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SOURCES OF TRANSACTION FINANCING IN CORPORATE TAKEOVERS

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Abstract:

While the means of payment in takeovers has been a focal point in the takeover literature, what has been ignored is the analysis of how the takeover bid is financed and what its impact is on the expected value creation of the takeover. This paper investigates the sources of transaction financing in European corporate takeovers launched during the period 1993-2001 (the fifth takeover wave). Using a unique dataset, we show that the external sources of financing (debt and equity) are frequently employed in takeovers involving cash and mixed payments. Acquisitions with the same means of payment but different sources of transaction funding are quite different. For instance, the market reaction to the announcements of acquisitions fully paid with cash but financed by equity issues is similar to the market reaction to the announcements of acquisitions fully paid with equity. Moreover, a negative price revision follows the announcement of any corporate takeover involving equity financing (including cash-paid and mixed-paid takeovers). In contrast, this price correction that takes place subsequent to the debt-financed bids is insignificant. The multinomial logit and nested logit analyses show that the decisions regarding the payment method and sources of takeover financing (conditional on the chosen means of payment) do not coincide. Instead, these decisions are made to solve different problems. We also document that the financing choices are very sensitive to the differences in the legal environment (regarding shareholder, creditor and minority shareholder protection as well as corporate transparency) across countries.

JEL codes: G34

Keywords: mergers and acquisitions, means of payment, sources of financing takeovers, corporate governance, shareholder protection, pecking order

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1. INTRODUCTION

The empirical literature has given notable attention in recent years to the choice of the means of payment in corporate takeovers (see e.g. Amihud, Lev, and Travlos, 1990; Martin, 1996; Ghosh and Ruland, 1998; and Faccio and Masulis, 2005). In this literature, the term ‘means of payment’ is frequently considered as synonymous to the ‘sources of takeover financing’. The bidder’s payment decisions are often used to test theories that explain how firms finance their investment projects (such as Myers, 1977; Jensen and Meckling, 1976; Myers and Majluf, 1984). The classification by means of payment, however, typically ignores the sources of transaction financing. This error is particularly severe for all-cash offers which are assumed to be entirely financed with cash. If the external sources of funds (debt and equity) are frequently used to finance all-cash offers, the means of payment is no longer an appropriate proxy for the sources of transaction financing in corporate takeovers. Therefore, the analysis of the motives underlying the means of payment may lead to incorrect conclusions about the validity of the theories that explain the firm’s financing decision.

This paper contributes to the existing M&A literature by investigating explicitly the motives underlying the bidder’s decision how to finance a takeover bid. Based on the classification of takeovers by sources of transaction financing (instead of the one by the means of payment), we test a set of predictions derived from the dominant theories of how companies choose financing sources for their takeover transactions. Thus, in a novel way, we test whether the bidder’s financing decision is driven by the following explanations: pecking order (Myers and Majluf, 1984), debt overhang (Myers, 1977), takeover threats (Zwiebel, 1996), agency cost of equity and debt (Jensen and Meckling, 1976), and financial flexibility (Bolton and Freixas, 2000). We also examine whether the bidder’s preferences for specific means of payment have an impact on the choice of the sources of funding. The overall analysis is further complemented with the investigation of how the market reacts to the announcement of takeovers financed with different types of capital. To our best knowledge, this is the first empirical study that models the sources of financing used in corporate takeovers. The lack of reliable data on the sources of takeover financing may have been the main reason why the financing decision of the bidding firms has never been investigated before. Our analysis is based on a unique hand-collected dataset of European takeover bids that were launched during the fifth takeover wave (1993-2001).

We document that external sources of financing (debt and equity issues) are frequently employed in takeovers that involve cash and mixed payments. In more than 850 acquisitions entirely paid with cash, one-third is at least partially financed with external funds (70% of which are financed with debt).

Of the 260 firms opting to make an offer consisting of a combination of equity and cash, 37% borrow to finance the cash component of the takeover offer.

Our analysis reveals that in addition to the means of payment, sources of transaction financing are an important determinant of market reaction to the takeover announcement. Investors differentiate between information about the payment method and sources of takeover financing and take into account both takeover characteristics. In particular, the market reaction to the announcements of acquisitions fully paid by cash but financed by equity is similar to the market reaction to the announcements of acquisitions fully paid by equity. Moreover, we observe that a negative price revision follows the announcement of any corporate takeover that involves equity financing. In contrast, the price correction that takes place subsequent to the debt-financed bids is insignificant. We also find marked evidence that, in sharp contrast to the negative returns of all the other types of offers, cash-paid and debt-financed acquisitions create substantial value (about 3%) to the bidding firms over a 6-month period centred around the day of the takeover bid. This evidence shows that earlier research that partitioned takeover bids into cash versus equity offers has oversimplified reality.

The *financing decision* (the bidder's choice between cash, debt, and equity financing) is explained by the pecking order preferences as well as by conflicting interests between shareholders and creditors. In contrast, none of those factors explain the motives to use a specific means of payment in the takeover bid. The *payment decision* depends on the degree to which the bidders' large shareholders wish to retain control after the takeover, on whether or not the bidders' shareholders intend to share the risk of the transaction with the target's shareholders, and on the characteristics of the takeover bid. However, these factors have an insignificant impact on the bidder's financing choice once we condition on the payment mode. We therefore conclude that the decisions on the means of payment and the sources of takeover financing are not substitutes.

The focus on intra-European mergers and acquisitions (M&As) involving Continental European and UK companies adds value to this paper, as it allows us to explore the impact of a wide range of institutional settings and regulatory rules on the patterns of the financing decisions. We capture the differences in the regulatory corporate governance environment across European countries by a set of newly created governance indices. With the help of 150 corporate lawyers from 32 European countries, we have created a corporate governance database that comprises the main changes in corporate governance regulation in all European countries over the last 15 years. For each country, we quantify the regulations and measure their effectiveness in mitigating the conflicts of interests between the various

corporate constituencies: the management, the majority and minority shareholders, and the creditors. We also quantify the regulatory provisions aiming at improving the transparency of corporate information. Our database reveals that corporate governance regulation has been substantially reformed in virtually every European country during the 1990s. Therefore, it is important to note that, in contrast to previous studies, all legal indices employed in this paper are time-varying and reflect all changes in the legal environment during the analysed period.

Our evidence demonstrates that the financing choices are very sensitive to the differences in the legal environments by countr. As expected, the choice of equity financing is more likely in countries with better shareholder rights protection. When shareholder rights protection is low, companies more frequently resort to debt and cash as financial sources. Moreover, debt financing prevails in countries with better creditor protection. This evidence is in line with LaPorta et al. (1998) who argue that a better protection of financiers from expropriation facilitates the development of well-functioning capital markets and ensures lower costs of financing. Since the legal protection of shareholders and creditors affects the cost of equity and debt capital, it induces systematic corporate preferences for the least expensive sources of funding. In contrast, we find no significant impact of the legal environment on the choice of payment in takeovers.

The remainder of the paper is organized as follows. In Section 2, we formulate the hypotheses on what drives the bidders' choice of how to finance the takeover. Section 3 describes the sample selection procedure, data sources, and sample statistics. Section 4 discusses the methodology. In section 5, we present and interpret our empirical findings. Section 6 reports the results of the robustness check and section 7 concludes.

2. MOTIVATION AND HYPOTHESES

A prominent view in the corporate finance literature is that equity issues reduce firm value. Indeed, share price reductions arise when equity is used as a means of payment in M&As (see e.g. Moeller et al, 2004; Andrade et al., 2001; Franks et al., 1991) or when seasoned equity offerings are made (see e.g. Asquith and Mullins, 1986; Masulis and Korwar, 1986; Mikkelson and Parch, 1986). In spite of the negative price reactions, equity financing has not been a rare phenomenon over the past two decades. In particular, a switch from cash to equity in the financial composition of takeover bids arose over the 1990s: Andrade et al. (2001) document that all-equity acquisitions represented 32.9% of all US M&As

in the 1980s versus 57.8% in the 1990s.¹ Similarly, Martynova and Renneboog (2006) show that equity has become an increasingly popular source of financing in European M&As: the proportion of all-cash acquisitions fell by half in the 1990s compared to the 1980s. The question arises why all-equity offers or mixed offers are still so frequently used in corporate takeovers and whether these choices depend on the firms' financial resources.

An extensive body of theoretical and empirical research on the determinants of corporate financing decisions can be partitioned into two dominant explanations: cost of capital considerations and agency-related issues. The former explanation upholds that market imperfections or institutional rigidities, such as information asymmetries (Myers and Majluf, 1984), legal protection of shareholders and creditors (LaPorta et al., 1998), or taxes (Modigliani and Miller, 1963) may disproportionately affect the costs of debt and equity capital. The latter explanation endorses that a firm issues specific securities to mitigate agency problems between its management, shareholders, and creditors (Myers, 1977; Zwiebel, 1996). = Specifically for the financing decision in corporate takeovers, we propose a third explanation: the preferred payment mode in the takeover deal may influence the financing sources chosen by the bidding firm. In the remainder of this section, we formulate the hypotheses on how the bidder's choice of the sources of takeover financing depends on the cost of capital considerations, agency problems, and on the preferences for specific payment methods in the takeover deal.

2.1 Cost of Capital considerations (CC)

CC1. Pecking Order and Market Timing:

The negative price reaction to the announcement of equity issues is typically ascribed to asymmetric information. Myers and Majluf (1984) argue that investors consider an equity issue as a signal that a firm is overvalued. This adverse price effect of an equity issue increases its costs and forces firms to issue equity only when alternative sources of financing are unavailable or too costly. However, the value reduction induced by equity issues may be less severe in periods of stock market booms. Not only do buoyant equity markets overvalue shares in the short-run (hence making equity a relatively cheap source of financing), they also induce investors to under-react to negative signals about the firms' fundamental values (Baker, Ruback, and Wurgler, 2004).² When contracting debt is no longer

¹ Furthermore, Fama and French (2002) document that issues of equity in mergers and acquisitions are much more sizeable than public equity issues that are not M&A-related.

² The overvaluation of a bidding firm's equity may also have a bearing on the choice between cash or equity payments (and hence the financing) in a takeover bid. Shleifer and Vishny (2003) and Rhodes-Kropf and Vishwanathan (2003) show that

advantageous compared to issuing equity, firms are more likely to raise money for takeovers by performing seasoned equity issues (Choe, Masulis, and Nanda, 1993).³ Consequently, we formulate the following predictions (CC1):

CC1(a) An equity issue is more likely when a firm has insufficient cash funds and limited debt capacity to finance takeovers. A debt issue has priority over an equity issue and is more likely when firms are cash-constrained but still have sufficient debt capacity.

CC1(b) Equity financing of takeovers is more likely in periods of a stock market booms.

Our measure of insufficient cash funds (i.e. an internal funding deficit) is the bidder's internally generated funds and cash surpluses divided by the transaction value (CFLOW/TRANSVAL and CHLDG/TRANSVAL respectively). A ratio less than one denotes that the bidder's internal sources of funds are insufficient to finance an acquisition entirely by cash. Two variables are used as proxies for the bidder's debt capacity: COLLATERAL is the percentage of tangible assets to total assets of the combined firm (sum of tangible assets of the bidding and target firms over sum of total assets of the two firms). As tangible assets represent collateral for outside investors, we expect firms with a higher percentage of tangibles to attract external financing more easily (Myers, 1977; Hovakimian et al., 2001). The second variable, FIN LEVERAGE, is calculated as the sum of the bidder's long-term debt and the transaction value, divided by the sum of the bidder's book value of assets and the transaction value. All the variables mentioned above are calculated at the year-end prior to the deal announcement. Our measure of the bidder's share price performance prior to the bid consists of the daily abnormal returns cumulated over the window starting 60 days and ending 20 days prior to the bid announcement (RUNUP). To control for stock market booms, we construct indicator variables for the periods 1993-1996 (stock market recovery), 1997-1999 (stock market boom), and 2000-2001 (stock market decline).

CC2. Regulatory Environment:

A growing literature advocates that regulation is a key determinant of corporate financing decision. LaPorta et al. (1997, 1998), Levin (1999), and Djankov et al. (2004) argue that regulation affects the terms at which financiers are willing to provide firms with funds. When a regulatory environment protects the providers of funds against expropriation by management, external finance may

overvalued bidders use equity to buy real assets of undervalued (or less overvalued) targets. This way they hope to take advantage of the mispricing premium over the longer term when the overvaluation may be corrected.

³ In line with this argument, much empirical evidence documents that an improvement in the stock market and overall economic activity boosts IPO and SEO issues (see e.g. Marsh, 1982; Choe et al., 1993; Lowry and Schwert, 2002)

be available at lower costs. Strong creditor protection assumes that lenders force repayment more easily, take possession of collateral, or even gain control over the firm. This results in lower creditor risks and hence in lower borrowing costs. Consequently, this increases the relative attractiveness of borrowing. Alternatively, strong shareholder protection enabling shareholders to participate in or monitor corporate decision-making reduces the risks for the shareholders and increases the relative attractiveness of equity financing. In addition, a bidder is more likely to issue equity in countries with better corporate transparency standards, as the adverse effects of equity issues are less severe when transparency is higher. Bidding firms controlled by large shareholders may be more reluctant to use equity financing in countries with lower protection of minority shareholder rights. When minority shareholders have little influence, large shareholders may exploit private benefits of control at their expense. Overall, the financing choice depends on the relative magnitude of the costs associated with debt and equity issues. We hypothesize that:

CC2(a): Firms are more likely to use debt financing for acquisitions in countries where the costs of issuing equity are substantially higher due to poor shareholder protection or where the costs of borrowing are relatively lower due to better creditor protection.

CC2(b): An equity issue to finance takeovers is more likely to occur in countries with higher transparency standards and lower protection of minority shareholders.

We measure the differences in the regulatory corporate governance environment (shareholder, creditor, and minority shareholder rights protection, and transparency standards) across European countries employing four newly created governance indices. The methodology employed to construct the indices is described in Section 3.3 and Appendix III. We multiply each index by a ‘law enforcement’ index (the Rule of law and Corruption indices of the World Bank). The reason is that good corporate governance regulation may be less influential if its enforcement in courts is not sufficiently strong.

2.2 Agency Problems between corporate claimants (AG)

AG1. Agency Cost of Equity and Takeover Threat:

For managers who pursue a personal agenda at the expense of value maximization a debt issue may be regarded as the least preferred source of financing as it restricts the availability of corporate funds at their disposal (Jensen and Meckling (1976)). In contrast, an equity issue increases the funds under managerial discretion and hence may be strictly preferred by the manager. This agency conflict between the management and shareholders is most pronounced in widely-held corporations where

shareholder activism and efficient monitoring of the management is low (Berle and Means, 1932). Therefore, we predict that:

AG1(a): Firms with a diffuse ownership structure are more likely to issue equity to finance takeovers.

As dispersed (atomistic) shareholders have few incentives to monitor the management directly, they rely on external monitoring by the market for corporate control. Zwiebel (1996) shows that entrenched managers may voluntarily opt for debt financing because of the takeover threat from the market for corporate control. In his dynamic model, hostile takeovers target poorly performing firms and replace their management. The threat of losing their jobs and perquisites provides managers with an incentive to focus on the shareholder value maximization, and a debt issue allows them to constrain their own discretion over corporate funds credibly. Thus, we can formulate the following hypothesis:

AG1(b): Managers anticipating a takeover threat are more likely to finance acquisitions with debt.

We employ two variables to measure the dispersion of the bidder's corporate control structure. First, CONTROL (%) is the ultimate voting stake owned by the bidder's largest shareholder. The second variable, BLOCKHDR>20, is a binary variable indicating the presence of a blockholder owning a voting stake of at least 20%. Following Faccio and Lang (2004), we assume that that 20% of the voting shares suffices to ensure control. If no shareholder exceeds the threshold, we consider the company is widely held. The measure of the bidder's takeover vulnerability, TO THREAT, is the likelihood that the bidder becomes a target of a corporate takeover in the year when it makes an acquisition. It is estimated by a probit model applied to all European firms for the period 1993-2001.⁴

AG2. Debt Overhang:

Myers (1977) argues that the conflicting interests of shareholders and creditors may encourage firms to issue equity rather than debt to raise external funds. In his view, the wealth-maximizing preferences of shareholders dictate that managers undertake a project only if its expected benefits exceed the payments to the debtholders. This may lead to underinvestment as managers may forego positive NPV investment projects if the expected benefits only suffice to repay debt and leave no return to the shareholders. To minimize the scope of underinvestment, firms with high quality projects may limit leverage and hence avoid further borrowing. This leads us to the following prediction:

⁴ The sample of European firms for the period 1993-2001 is an unbalanced panel. The dependent variable in the probit model equals one if the company was acquired during the year and is zero otherwise. The set of independent variables is taken from the prior literature explaining the probability of takeovers (Hasbrouck, 1985; Palepu, 1986; Ambrose and Megginson, 1992; Cremers et al., 2005). The estimated parameters of the model are available upon request.

AG2: Firms with high growth potential finance acquisitions by equity.

Our main measure of the bidder's growth potential is Tobin's Q, calculated as the bidder's market value of equity (ordinary and preferred) plus book value of long-term debt divided by the sum of the book value of equity and long-term debt. Other measures employed are the average growth rate in sales (SALES 3YGR), in capital expenditures (CAPX 3YGR), and in total assets (TA 3YGR) over the 3 years prior to the year of the acquisition.⁵ Detailed definitions of the alternative measures are given in Appendix I.

AG3. Agency Cost of Debt and Financial Flexibility:

In addition to the underinvestment problem, conflicts of interests between shareholders and creditors may also lead to another agency problem; namely, excessive risk taking by the management. Black and Scholes (1973) show that the equity of a leveraged firm is a call option on the firm's assets whose value increases with the volatility of future cash flows. This implies that the management can maximize shareholder wealth by increasing the risk of the projects it invests in, and hence re-distribute wealth from bondholders to its shareholders. Higher earnings volatility increases the expected bankruptcy costs which creditors may anticipate =by demanding better terms in the debt covenants. Consequently, the cost of borrowing increases, which makes debt financing less attractive or even prohibitively expensive for leveraged and risky firms. This leads us to the following hypothesis:

AG3(a): Leveraged firms with high earnings volatility are less likely to choose debt financing.

Bolton and Freixas (2000) formulate an alternative theory. In their capital market equilibrium, risky firms prefer bank loans to equity financing because banks are good at helping firms through times of financial distress. That is, firms facing high risk of bankruptcy are more likely to establish close lending relationships with banks. This provides them with access to the cheapest form of flexible financing. Safer firms prefer to issue equity (and bonds) and hence avoid paying the intermediation cost associated with bank loans.

Whereas Bolton and Freixas (2000) distinguish between debt financing in the form of a bank loan and a bond issue, we are unable to follow this classification due to the data limitations described in Section 3.1. However, we can test the predictions of their model on the firm's preference between equity and debt (bank loan) financing for the following two reasons. First, the European market for corporate

⁵ The advantage of these growth measures is that they are not affected by differences in accounting policies across firms (countries). However, the disadvantage is that, in contrast to Tobin's Q, they are not forward-looking.

bonds is small (relative to that of the US) and most of the debt financing consists of bank loans (common in e.g. Germany) or of private placements of loan notes (common in the UK).⁶ Second, in terms of the firm's ability to renegotiate debt contracts in the times of financial distress, privately issued loan notes (which are also frequently unsecured) are more similar to bank loans than to publicly issued bonds. The reason is that public debt is difficult to renegotiate due to coordination problems between small creditors (bondholders), whereas private debt (privately issued loan notes) is – just like bank loans – frequently involves only one or a group of large creditors. Therefore, following predictions of Bolton and Freixas (2000), we hypothesize that:

AG3(b) Firms with high earnings volatility are more likely to choose debt financing in takeover deals.

AG3(c) Young risky firms are more likely to use equity financing in takeover transactions.

To proxy for a firm's risk, we employ the age of the bidding firm (AGE) and its exposure to the market risk (BETA) estimated with the market model over the period between 300 and 60 days prior to the takeover announcement. We expect shares of relatively young firms and firms with high beta to be more risky.

2.3 Means of Payment considerations (MP)

As the bidder's decision regarding the sources of takeover financing often coincides with or depends on the choice of the payment mode in the takeover deal, we complement our above analysis with the reasons why bidders prefer a specific means of payment in corporate takeovers.

MPI. Risk Sharing:

Information asymmetry between bidder and target are an important determinant of the means of payment in corporate acquisitions. In particular, high uncertainty about the true value of the target firm induces the bidder to pay with its own equity instead of with cash. Capital participation in the combined firm makes the target shareholders share the risk of downward post-acquisition revaluations. Hansen (1987) predicts that misvaluation of the target firm is especially harmful for the bidders when the transaction value is high and the size of the target's assets is comparable to that of the bidder's assets. Therefore, we hypothesize that:

MPI: The probability that an equity offer is made increases with the absolute and relative transaction value.

⁶ The only European corporate bond market that is sufficiently large and liquid is the Eurobond market.

To test the risk-sharing hypothesis, we employ three variables: the market value of the bidding firm (MVAL) measured 60 days prior to the bid announcement, the transaction value (TRANSVAL) measured by the total amount the bidder pays to purchase shares of the target firm (excluding assumed liabilities), and the relative size of the transaction (RELVAL) calculated as the transaction value divided by the sum of the transaction value and the bidder's market capitalization.

MP2. The Threat of Control Change:

Faccio and Masulis (2005) document that a change in corporate control structure in the form of voting power dilution and the emergence of an outside blockholder may discourage bidders from paying for acquisitions with equity. These findings support the theories by Harris and Raviv (1988) and Stulz (1988) predicting that an equity exchange is less likely to be used when an equity issue dilutes the voting power of the blockholders or share-owning managers of the acquiring firm. Thus, the likelihood of an equity payment is largely determined by the control structures of the bidding and target firms. In particular, a cash payment is strictly preferred to an equity payment when the target's share ownership is concentrated or a bidder's largest blockholder only holds an intermediate level of voting power.⁷ This preference is weakened if the target company is widely held or if the bidder's dominant shareholder has a supermajority of voting rights. The threat of control change hypothesis can be formulated as follows:

MP2: A bidder is unlikely to make an all-equity payment if the takeover bid significantly dilutes the firm's control concentration.

To capture the impact of an all-equity offer on the control structure we consider the following four variables. CONTROL THREAT is the voting stake in the combined firm that the largest shareholder of the target firm obtains provided the acquisition is entirely paid with equity. This variable captures that an all-equity bid creates a new large shareholder in the merged firm and hence threatens the control positions of the bidder's incumbent shareholders. To measure the extent of the control loss for the bidder's incumbent blockholders, we employ three indicator variables characterizing the bidder's control structure. Following Faccio and Masulis (2005), we distinguish between widely held companies in which no blockholders hold at least 20% of voting rights (CONTROL<20), companies with intermediate control concentration in which a blockholder owns a voting stake between 20% and 60% (20<CONTROL<60), and firms controlled by a blockholder holding a strong majority of voting rights

⁷ We consider voting stakes in the range of 20 to 60 percent as an intermediate level of voting power. This is the range where the control position of the large shareholder is most vulnerable to being diluted by an equity offer.

(CONTROL>60).⁸ The bidder's control structure is likely to be affected by an all-equity offer if the firm is controlled by a shareholder with an intermediate level of voting power.

MP3. Characteristics of the takeover bid:

The characteristics of a takeover offer may significantly affect the choice of the payment method. First, an equity payment is less likely to be offered in cross-border takeovers, as selling equity to foreign investors faces some hurdles. The seller may be reluctant to accept an equity offer from a foreign acquirer if the latter's shares are not traded in the seller's country. This could entail that the bidding firm('s quality) may be less known in the seller's country (see e.g French and Poterba, 1991; Coval and Moskowitz, 1999). Also, the regulation in the target firms' countries may impose restrictions on foreign equity investments (Faccio and Masulis, 2005). Second, cash offers increase the probability of the bid's success in tender offers, mandatory bids, competing bids, and hostile takeovers and are hence preferred by bidders in such types of transactions (Fishman, 1989). Consequently, equity is less likely to be the means of payment for this type of takeovers. Third, the incumbent owners of an unlisted target are more likely to accept cash payment, as one of their primary incentives to sell the firm may be to cash out. Therefore, equity bids are also least likely when the target firm is unlisted or closely-held. In sum, we expect that:

MP3: An equity payment is less likely in tender offers, hostile takeovers, cross-border acquisitions, and acquisitions of unlisted targets.

To test this prediction we construct four binary variables, TENDER OFFER, HOSTILE BID, CROSSBORDER BID, and LISTED TARGET, that take value of one if the takeover transaction is a tender offer, hostile bid, cross-border bid, or the acquisition of unlisted target, respectively.

3. SAMPLE SELECTION, DATA SOURCES, AND SAMPLE DESCRIPTION

The study explores a unique dataset compiled from more than 10 different databases. We describe the sample selection procedure and data sources, and provide an overview of sample composition by sources of transaction financing and means of payment. We also explain how we construct the indices that capture the regulatory corporate governance environment by country: a shareholder rights protection index, a creditor rights protection index, a transparency index, and a minority shareholder rights protection index.

⁸ As a robustness check, we also consider alternative classifications which we discuss in more detail in Section 6.

3.1 Sample selection and data sources

We build our initial sample of European acquisitions undertaken between 1993 and 2001 – during the fifth takeover wave - from the Mergers and Acquisitions Database of the Securities Data Company (SDC). The SDC data were sifted in order to retain intra-European domestic takeovers and cross-border acquisitions with both acquirer and target located in Continental Europe or the UK. Deals involving firms from Central and Eastern Europe are also considered. The deals included in our fulfil the following requirements: (i) the takeover aims at acquiring majority control; (ii) both parties in the transaction are independent corporations⁹; (iii) neither bidder nor target is a financial institution (banks, unit trusts, mutual funds and pension funds are excluded); (iv) the bidder's shares are traded on a European stock exchange (but the target firm can be either listed or in private hands); (v) the period between two consecutive bids by the same acquirer is no less than 300 trading days;¹⁰ (vi) financial and accounting data for at least one of the participants of the transaction is available from DataStream or the Amadeus, Fame, and Reach databases; (vii) the ownership and control structures of bidding and target companies one year prior to the acquisition can be identified; and (viii) information on the sources of takeover financing is found. A total of 1,361 completed European M&As satisfy these criteria; they are incorporated in 26 European countries.

The quality of the SDC data is verified by comparing its information on the announcement date, the companies' country of origin, the transaction value, payment structure, the control stake 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.¹¹ 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 double checked and amended. Amendments to SDC records were made in about 36% of the deals included in our final sample.¹²

⁹ Divestitures and management buyouts are not included.

¹⁰ The reason is that we want to avoid contamination of the periods used to estimate the systematic risk. Therefore, we excluded bids by the same acquirer within less than 300 trading days from the previous announcement (240 days estimation period starting 60 days before the event).

¹¹ We consider all news announcements available in English, French, German, Dutch, Italian, Spanish, Swedish, Portuguese, Russian, Czech, and Polish. For the announcements in Portuguese, Spanish, Swedish and Italian, we use the WorldLingo online translator (www.worldlingo.com).

¹² 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. Most of the inaccuracies found in the SDC records regard the control stake acquired, the bid completion status, and the transaction value.

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 Continental European companies, we focus on corporate control composition rather than ownership structures. 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 that are directly or indirectly controlled by the same ultimate shareholder. When a target company is private, we assume that the control concentration in that firm amounts to 100%.

Three data sources are used to identify how bidders finance their takeovers. The main source is the news announcements from LexisNexis, Financial Times, and Factiva. We find that in addition to the information on the means of payment, the news announcements also frequently report on the sources of financing in acquisitions. For instance, this announcement shows that a deal is entirely financed by debt: “PARIS (AP-Dow Jones)--French company Axa-UAP said Friday it sold its stake in company Finextel to Sophia for FF458 million. [...] Standard & Poor's considers that this operation, *completely financed by debt*, involve a deterioration of the capitalization of Sophia.” While extracting financing information from all news announcements surrounding the takeover bid doubtlessly enables us to relate financing and deal, most news announcements do not disclose a very detailed description of the financing arrangement. Consequently, we are able to identify how the bidding firm finances the deal (with internal funds, a debt issue, and/or an equity issue) but are unable to distinguish whether debt financing is in form of a bank credit or a loan notes issue and whether equity financing is in form of a public or private equity placement. Furthermore, when two or more financing sources were used, the exact proportion of the sources is frequently not released. We therefore partition the financing sources as follows : internal funds only, equity issues, debt issues, and a combination of equity and debt issues.¹³

It is important to note that we focus on the ultimate financing (and payment) structure of the bid. That is, when the bidder offers the target’s shareholders a choice between several payment alternatives (cash, equity, or a combination) which require different sources of financing, we search for the news announcements that refer to the final outcome of the offer in terms of means of payment .¹⁴

¹³ Since financing with internally generated funds is at least partially used in almost all M&As, we only differentiate between those transactions which are fully financed by cash (the first category) and those which also involve some sources of financing other than cash (the last three categories).

¹⁴ For example, the UK City Code obliges firms which make a tender offer to provide the target firm shareholders with a choice between different forms of payment: cash, equity, loan notes, or a combination. For more on mix and match

While the news announcements are our main source of information on how bidders finance their takeovers, we also explore another sources of information. First, for a sub-sample of 50 bidding firms, we study annual reports, prospectuses, and circulation letters available through Thomson Financial Research.¹⁵ We cross-check the takeover financing information collected from the financial reports with the one extracted from the news announcements. We find that the information from the two data sources virtually always coincides, which implies that news announcements are a reliable information source in this respect.

Second, we consult the Thomson Financial SDC New Issues database and search for public offerings of debt and equity by each bidding firm. We assume that when a security issue occurs with the aim of financing an M&A transaction if it takes place in the period around the first public announcement of the takeover. In most cases, it is rather straightforward to identify the security issues made in connection with M&As, as most of the companies from our sample very infrequently opt to issue public securities. We include financing information from the Thomson Financial SDC New Issues database when information from the other sources (like news announcements) is not available.

3.2 Sample description

We partition the sources of takeover financing into four general categories: internal funds only, equity issues, debt issues, and combinations of equity and debt issues, where these last three types may also include the use of some internal funds. We further refine this classification based on the means of payment. Financing the takeover with internally generated funds or with debt implies that the acquisition is entirely paid with cash.¹⁶ In contrast, equity (and internal funds) financing may be used in acquisitions fully paid with equity, paid with cash and equity, or entirely paid with cash.¹⁷ A bidding firm may either directly exchange the shares from a seasoned equity issue for the shares of the target firm (in all-equity

facilities, see Goergen and Frecknall-Hughes (2007). The bidder may influence the target shareholder's choice by making its preferred payment alternative more attractive for them.

¹⁵ Financial reports are available in electronic photocopy format and hence do not allow us to search for keywords, which makes data search extremely time consuming. For this reason, we first considered randomly chosen 50 companies with available financial reports in order to check for inconsistencies between the information from financial reports and that from the news announcements collected earlier. We focus on UK bidders because financial reports published in English are mainly available only for those firms. Electronic translation (with WorldLingo) of the reports published in another languages is impossible because of the photocopy format of the reports.

¹⁶ Debt-financed acquisitions may also involve payment with loan notes. However, following Faccio and Masulis (2005), we assume that a payment with loan notes is equivalent to a cash payment. In the remainder of this paper, we do not differentiate between these two types of payment and refer to both as cash payments.

¹⁷ However, this excludes payments with loan notes, as this type of acquisitions would qualify as a transaction *financed* with a combination of equity and debt.

and cash-and-equity offers), or sell its new shares on the secondary market and use the proceeds to pay for the acquisition (all-cash payment). When the bidder raises debt financing, it can offer a combination of cash and equity and offer only cash.¹⁸

Table 1 shows the sample composition by source of transaction financing and by means of payment for each European country. A large part of M&A deals (43%) is fully financed with internally generated funds, whereas the remainder is at least partially financed by external capital. Internal financing is most frequently observed in Central and Eastern European countries (81% of all bids in the region), in Italy (79%), and in Spain (71%).

Equity issue is the second most frequently used source of takeover financing, it is used in 34% of the deals. The proportion of equity-financed transactions is highest in Sweden (42% of all bids), Norway (38%), the UK (38%), and Finland (34%). Most of the equity-financed acquisitions involve a direct equity payment to the target shareholders (89% of the cases) rather than a cash payment funded by a seasoned equity issue (11%). The percentage of acquisitions paid entirely with cash among the deals financed with equity is highest in Scandinavia, Central and Eastern Europe, France, and the UK.

The least popular sources of financing in corporate takeovers are debt or a combination of equity and debt: they are employed in 13% and 10% of all M&A bids respectively. Acquirers incorporated in the Netherlands (29% of all bids in the country), Switzerland (23%), and the UK (17%) rely most frequently on debt financing. Combinations of equity and debt are not uncommon in Ireland (20% of all bids in the country) and the UK (15%).

When we make abstraction of the sources of financing and partition our sample only on the basis of the means of payment, we observe in Table 1 that a large majority of deals (63%) are entirely cash-paid whereas the remainder is at least partially paid with equity.¹⁹ Out of all the bids involving an equity payment, half are pure equity exchange offers. The other half are mixed offers that on average contain 53% cash and 47% equity. With exception of the UK and Ireland, , acquirers prefer all-equity payments to the combination of equity and cash.

3.3 Capturing the regulatory environment

¹⁸ As stipulated above, we consider with loan notes as cash in order to reduce the number of financing-payment combinations.

¹⁹ This percentage is lower than the 80% reported for European all-cash M&As in Faccio and Masulis (2005). The difference may be driven by the fact that we exclude from our sample the divestitures (acquisitions of subsidiaries) and the cross-border acquisitions of US targets. These types of takeovers represent a substantial fraction of Faccio and Masulis' sample and are most likely pure cash offers.

To capture the impact of corporate regulation on the financing and payment decisions, we construct a number of legal environment indices. With the help of 150 corporate lawyers from 32 European countries (see Appendix II), we have created a corporate governance database that comprises the main aspects and changes in corporate governance regulation in all European countries (including Central and Eastern Europe) over the last 15 years. For each country, we quantify the regulation by measuring the degree to which they mitigate the conflicts of interests between the main corporate constituencies: agency problems between management and shareholders, between majority and minority shareholders, and between creditors and shareholders. We also capture regulatory provisions improving the transparency of corporate information. The following four indices are constructed.

The shareholder rights protection index (SHAREHDR PRT) is based on shareholders' ability to mitigate opportunistic behaviour by management. The index increases with the number and quality of legal provisions that provide shareholders with effective power to appoint and dismiss the board of directors and to control most of the important corporate decisions (like equity issues or takeovers). We also include into this index the regulatory provisions ensuring that the board of directors acts as an independent body operating on behalf of all shareholders to monitor top management. A higher index score represents a higher likelihood that management acts in the interest of shareholders. While the constituting elements of the index and their coding are given in Appendix III, Figure 1 reports the mean values of the shareholder rights protection index by legal origin for every fifth year over the period 1990-2005.

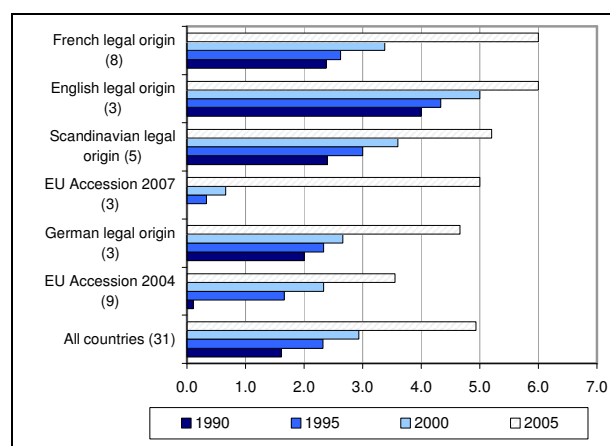
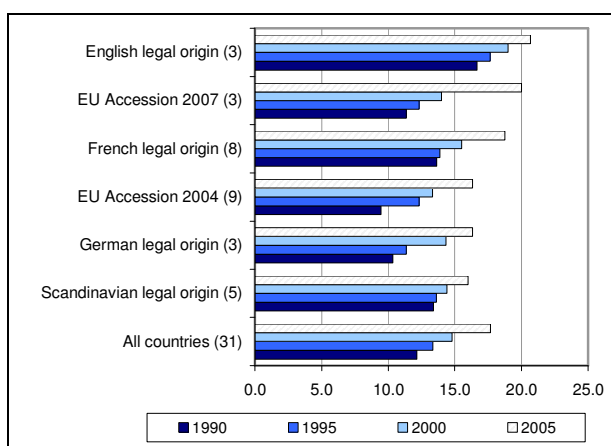


Figure 1. Shareholder rights protection index by legal origin by countries' legal origin

Notes: The countries are categorized based on their legal origin following LaPorta et al. (1997) and based on the EU enlargement process. The countries belong to these types: *English legal origin* (Republic of Ireland, UK, and US), *German legal origin* (Austria, Germany, Switzerland,), *French legal origin* (Belgium, France, Greece, Italy, Luxembourg, Netherlands, Portugal, and Spain), *Scandinavian legal origin* (Denmark, Finland, Iceland, Norway, and Sweden), *2004 EU Accession* (Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia, and Slovak Republic), *2007-09 likely EU Accession* (Bulgaria, Croatia, and Romania). The X-axis shows the mean value of each index.

The transparency index (TRANSPARANCY) is based on the quality of information available about the company and the management. This index reflects the degree to which the market is informed about corporate policies and contracts directly related to the management and the frequency with which this information is released. More specifically, we quantify the extent to which information is released on the managerial compensation packages (on aggregate or individual basis, if at all) and the requirement to disclose any transactions between management and company (e.g. consulting contracts, interest-free loans). The transparency index is also higher when a comply-or-explain principle is enshrined in corporate law or is required by the stock exchange regulation. A higher index score reflects more transparency (see Appendix III). The transparency index by legal origin and its evolution over time is reported in Figure 2.

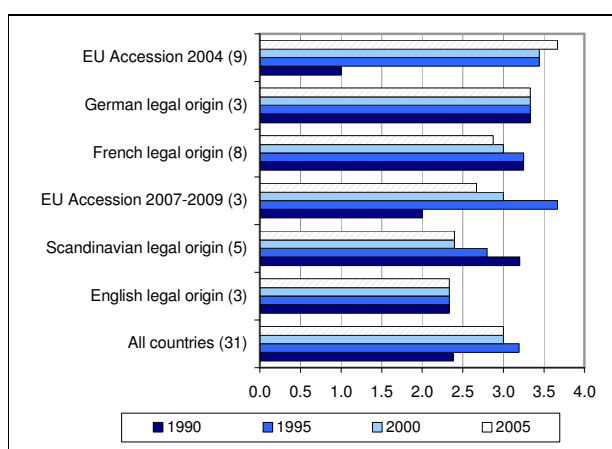


Figure 3. Creditor rights protection index by legal origin

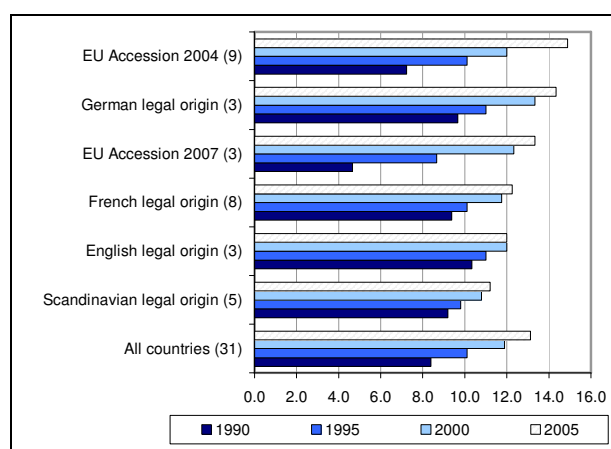


Figure 4. Minority shareholders rights protection index by legal origin

Note: For the classification of legal origins see notes to figures 1 and 2. The X-axis shows the mean value of the index.

The creditors protection index (CREDITOR PRT) hinges on the regulatory provisions that allow creditors to force repayment more easily, to take possession of the collateral, or even to gain control over the firm in case of financial distress. In creating the creditors rights index, we closely follow the approach of LaPorta et al. (1998) and investigate the regulation related to the violation of debt covenants

(deviations from the debtor priority ranking in case of bankruptcy), the possibility of debtors to impose restrictions on borrowers (e.g. limitations on filing for reorganization/liquidation), and the creditors rights in financially distressed firms (e.g., automatic stay on assets). The index also captures the difference between creditor-oriented and debtor-oriented bankruptcy codes: we upgrade the creditor rights index for a country with a pure liquidation code by one, while leaving the index unchanged for a country with a debtor-oriented code.²⁰ The reason is that a bankruptcy code that facilitates reorganization focuses on corporate survival, usually at the expense of the (more senior) creditors. A higher index score reflects stronger creditor rights and the details of the creditor rights index are reported in Appendix III. Figure 3 shows the creditor rights protection index by legal origin and its evolution over time.

The minority shareholder protection index (MINORITY PRT) hinges on the regulatory provisions increasing the relative power of the minority shareholders in the presence of strong majority shareholders. In a firm with concentrated control structure, it is possible that the dominant shareholder influences managerial decisions to his own benefit which may lead to the expropriation of the minority shareholders' rights. To construct the index, we quantify the regulatory provisions on the minority shareholder rights (board representation, minority claims, extraordinary general meetings, blocking minorities), the one-share-one-vote principle (dual class shares, voting caps, break-through rule, equal treatment principle), ownership transparency and the relative decision power in case of a takeover threat. A higher index score signifies that minority shareholders' interests are better upheld. The constituents of the index and their coding are given in Appendix III, while Figure 4 reports the minority rights protection index by legal origin.

LaPorta et al. (1998) argue that a system of strong legal enforcement may substitute for weaker regulation, as well-functioning courts can effectively resolve disputes between corporate constituencies. Conversely, a law designed to uphold the rights of e.g. minority shareholders may be eroded in case the judiciary does not function effectively. To address such problems, we multiply the above indices by an index capturing the quality of law enforcement. We use two proxies for the law enforcement index: the rule of law index (RULE OF LAW) and the corruption index (CORRUPT), developed by the World Bank²¹. The rule of law index measures the extent to which agents have confidence in and abide by the rules of

²⁰ Chapter 11 in the US is the prototype of a debtor-oriented code. In the 1990s, many bankruptcy codes have been reorganized and now frequently include two tracks: a debtor-oriented part (e.g. administration in the UK) and a pure liquidation code. We classify such bankruptcy codes as debtor-oriented.

²¹ More information on the indices is available at <http://www.worldbank.org/wbi/governance/>

society, and these include the effectiveness and predictability of the judiciary and the enforceability of contracts. The corruption index measures the extent to which one can exercise public power for private gain. Corruption is usually associated with a lack of respect for the rules of society, and hence represents a failure of the judicial system to enforce the law. A higher score of each index indicates that national judicial systems are more effective.²²

4. METHODOLOGY

4.1 Estimating the valuation effect of the bidder's financing choice

An M&A announcement engenders new information to the market which allows investors to update their expectations about the firm's prospects are updated and adjust share prices accordingly. Relevant takeover information usually comprises various takeover characteristics (the form of the bid, the means of payment, the target firm's attitude towards the bid, industry-relatedness, geographical scope etc.) as well as the sources of financing. The market amalgamates these pieces of information into a signal about the quality of deal and the potential value creation. As such, the takeover announcement effects consists of an appraisal of the takeover synergies based on the characteristics of the deal and a re-assessment of the bidder's value based on the signal about the type of financial resources used in the deal.

To capture the valuation effect of the bidder's financing choice, we compute the takeover announcement effect on the bidder's share price and compare it across deals financed by different sources of capital. The market reaction to the takeover announcement is computed as a sum of daily abnormal returns realized in the period starting 60 days prior and ending 60 days subsequent to the takeover announcement.²³ We also consider alternative event windows within the [-60, +60] interval. Daily abnormal returns are computed as the difference between realized and market model benchmark returns. The market model uses the MSCI-Europe index and the parameters are estimated over 240 days

²² The World Bank indices on legal enforcement and corruption are available starting since 1996. For years prior to 1996, we assume that the quality of law enforcement environment was no better than that of 1996. Therefore, the missing values of the rule of law and corruption indices for years 1993-1995 are proxied by the value of the corresponding indices in 1996.

²³ 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.

starting 300 days prior to the acquisition announcement.²⁴ To test for significance of the estimated abnormal returns we use parametric tests and the non-parametric Corrado test (Corrado, 1989).

4.2 Empirical models of the financing(-payment) choice

To examine the factors driving the bidder's choice of transaction financing and payment method, we employ multinomial logit and nested logit models. The multinomial logit model assumes that the bidder chooses a source of financing from four mutually exclusive (independent) alternatives: cash, debt, debt-and-equity, and equity. The nested logit model extends the multinomial logit framework by allowing the bidder to make its financing decision conditional on the preferred payment method.

4.2.1 Multinomial logit model of the financing choice

In the multinomial logit framework, we assume that each financing choice j corresponds to the NPV - net of all direct and indirect costs associated with the use of a particular means of financing - of the bidding firm $V_j(x)$, where x is a vector of exogenous characteristics of the takeover and firms involved, and j denotes one of the four financing alternatives: (i) cash financing (cash-paid/cash-financed deals); (ii) debt financing (cash-paid/debt-financed deals); (iii) debt-and-equity financing (cash-paid/debt-and-equity financed and mixed-paid/debt-and-equity-financed deals); and (iv) equity financing (equity-paid/equity-financed, mixed-paid/cash-and-equity-financed, and cash-paid/equity-financed deals). The bidder chooses alternative j if $V_j(x)$ is the maximum of the four possible values. Hence the probability of the choice j is:

$$Pr_j = \text{Prob} (V_j > V_k) \text{ for all other } k \neq j.$$

The model assumes that the (unobserved) firm value $V_j(x)$ is a linear function of the observed relevant characteristics of bidder and target and of the bid itself plus random noise. A key assumption of the multinomial logit model is that the random noise in the value function is independently and identically distributed (*iid*). This assumption implies that the choices between any two alternatives are independent of the others, i.e. that the independence of irrelevant alternatives (IIA) property is upheld.²⁵ To test for the validity of the IIA assumption with respect to the bidder's financing decision-making process, we apply the Hausman's specification test (Hausman and McFadden, 1984).

²⁴ Our estimates of 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)).

²⁵ That is, if one of the alternatives is removed from the model, the other alternatives will have a proportional increase in the probability of being chosen.

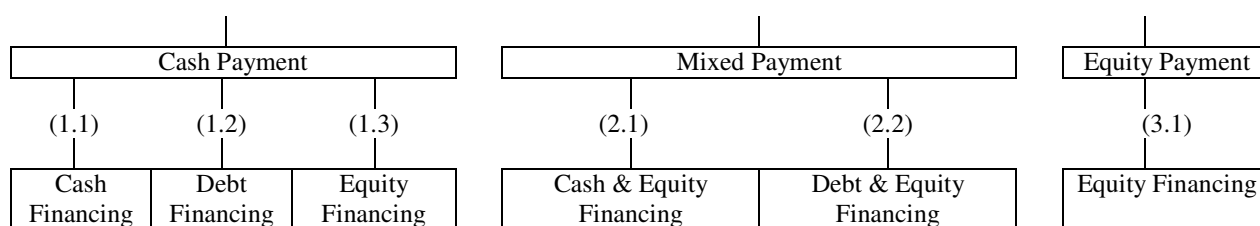


Figure 5. Specification of the payment-financing nested logit model

The nested logit model is estimated using the full information maximum likelihood estimation method. As is the case for the multinomial logit model, the estimated coefficients in the nested logit model are not directly interpretable with respect to the probability that a particular alternative is chosen. The coefficients from the model represent the increases (decreases) in the log-odds ratio (relative to the benchmark case).

5. RESULTS

5.1 Valuation effects of the bidder's financing decision

In this section, we investigate the valuation effect of the financing choice in corporate takeovers. Figures 6-9 illustrate the cumulative average abnormal returns (CAARs) for bidding firms over a six-month period starting 60 days prior to and ending 60 days after the initial bid. Figure 6 shows the bidder CAARs by means of payment. The evidence is consistent with the prior empirical findings (see e.g. Moeller et al, 2004; Andrade et al., 2001; Franks et al., 1991): over the six-month window centred around the takeover bid day, the short term wealth effects to the bidder's shareholders are significantly negative. In addition, bids involving at least some equity payment yield the lowest returns.²⁷ However, Figure 6 indicates that the underperformance of the all-equity offers is largely due to a post-announcement share price correction effect. Prior to the bid, firms that offer equity experience a significant share price run-up, which exceeds that of firms offering cash.

²⁷ Tables with the mean values of the bidder's CARs and significance tests are available upon request.

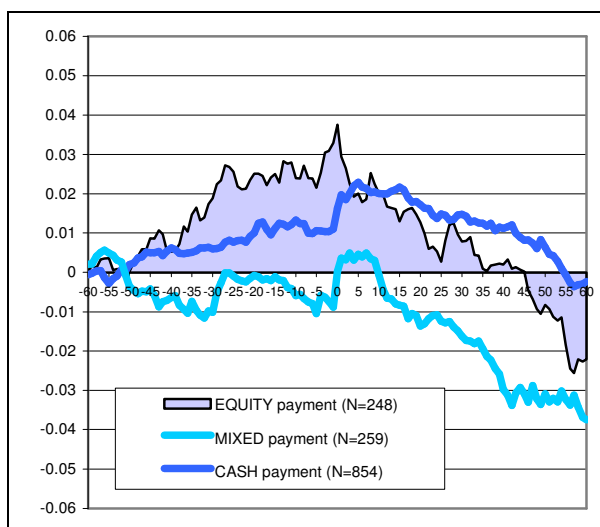


Figure 6. Bidder CAARs by means of payment

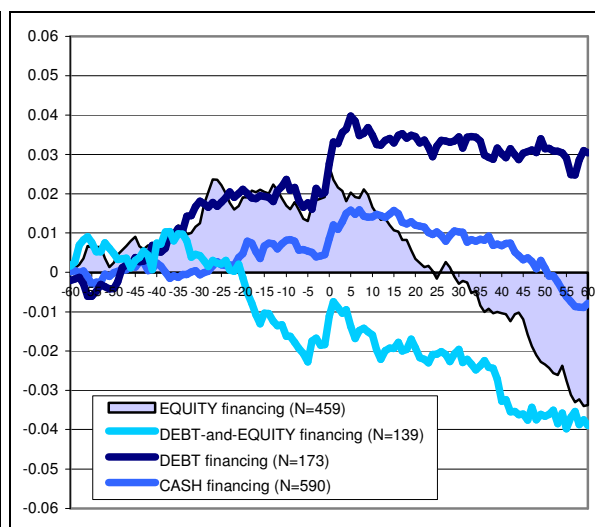


Figure 7. Bidder CAARs by sources of bid financing

When we partition our sample of European M&As by sources of transaction financing (see Figure 7), we observe that a negative price revision follows the announcement of any corporate takeover that involves equity financing. Remarkably, the only type of acquisition that does not have a negative price correction but is expected to create a substantial value (of about 3%) to the bidding firms over the 6-months period is a debt-financed acquisition. This significantly exceeds the negative returns of M&As financed by equity and cash (-3.3% and -0.8% respectively). Overall, the evidence suggests that, in addition to the means of payment, sources of transaction financing are an important determinant of market reaction to the takeover announcement.

Figures 8 and 9 show that investors are able to differentiate between information about the payment method and sources of takeover financing and that they take into account both these takeover characteristics. Figure 8 reveals considerable differences in the market reactions to all-cash acquisitions financed by cash, by debt, or by equity. The CAARs spanning the 3-month price run-up is highest for the bidders that issue equity (2.6%), followed by those that issue debt (2.0%). The corresponding effect for bidders using internal cash funds for takeover financing is significantly lower and amounts to merely 0.5%. Strikingly, bidders that decide to issue equity experience a marked increase in their share price of 4.1% over the [-60, -20] window and a downward correction by about 1.5% afterwards.

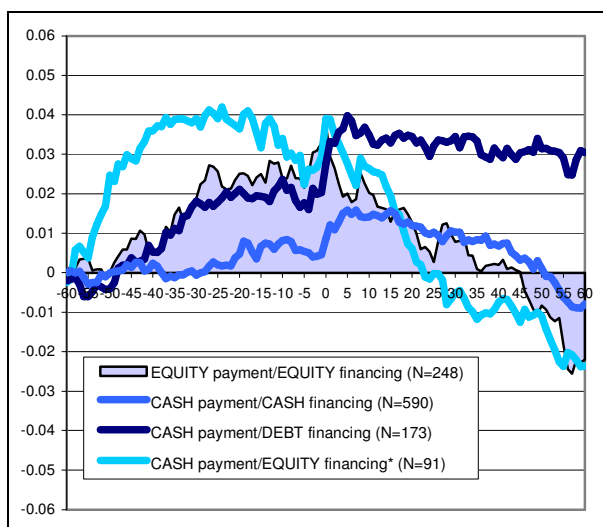


Figure 8. Bidder CAARs in cash-paid acquisitions by sources of financing²⁸

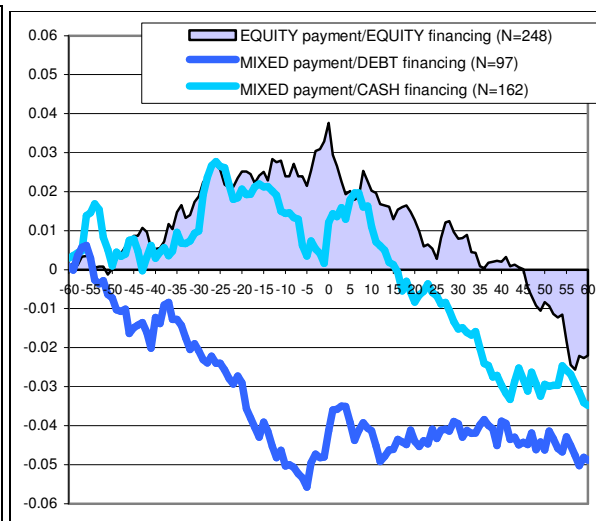


Figure 9. Bidder CAARs in mixed-paid acquisitions by sources of financing of the cash component

The difference in the market's assessment of the bidder's financing choice in all-cash offers even augments over the post-event period: the negative price correction for bidding firms is larger for equity-financed bids than for cash-financed ones, whereas it is insignificant for the bidders that use debt as a means of takeover financing (Figure 8). Notably, the pattern of the bidder's abnormal returns in the cash-paid but equity-financed takeovers is very similar to that of the returns in the equity-paid deals. Whereas an involvement of debt financing in acquisitions fully paid with cash is associated with significant outperformance, the reverse is observed in acquisitions paid with a combination of equity and cash (see Figure 9). Nonetheless, there are consistent similarities in the CAARs patterns between cash-paid and mixed-paid takeovers when similar sources of financing are involved. Thus, both types of bids financed by a combination of cash and equity are preceded by a positive share price run-up and followed by a significant share price decline. Also, the announcement of debt financing in all-cash bids and in the cash component of mixed takeovers is associated with an insignificant share price decline over the three-months post-event period.

To confirm the relationship between sources of transaction financing and the anticipated wealth effect, we perform OLS regression analyses of the bidder CAARs. In separate regressions, we investigate the factors that affect the cumulative abnormal returns (CARs) realized prior to the bid over the period $[-60, -2]$, at the bid announcement (over the 3 days centred around the event day), and

²⁸ We combine equity- and debt-and-equity-financed all-cash offers into one category CASH payment/EQUITY financing, as their CAARs exhibit very similar patterns.

subsequent to the bid over the period [+2, +60]. In order to capture the valuation effect of the bidder's financing decision when the firm employs the same mode of payment, we also run regressions for the subsamples of all-cash and mixed offers. The determinants of the anticipated wealth creation for bidding firms are reported in Table 2. The results confirm that the sources of transaction financing are important determinants of the bidder's share price reaction to the takeover announcement. Whereas mixed-paid/debt-financed acquisitions significantly underperform the other types of deals over a 3-month period prior to the bid (the difference is -6.72%), cash-paid/equity-financed acquisitions underperform the other deals over the 3-months period subsequent to the bid (the difference is -6.04%). Table 2 also confirms that, in contrast to cash and equity, debt financing is associated with significantly higher post-announcement returns.

The announcement and post-announcement valuation effects increase with the bidder's share price performance prior to the takeover announcement. Consistent with a behavioural finance explanation, the positive relationship between run-up and mark-up premiums may be a result of financial market buoyancy: investors tend to overestimate the potential takeover gains in takeovers launched by the outperforming bidders. The regression results also show that investors are wary when a bidding firm with a high cash flow makes an all-cash takeover bid. There are then legitimate doubts about the true motive for the takeover: cash surpluses are likely to be used for managerial empire building instead of being distributed to shareholders in form of dividends or share repurchases (Jensen, 1986).

5.2 The determinants of the bidder financing decision

The previous section confirms the prominent view in the corporate finance literature that equity issues reduce firm value, also in the context of mergers and acquisitions. We now turn to an analysis of why bidding firms opt for equity financing in spite of the negative consequences for corporate value.

5.2.1 Univariate comparison

Table 3 exhibits the mean values of the variables which we expect to affect the bidder's choice of financing sources in corporate takeovers (see Section 2). The table indicates that bidder characteristics vary substantially across acquisitions with different sources of financing. To test the null hypothesis that there are no significant differences in the mean values across acquisitions involving

different sources of takeover financing and means of payment, an F-test (for level variables) and a Wald-test (for binary variables) and the corresponding F- and χ^2 -statistics are reported.

CC1. Pecking Order and Market Timing:

In line with our expectations, Panel A of Table 3 reports that cash-rich bidders opt to finance their M&A transactions entirely with cash (see column 2). In contrast, firms with a shortfall of internally generated funds use external sources of financing: a debt issue (column 3), a combination of debt and equity (column 4) or a seasoned equity issue ((column 8). Bidders in acquisitions entirely paid and financed with equity exhibit the weakest potential to finance their acquisition payment by internal sources of cash (column 11).

Panel A also shows that bidders using external financing have a higher percentage of tangible assets than those relying on internal financing, although the difference is not statistically significant (column 13). Among the companies raising external capital, equity issuers tend to have lower debt capacity, as measured by financial leverage (compare column 3 to columns 4 and 8). Furthermore, equity financing is preceded by a significant share price run-ups. In addition, the use of equity financing is least frequently observed in the period of the stock market recession (2000-01), whereas debt financing is less common during stock market recovery (1993-96).

An important point which will also appear to be valid in subsequent panels is the following. The F-statistics presented in columns 7, 12 and 15 show that it is important to consider the payment and financing decisions as two very different decisions (reflecting both differences payment preferences and the capital structure of bidder and target).

CC2. Regulatory Environment:

Panel A of Table 3 examines whether specific sources of transaction financing are chosen in different regulatory environments. When shareholder protection is strong, bidders are more likely to use external sources of financing (compare column 2 to columns 3, 4, and 8). Creditor protection and protection of minority shareholder rights are positively related to the choice of debt (and equity) issues as a means of takeover financing (see columns 3 and 4). In addition, funding by external sources is more likely if the bidder is from a country with better corporate transparency standards. Bidders rely on internally generated funds as a means of transaction financing in countries with the weakest creditor and shareholder protection and the lowest corporate transparency standards (see column 2).

AG1. Agency Cost of Equity and Takeover Threats:

There is evidence that managers of widely-held companies (firms without a blockholder owning at least 20% of the voting rights) are more likely to use equity rather than cash financing. Panel B of Table 3 indicates that more than a half of all acquisitions that are entirely financed by equity (53% of cases) are made by widely-held bidding firms (column 8) and that widely-held bidding firms are involved in merely a one-third of all-cash financed M&As (column 2).

Strikingly, companies with dispersed control structures are prominent among the bidders that finance their takeovers by debt (61% of cases). This is likely to be due to the UK and Irish acquirers, most of which have widely dispersed ownership. The choice of debt financing by companies with a dispersed ownership structure may also be the result of the fact that these companies are more vulnerable to a takeover threat than their closely-held peers. Entrenched managers of widely-held firms may voluntarily commit to debt financing to constrain their discretion over corporate funds and hence reduce likelihood that their company be taken over (Zwiebel, 1996). However, Panel B of Table 3 gives no support to this argument: external financing via borrowing takes place when managers of bidding firms are least exposed to monitoring by the market for corporate control. The highest likelihood of being acquired is observed for companies that issue shares as a means of financing (see column 8).

AG2. Debt Overhang:

The bidder's growth opportunities across acquisitions financed by different types of capital varies significantly (Panel B of Table 3). The bidder's Q-ratio for equity-financed acquisitions significantly exceeds that for debt- and cash-financed bids. Similarly, equity issuers have the highest average growth rate in capital expenditures, sales, and total assets over the 3 years prior to the year of the acquisition.

AG3. Agency Cost of Debt and Financial Flexibility:

The results reported in Panel B of Table 3 support the 'agency-cost-of-debt' hypothesis. Although companies that finance the payment of an acquisition by debt sustain a high level of leverage, they have relatively low exposure to market risk. In contrast, bidders opting for equity financing have a high level of leverage and a high non-diversifiable systematic risk (both measures significantly exceed

those of bidders in debt-financed deals). As expected, young firms fund their takeovers most frequently with equity.

MPI. Risk Sharing:

Bidders in takeovers with all-equity offers have on average significantly higher market capitalisations than their peers that make all-cash and mixed bids (column 11 versus columns 2, 3, 5 and 9, and 6 and 10 in Panel C of Table 3). However, the bidder's size has a non-linear effect on the likelihood that a payment involving equity (all-equity or mixed bids) is chosen. We find that an equity payment is used by both very large and very small companies: bidders with the highest market value pay entirely with equity and bidders with the lowest market value pay with a combination of equity and cash (see columns 11, and 6 and 10).

MP2. The Threat of Control Change:

Concerns about corporate control retention by bidding firms seem to have a significant impact on their choice of the payment method (Panel C of Table 3). All-equity bids create new shareholders (the former target shareholders) in the combined firm: the largest new shareholder holds an average voting stake of 16.2% (see column 11). If all-cash or mixed offers had been entirely paid with equity, the new largest blockholder would control an average stake of 7.4% and 13.9% respectively (see columns 2, 3, 5 and 9, and 6 and 10).

The emergence of a new controlling shareholder with block of 16.2% caused by all-equity acquisitions is unlikely to change the control positions of the major blockholders in the majority of the bidding firms. The reason is that most bidders making an all-equity offer either have no controlling blockholders (48% of firms) or they are controlled by blockholders holding a supermajority-voting stake (14% of firms). Strikingly, managers of widely-held bidding firms are not averse to equity offers, even though these deals may create an outside blockholder. In contrast, about half of the bidding firms in all-cash acquisitions (49% of firms) are controlled by shareholders with an intermediate level of voting power ranging between 20% and 60% and these firms are most vulnerable to the threat of control loss (as shown by columns 2, 3, 5 and 9). This evidence is in line with predictions of the control threat hypothesis: the bidder's management prefers cash over equity as a means of payment if an equity issue would threaten the continued control of their largest shareholders.

MP3. Characteristics of Acquisition:

Finally, Panel C of Table 3 reports that the percentage of cross-border deals and hostile takeovers is highest among all-cash paid acquisitions (32% and 6% of the cases, respectively) and is lowest among acquisitions paid with a combination of equity and cash (12% and 4% of the cases, respectively) or fully with equity (19% and 4% of the cases, respectively). In contrast to hostile bids, unopposed tender offers are more frequently paid with equity (39% of the transactions) than with cash (33%), or with a combination of equity and cash (27%).²⁹ Acquisitions of listed targets occur more frequently in form of all-equity bids (59% of the cases) than of all-cash bids (44%). There are no significant differences in the frequency of intra-industry acquisitions by different types of payment or of financing methods.

5.2.2 Multinomial logit model

Whereas the conclusions in the above section are based on univariate analyses, we now explore the combined effect of the characteristics of target and bidding firms and of the takeover bid itself on the takeover financing structure. As section 4.2 describes, two econometric techniques are suitable to model the bidder's financing decision: multinomial logit and nested logit regressions.

The multinomial logit assumes that the bidder opts for a source of financing from four mutually exclusive (independent) alternatives: cash, debt, debt-and-equity, and equity. The model contains three binary logits that predict the probability that a particular source of financing is chosen in relation to equity financing. In order to examine the validity of the multinomial logit model we conduct several Hausman specification tests.³⁰ As the tests fail to reject the assumption of the independence of irrelevant alternatives (IIA), we consider a multinomial logit model to be an appropriate specification for the bidder's financing choice.³¹

Consistent with the pecking order predictions (CC1), Table 4 documents that cash-rich bidders finance their takeovers by internally generated funds, whereas cash-constrained firms with sufficient

²⁹ The high frequency of tender offers with equity can be explained by the fact that the bulk of the equity-paid tender offers in our sample are UK domestic acquisitions. The UK City Code obliges firms making a tender offer to provide target shareholders with a choice between payment alternatives including equity and cash. A preference for an equity payment (which is often made more attractive than a cash offer) sweetened relatively is frequently the final outcome of such offers.

³⁰ In each test, we exclude different financing alternatives from the sample and test whether their exclusion leads to a proportionate increase in the probability of the other alternatives.

³¹ However, the IIA assumption no longer holds when we consider the bidder's simultaneous choice between six possible payment/financing alternatives: (i) cash payment/cash financing; (ii) cash payment/debt financing; (iii) cash payment/equity financing; (iv) mixed payment/cash financing; (v) mixed payment/debt financing; and (vi) equity payment. We will deal with all the combinations of payment and financing in section 5.2.3 and Table 5 where we apply a nested logit structure.

debt capacity prefer debt to equity financing. Firms opt to raise capital via the stock market rather than employ internal funds when they experience significant share price increases prior to the bid announcement.

The ‘regulatory environment’ hypothesis (CC2) is also supported by data. Acquisitions financed by equity (relative to those financed by cash) are more likely in countries with stronger protection of shareholder rights. This result is in line with the prediction that strong shareholder protection reduces the cost of equity capital and hence increases its attractiveness as a source of financing. Expectedly, when the creditor rights protection is high, bidders prefer borrowing to equity issues. Borrowing is also more likely than issuing equity when the bidder is from a country with better minority shareholder rights protection. This evidence confirms our expectation that bidders are less reluctant to issue equity when private benefits of control are high (resulting from low minority rights protection).

The multinomial logit analysis reveals no support for the agency cost of equity and takeover threat hypotheses (AG1). Neither the presence of a large blockholder nor the threat of being acquired has a significant impact on the bidder’s decision to finance an acquisition by debt.

The probability of equity financing increases with the Q-ratio of the bidding firm. This confirms that companies with strong growth opportunities prefer issuing equity to borrowing to finance takeover transactions in order to avoid conflicts of interests between shareholders and debtholders and to maintain flexibility in managing corporate funds (hypothesis AG2).. There is no evidence that risky firms (as proxied by beta and age) systematically prefer equity financing (hypothesis AG3). Therefore, we conclude that equity-issuing firms are unlikely to suffer from agency problems of debt.

Consistent with the view that large companies have better access to external financing than small and medium-sized companies, large bidders more frequently use debt capital to fund takeovers,. This finding is also consistent with the risk-sharing hypothesis (MP1). When a sizeable firm acquires a smaller firm, there is less need to share riskiness of the transaction with the target’s shareholders by means of an equity offer. The multinomial logit analysis confirms this hypothesis.

Table 4 shows that the threat of control loss to the bidder’s largest shareholder makes the bidding firm averse to raising capital via equity issues (hypothesis MP2). Bidders are more likely to prefer cash or debt financing over equity financing if their largest shareholders control an intermediate voting stake, which could be eroded by an equity payment to the shareholders of a closely held target firm.

The relative size of the target firm and potential control loss are not the only takeover characteristics that affect the bidder’s choice of financing sources (or the payment method). Other

characteristics include: bid hostility, geographical scope, and legal status of the target firm (hypothesis MP3). Equity financing is more frequently involved in friendly takeovers, whereas hostile bids are financed by cash. Equity financing is preferred to debt in cross-border bids. Apparently, bidding firms have more difficulties to obtain a bank loan or issue cheap debt to fund the acquisitions of foreign firms. Finally, bidders are more likely to issue stock (and to pay with stock) when the target is listed.

To summarize, the results of the multinomial logit analysis suggest that equity issue takes place for the reasons of cost of capital considerations. Pecking order, market-timing, and financiers' protection hypotheses are supported by the data. Debt overhang concerns of the bidding firm also play an important role in the choice of equity financing. Finally, we also find support for the hypothesis that the bidder's decision on the financing sources coincides with or depends on its preference for a specific payment method. Furthermore, other bidder's or deal's characteristics such as control threat, risk sharing, and the success of a takeover bid (depending on takeover bid characteristics) influence the choice of payment means (and financing source).

5.2.3 Nested logit model of the sequential payment-financing choice

The nested logit model extends the multinomial logit framework by allowing the bidder to make its financing decision conditional on the preferred payment method. For reasons of comparison, Table 5 first reports the estimates of the bidder's unconditional choice of the payment method (columns 1 and 2). Our conclusions are similar to those of Faccio and Masulis (2005), who provide a comprehensive analysis of the payment method determinants in European corporate takeovers. Concerns regarding the potential change in the firm's control structure drive the bidder's decision to offer cash rather than equity. These concerns mainly refer to the bidders which control structure may change significantly if a new large shareholder emerges: widely-held firms ($\text{CONTROL} < 20$) and firms controlled by a blockholder with an intermediate level of voting rights ($20 < \text{CONTROL} < 60$). A cash offer is also more likely in cross-border acquisitions and hostile takeovers. In contrast, takeover bids for a listed or a relatively large firm are more likely to be paid with equity rather than with cash or a combination of cash and equity. The probability of an equity offer also increases with the share price run-up prior to the bid announcement and exposure to the market risk of the bidding firm. Finally, an all-equity payment is preferred to a mixed payment when the bidder is from a country with strong minority shareholder rights. While all these findings on means of payment are in line with the results by Faccio and Masulis (2005), we find no

significant relationship between the bidder's financial condition (e.g. leverage) and the means of payment.

Once the bidder decides upon the means of payment it will include in the takeover bid, another dilemma emerges: how to finance the offer? Columns 3 and 4 of Table 5 report the estimates of the bidder's financing options conditional on an all-cash offer. Column 5 complements these results with the choice between debt-and-equity and cash-and-equity financing conditional on a mixed offer. The results of columns 1 and 2 yield similar conclusions to those from Table 4, but columns 3-5 of Table 5 reveal some interesting additional evidence.

Debt financing of both all-cash and mixed offers is more frequently used (relative to equity(-and-cash) financing) in a period of stock market decline (2000-2001), which is consistent with our predictions based on the pecking order and market-timing. Large firms more frequently opt for financing by external funds (equity and debt). However, the largest firms tend to choose debt over equity. We interpret this finding as additional evidence in support to the pecking order theory. Larger firms are usually more diversified and have relatively lower expected bankruptcy costs, which makes debt capital less expensive relative to equity. However, risky firms are also more likely to opt for debt than for equity financing. This finding supports Bolton and Freixas (2000) who predict that risky firms prefer to finance their activities by debt as banks can help firms through times of financial distress.

Poorer protection of shareholder rights leads to a higher cost of equity capital, so that companies are forced to finance their activities by debt. The negative coefficient on the variable SH PRT x RULAW in column 4 of Table 5 confirms this hypothesis. We conclude that firms more frequently employ debt capital when the legal environment makes the cost of debt relatively low compared to equity.

The analysis of the choice between cash and debt financing of mixed offers also reveals some marked results. The cash component of the mixed offers is more likely to be funded by debt when the bidder's internal funds are insufficient. This is usually the case when the target firm is relatively large. However, debt financing would not be possible if the bidder had low debt capacity (i.e. high leverage and low collateral). Column 5 of Table 5 confirms these findings. Consistent with the debt overhang hypothesis, bidders with high growth opportunities are least likely to finance their acquisitions with debt. Furthermore, the choice of debt is preceded by a significant decline in the share price of the bidding firm. Finally, the cash component of the mixed payment in cross-border bids is usually financed

by internal funds,³² which suggests that bidders acquiring foreign companies have difficulties to raise funds via borrowing.

6. ROBUSTNESS CHECK

We assess the robustness of our results by introducing additional variables and considering alternative proxies for variables employed in the multinomial logit and nested logit analyses. We also investigate whether our results are robust for different subsamples of European takeovers. First, since many attributes are significantly different between the firms of the UK and Continental Europe³³, we examine whether the results of our analysis are equally valid in both regions. Second, since the aggregate performance of the stock market is considered to affect a firm's intention to issue equity, we investigate whether there are systematic differences in the bidder's preferences over takeover financing sources in the periods of stock market recovery (1993-1996), stock market boom (1997-1999), and stock market decline (2000-2001). As an additional test for the pecking order and market timing hypothesis we also estimate ordered probit model.

7. CONCLUSIONS

We investigate the bidder's choice of financing sources in European corporate takeovers launched during the period 1993-2001, the fifth takeover wave. To our best knowledge, this is the first empirical study that explicitly investigates how bidding firms finance their deals. In contrast, the previous literature with the notable exception of Faccio and Masulis, only focuses on the means of payment. As such, these studies typically ignore the sources of transaction financing in all-cash offers and assume that these offers are entirely financed by cash. This paper shows that external sources of financing (debt and equity) are frequently employed even in cash-paid acquisitions. We also document that there are fundamental differences in the market reaction to the announcement of all-cash offers financed by different types of capital. Furthermore, irrespective of the payment method, bidding firms

³² It should be noted that this result refers to the financing (not payment) choice of the bidding firm. The results reported in column 5 of Table 5 are already corrected for the bidder's preferences over payment methods.

³³ UK bidding firms outperform their Continental European peers in terms of sales, growth opportunities, and ROA. Furthermore, UK companies are less leveraged and have more collateral. UK and Continental European firms significantly differ in terms of ownership and control. For a Continental European bidder, we detect at least one dominant shareholder with voting power of 20% in almost three quarters of the firms and a blockholder holding a qualified majority of voting rights (60% and more) in 36% of the firms. In contrast, UK bidders are characterized by dispersed ownership structure, as only 13% of such firms have a shareholder with a significant blockholding of at least 20% of voting rights.

seem to have systematic preferences for particular sources of funding, depending on the characteristics of bidder, target, the takeover bid and corporate governance regulation.

We find that investors take into account the information signalled by both the payment method and the sources of takeover financing when evaluating the takeover announcement. A significantly negative price revision following the announcement of a takeover is not unique to the all-equity offers; it is also observed in any other bids that involve equity financing (including cash-paid and mixed-paid takeovers). We also find that, in sharp contrast to the negative returns of all the other deals, cash-paid but debt-financed acquisitions create substantial value (about 3%) to the bidding firms over a 6-month period centred around the takeover bid day. Thus, the bidder's choice of the sources of transaction financing conveys an important signal about the quality of the bidding firm, which investors use to update their beliefs about the firm's prospects.

Multinomial logit and nested logit analyses of the bidder's financing choice show that cost of capital considerations, debt overhang problems, and the choice of specific payment methods are important determinants. Overall, our results can be summarized as follows:

- (i) Asymmetric information and the anticipation of a negative market reaction to equity issues force companies to shift from equity to other sources of financing. Cash-rich firms fund their takeovers by internally generated funds. Cash-constrained firms with sufficient debt capacity opt for debt as a means of funding. Debt is systematically preferred to equity in periods of stock market declines, when the adverse effects of equity issues are especially severe. In contrast, transactions funded with equity occurs when investors are positive about the firm's fundamental value and hence tend to under-react to a negative signal triggered by the announcement of equity issues. Overall, the results confirm a firm's pecking order preferences. Remarkably, our analysis fails to find (as does Martin, 1996) a significant relationship between the bidder's financial condition and the choice of payment mode.
- (ii) Companies with high growth opportunities tend to avoid debt financing but use equity financing as the dominant source of funding. This result is consistent with Myers' (1977) debt overhang theory predicting that firms with good investment projects avoid borrowing in order to minimize the degree of underinvestment caused by conflicts of interests between shareholders and creditors. However, we find no significant relationship between the bidder's investment opportunities and its payment choice. This is in contrast to the evidence documented in Jung, Kim, and Stulz (1996), Martin (1996), and Faccio and Masulis (2005).

(iii) We reveal that the regulatory environment induces systematic corporate preferences with regard to the sources of funding. Equity financing is more likely in countries with better protection of shareholder rights. However, when creditor rights protection is high, companies prefer borrowing to an equity issue as a means of financing. This evidence supports LaPorta et al. (1998) who argue that better protection of the providers of finance from expropriation facilitates the development of well-functioning capital markets and ensures lower costs of financing. Since legal protection of shareholders and creditors disproportionately affects the cost of debt and equity capital, it induces systematic corporate preferences with regard to the less expensive sources of financing. In line with Faccio and Masulis (2005), we find no significant impact of legal environment on the choice of a payment mode in takeovers.

(iv) Finally, the data reveal that the bidders' preferences for a specific means of payment affect the financing decision. As do Faccio and Masulis (2005), we show that the likelihood of an equity payment (and hence equity financing) increases with the relative size of the transaction. This is consistent with the risk-sharing hypothesis of Hansen (1987): by offering the target shareholders a continued participation in the merged firm, the bidder shares the risk of a misvaluation of the target firm's assets. Further, all-cash financed acquisitions are more likely when a bidding firm is controlled by shareholders with an intermediate level of voting power ranging between 20% and 60%. This evidence supports the control threat hypothesis: large shareholders of the bidding firm prefer cash over equity as a means of payment if an all-equity bid threatens their control position. In addition, takeover characteristics such as bid hostility, geographical scope, and legal status of the target firm have an additional impact on the payment mode in takeovers. However, none of these factors have significant impact on the bidder's financing choice once we condition it on the payment mode.

In sum, our results show that the decisions on the means of payment and the sources of takeover financing do not coincide. Judging from the anticipated wealth effects, we conclude that, in addition to the means of payment, the way a takeover deal is financed transmits important information to the market.

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Appendix I. Variable Definitions

<i>Variable</i>	<i>Definition</i>
(B) MVAL (m US\$)	Market capitalization of the bidding firm 60 days prior to the initial bid announcement. <u>Source</u> : <i>DataStream</i>
(T) BLOCKHDR>20	Indicator equals one if target firm is controlled by a blockholder owning more than 20% voting stake prior to the takeover. <u>Source</u> : see Appendix II.
1993-1996	Indicator equals one if the bid was initiated in the period between January 1, 1993 and December 31, 1996; equals zero otherwise. <u>Source</u> : <i>SDC</i>
1997-1999	Indicator equals one if the bid was initiated in the period between January 1, 1997 and December 31, 1999; equals zero otherwise. <u>Source</u> : <i>SDC</i>
20<CONTROL<60	Indicator equals one if bidding firm is controlled by a blockholder owning more than 20 but less than 60% of the voting rights ($20\% \leq \text{CONTROL} < 60\%$). <u>Source</u> : see Appendix II.
2000-2001	Indicator equals one if the bid was initiated in the period between January 1, 2000 and December 31, 2001; equals zero otherwise. <u>Source</u> : <i>SDC</i>
AGE	Number of years since the firm was incorporated. <u>Source</u> : <i>Amadeus/Fame/Reach and DataStream</i>
BETA	Equity beta of the bidding firm, estimated using the market model over the period of 300 to 60 days before the M&A announcement. The market index is the MSCI Europe. <u>Source</u> : own computations
BLOCKHDR>20	Indicator equals one if bidding firm is controlled by a blockholder owning a voting stake of 20% or more. <u>Source</u> : see Appendix II.
CAPX 3YGR (%)	Bidder's average annually compounded growth rate in capital expenditures (scaled by the total assets) over the three-year period preceding the year of the M&A announcement. <u>Source</u> : <i>Amadeus/Fame/Reach and DataStream</i>
CASH FIN	Indicator equals one if internal sources are employed to finance cash component of the payment in corporate takeover, and equals zero otherwise <u>Source</u> : <i>LexisNexis, Factiva, and Financial Times</i>
CASH PMT	Indicator equals one if the acquisition is fully paid with cash, and equals zero otherwise. <u>Source</u> : <i>SDC, LexisNexis, Factiva, and Financial Times</i>
CASH PMT- DEBT FIN	Indicator equals one if borrowing is used to finance the all-cash payment, and equals zero otherwise. <u>Source</u> : <i>SDC, LexisNexis, Factiva, and Financial Times</i>
CASH PMT- EQTY FIN	Indicator equals one if an equity issue is used to finance the all-cash payment, and equals zero otherwise. <u>Source</u> : <i>SDC, LexisNexis, Factiva, and Financial Times</i>
CROSSBORDER BID	Indicator equals one if the bidder and target are from different countries, and equals zero otherwise. <u>Source</u> : <i>SDC, LexisNexis, Factiva, and Financial Times</i>
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. <u>Source</u> : <i>Amadeus/Fame/Reach and DataStream</i>
CFLOW/TRANSVAL	Ratio of the bidder's total cash flow (including cash flow from operating, financial, and investment activities) over the price paid for the acquisition. Cash flow is at the year-end prior to the deal announcement. <u>Source</u> : <i>SDC and Amadeus/Fame/Reach and DataStream</i>
CHLDG/TRANSVAL	Ratio of the bidder's cash holdings (cash and cash equivalents in place) over the price paid for the acquisition. Cash and cash equivalents are at the year end prior to the deal announcement <u>Source</u> : <i>SDC and Amadeus/Fame/Reach and DataStream</i>
COLLATERAL	Variable that takes the value of the tangible assets of the combined firm: sum of the bidder's and target's tangible assets scaled by the sum of their total assets. All measures are at the year prior to the deal announcement. <u>Source</u> : computed based on <i>Amadeus/Fame/Reach and DataStream</i>
CONTROL THREAT (%)	Target's largest controlling share block multiplied by RELVAL. If the target is unlisted, the controlling share block prior to the takeover deal is assumed to be 100%. <u>Source</u> : <i>SDC, Amadeus/Fame/Reach and sources reported in Appendix II.</i>
CONTROL (%)	Ultimate voting stake owned by the bidder's largest shareholder. <u>Source</u> : see Appendix II.
CONTROL<20 WIDELY-HELD FIRM	Indicator equals one if the bidding firm is widely-held: there is no shareholder owning 20% or more of the voting rights. <u>Source</u> : see Appendix II.
CONTROL>60	Indicator equals one if bidding firm is controlled by a large blockholder owning 60% or more of the voting rights. <u>Source</u> : see Appendix II.
CORRUPT	The corruption index, which indicates the extent to which one can exercise public power for private gain It quantifies indicators ranging from the frequency of "additional payments to get things done" to the effects of corruption on the business environment. The index ranges between 0 and 5, with higher values corresponding to the better quality of law enforcement. <u>Source</u> : <i>The World Bank (http://www.worldbank.org/wbi/governance/)</i>
CR PRT x RULAW	Variable that takes the value of the Creditor rights protection index (CREDITOR PRT) multiplied by the Rule of Law index (RULE OF LAW). <u>Source</u> : own computations

<i>Variable</i>	<i>Definition</i>
CREDITOR PRT	The creditor rights protection index, which hinges on the regulatory provisions that allow creditors to force repayment more easily, to take possession of the collateral, or even to gain control over the firm in case of financial distress. The details about the calculation of the creditor rights index are given in Appendix III. The index ranges between 0 and 5, with higher values corresponding to better regulatory protection of creditor rights. <u>Source</u> : own computations.
DEBT FIN	Indicator equals one if a debt issue is used to raise cash, and equals zero otherwise. <u>Source</u> : <i>LexisNexis, Factiva, and Financial Times</i>
DEBT/EQUITY FIN	Indicator equals one if both debt and equity issues are used to raise cash, and equals zero otherwise. <u>Source</u> : <i>LexisNexis, Factiva, and Financial Times</i>
EQUITY FIN	Indicator equals one if an equity issue is used to raise cash, and equals zero otherwise. <u>Source</u> : <i>LexisNexis, Factiva, and Financial Times</i>
EQUITY PMT	Indicator equals one if the acquisition is fully paid with equity, and equals zero otherwise. <u>Source</u> : <i>SDC, LexisNexis, Factiva, and Financial Times</i>
FIN LEVERAGE	Bidding firm's long-term debt prior to the M&A announcement plus deal value, all divided by the sum of the bidding firm's total assets prior to the M&A announcement and the deal value. <u>Source</u> : computed based on <i>DataStream, Amadeus/Fame/Reach, SDC, LexisNexis, Factiva, and Financial Times</i>
HOSTILE BID	Indicator equals one if initial takeover offer meets a negative reaction by the management of the target firm or if a competing bid is made. <u>Source</u> : <i>SDC, LexisNexis, Factiva, and Financial Times</i>
INTRA-IND BID	Indicator equals one if the bidder and target operate in the same industry (primary 2-digit SIC code coincides), and equals zero otherwise. <u>Source</u> : <i>SDC and Amadeus/Fame/Reach</i>
LEVERAGE	Ratio of the bidder's total debt (short-term and long-term) to total assets at the year-end prior to the deal announcement. <u>Source</u> : <i>Amadeus/Fame/Reach and DataStream</i>
LISTED TARGET	Indicator equals one if the target firm is listed on any stock exchange at the moment of bid announcement, and is zero otherwise. <u>Source</u> : <i>SDC, LexisNexis, Factiva, and Financial Times</i>
MIN PRT x RULAW	Variable that takes the value of the Minority shareholder rights protection index (MINORITY PRT) multiplied by the Rule of Law index (RULE OF LAW). <u>Source</u> : own computations
MINORITY PRT	The minority shareholder rights protection index, which hinges on the regulatory provisions aiming at increasing the relative power of the minority shareholders in the presence of strong majority shareholders. For the constituting elements of the index and their coding: see Appendix III. The index ranges between 0 and 25, with higher values corresponding to more powerful minority shareholders (and lower private benefits of control). <u>Source</u> : own computations.
MIX PMT - DEBT FIN	Indicator equals one if borrowing is used to finance the cash component of the mixed payment, and equals zero otherwise. <u>Source</u> : <i>SDC, LexisNexis, Factiva, and Financial Times</i>
MIXED PMT	Indicator equals one if the acquisition is paid with a combination of cash and equity, and equals zero otherwise. <u>Source</u> : <i>SDC, LexisNexis, Factiva, and Financial Times</i>
Q-RATIO	Bidder's ratio of the market value of equity (ordinary and preferred) plus book value of long-term debt over the sum of book value of equity and book value of long-term debt. The market value of equity is taken 60 days prior to deal announcement, book value of equity and debt are as of the year-end prior to deal announcement. <u>Source</u> : <i>Amadeus/Fame/Reach and DataStream</i>
RELVAL (%)	The ratio of the TRANSVAL over the sum of the TRANSVAL plus the bidder's market capitalization. <u>Source</u> : <i>SDC, LexisNexis, Factiva, Financial Times, Amadeus/Fame/Reach and DataStream</i>
RULE OF LAW	The Rule of Law index, which measures the extent to which agents have confidence in and abide by the rules of society, and these include the effectiveness and predictability of the judiciary and the enforceability of contracts. It quantifies indicators which measure the extent to which agents have confidence in and abide by the rules of society. The index ranges between 0 and 5, with higher values corresponding to the better quality of law enforcement. <u>Source</u> : <i>The World Bank (http://www.worldbank.org/wbi/governance/)</i> .
RUNUP (%)	Cumulative abnormal returns (CARs) of the bidder over the window [-60, -20] preceding the takeover announcement day. 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. <u>Source</u> : own computations
SALES 3YGR (%)	Bidder's average annually compounded growth rate in sales revenues (scaled by total assets) over the three-year period preceding the year of takeover announcement. <u>Source</u> : <i>DataStream and Amadeus/Fame/Reach</i>
SH PRT x RULAW	Variable that takes the value of the Shareholder rights protection index (SHAREHDR PRT) multiplied by the Rule of Law index (RULE OF LAW). <u>Source</u> : own computations

<i>Variable</i>	<i>Definition</i>
SHAREHDR PRT	The shareholder rights protection index indicates shareholders' ability to mitigate managerial opportunistic behaviour. For the constituting elements of the index and their coding: see Appendix III. The index ranges between 0 and 25, with higher values corresponding to better governance outcomes. <u>Source</u> : own computations
TA 3YGR (%)	Bidder's average annually compounded growth rate in total assets over the three-year period preceding the year of the deal announcement. <u>Source</u> : <i>Amadeus/Fame/Reach and DataStream</i>
TENDER OFFER	Indicator variable equals one if the bidder makes a public offer to purchase shares of the target firm and the takeover is not classified as hostile (see HOSTILE BID), and is zero otherwise. <u>Source</u> : <i>SDC, LexisNexis, Factiva, and Financial Times</i>
TO THREAT	Measure of the bidder's takeover vulnerability: the likelihood of being acquired, estimated with a probit model for the sample of European firms for the period 1993-2001. The sample is constructed as unbalanced panel with 9-years time series. The dependent variable equals one if a firm was acquired during the year and is zero otherwise. The estimates of the probit model are available from the authors upon request. <u>Source</u> : own computations
TOEHOLD	Percentage of the target firm's shares that the bidder held prior to the bid announcement. <u>Source</u> : <i>SDC, LexisNexis, Factiva, and Financial Times</i>
TRANSP x RULAW	Variable that takes the value of the Transparency index (TRANSPARENCY) multiplied by the Rule of Law index (RULE OF LAW). <u>Source</u> : own computations
TRANSPARENCY	The transparency index reflects the degree to which the market is informed about the corporate policies and contracts directly related to the management, and the frequency with which this information is released. For the coding of the constituting elements of the index: see Appendix III. The index ranges between 0 and 10, with higher values corresponding to better transparency. <u>Source</u> : own computations
TRANSVAL (m US\$)	Price paid for the acquisition in US\$ equivalent. <u>Source</u> : <i>SDC, LexisNexis, Factiva, and Financial Times</i>

Appendix II. Sources of ownership data

We collect ownership data for bidding and target firms from annual reports, institutions such as the shareholder register of national stock exchanges as well as from the ownership and control researchers listed below.

<i>Country</i>	<i>Data source</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	Financieele Dagblad, and annual reports
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. Rafel 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 (Schweizer Aktienfuehrer)
UK	Dr. Grzegorz Trojanowski (<i>University of Exeter</i>); Faccio and Lang (2002); Thomson Financial Research: annual reports of individual firms

Appendix III. Corporate governance regulation indices

This appendix shows how specific regulations are quantified to construct four corporate governance regulation indices: the shareholder rights protection index, the creditor rights protection index, the transparency index, and the minority shareholders protection index. Some regulatory aspects are incorporated in several indices.

1. The shareholder rights protection index (Max=25) reflects the shareholders' ability to mitigate managerial opportunistic behavior (SHAREHDR PRT). The index is constructed by combining the following 3 sub-indices:

1.1 The appointment rights index is based on the rules to appoint and replace executive and non-executive directors. It measures the degree of alignment of the interests of management and shareholders. The regulatory provisions are quantified as follows:

- Employee representation: 0 if required, 2 if not.
- Nomination to the board by shareholders: 2 if required, 0 if not.
- Tenure on the board: 0 if more than 4 years, 1 if 4 years, 2 if less than 4 years
- Cross-shareholdings:
 - Cross-shareholdings between 2 independent companies: 1 if regulated, 0 if not.
 - Maximum shareholding of a subsidiary in its parent company: 1 if regulated, 0 if not
- Election rules:
 - Proxy voting by mail: 2 if allowed, 0 if not
 - Requirement to Deposit/Register shares prior to a general meeting:
 - ⇒ Bearer shares: 0 if deposit is required, 1 if only registration of shares is required, 2 if none is required
 - ⇒ Nominal shares: 0 if deposit is required, 2 if deposit requirement is forbidden

1.2 The decision rights index captures the shareholders' ability to mitigate managerial discretion. The decision rights index cover regulatory provisions that mandate direct shareholder decision-making. The regulatory provisions are quantified as follows:

- Shareholders approval of anti-takeover defense measures: 2 if required, 0 if not.
- Shareholders approval of preemption rights: 2 if required, 0 if not.
- Percentage needed to call for extraordinary meeting: 0 if no rule or more than 20%, 1 if 20% or less but more than 5%, 2 if 5% and less.
- Voting caps: 0 if allowed, 2 if not.

1.3 The trusteeship index measures the efficiency of the board of directors in monitoring the actions of CEOs. The following regulatory provisions are quantified as follows:

- Board independence:
 - 2 if CEO cannot be the chairman of the board of directors (in 1-tier board structure), 0 otherwise
 - 2 if the overlap between management and supervisory board is forbidden (in 2-tier board structure), 0 otherwise
- Employee representation: 0 if required, 2 if not.
- Separate board of auditors: 1 if required, 0 otherwise

The higher each index, the better is the protection of the shareholders.

2. The transparency index (Max=10): The transparency index is based on the quality of information about company, its ownership structure, and management available to investors (TRANSPARENCY). The following regulatory provisions are quantified in this index:

- Requirement to disclose managerial compensation: 0 if not required, 1 if required on aggregate basis, 2 if required on individual basis.
- Requirement to disclose any transactions between management and company: 2 if required, 0 if not
- Mandatory disclosure of large ownership stakes: 0 if disclosure is not required or the min percent is 25% or more; 1 if 10% or more (less than 25%); 2 if 5% or more (less than 10%); 3 if less than 5%.
- Frequency of financial reports: 0 if once per year, 1 if twice per year, 2 if more than twice per year
- Comply or explain rule: 1 if the requirement is present, 0 otherwise

The higher this index, the more transparent the firm is.

3. The creditor rights protection index (Max=5) is based on regulatory provisions that allow creditors to force repayment more easily, take possession of collateral, or gain control over firm in financial distress (CREDITOR PRT). The regulatory provisions are quantified as follows:

- Debtor-oriented versus Creditor-oriented code: 1 if no reorganization option (liquidation only); 0 if reorganization + liquidation option;
- Automatic stay on the assets: 1 if no automatic stay is obliged in reorganization (if debt-orient code) or liquidation procedure (if liquidation code); 0 otherwise;
- Secured creditors are ranked first: 1 if secured creditors are ranked first in the reorganization procedure (if debtor-oriented code) or liquidation procedure (if liquidation code); 0 if government and employees are ranked first;
- Creditor approval of bankruptcy: 1 if creditor approval is required to initiate reorganization procedure (if debtor-oriented code) or liquidation procedure (if liquidation code); 0 otherwise;
- Appointment of official to manage reorganization/liquidation procedure: 1 if it is required by law in a reorganization procedure (if debtor-oriented code) or a liquidation procedure (if liquidation code); 0 otherwise.

4. The minority shareholders protection index (Max= 25) is based on the regulatory provisions aimed at increasing the relative power of the minority shareholders in a context of strong majority shareholders (MINORITY PRT). The index is constructed by combining the following 4 sub-indices:

4.1 Minority shareholders appointment rights index is based on the appointment rights that can be used to protect minority shareholders. These include rights to reserve seats on the board of directors for minority shareholders or to limit voting power of large shareholders. The regulatory provisions are quantified as follows:

- Minority representation on the board: 2 if required, 0 otherwise.
- Voting caps limiting power of large shareholders: 1 if voting caps are allowed, 0 if not.
- One-share-one-vote rule: 0 if both multiple voting rights and non-voting shares are allowed; 1 if one of the two is allowed; 2 if none is allowed.

4.2 Minority shareholders decision rights index captures the ability of minority shareholders to affect fundamental corporate transactions that require a shareholder vote. The regulatory provisions are quantified as follows:

- Supermajority requirement for approval of major company's decisions: 0 if 50% or less; 1 if more than 50% but less than 75%; 2 if 75% or more
- Percentage needed to call for extraordinary meeting: 0 if the rule is not present or required percentage is 20% or more; 1 if the required percentage is between 20 and 5%; 2 if the percentage is 5% or less.

4.3 The board independence (from the controlling shareholder) index indicates the extent to which the board of directors serves as a trustee for minority shareholder, i.e. the directors are independent from the firm's controlling shareholders. The regulatory provisions are quantified as follows:

- Nomination to the board by shareholders: 2 if shareholders voting to elect non-executive directors is not required (2-tier boards); 0 if required or 1-tier board
- Board independence: 2 if CEO cannot be the chairman of the board of directors (in 1-tier board structure) or if the overlap between management and supervisory board is forbidden (in 2-tier board structure), 0 otherwise

4.4 The minority shareholders reward and affiliation rights index groups the remaining regulatory provisions aimed at protecting minority shareholders: the principle of equal treatment (or shared returns) and rights for entry and exit on fair terms. The regulatory provisions are quantified as follows:

- Equal treatment rule: 2 if required, 0 if not,
- Mandatory disclosure of large ownership stakes: 0 if disclosure is not required or the minimum percent is 25% or more; 1 if 10% or more (less than 25%); 2 if 5% or more (less than 10%); 3 if less than 5%.
- Mandatory bid rule: 0 if not required; 1 if 50% or control; 2 if between 50 and 30%; 3 if 30% or less.
- Sell-out rule: The squeeze-out rule is used as a proxy for the sell-out rule, (assumption: sell-out is always in place if squeeze-out is adopted, with the same terms as squeeze-out): 0 if no squeeze-out; 1 if squeeze-out at 95% or more; 2 if squeeze-out at 90% or less.
- Minority claim: 0 if no; 1 if 10% or more; 2 if 5% or more; 3 if less than 5%.
- Break-through rule: 1 if required; 0 if not,

Table 1. Sample composition by bidder's country and by sources of takeover financing and means of payment

	ALL		AUS	BEL	DEN	FIN	FRA	GER	IRE	ITA	LUX	NL	NOR	POR	ESP	SWE	SWZ	UK	OTH	
	Num	%																		
Total number of M&As	1361		13	18	27	35	130	72	20	38	2	17	39	1	34	62	26	801	26	
% of the sample		100	1.0	1.3	2.0	2.6	9.6	5.3	1.5	2.8	0.1	1.2	2.9	0.1	2.5	4.6	1.9	58.9	1.9	
% OF M&A DEALS IN THE COUNTRY:																				
Cash Financing:	590	43.4	69.2	66.7	66.7	62.9	62.3	61.1	45.0	78.9	100	52.9	59.0	100	70.6	53.2	53.8	29.7	80.8	
▪ Cash payment	590	43.4	69.2	66.7	66.7	62.9	62.3	61.1	45.0	78.9	100	52.9	59.0	100	70.6	53.2	53.8	29.7	80.8	
Debt Financing:	173	12.7	0.0	0.0	11.1	0.0	5.4	8.3	10.0	7.9	0.0	29.4	0.0	0.0	5.9	1.6	23.1	17.2	0.0	
▪ Cash payment	173	12.7	0.0	0.0	11.1	0.0	5.4	8.3	10.0	7.9	0.0	29.4	0.0	0.0	5.9	1.6	23.1	17.2	0.0	
Debt & Equity Financing:	139	10.2	0.0	0.0	0.0	2.9	3.1	2.8	20.0	2.6	0.0	5.9	2.6	0.0	5.9	3.2	0.0	15.1	0.0	
▪ Cash payment	42	3.1	0.0	0.0	0.0	0.0	1.5	1.4	15.0	2.6	0.0	5.9	0.0	0.0	2.9	1.6	0.0	4.0	0.0	
▪ Cash-and-Equity payment	97	7.1	0.0	0.0	0.0	2.9	1.5	1.4	5.0	0.0	0.0	0.0	2.6	0.0	2.9	1.6	0.0	11.1	0.0	
Equity Financing:	459	33.7	30.8	33.3	22.2	34.3	29.2	27.8	25.0	10.5	0.0	11.8	38.5	0.0	17.6	41.9	23.1	38.0	19.2	
▪ Cash payment	49	3.6	0.0	0.0	3.7	8.6	3.1	1.4	0.0	0.0	0.0	0.0	5.1	0.0	0.0	4.8	0.0	4.2	3.8	
▪ Cash-and-Equity payment	162	11.9	7.7	5.6	3.7	2.9	3.8	4.2	10.0	2.6	0.0	5.9	5.1	0.0	2.9	8.1	7.7	17.0	0.0	
▪ Equity payment	248	18.2	23.1	27.8	14.8	22.9	22.3	22.2	15.0	7.9	0.0	5.9	28.2	0.0	14.7	29.0	15.4	16.7	15.4	
All Sources of Financing:	1361	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
▪ Cash payment	854	62.8	69.2	66.7	81.5	71.4	72.3	72.2	70.0	89.5	100	88.2	64.1	100	79.4	61.3	76.9	55.2	84.6	
▪ Cash-and-Equity payment	259	19	7.7	5.6	3.7	5.7	5.4	5.6	15.0	2.6	0.0	5.9	7.7	0.0	5.9	9.7	7.7	28.1	0.0	
▪ Equity payment	248	18.2	23.1	27.8	14.8	22.9	22.3	22.2	15.0	7.9	0.0	5.9	28.2	0.0	14.7	29.0	15.4	16.7	15.4	

ALL=All countries, AUS=Austria, BEL=Belgium, DEN=Denmark, FIN=Finland, FRA=France, GER=Germany, IRE=Republic of Ireland, ITA=Italy, LUX=Luxembourg, NL=The Netherlands, NOR=Norway, POR=Portugal, ESP=Spain, SWE=Sweden, SWZ=Switzerland, UK=The United Kingdom, OTH = Bulgaria, Croatia, Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia

Table 2. The valuation effect of financing choice

This table reports the results of the OLS regression of the bidder CARs for three different event windows and for the subsamples of all-cash and mixed offers. Variable definitions are given in Appendix I. For each variable, we list the regression coefficient normalized by their standard deviation (except for binary variables). As such, each number in the table indicates incremental change in the analysed CARs (%) associated with a particular takeover characteristic (binary variables) or with a one-standard deviation change in the reference variable (level variables). Effects that are found statistically significant in the regression analysis are denoted in bold. Statistical significance is indicated by the heteroskedasticity-consistent p-value. ^{a/b/c} stands for statistical significance at the 1%/5%/10% level, respectively.

	WHOLE SAMPLE						CASH PAYMENT						MIXED PAYMENT					
	CAR [-60, -2]		CAR [-1, +1]		CAR [+2, +60]		CAR [-60, -2]		CAR [-1, +1]		CAR [+2, +60]		CAR [-60, -2]		CAR [-1, +1]		CAR [+2, +60]	
	Effect	p-val	Effect	p-val	Effect	p-val	Effect	p-val	Effect	p-val	Effect	p-val	Effect	p-val	Effect	p-val	Effect	p-val
EQUITY PMT	1.56%	.042 ^b	-0.69%	.257 ^c	-3.34%	.137												
CASH PMT - EQTY FIN	2.03%	.603	0.88%	.305	-6.04%	.067 ^c	3.55%	.358	0.42%	.611	-7.85%	.022 ^b						
CASH PMT - DEBT FIN	1.06%	.731	1.10%	.163	3.02%	.257	2.22%	.481	0.85%	.202	1.73%	.135						
MIX PMT - DEBT FIN	-6.72%	.015 ^b	0.89%	.275	1.82%	.552							-7.75%	.004 ^a	0.96%	.362	5.46%	.160
CROSSBORDER BID	-2.97%	.272	-1.12%	.136	-2.61%	.166	-1.02%	.669	-0.41%	.415	-3.40%	.107	2.80%	.670	-2.00%	.150	-1.10%	.862
HOSTILE BID	8.74%	.004 ^a	-1.64%	.034 ^b	-3.98%	.322	3.33%	.031 ^b	-0.83%	.458	-3.44%	.465	15.20%	.037 ^b	-4.31%	.095 ^c	-6.35%	.430
TENDER OFFER	2.22%	.608	-2.67%	.005 ^a	-2.65%	.337	-3.63%	.346	-0.59%	.467	0.41%	.906	12.50%	.212	-3.89%	.067 ^c	-0.64%	.941
LISTED TARGET	-1.27%	.759	0.36%	.650	1.03%	.773	1.32%	.705	0.38%	.607	3.07%	.354	-3.22%	.747	-0.05%	.980	3.76%	.547
INTRA-IND BID	-1.39%	.181	-0.25%	.520	0.57%	.794	-2.44%	.304	-0.42%	.397	1.94%	.351	-0.21%	.968	-0.28%	.767	-1.28%	.704
1997-1999	1.61%	.057 ^c	1.61%	.051 ^c	-4.89%	.010 ^a	4.71%	.011 ^b	0.98%	.082 ^c	-3.48%	.140	-1.31%	.794	1.04%	.325	-4.33%	.014 ^b
2000-2001	4.49%	.054 ^c	-0.09%	.919	-13.97%	.000 ^a	3.37%	.268	0.87%	.177	-9.57%	.000 ^a	5.83%	.125	-0.31%	.802	-15.78%	.000 ^a
CFLOW/TA	-3.92%	.002 ^a	-0.04%	.913	2.35%	.035 ^b	-8.42%	.000 ^a	0.41%	.223	2.20%	.087 ^c	0.44%	.873	0.22%	.811	2.37%	.347
Q-RATIO	0.38%	.751	0.06%	.847	-4.94%	.000 ^a	1.68%	.265	-0.13%	.725	-6.32%	.000 ^a	2.48%	.301	-0.17%	.876	-5.79%	.010 ^a
LEVERAGE	-2.18%	.081 ^c	0.37%	.273	1.27%	.242	-0.92%	.527	-0.06%	.846	-0.68	.549	-5.08%	.059 ^c	1.68%	.063 ^c	2.94%	.235
TOEHOLD	-0.51%	.677	0.24%	.474	1.67%	.144	-0.07%	.961	0.50%	.095 ^c	2.27%	.039 ^b	-1.19%	.533	-0.34%	.586	1.97%	.216
RUNUP			1.12%	.000 ^a	2.55%	.000 ^a			1.35%	.000 ^a	1.34%	.000 ^a			1.78%	.093 ^c	3.70%	.000 ^a
N obs.	1361		1361		1361		854		854		854		259		259		259	
Adjusted-R ²	3.85		6.69		27.09		7.95		5.22		23.75		11.43		10.47		30.97	
F-value	2.59	.000 ^a	7.33	.000 ^a	33.84	.000 ^a	3.28	.000 ^a	4.14	.000 ^a	18.78	.000 ^a	2.85	.001 ^a	5.02	.000 ^a	16.43	.000 ^a

Table 3. Average values of the determinants of choice of sources of financing

This table reports the mean values of the variables expected to affect the bidder's choice of financing sources. Columns (7) and (12) report an F-test (for level variables) and a Wald test (for binary variables) for the difference in means across acquisitions involving different means of payment (but the same sources of transaction financing). Columns (13), (14), and (15) report an F-test (for level variables) and a Wald test (for binary variables) for the difference in means across acquisitions involving different sources of financing (but the same means of payment). Superscripts ^{a/b/c} correspond to the statistical significance at the 1%/5%/10% level, respectively. To assess the significance of the estimated run-up premium, RUNUP (%), we perform a non-parametric test (Corrado, 1989). Where the estimated premium is statistically significant at the 1%/5%/10% level, we indicate this with ^{z/p/x}, respectively.

Variables	Whole Sample	Cash Fin.	Debt Fin.	Debt & Equity Financed				Equity Financed					All Payments	Cash Payments	Mixed Payments	
		Cash Paymt	Cash Paymt	All Paymt	Cash Paymt	Mix Paymt	F-stat (p-val)	All Paymt	Cash Paymt	Mix Paymt	Equity Paymt	F-stat (p-val)	F-stat (p-val)	F-stat (p-val)	F-stat (p-val)	
						H ₀ : (5)=(6)					H ₀ : (9)=(10)=(11)	H ₀ : (2)=(3)=(4)=(8)	H ₀ : (2)=(3)=(5)=(9)	H ₀ : (6)=(10)		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)

PANEL A: COST OF CAPITAL CONSIDERATIONS (CC)**CC1. Pecking Order and Market Timing:**

CFLOW/TRANSVAL	0.96	2.71	0.21	0.26	0.21	0.27	1.2 (.306)	0.32	0.52	0.81	0.14	4.9 ^a (.008)	6.7 ^a (.000)	12.4 ^a (.000)	8.5 ^a (.000)
CHLDG/TRANSVAL	0.80	2.81	0.59	0.17	0.09	0.20	1.9 (.163)	0.36	0.67	0.61	0.16	5.2 ^a (.006)	7.3 ^a (.000)	11.7 ^a (.000)	6.5 ^a (.000)
COLLATERAL	0.33	0.32	0.34	0.34	0.43	0.31	0.6 (.572)	0.34	0.35	0.32	0.35	0.8 (.452)	0.8 (.492)	3.5 ^b (.015)	1.3 (.282)
FIN LEVERAGE	0.34	0.26	0.32	0.43	0.47	0.42	0.9 (.422)	0.40	0.34	0.35	0.46	3.7 ^b (.028)	23.2 ^a (.000)	8.6 ^a (.000)	4.5 ^a (.005)
RUNUP (%)	0.92	0.34	1.96 ^y	2.01 ^y	5.41 ^z	-2.69 ^z	10.6 ^a (.000)	2.21 ^z	2.72 ^z	1.82 ^z	2.33 ^z	0.3 (.733)	3.4 ^b (.017)	7.2 ^a (.000)	9.8 ^a (.000)
1993-1996	0.34	0.34	0.25	0.34	0.40	0.31	$\chi^2 = 1.9 (.382)$	0.39	0.43	0.41	0.37	$\chi^2 = 2.3 (.319)$	$\chi^2 = 10.9^b (.012)$	$\chi^2 = 12.2^a (.007)$	$\chi^2 = 5.9 (.115)$
1997-1999	0.41	0.43	0.45	0.40	0.40	0.40	$\chi^2 = 3.6 (.167)$	0.39	0.45	0.38	0.39	$\chi^2 = 3.3 (.192)$	$\chi^2 = 1.6 (.652)$	$\chi^2 = 1.7 (.630)$	$\chi^2 = 5.8 (.118)$
2000-2001	0.24	0.23	0.30	0.26	0.20	0.29	$\chi^2 = 2.2 (.331)$	0.22	0.12	0.21	0.24	$\chi^2 = 4.7^c (.095)$	$\chi^2 = 6.1 (.104)$	$\chi^2 = 8.8^b (.032)$	$\chi^2 = 5.5 (.141)$

CC2. Regulatory environment:

SH PRT x RULAW	65.1	58.3	73.7	73.7	72.6	77.0	8.1 ^a (.000)	72.4	67.9	74.2	72.8	32.9 ^a (.000)	65.1 ^a (.000)	41.3 ^a (.000)	1.0 (.378)
CR PRT x RULAW	12.2	11.5	13.1	13.0	12.6	13.1	2.2 (.120)	12.9	12.4	13.0	13.1	6.7 ^a (.001)	27.7 ^a (.000)	16.7 ^a (.000)	0.2 (.909)
TRANSP x RULAW	29.4	26.4	33.5	33.5	32.5	35.4	5.1 ^a (.007)	30.2	30.0	33.2	28.4	21.7 ^a (.000)	54.0 ^a (.000)	34.8 ^a (.000)	2.3 ^c (.079)
MIN PRT x RULAW	61.7	60.2	64.2	64.2	61.0	65.4	3.2 ^b (.043)	60.5	59.1	64.0	58.3	30.7 ^a (.000)	54.1 ^a (.000)	34.0 ^a (.000)	1.6 (.181)

PANEL B: AGENCY PROBLEMS BETWEEN CLAIMANTS (AG)**AG1. Agency Cost of Equity and Takeover Threat:**

CONTROL (%)	29.9	35.3	23.6	18.6	17.4	19.5	0.7 (.494)	27.1	30.0	23.6	28.4	1.9 (.158)	12.9 ^a (.000)	5.2 ^a (.002)	0.8 (.489)
BLOCKHLD>20	0.55	0.67	0.39	0.32	0.23	0.34	$\chi^2 = 1.5 (.463)$	0.47	0.67	0.36	0.52	$\chi^2 = 6.9^b (.032)$	$\chi^2 = 40.7^a (.000)$	$\chi^2 = 24.5^a (.000)$	$\chi^2 = 1.3 (.737)$
TO THREAT	0.06	0.05	0.02	0.05	0.08	0.04	1.0 (.369)	0.10	0.06	0.10	0.11	0.1 (.872)	4.2 ^a (.006)	1.3 (.292)	0.9 (.406)

AG2. Debt Overhang:

Variables	Whole Sample	Cash Fin.	Debt Fin.	Debt & Equity Financed				Equity Financed					All Payments	Cash Payments	Mixed Payments
		Cash Paymt	Cash Paymt	All Paymt	Cash Paymt	Mix Paymt	F-stat (p-val)	All Paymt	Cash Paymt	Mix Paymt	Equity Paymt	F-stat (p-val)	F-stat (p-val)	F-stat (p-val)	F-stat (p-val)
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Q-RATIO	1.81	1.61	2.00	1.63	1.64	1.57	0.2 (.652)	2.28	2.65	2.54	2.01	0.9 (.407)	4.2 ^a (.005)	2.9 ^b (.034)	5.5 ^b (.020)
CAPX 3YGR (%)	8.5	8.5	4.4	9.4	3.8	14.4	7.2 ^a (.008)	26.7	33.1	19.5	34.7	3.8 ^b (.023)	6.7 ^a (.000)	8.5 ^a (.000)	0.4 (.766)
SALES 3YGR (%)	24.2	21.8	24.3	23.5	20.2	25.6	4.1 ^b (.045)	31.6	25.2	39.3	27.3	2.6 ^c (.075)	5.8 ^a (.000)	0.6 (.650)	4.6 ^b (.033)
TA 3YGR (%)	26.8	22.2	20.7	24.7	30.9	18.0	6.6 ^b (.011)	39.4	34.3	38.6	49.4	3.8 ^b (.023)	5.5 ^a (.001)	6.2 ^a (.000)	12.0 ^a (.000)
AG3. Agency Cost of Debt and Financial Flexibility:															
BETA	0.64	0.64	0.65	0.54	0.39	0.60	5.8 ^b (.017)	0.66	0.69	0.58	0.73	5.1 ^a (.006)	1.22 (.296)	4.2 ^a (.006)	0.0 (.991)
AGE	16.1	23.5	20.1	10.2	8.4	10.7	0.9 (.344)	7.4	5.3	18.0	3.6	9.4 ^a (.000)	7.6 ^a (.000)	11.5 ^a (.000)	2.3 (.130)
PANEL C: MEANS OF PAYMENT CONSIDERATIONS (MP)															
MP1. Risk Sharing:															
(B) MVAL (m US\$)	2,249	1,952	4,400	871	1,172	761	12.5 ^a (.000)	2,788	1,385	513	3,913	9.7 ^a (.000)	17.8 ^a (.000)	4.7 ^a (.003)	1.6 (.187)
TRANSVAL (m US\$)	603	114	433	732	1,106	568	8.4 ^a (.000)	1,236	139	193	2,290	11.1 ^a (.000)	13.3 ^a (.000)	7.2 ^a (.000)	5.2 ^b (.023)
RELVAL (%)	19.5	11.3	17.7	31.3	31.3	31.3	1.5 (.225)	23.3	18.8	19.9	32.9	22.1 ^a (.000)	23.1 ^a (.000)	2.8 ^b (.039)	11.4 ^a (.000)
MP2. The threat of Control Change:															
CONTROL THREAT (%)	10.6	6.7	8.9	20.3	19.8	20.6	1.1 (.297)	14.7	11.3	10.9	16.2	2.5 ^c (.085)	19.0 ^a (.000)	2.2 ^c (.087)	8.5 ^a (.000)
CONTROL<20	0.45	0.33	0.61	0.68	0.77	0.66	$\chi^2 = 1.5 (.463)$	0.53	0.33	0.65	0.48	$\chi^2 = 6.9^b (.032)$	$\chi^2 = 40.7^a (.000)$	$\chi^2 = 24.5^a (.000)$	$\chi^2 = 1.3 (.737)$
20<CONTROL<60	0.43	0.53	0.31	0.31	0.15	0.34	$\chi^2 = 2.3 (.314)$	0.37	0.50	0.31	0.38	$\chi^2 = 1.5 (.468)$	$\chi^2 = 19.9^a (.000)$	$\chi^2 = 14.2^a (.003)$	$\chi^2 = 1.0 (.799)$
CONTROL>60	0.12	0.14	0.08	0.01	0.08	0.00	$\chi^2 = 4.9^c (.083)$	0.10	0.17	0.04	0.14	$\chi^2 = 6.8^b (.034)$	$\chi^2 = 10.0^a (.018)$	$\chi^2 = 2.1 (.546)$	$\chi^2 = 1.8 (.613)$
(T) BLOCKHDR>20	0.90	0.94	0.70	0.84	0.78	0.89	$\chi^2 = 3.6 (.166)$	0.90	0.97	0.95	0.85	$\chi^2 = 2.4 (.304)$	$\chi^2 = 50.9^a (.000)$	$\chi^2 = 49.2^a (.000)$	$\chi^2 = 5.2 (.157)$
MP3. Characteristics of Acquisition:															
CROSSBORDER BID	0.25	0.36	0.23	0.10	0.26	0.03	$\chi^2 = 13.6^a (.001)$	0.19	0.26	0.17	0.19	$\chi^2 = 2.3 (.315)$	$\chi^2 = 56.0^a (.000)$	$\chi^2 = 8.2^b (.042)$	$\chi^2 = 12.3^a (.006)$
TENDER OFFER	0.32	0.23	0.58	0.51	0.60	0.32	$\chi^2 = 17.6 (.000)$	0.34	0.34	0.24	0.39	$\chi^2 = 19.3^a (.000)$	$\chi^2 = 81.3^a (.000)$	$\chi^2 = 55.8^a (.000)$	$\chi^2 = 14.9^a (.002)$
HOSTILE BID	0.05	0.05	0.10	0.10	0.14	0.07	$\chi^2 = 7.1^a (.008)$	0.04	0.04	0.03	0.04	$\chi^2 = 0.1 (.932)$	$\chi^2 = 14.0^a (.003)$	$\chi^2 = 12.6^a (.006)$	$\chi^2 = 4.3 (.235)$
LISTED TARGET	0.43	0.38	0.61	0.48	0.57	0.29	$\chi^2 = 14.5^a (.000)$	0.46	0.38	0.28	0.59	$\chi^2 = 67.9^a (.000)$	$\chi^2 = 28.8^a (.000)$	$\chi^2 = 34.3^a (.000)$	$\chi^2 = 12.2 (.007)$
INTRA-IND BID	0.65	0.65	0.69	0.64	0.73	0.54	$\chi^2 = 5.2^b (.023)$	0.65	0.65	0.60	0.67	$\chi^2 = 3.3 (.188)$	$\chi^2 = 3.0 (.385)$	$\chi^2 = 1.7 (.645)$	$\chi^2 = 1.7 (.632)$
Number of obs.	1361	590	173	139	42	97	139	459	49	162	248	459	1361	854	259

Table 4. Multinomial logit model predicting bidder's financing choice

The table reports a multinomial logit model that describes the bidder's choice of the financing method in corporate takeovers. Four possible choices are considered: (i) cash financing (cash-paid/cash-financed deals); (ii) debt financing (cash-paid/debt-financed deals); (iii) equity-and-debt financing (cash-paid/equity&debt-financed and mixed-paid/debt financed deals); and (iv) equity financing (equity-paid/equity-financed, cash-paid/equity-financed, and mixed-paid/cash-financed deals). The multinomial logit model includes three binary logit models. Each binary logit predicts a probability of choosing one of the first three alternatives relative to the probability of choosing the benchmark, which is all-equity financing. A Wald test is used to test for significance of the estimated coefficients and the overall regression; the p-value of the Wald Chi-square statistic is reported ($\text{Pr} > \chi^2$). Total sample is 1361 acquisitions. This includes 459 acquisitions financed by equity. The Chi-square statistic on the significance of the overall is significant at the 0.0001% level. ^{a/b/c} stands for statistical significance at the 1%/5%/10% level, respectively.

Explanatory variables	CASH Financing (vs EQUITY Financing)		DEBT Financing (vs EQUITY Financing)		DEBT & EQUITY Financing (vs EQUITY Financing)	
	(1)	(2)	(3)	(4)	(5)	(6)
	Coeff	$\text{Pr} > \chi^2$	Coeff	$\text{Pr} > \chi^2$	Coeff	$\text{Pr} > \chi^2$
INTERCEPT	0.64	.687	-8.32^a	.009	-9.63^a	.006
<u>Cost of Capital 1 (CC1). Pecking Order and Market Timing:</u>						
CFLOW/TRANSVAL	0.02^c	.077	-0.03	.328	-0.09^c	.072
COLLATERAL	1.88^c	.058	1.57^c	.051	1.83	.164
FIN LEVERAGE	0.65	.438	0.18	.857	-0.94	.451
RUNUP	-0.28^b	.049	-0.04	.933	-0.56^c	.073
1997-1999	0.40	.254	0.34	.560	-0.46	.423
2000-2001	0.02	.952	0.55	.169	0.10	.874
<u>Cost of Capital (CC2). Regulatory Environment:</u>						
SH PRT x RULAW	-0.05^b	.030	-0.01	.836	-0.02	.698
CR PRT x RULAW	0.11	.235	0.11^b	.047	0.18^b	.033
TRANSP x RULAW	-0.01	.755	-0.04	.434	0.00	.979
MIN PRT x RULAW	0.00	.945	0.10^b	.050	0.09^b	.025
<u>Agency Costs 1 (AG1). Agency Cost of Equity and Takeover Threat:</u>						
BLOCKHLDR>20	-1.14	.143	0.38	.690	0.51	.764
TO THREAT	-1.65	.121	-3.61	.172	-2.94	.136
<u>Agency Costs 1 (AG2). Debt Overhang and AG3. Agency Cost of Debt and Financial Flexibility:</u>						
Q-RATIO	-0.05^b	.045	-0.02	.415	-0.16^c	.057
BETA	0.03	.898	-0.10	.790	-0.02	.952
AGE	0.06	.581	0.01	.812	0.02	.808
<u>Means of Payment 1 (MP1). Risk Sharing:</u>						
MVAL (log)	-0.03	.751	0.26^a	.009	0.32^a	.005
RELVAL	-3.63^a	.000	-2.51^c	.051	1.31^b	.023
<u>Means of Payment 2 (MP2). The threat of Control Change:</u>						
CONTROL THREAT	0.13	.135	0.11^c	.086	0.10^c	.065
20<CONTROL<60	1.69^c	.076	0.30	.772	-1.82	.429
<u>Means of Payment 3 (MP3). Characteristics of Acquisition:</u>						
CROSSBORDER BID	0.01	.983	-0.42	.385	-1.75^a	.005
TENDER OFFER	-0.49	.249	0.29	.665	0.32	.654
HOSTILE BID	1.14^c	.074	1.33^c	.065	0.95	.199
LISTED TARGET	-0.45	.181	-0.16	.821	-1.50^b	.042
INTRA-IND BID	-0.08	.746	-0.27	.453	-0.16	.658

Table 5. Nested logit model: the payment-financing choice

This table presents the estimates from a nested logit regression that predicts the unconditional probability of choosing a payment method and, conditional on the payment method choice, the probability of choosing a particular source of financing. The first stage is the decision on the mode of payment. The second stage is the choice of financing sources conditional on the payment method. The sample comprises 1,361 acquisitions. The Chi-square statistic on the significance of the overall is significant at the 0.0001% level. ^{a/b/c} stands for statistical significance at the 1%/5%/10% level, respectively.

Explanatory variables	First stage: Choice of payment method				Second stage: Choice of a means of financing Conditional on payment method					
	CASH Payment (vs. EQUITY Paymt) (1)		MIXED Payment (vs EQUITY Paymt) (2)		<i>Cash Payment:</i> CASH Financing (vs. EQUITY Financing) (3)		DEBT Financing (vs. EQUITY Financing) (4)		<i>Mixed Payment:</i> DEBT Financing (vs. CASH Financing) (5)	
	Coeff.	Pr > t	Coeff.	Pr > t	Coeff.	Pr > t	Coeff.	Pr > t	Coeff.	Pr > t
INTERCEPT	0.90	.655	-4.30^b	.048	3.42	.384	-15.14^a	.008	-4.22	.309
<u>Cost of Capital 1 (CC1). Pecking Order and Market Timing:</u>										
CFLOW/TRANSVAL	0.01	.517	-0.04^b	.019	0.15^b	.027	-0.08	.529	-0.17^a	.008
COLLATERAL	1.54	.187	-0.43	.728	-0.78	.709	0.73^c	.062	2.70^b	.043
FIN LEVERAGE	0.69	.507	1.42	.267	1.91	.232	-0.86	.570	-2.75^b	.046
RUNUP	-0.05^b	.039	-0.22	.615	-1.10^b	.023	-0.06	.933	-1.37^c	.098
1997-1999	0.04	.933	-0.45	.433	0.60	.430	-0.94	.506	0.16	.826
2000-2001	0.17	.752	-0.09	.884	0.61	.500	1.14^c	.087	1.12^c	.091
<u>Cost of Capital 1 (CC2). Regulatory Environment:</u>										
SH PRT x RULAW	-0.01	.841	-0.03	.342	-0.09^b	.029	-0.18^c	.052	0.07	.406
CR PRT x RULAW	-0.02	.853	0.03	.729	0.11	.525	0.37^b	.035	0.04	.894
TRANSP x RULAW	-0.04	.374	-0.01	.325	-0.02	.511	-0.05	.483	-0.04	.656
MIN PRT x RULAW	0.02	.606	0.05^b	.011	0.07	.221	0.46^b	.011	-0.08	.439
<u>Agency Costs 1 (AG1). Agency Cost of Equity and Takeover Threat:</u>										
BLOCKHLDR>20					-0.31	.616	0.45	.762	-0.57	.662
TO THREAT	-4.85	.202	0.58	.640	-1.55	.514	-4.41	.569	-1.51	.278
<u>Agency Costs 2 (AG2). Debt Overhang and AG3. Agency Cost of Debt and Financial Flexibility:</u>										
Q-RATIO	-0.01	.563	0.00	.989	-0.06	.139	-0.09	.672	-0.22^b	.031
BETA	-0.32^b	.047	0.56	.117	0.40	.340	0.97^c	.069	0.10	.848
AGE	0.01	.641	0.02	.250	0.01	.221	0.04	.176	0.00	.874
<u>Means of Payment 1 (MP1). Risk Sharing:</u>										
MVAL (log)	-0.06	.558	-0.13	.240	-0.22^a	.010	0.54^b	.045	0.52^a	.003
RELVAL	-4.13^a	.000	-2.24^b	.016	-1.79	.322	-0.96	.490	2.70^c	.083
<u>Means of Payment 2 (MP2). The threat of Control Change:</u>										
CONTROL THREAT	0.07	.289	0.02	.235	-0.12	.247	0.26	.282	-0.10	.928
20<CONTROL<60	3.33^b	.015	1.34	.352	0.88	.184	-0.19	.897	0.36	.573
CONTROL<20	1.59^c	.092	-0.36	.826						
<u>Means of Payment 3 (MP3). Characteristics of Acquisition:</u>										
CROSSBORDER BID	0.29^a	.000	-0.40	.377	-0.42	.488	-0.47	.315	-2.80^b	.012
TENDER OFFER	0.17	.697	-0.84	.233	-0.61	.174	-1.08	.205	1.37	.352
HOSTILE BID	1.20^c	.056	0.90^b	.029	0.53	.569	0.54	.449	-0.72	.585
LISTED TARGET	-0.69^a	.000	-1.05^b	.045	0.55	.587	1.13	.179	-1.46	.330
INTRA-IND BID	-0.19	.283	-0.34	.389	-0.92	.140	-0.36	.422	-0.23	.622