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Discussion:

« Competition Enforcement and Accounting for Intangible Capital»

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This paper in a nutshell

Interpreted as anticompetitive M&A due to "hole" in regulation

Because of this "hole", there could be 90 anticompetitive deals per year

- Study conditions for M&A review by anti-trust authorities
  - Research question
    - Are the conditions for review adequate to prevent anti-competitive M&A?
  - Tested hypothesis
    - No, they are not, because concentration in intangible assets is ignored
  - Main findings
    - Unreported M&A leading to concentration in intangibles are associated with
      - ✓ Higher premium paid
      - ✓ Higher CAR for acquirors and rivals
      - ✓ Higher markups ex-post (in developed markets)
      - ✓ More patent citations ex-post
      - ✓ More discontinuation of valuable drug projects (in pharmaceutical industry)
      - ✓ More "copycat" / Less novel drug projects (in pharmaceutical industry)

My discussion

- Interesting paper on an important topic
  - Valid point about intangible capital
  - Many tests & robustness tests
  - Many different results, …
  - … for different industries,
  - … and for different firms with different characteristics

- My discussion
  1. Paper structure
  2. Single vs. Muti-criteria approach
  3. Relevance of omitting intangibles
  4. Results interpretation

Comment #1 – Paper Structure

- Ambitious paper
  - Tries to speak to different literatures
    - M&A, IO, Regulation, Accounting..
  - Studies different anti-competitive effects
    - Rent Extraction, Innovation Discontinuation (“Killing Acquisitions”)
  - Looks at different industries
    - Developed markets / Undeveloped Markets /Pharmaceutical Industry
- Creates patchwork with many pieces, but no clear structure
  - Missing economic links between the different results
  - (Over)abundance of information
    - More footnotes (42) than pages of text (33)
    - Voluminous Online Appendix (33 pages)
  - Critical results (mentioned in Intro) are in online appendix

Some trimming / restructuring would facilitate the reading.

Focus on what you think is most novel insight.

Comment #2 – Single vs. Multi criteria approach

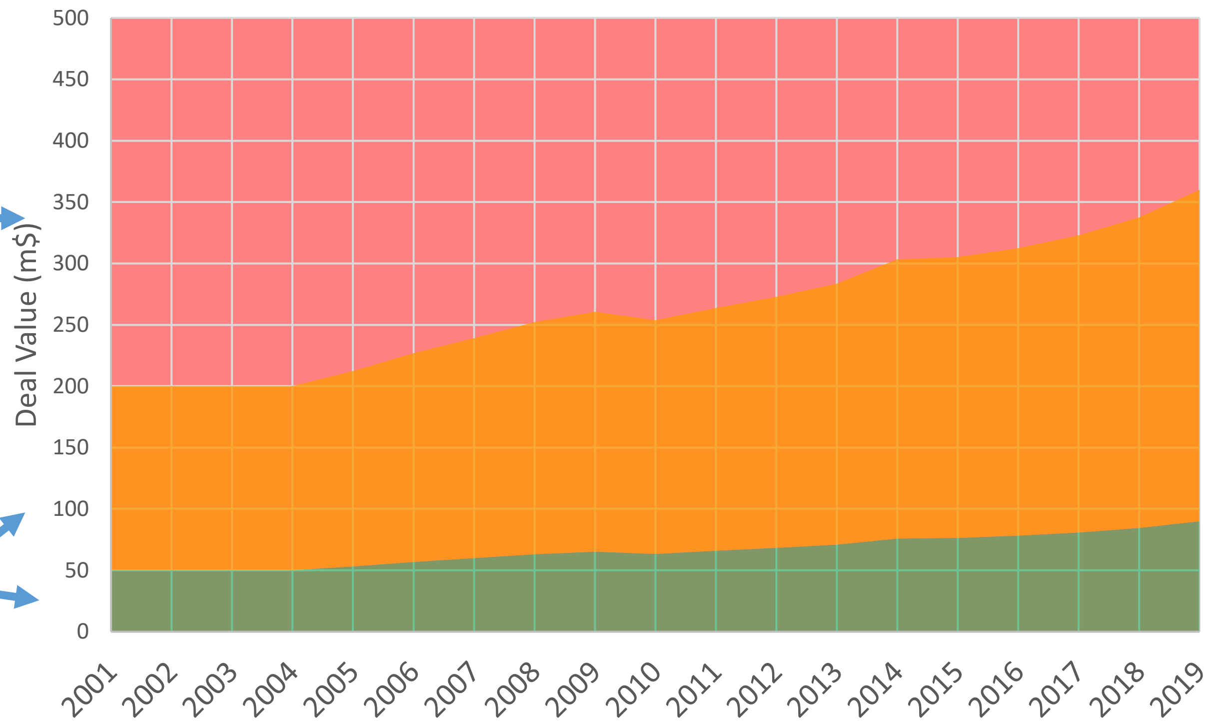
What matters first is deal value, (which includes the value of intangibles)

Small, medium and large deals are always reported

Micro deals (shopping mall acquisition) are ignored

Contentious area (orange corridor) is for very small caps.

➢ Notification for review depends on multiple criteria



- *"Mid-caps are companies with a capitalization between $2B and $10B, while small-cap corporations have between $250M and $2B" (Source: Investopedia)*

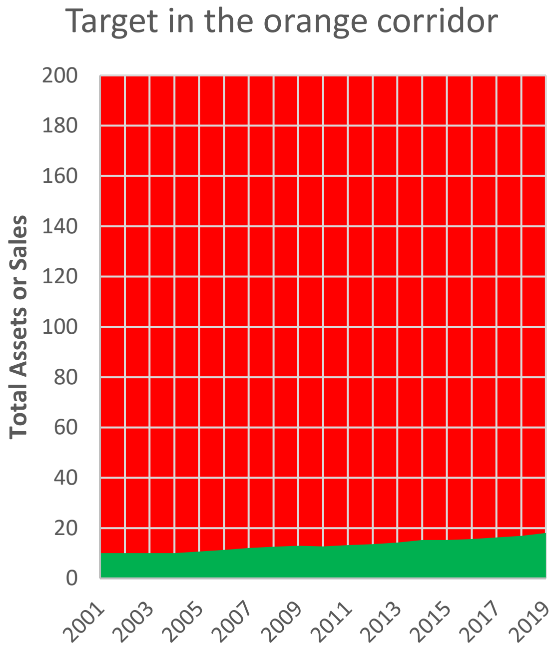
Comment #2 – Single vs. Multi criteria approach

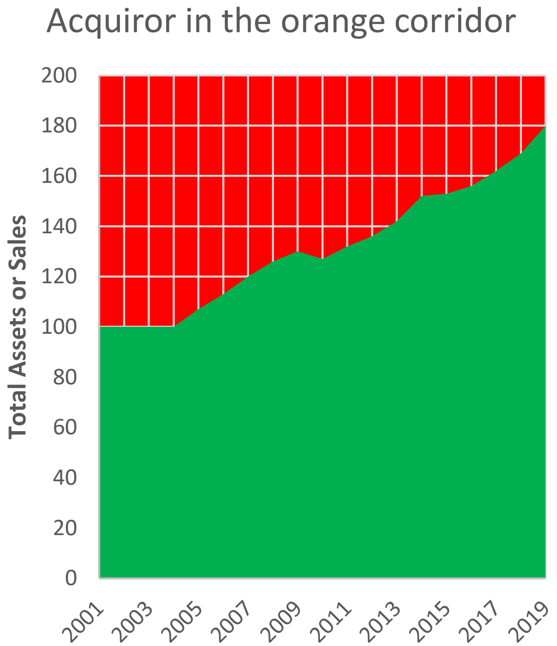
- In the contentious area (orange corridor)
  - Review depends on total assets **or sales** for both the target AND the acquiror

Notif. if target sales exceed about 10 to 20 millions,

When target is extremely small deal is ignored

Paper raises concerns about those cases (arguing target may have more than $10M of intangibles)





  - Paper raises concerns about unreported deals that should be reported if intangibles were recognized, …
  - … but these targets generate **little revenues** (If not, they would be notified)

Comment #3 – Relevance of omitting intangibles

Let's use sales to measure mkt. share

In 2001, "Grain farming" generated total revenues of $26854M

Acquiring a target generating $10M of sales in "Grain farming" → Increase in mkt. share by 0.04%

- What is the maximum gain of market share that can be unreported?
  - Target sales thresholds between $10M and $18M
  - Total sales (gross output) by BEA industry (~400 industries based on NAIC)

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U.Gross Output by Industry - Detail Level

[Millions of dollars]

Last Revised on: May 23, 202

Line		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1	Oilseed farming	13,521	14,257	17,636	18,651	17,533	17,845	24,543	27,745	34,282	33,443	34,386	42,373
2	Grain farming	26,854	27,647	31,263	38,630	30,770	37,554	51,849	69,439	57,993	58,299	79,252	84,053
3	Vegetable and melon farming	15,508	15,586	16,854	17,409	16,594	17,019	18,744	16,594	16,343	15,168	16,994	14,376
4	Fruit and tree nut farming	12,317	12,723	13,951	16,460	17,300	17,170	18,979	18,964	18,771	20,592	24,385	26,489
5	Greenhouse, nursery, and floriculture production	14,998	15,718	16,343	17,254	17,487	17,975	18,600	21,120	20,473	20,688	21,268	22,026
6	Other crop farming	14,894	14,690	17,346	19,461	17,715	18,069	21,180	23,076	20,069	23,075	26,642	27,643

Comment #3 – Relevance of omitting intangibles

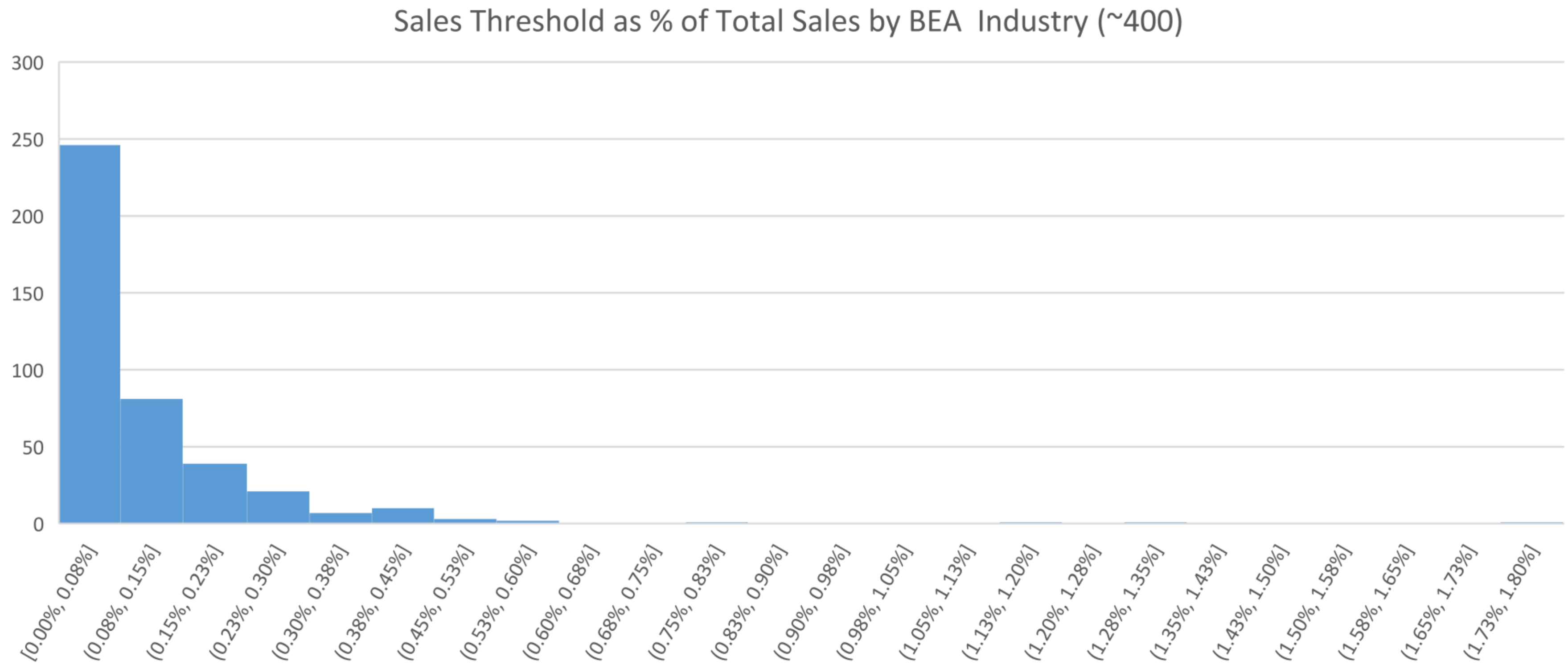
Let's use sales to measure mkt. share

Repeat the same calculation every year for all BEA industries, and not just "Grain farming" in 2001

Average max. gain is 0.1%

[Excluding "Other Electric power generation"]

- Distribution of maximum gain of market share that can be unreported by industry-year
  - Same data / calculation as before for all industries and year



Comment #4 – Results interpretation

- Reverse causality / Mechanical correlation ?
  - In some tests (e.g.. Table 3), dep. and indep. rely on the same source of variation

$$DealPremium = \beta\ Unreported + \cdots + \ \varepsilon$$

Proportion of equity recognized as Goodwill, where goodwill is direct functions of intangibles

Equal to 1 if fair value of assets (with intangibles) is more than threshold

  - Both variables directly depend on goodwill paid → mechanical positive correlation?

Comment #4 – Results interpretation

- Alternative / non-mutually exclusive interpretations?

  - M&A typically motivated by efficiency gains, economies of scope & scale
    - Evidence of higher premium paid, higher markups, more innovation, higher ACAR, etc. could be re-interpreted along these lines

  - Providing definitive evidence of value transfer from consumers to shareholders because of a change in IO seems very challenging

Conclusion

- Very interesting paper. I learnt a lot!
  - Important research topic
  - Research motivation / starting point is valid
    - Intangibles are not factored in …
    - … but the “so what?” is not yet entirely clear to me

- My discussion
  1. Missing links / Over-abundance of info. → Re-organize / Trim the paper?
  2. Sales criteria → Can reliance on sales mitigate concerns about omitted intangibles?
  3. Economic relevance → If only deals with micro targets go unreported, is intangibles omission consequential?

- Thank you for making me think about this!