*

As mentioned in section 2.1, we model the market reaction to takeover announcements consisting of three components: the pre-event, announcement, and the after-event effects. In separate OLS 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 2.2.2), we also run the regressions for these two sub-groups of takeover deals separately.

3.3.3. *Correction for potential sample selection bias*

¹⁵ 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.

¹⁶ 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.

¹⁷ 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.

We recognize that the regression analysis of the share price reaction to takeover announcements may suffer from a censoring problem. The analysed 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 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 cumulative abnormal returns (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 geographical scope of the bid (domestic versus cross-border M&A); the form of and the attitude towards the bid (opposed bids, unopposed tender offers, friendly M&As), the legal status of the target firm (listed versus privately-held), the industry relatedness of the bidding and target firms (a focus versus diversification strategy of the bidder), the type of acquisition (M&A of 100% versus acquisition of partial control), the means of payment (all-cash, all-equity, mixed offer), deal transparency (disclosed versus undisclosed terms of transaction), and the timing of the takeover (before, during, or after the takeover wave peak). We also investigate the variations in the market reactions to takeover announcements across deals that involve firms from countries with different legal origins.

4.1 Market reaction to takeover announcements: total sample

Table 4 reports that the announcement of a takeover bid yields positive abnormal returns to the bidder's shareholders: on the event day, they earn an abnormal return of 0.53%, which is statistically significant at the 1% level. Over a 10-day window centred around the event day, returns to the bidder's shareholders amount to 0.79%. However, when we consider a longer time window covering both pre-announcement and post-announcement periods, the [-60, +60] window (see Figure 2), we observe that the CAARs of bidding firms are significantly negative (-2.83%).

In comparison to the bidder announcement returns, the target's returns are sizeable: on the event day, the average return amounts to 9.13% (see table 4). There is also a significant increase in the target share price in the two months (40 trading days) prior to the initial public announcement (11.49%). Furthermore, investors who own shares in the target firm three months prior to the event day and sell their shares three months after the event day would earn a premium of 26.70% above the expected return. The evolution of the target CAARs prior to and after

the event day is also reported in Figure 3. 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.

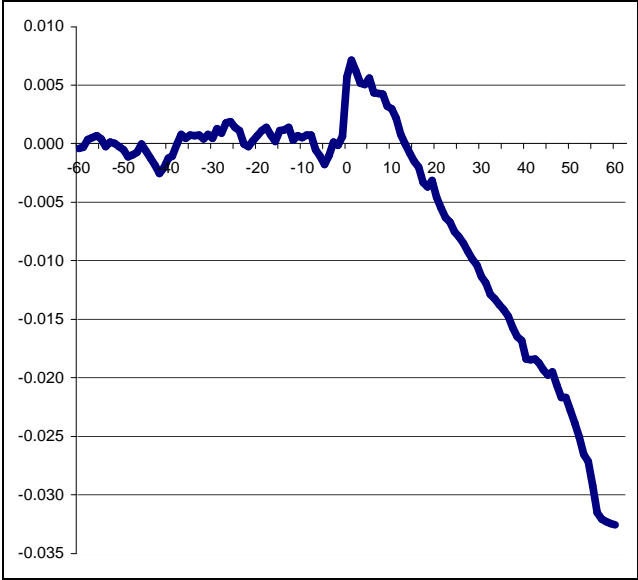


Figure 2. Bidder CAARs around the M&A announcement

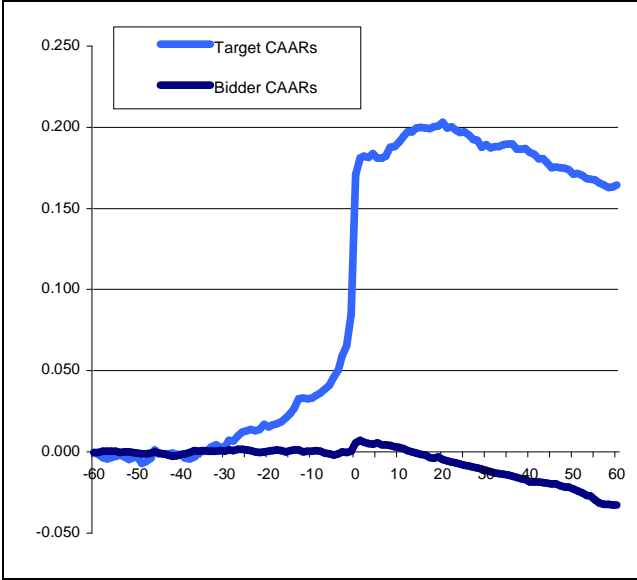


Figure 3. Target (and bidder) CAARs around the M&A announcement

Note: Figures 2 and 3 show the market reaction to the announcement of M&A transactions for bidding and target firms. The day of the bid announcement is denoted as day 0. 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.

[Insert Table 4 about here]

4.2 Market reaction to takeover announcements by deal characteristics

4.2.1. Geographical scope of bid

Section 3.2.1 shows that 70% of the intra-European M&As are domestic deals. Table 4 reports that bidding firms engaging in cross-border bids experience lower announcement effects than those undertaking domestic acquisitions (0.39% versus 0.59%, respectively), and that the difference is statistically significant. Over the six months event window centred around the event day, both cross-border and domestic bids trigger negative returns. However, the negative price correction for bidding firms is larger in cross-border bids than in domestic ones (-3.63% versus -2.49%).

Investors of target companies also favour more domestic acquisitions. The announcement effect of domestic and cross-border targets amounts to 9.65% and 7.74%, respectively. 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 and target CAARs) suggests that the market anticipates difficulties in managing the post-merger integration process between foreign firms and hence discounts the expected takeover synergies.

4.2.2. Form of and attitude towards the bid

When we partition all bids into three subsamples based on the attitude towards and form of the bid: opposed (or hostile) bids, unopposed tender offers and friendly negotiated deals, we observe that the bidder's shareholders clearly react differently to the announcements of those deals (see Table 4). On the event day, bidder share prices are subject to negative corrections in opposed bids and unopposed tender offers (-0.39% and -0.37% respectively). In contrast, the announcement of friendly M&As is greeted favorably by the market: the abnormal returns are significantly positive (0.78%). However, friendly M&As are followed by a remarkable share price decline over three months subsequent to the bid. It seems that the market reaction to the announcement of friendly M&As is overoptimistic and that the bidder's shareholders have second thoughts about the profitability of these deals.

Expectedly, takeover bids opposed by the target's board generate the highest abnormal returns (15.47%) to the target's shareholders on the announcement day. These announcement returns induced by hostile (opposed) takeover bids are significantly higher than those induced by unopposed tender offers (12.07%) and friendly M&As (2.75%). Table 4 also unveils that there are large differences in the target's share price run-ups prior to friendly and the hostile takeovers. Target firms experience a significant increase in their share prices of more than 14.86% over a 2-month period preceding the announcement of a hostile takeover bid. In contrast, an increase in the share prices of target firms prior to friendly M&As amounts to 6.20%. The difference is even more pronounced over the holding period of six months centered around the event day: friendly M&As generate a CAAR of merely 10.22%, tender offers trigger 32.24% and hostile bids lead to the a substantial CAAR of 43.85%.

4.2.3. Legal status of the target firm

Table 4 shows that the announcement of a bid for a private firm induces significantly positive abnormal returns of 0.77% to the bidder's shareholders, whereas the announcement of a bid for a public firm results in an (insignificantly) negative return of -0.12%. The evidence is similar to that of Moeller et al. (2004) and Faccio et al. (2004). However, when we take into account prior- and post-announcement returns, we find negative bidder returns of -2.86% when the target firm is private and -1.35% when it is publicly listed (both are significant at the 1% level). This evidence suggests that market revises potential takeover synergies downwards once more information about the true value and growth potential of the private target firm is revealed.

4.2.4. Industry relatedness

Table 4 also compares bidder announcement CAARs in diversifying takeovers with those in industry-related (or focus-oriented) deals. Consistent with the conjecture that diversification destroys value on average, we find that bidding firms experience significantly higher abnormal returns at the announcement of business expansion within their core industry compared to diversifying acquisitions (0.63% versus 0.36%). Also, it appears that the market anticipates value-destroying diversifying acquisitions, because there is a statistically significant decrease in the bidder's share price over the two-month period prior to the takeover announcement. While the share price decreases by -1.41% preceding the diversifying takeover, it increases by almost the same percentage (1.43%) preceding the announcement of an intra-industry takeover.

The returns to the target's shareholders in diversifying takeovers outperform those in deals with a focus strategies, regardless of the length of the window. Over the period including the announcement day and the price run-up, the target's shareholders in diversifying takeovers enjoy a CAAR of about 24.70% whereas those in focused takeovers earn a CAAR of about 18.80%. This implies that bidders overpay for unrelated target firms and engage in more aggressive bidding strategies in diversifying takeovers.

4.2.5. Type of acquisition

The acquisitions of partial control have received little attention in the existing literature as they are virtually non-existent in the US and UK. However, we find that this type of takeovers is prominent in Continental Europe. Table 4 compares the announcement effect of partial acquisitions to that of full acquisitions. We find that the bidder's shareholders do not favour partial control acquisitions. Table 4 documents that although the announcement effect of a partial acquisition is significantly positive (0.41%), it is somewhat lower than that of a full takeover bid (0.61%). Also, an acquisition of less than 100% of equity 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 bidder.

Target shareholders also dislike acquisitions of partial control. At the announcement day, the share price of a firm subject to a full acquisition rises by 11.55%, which is more than five times larger than the abnormal return of a firm subject to the acquisition of majority control (2.17%). Investors who purchase the target firm's shares three months prior to a full takeover bid and sell the shares three months after the announcement earn a CAAR of 31.26%. In contrast, a return of merely 13.58% is earned over the same period when the bid is made to obtain partial control only. The lower returns associated with partial acquisitions may reflect concerns that a control transfer will lead to expropriation of the remaining minority shareholders.

4.2.6. Means of payment and deal transparency

Asymmetric information about the true firm value 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 4 confirms that the bidder's shareholders perceive offers involving cash payments more favourably (0.55% for all-cash and 0.87% for mixed bids) than all-equity offers (0.04%). Furthermore, in the period following the bid announcement, the bidder's share prices generally decline, but the decline is more severe for bids involving equity payments. The CAARs over a 6-month period in all-cash bids are not significantly different from zero (-0.90%), whereas those in all-equity bids and mixed offers are significantly negative (-2.16% and -2.82%, respectively). Even lower bidder returns are observed for M&As with undisclosed means of payment (and transaction value). The lack of information for such bids is penalized by the market with CAARs of -5.57% over the [-60, +60] event window.

Table 4 shows that the target's share price reaction is also sensitive to the means of payment. Irrespective of the size of the event window, the CAARs of cash offers are always significantly higher than those of all-equity offers (at the 1% significance level). Acquisitions for which the payment method is undisclosed do not lead to a significant price change at the announcement (0.48%). Deals with unknown means of payment are associated with statistically insignificant target returns of 4.66% over a 6-month period around the takeover announcement, which is remarkably low compared to 18.16% in all-equity, 32.78% in all-cash, and 35.54% in mixed bids.

4.2.7. Timing of the takeover by sub-periods of the takeover wave

Table 4 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 longer time windows (e.g. 6 months), it seems that the bidder's shareholders realise that 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 2000-01.¹⁸ 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.

Target shareholders gain the most at the peak of the takeover wave. Table 4 shows that, at the announcement day, target firms gain an average premium of 7.57% prior to 1997, 10.26% in 1997-99, and 8.92% 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 13.17% (up from 7.87% 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 (21.29%) than those in 1997-1999 (31.08%) and those before 1997 (25.14%).

4.3 Market reaction to takeover announcements by legal origin

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's and target's 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 5 shows that bidder share price reactions to domestic bids vary considerably by legal origin of the firm. Bidding firms of English common law and German and Scandinavian civil law countries earn significantly positive returns at the announcement. Conversely, returns 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 centered 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 English common law and French and Scandinavian civil law countries).

Table 5 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 high returns 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 (La Porta

¹⁸ 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%).

et al., 1998), also exhibit strongly positive CAARs (of 20.82% over the event day and the price run-up period). In contrast, targets from the countries that joined the EU in 2004-07 have the lowest announcement effect (-0.48%). Companies from French and German civil law countries also earn particularly low CAARs of 1.71% and 2.30%, respectively.

[Insert Table 5 about here]

4.3.2. Cross-border acquisitions

Turning to cross-border acquisitions in table 5, we find that bidding firms of German, Scandinavian, and French legal origins earn higher announcement returns (on average 0.50%) than firms of English legal origin (0.18%). The difference is statistically significant at the 1% level. Companies incorporated in countries of Scandinavian legal origin are expected to benefit most from the announcement of cross-border takeovers (0.78%).

The premiums offered in cross-border takeovers are significantly higher for the target firms from English common law countries than those from the civil law countries: 13.80% versus 5.9% at the announcement (averages across other countries; not reported in the table). Adding the price run-up to the announcement effect, the numbers increase to 37.09% and 14.24%, respectively. Importantly, the corresponding effect for targets from the new and prospective EU entrants is insignificantly different from zero (0.80%). 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; Bris et al., 2008), it is also important to classify target firm returns by the legal origin of the bidder's country.¹⁹ We find that the differences in target returns are now less definite. Still, the announcement period abnormal returns remain the highest when the legal origin of the bidder country is English common law.²⁰

5. Determinants of the market reaction to takeover announcements

The results of the univariate analysis suggest that the market reaction to takeover announcements varies across takeover bids with different characteristics. We now explore which of the effects documented in the previous section dominates in a multivariate framework.

5.1. Bidder returns

The determinants of the market reaction to takeover announcements for bidding firms are reported in table 6 and their economic effects in table 7. The analysis of bidder returns may be subject to sample selection bias, as bidders may already have specific characteristics (independent of the takeover decision) that generate a specific level of returns. We apply Heckman's procedure to correct for sample-selection bias (see section 3.3.2). The fourth row from the bottom of table 6 indicates for which regressions censoring is a significant problem and thus when the correction for the sample selection bias ought to be applied.

5.1.1. Bidder announcement returns

¹⁹ 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. However, Martynova and Renneboog (2008c) demonstrate that bidding firms from countries with lower investor protection can bootstrap to the target's level of investor protection when this is higher.

²⁰ The CAARs of the bidding and target firms by country of bidder origin are available upon request.

We first analyse the determinants of bidder returns realized in the 3-day period around the announcement day (CARs [-1, +1]). Model 1 of table 6 shows the estimates for the total sample of European M&As. Most of the results from the multivariate regression are consistent with the univariate analysis findings. Specifically, we observe that the announcement of a *hostile takeover* or a *tender offer* triggers significantly lower returns. The evidence confirms the findings of Goergen and Renneboog (2004) and suggests that the bidder's shareholders fear overbidding in case of opposition by the target's management and shareholders. Higher bidder announcement returns are observed in bids for *private targets*, supporting our conjecture that bidders are less likely to overpay for private (relative to public) firms. Moeller et al. (2004) document similar result for US bidders. *Acquisitions of full control* are also associated with higher bidder announcement returns than partial acquisitions.

An *all-equity offer* forces investors to adjust bidder returns downwards. This is consistent with the prediction that an equity payment conveys the signal that the bidder's share price may be overvalued, which in turn triggers an adverse revaluation effect (Moeller et al, 2004; Andrade et al., 2001). Similar negative adjustments of bidder abnormal returns are observed at the announcement of a takeover with *undisclosed terms*. Such lack of information makes investors pessimistic about the expected synergy value that accrues to the bidder. Also, the fact that their company has chosen to conceal some information makes investors concerned that the deal will be worse than their initial expectations. We also find that *UK bidders* experience significantly lower announcement returns compared to their CE bidders. This result is rather surprising because the 'law and finance' literature predicts the opposite relation (La Porta et al., 1997, 2002). Our evidence suggests that CE bidders are more able to capture higher profits in takeovers (relative to their UK counterparts).

In order to assess whether there are significant differences in the determinants of bidder announcement returns across regions, we re-estimate our models for the sub-samples of UK and CE firms (see models 2 and 3 of table 6). The bidder's cash flow is an important determinant of UK bidder returns. Investors dislike acquisitions by UK bidding firms that hold *excessive cash reserves*, as they worry that high free cash flows encourage management to undertake value-destroying acquisitions. Investors of CE firms have an additional reason for concern: they may fear that their firm will bear the costs associated with the post-acquisition integration of a *relatively large target* and therefore adjust their estimate of the takeover synergies downwards. However, model 3 of table 6 shows that they expect to benefit from financial synergies by acquiring *target firms with high collateral*, as an increase in tangible assets increases the combined firm's debt capacity. This type of takeover synergies is important for CE firms because debt constitutes their dominant source of financing (Rajan and Zingales, 1998).

Surprisingly, control structures do not have a significant effect on bidder announcement returns in either the UK or Continental Europe: the indicator variable capturing the large blockholder's presence is insignificant. It would be misleading to conclude that control structures do not matter, as their effect on bidder returns may be indirect. In particular, a large blockholder has the power and incentives to monitor corporate decisions thereby preventing acquisitions that are driven by managerial empire building motives.

Table 7 (Models 1, 2, and 3) confirms that all the results discussed above are economically significant.

[Insert about here Tables 6 and 7]

5.1.2. Bidder pre-announcement returns

As mentioned in section 2.1, some takeover information may already have been released to the market prior to the announcement day as some investors or insiders trade on private information or rumours. Indeed, the

results of our univariate analysis have revealed that bidding firms experience significant share price run-up prior to the announcement (see section 4). To assess the effect of information leakage and takeover anticipation, we now investigate the determinants of pre-announcement bidder returns. As a measure of bidder pre-announcement returns, we consider CARs over the [-60, -2] event window. Model 4 of table 6 reports the parameter estimates (corrected for sample selection bias) for the total sample of European M&As.

Deal hostility, means of payment, and industry relatedness are among the characteristics of takeovers that have a significant impact on bidder pre-announcement returns. *Hostile takeovers* are preceded by a substantial positive increase in the returns of bidding firms. Hostile bids are often preceded by private negotiations with the target's management, which may explain why information is leaked and rumours emerge. Table 7 shows that the combined run-up and announcement effect of hostile takeovers is positive and economically significant (see models 1 and 4). Higher bidder returns are also observed prior to *all-equity bids* (Table 6). This signifies that bidders take advantage of temporary overvaluations of their equity and use it as cheap currency for acquiring real assets.²¹ Bidders seeking to acquire businesses outside their core industry obtain significantly lower returns prior to the bid announcement.

Among the bidder's characteristics affecting the pre-announcement returns are the Q-ratio and cash flows. Investors expect takeovers to be more profitable when the bidding firm has better *growth opportunities*. However, they are wary when the firm has high *cash flow* reserves. In such cases, cash surpluses are likely to be used for managerial empire building.

Model 4 of table 6 shows that there is no significant difference between the run-up returns of UK and CE bidders. However, the analysis of the UK and CE subsamples reveals significant differences (models 5 and 6 of table 6 show the regression estimates for UK and CE bidders, respectively). Thus, UK takeovers undertaken at *the peak of the takeover wave* (1997-99) are associated with significantly higher share price run-ups than those made in the beginning of the wave (1993-96). In contrast, there is no statistically significant difference in the run-up returns of CE bidders across the various sub-periods of the 5th takeover wave. It seems that, for UK takeovers, there is more information leakage prior to the public announcements as the takeover wave progresses, or that takeovers in the UK are becoming more predictable over time. The returns of CE bidding firms are significantly lower prior to takeovers with *undisclosed terms of transaction*, confirming that undisclosed deals are expected to contribute little synergy value. As M&As with undisclosed terms by UK bidders are virtually non-existent, it is not surprising that their effect on bidder run-up returns is statistically insignificant. Another factor affecting CE bidders run-up returns is the quality of the target firm, in particular its collateral capacity. An acquisition of a *target with high collateral* may increase the bidder's ability to issue new debt at favourable terms, which the market seems to anticipate.

The presence of a *large blockholder* in the bidding firm may also affect bidder pre-announcement returns, possibly through the use of insider information by that large blockholder. Models 5 and 6 of table 6 show that the impact of such insider trading on the share price is positive for UK bidders and negative for CE ones. This highlights the different roles of large blockholders in UK and Continental European corporate governance

²¹ 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 will be corrected. In both cases, strong bidder's share price performance is an important determinant of the bidder's decision to use equity as a means of payment.

systems. The market anticipates that UK firms controlled by a large blockholder will get involved in M&As that increase shareholder wealth, as the blockholder has the power and the incentives to prevent value-destroying deals. In contrast, a CE firm controlled by a large blockholder may initiate M&As that increase the wealth of the blockholder, often at the expense of the firm's incumbent minority shareholders. These types of deals are less probably in the UK due to stronger legal protection of the rights of minority shareholders (Martynova and Renneboog, 2008c).

5.1.3. Bidder post-announcement returns

New information about the takeover (typically regarding the failure or success of the bid, the more accurate estimate of the synergy values, or the ultimate terms of the transaction) is revealed in the days or weeks subsequent to the event. This information corrects the inaccurate predictions made at the event date. Model 7 of table 6 reports the results from the regression of bidder CARs measured over the [+2, +60] window on the characteristics of the bidding and target firms and of the takeover deal for the total sample of European M&As. The negative coefficient on the *bidder's Q-ratio* (which proxies for 'glamour' firms) reflects the market's doubts on the takeover abilities of such bidders. As suggested by Rau and Vermaelen (1998), 'glamour' firms tend to overestimate their competence to create takeover synergies, and are more likely to overpay than 'value' firms (low-Q firms). When the conditions of the bid become clear, the market reassesses the quality of the takeover to the bidder and adjusts the expected returns downward. Model 7 of table 6 also shows that the post-announcement decline in bidder returns is lower if the bidder's share price has performed well prior to the takeover: the *bidder's run-up* and post-announcement returns are positively correlated. Further, we find a substantial decline in bidder post-announcement returns for takeovers initiated *at the peak of the takeover wave* (the late 1990s). It seems that the market corrects the initially optimistic valuations when the takeover wave declines (which coincides with the stock market decline).

Model 7 of table 6 reveals that accumulating a *toehold in the target firm* prior to the takeover pays off in the longer run, as bidder post-announcement returns increase with the size of the toehold. As predicted by Grossman and Hart (1980), the larger the toehold, the lower the number of shares for which the bidder pays the full takeover premium such that the overall takeover price a bidder pays is reduced. It is surprising that the market realizes these benefits only after the bid announcement. Perhaps this is because investors are able to assess benefits from the toehold only when the ultimate price paid to the target firm's shareholders is known for sure.

Withdrawn takeovers by UK bidders trigger a substantial decline in bidder returns. That is, UK investors penalize their firm for failing to complete the bid. No such a penalty is observed for CE firms (see models 8 and 9 of table 6, respectively).

5.2. Target Firm Returns

Table 8 exhibits the determinants of target firm share price changes around takeover announcements. The economic effects of the parameter estimates are reported in table 9.

5.2.1. Target firm announcement returns

We start with the analysis of the target's takeover announcement returns for the total sample of European M&As. Model 1 of table 8 shows estimates from the regressions of target CARs measured over the [-1, +1]

window on the characteristics of the bidding and target firms and of the takeover deal. Consistent with Servaes (1991) and Franks and Mayer (1996), we find that the target's shareholders can get significantly higher returns at the announcement of *opposed (hostile) bids* and *unopposed tender offers*. Both results are in line with the hold-out argument: the bidder needs to pay a higher premium to induce the target's shareholders to sell their shares. We also find that takeovers at *the peak of the takeover wave* lead to higher target returns. It seems that paying too high a price for a target firm is more likely to occur when takeover activity is at its peak as the bidder may then adopt a more aggressive takeover policy which is more likely to trigger opposition from the target.

Lower target announcement returns are observed in M&As that involve equity payments and in deals with undisclosed terms of the transaction. An *equity offer* is interpreted by the market as a negative signal about the target firm's true quality. If the quality of the target firm is more uncertain, the bidder is more likely to pay with equity to share the risks of not being able to realize the expected synergies or of obtaining lower than expected takeover value with the target's incumbent shareholders. The evidence is consistent with the previous empirical studies (Andrade, Mitchell and Stafford, 2001; Goergen and Renneboog, 2004). Acquisitions with *undisclosed terms of the transaction* result in lower target announcement returns as the target's shareholders fear that these deals will lead to expropriation of their rights.

Target companies from the UK receive markedly higher announcement premiums than CE targets. The result is caused by the regions' differences in corporate governance systems: the UK has a system characterized with more dispersed ownership structure (Barca and Becht, 2001) and a higher degree of investor protection (La Porta et al., 1997) than Continental Europe. The more diffuse ownership structure and the higher investor protection, the higher the premium paid in takeovers (Grossman and Hart, 1980; Goergen, Martynova, and Renneboog, 2005).

Models 2 and 3 of table 8 show significant differences in the determinants of the target CARs of the two regions. We observe that the shareholders of CE targets are the main winners in *cross-border* and *diversifying* takeovers. Takeover bids that are subsequently *withdrawn* lead to significant share price increases for the UK target firms. This increase by itself may be one of the main reasons why a bid ultimately fails. Also, when a UK company is acquired, the *relative size of the transaction* matters: an increase in the relative size leads to a reduction in target announcement returns.

There is a significant positive relation between the *share price run-up* and the announcement returns of CE target firms. This result stands in sharp contrast to Schwert (1996) who does not find such a relation for the US. Remarkably, Model 2 of table 8 does not reveal such a relation for UK targets either. The significant relation between announcement and run-up returns of 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 to be paid to acquire control.

Another feature of M&As involving CE targets is the negative relation between *the bidder's toehold* and announcement returns accruing to target shareholders. Betton and Eckbo (2000) report similar evidence for US firms. A larger toehold implies a relatively lower total takeover price the bidder pays (Grossman and Hart, 1980; Shleifer and Vishny, 1986). The relation between the toehold and the announcement effect is insignificant for UK firms.²² Models 1, 2, and 3 of table 9 show that all the effects mentioned above are also economically significant.

²² The lack of significance may be explained by the fact that only 9% of the UK bidders actually acquire a toehold in the target prior to the bid. In contrast, 20% of Continental firms launch a takeover after acquiring a toehold.

[Insert about here Tables 8 and 9]

5.2.2. *Target firm pre-announcement returns*

Schwert (1996) shows that an increase in the share price of the target is not limited to the announcement day but commences already prior to the public announcement of the bid. Indeed, our univariate analysis shows that the share price run-up is substantial and even exceeds the announcement effect (see section 4). Model 4 of table 8 reports the determinants of the pre-announcement effect measured over the [-60, -2] time window for the total sample of European M&As. We find that, as in the case for bidder run-up returns, target returns are significantly affected by hostile bids and diversifying M&As. Over the three months prior to the *hostile bid* announcement, target shareholders earn significantly higher CARs than they earn prior to a friendly M&A. *Diversifying M&As* also trigger higher expected wealth increases for the target's shareholders. Investors anticipate that bidders pursuing diversification strategies bid more aggressively and hence pay higher takeover premiums than bidders adhering to a focus strategy. The fact that both the bidder's and target's shareholders react to hostile bids and diversifying M&As prior to their public announcement confirms that both types of takeovers may be anticipated, or that some degree of insider trading or trading on rumours about these deals takes place.

Our parameter estimates also reveal that *takeover timing* has a significant impact on the target's share price run-up. Firms acquired 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. Interestingly, high share price run-ups do not lead to a decrease in premiums paid at the bid announcement, as target announcement returns are also higher for bids initiated in 1997-1999 (see section 5.2.1). The overall evidence shows that bidders significantly overpay when takeover activity is booming.

Takeover bids on *UK targets* are higher valued and seem more anticipated than bids on CE firms because UK targets experience significantly higher share price run-ups. When we partition 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 5 and 6 of table 8). The anticipation of a cross-border acquisition leads to an additional run-up premium for UK targets. This stands in sharp contrast with the statistically insignificant reduction in the run-up of CE targets. For CE targets, pre-announcement CARs increase with the level of *collateral*, confirming that firms with high collateral are more attractive M&A targets in Continental Europe.

5.2.3. *Target post-announcement returns*

To control for the effect of additional information about the takeover realized after the bid announcement we complement our study with the analysis of the target's post-announcement returns. Models 7, 8, and 9 of table 8 show the parameter estimates from the regressions of target CARs measured over the [+2, +60] window on the characteristics of the bidding and target firms and the takeover deal for the total sample of European takeovers and for the sub-samples of UK and CE deals, respectively. The models have low explanatory power because the targets' share prices remain relatively stable subsequent to the announcement day (see section 4). Nonetheless, we identify a number of factors leading to the post-announcement reassessment of the targets' premiums. As model 7 of table 8 shows, the target abnormal returns decrease subsequent to the takeover announcement when the

takeover terms are not disclosed and the bidder faces *difficulties completing the transaction*. However, the CARs increase after the announcement of a *full acquisition*.

The *share price run-up* positively affects post-bid target returns. Notably, a similar positive relation between the run-up and the post-announcement returns is observed for bidding firms. This confirms that takeover synergies in M&As involving firms that underperform (prior to the bid) are more uncertain and that investors reassess them downwards when more information about the deal is revealed. The negative coefficient on the *toehold* variable indicates that bidders pay a lower total price when they acquire a toehold prior to the bid. Takeover bids made in the period of the *peak and decline of the takeover wave* are associated with significantly negative post-announcement share price revaluations. All the effects mentioned in this subsection are only statistically significant for CE target companies (see models 8 and 9 of table 8). The post-announcement CARs of UK target firms are positively influenced by a *withdrawal of the bid*. It seems that investors are relieved that the bid is withdrawn and that they anticipate other, more profitable bids.

The only common effect for UK and CE targets is the positive relation between the target's post-bid returns and the *cash flows*. An increase in the target's cash flows drives the post-announcement premium up. This suggests that negotiations between the target and the bidder continue after the initial bid announcement and that cash-rich targets have better opportunities to negotiate higher premiums. These targets may use their cash reserves to apply anti-takeover measures such as share buy-backs or increases in the dividend payout, which may make acquisitions more costly for the bidder.

5. Conclusions

This paper examines 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. The study produces an extensive list of results. We document that the majority of European takeover deals are expected to generate synergy value: they trigger substantial share price increases at the announcement, most of which are captured by the target firm's shareholders. We find large announcement effects (of 9.13%) for the target firms compared to a (statistically significant) announcement effect of merely 0.53% for the bidding firms. The analysis of pre-bid cumulative abnormal returns reveals that bidder and target share price reactions are not limited to the announcement day but commence already more than two months prior to the first public takeover announcement. Including the price run-up, the CAARs amount to 20.62% for targets and 0.92% for bidders. Subsequent to the event day, negative revaluations of the bidder and target share prices occur.

We show that there is systematic variation in the valuation effects of different types of takeovers. A number of our results are consistent with previous empirical studies of European and US mergers and acquisitions. In particular, in line with Franks and Mayer (1996) and Goergen and Renneboog (2004), we find that takeover announcement returns are lower for bidders but higher for targets in *hostile takeovers* and *tender offers*. Acquisitions of *private firms* trigger significantly higher abnormal returns for the bidder's shareholders, confirming the results of Faccio et al. (2004). Further, similar to the US studies (Moeller et al, 2004; Andrade et al., 2001), we find for Europe that investors adjust both the bidder and target's share prices downwards at the announcement of *all-equity offers*. Also, consistent with Harford (2003) and Moeller et al. (2005), we demonstrate

that takeovers occurring *when takeover activity is slowing down* trigger lower returns to both the bidder and target's shareholders than deals at the beginning or peak of the wave.

We also present a number of new results not documented before. We find that *hostile takeovers* are expected to create value, although part of this value is already incorporated in the bidder's and target's share price prior to the bid announcement. This suggests that hostility in takeovers may be anticipated. We also show that *partial acquisitions* and *deals with undisclosed terms of transactions* lead to substantial losses to the shareholders of both bidding and target firms. The evidence suggests that these types of M&As are feared to lead to expropriation of the rights of the bidder's and target's (minority) shareholders. Bidding firms benefit from accumulating a *toehold stake*, which is reflected in higher bidder post-announcement returns. It remains unclear why so many acquirers disregard the benefits of the toehold stake and opt for not accumulating a stake prior to announcing a takeover.

Whereas all the results above are valid for both UK and Continental European firms, we also detect some fundamental differences between takeovers in these two regions. First, some characteristics of the takeovers in the two regions differ. The Continental European market for corporate control is distinct in that there is a high number of acquisitions of partial control and of takeovers with undisclosed terms of transaction. Legal restrictions discourage these types of acquisitions in the UK. The UK takeover market stands out with a high number of hostile takeovers and tender offers. The prevailing concentrated ownership structures makes hostile takeovers and tender offers virtually impossible in Continental Europe. Second, the shareholders of UK target firms are able to pocket significantly higher returns than their Continental European peers. This may be caused by differences in *the corporate governance systems*: a more dispersed ownership structure and better investor protection empowers UK target's shareholders to extract higher premiums in takeover negotiations. This also may explain lower returns to UK bidders (relative to CE bidders). However, we find that, compared to their CE counterparts, UK investors are able to assess takeover gains more accurately on the takeover announcement day. Third, the *presence of a large shareholder* in the bidding firm has a significantly positive impact on bidder run-up returns in the UK and a negative impact in Continental Europe. The result may be caused by insider trading by the large shareholders. The market anticipates that UK firms controlled by a large blockholder will be involved in M&As that increase wealth of shareholders. In contrast, a CE firm controlled by a large blockholder is expected to initiate M&As that increase the wealth of the blockholder at the expense of the firm's incumbent minority shareholders. Thus, our results point out the different roles that large shareholders play in UK and Continental European firms, which result from the differences in corporate governance systems in the two regions.

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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 Aktienfuehrer</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>La Porta 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. This category includes transactions characterised as <i>mergers</i> and <i>private purchases</i> . A <i>merger</i> 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 <i>private purchase</i> 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. 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 <i>intends</i> 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>

<i>Variable</i>	<i>Definition</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>
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 <i>unopposed tender offer</i> 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 sufficient number of shares are tendered such that the bidder gains control over the target. 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. 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) friendly M&As, unopposed tender offers, and opposed (by the target's board) bids; (iii) privately held and public target firms; (iv) diversifying deals and focus-oriented transactions, (v) acquisitions of 100% control and acquisitions of partial control; and (vi) all-cash, all-equity, mixed offers and deals with undisclosed terms of transaction. All takeover characteristics are defined in Appendix II.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	1993-2001	
										%	<i>Num</i>
Total number of M&As	171	229	228	229	229	292	411	408	222		2419
% 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	1681
Cross-border bid	23.4	25.3	30.3	26.6	30.1	33.9	31.9	34.1	32.4	30.5	738
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
Private target	69.0	69.9	62.7	72.9	62.0	62.0	54.5	62.7	62.6	63.2	1530
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	1558
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
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	1451
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
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

Table 2. 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 3. Characteristics of bidding and target firms

This table reports the 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 4. 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. The 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) is 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 the different characteristics of the takeover 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>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)	1659
<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)	
§ <i>TARGET</i>											
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)	

	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>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
<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)	
<u>TYPE OF ACQUISITION:</u>											
§ BIDDER											
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)	
§ TARGET											
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>MEANS OF PAYMENT:</u>											
§ 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)	

	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)	
MEANS OF PAYMENT:											
§ 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 5. 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 La Porta 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 6. Anticipated wealth creation for the bidding firm's 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 CE (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. We denote the characteristics of bidding and target firms by (B) and (T) respectively. a/b/c stand for statistical significance at 1%/5%/10%, respectively.

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

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

Table 8. Anticipated wealth creation for the target firm's 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. The variable definitions are given in Appendix II. For each variable we list the coefficient and the heteroskedasticity-consistent p-value. We denote characteristics of bidding and target firms by (B) and (T) respectively. a/b/c stand for statistical significance at 1%/5%/10%, respectively.

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

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