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Should Shareholders Have a Say on Acquisitions?

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Abstract

Shareholders of U.S. corporations have lost billions of dollars in acquisitions they never approved. In the United Kingdom the listing rules give shareholders a binding say when targets are large relative to acquirers. A transatlantic comparison suggests that if U.S. shareholders had a say on acquisitions, they would incur fewer losses. There is a significant difference in the difference in performance between deals subject to a vote in the United Kingdom but not in the United States and deals with no mandatory vote in either country. The United States has given shareholders a mandatory say on pay; shareholders might also wish to have a binding say on corporate acquisitions.

Keywords: Corporate acquisitions, shareholder voting, corporate governance

JEL Classifications: G34, K22

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Should Shareholders Have a Say on Acquisitions?

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14 February 2021

Shareholders of U.S. corporations have lost billions of dollars in acquisitions they never approved. In the United Kingdom the listing rules give shareholders a binding say when targets are large relative to acquirers. A transatlantic comparison suggests that if U.S. shareholders had a say on acquisitions, they would incur fewer losses. There is a significant difference in the difference in performance between deals subject to a vote in the United Kingdom but not in the United States and deals with no mandatory vote in either country. The United States has given shareholders a mandatory say on pay; shareholders might also wish to have a binding say on corporate acquisitions.

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1. Introduction

On April 24, 2019 Occidental Petroleum Corp entered into a bidding war with the much larger Chevron Corp for the acquisition of Anadarko Petroleum Corp. The CEO of Occidental was able to bypass the need for shareholder approval related to the issuance of new equity by funding the deal mainly with cash. By offering a higher price than Chevron, Occidental was able to secure the deal. In the month between the announcement and the completion of the deal, the holdings of Occidental shareholders lost about 20% in value relative to the S&P500 index.

According to a study of U.S. mergers and acquisitions published in 2011, over 90% of all listed firms in the US engaged in at least one merger or acquisition in the 1990s and 2000s.[1] And despite the large amount of money and resources invested in these transactions, the share prices of the acquiring companies, as many studies have shown, often fall at the announcements of deals, and the losses from the worst-performing transactions have been substantial.[2]

Unlike their counterparts in the U.K., the CEOs of U.S. companies do not need to ask for shareholder approval to proceed with an acquisition. The listing rules of the NYSE, AMEX, and NASDAQ require shareholder votes only in those cases when a company plans to issue more than 20% of new shares to finance a deal. Since voting is not mandatory for U.S. acquisitions *per se*, U.S. managers who want to avoid a vote of the shareholders can easily do so by structuring the deals with a sufficient amount of cash or debt. Consistent with this practice, one recent study has shown that, to avoid a shareholder vote, U.S. acquirers have increased equity issuance, cut payouts, or otherwise accumulated cash holdings in the year prior to the merger announcement to raise the share of cash in mixed-payment deals. Moreover, the deals structured to bypass shareholder voting have acquirer announcement returns that are 3.0% lower than otherwise comparable deals, shareholder losses that have been attributed to overpayment for the targets.[3]

[1] Netter, Stegemoller, and Wintoki (2011).
[2] See Andrade, Mitchell, and Stafford (2001), Moeller, Schlingemann, and Stulz (2004, 2005), Bouwman, Fuller, and Nain (2009), Harford, Humphery-Jenner, and Powell (2012)).
[3] Li, Liu and Wu (2018)

What's more, the absence of shareholder voice in large corporate acquisitions makes it an exception to the widely accepted principle that shareholders should have a say in all major corporate contracts or decisions with potentially material consequences for the values of the companies whose shares they hold.[4] Since voting on equity issuance in the U.S. does not seem to stop the destruction of value in corporate acquisitions, we raise the question in this article whether the listing rules in the U.S. should include a provision for mandatory shareholder voting in acquisitions.

In what follows we begin by reviewing the legal debate on the pros and cons of voting in acquisitions. Next we present the case of the U.K. where voting on acquisitions becomes mandatory when deals cross a certain threshold of relative size. Then we summarize the empirical evidence comparing the performance of deals in the U.S. and in the U.K. We conclude by offering a number of policy prescriptions, including mandatory shareholder voting on large acquisitions as the default rule for listing on U.S. exchanges, but with an opt-out provision.

2. Is Shareholder Voting a Solution? The Debate in Law Schools

The debate whether to introduce mandatory shareholder voting in the U.S. has been going on in U.S. law schools since the 1980s. All legal scholars who have taken part in this debate agree that corporate acquisitions represent a potential source of shareholder losses and cite the relevant U.S. finance evidence available at the time they were writing. Nevertheless, the legal literature then splits into two groups: one group argues that voting on acquisitions is a potential solution to the acquisition problem.[5] A second group argues that voting is not a solution because it would "impose substantial costs with little benefit."[6] Chief among the potential costs cited are the following:

(1) "Preparing and distributing a proxy statement and tabulating the responses."

(2) "The delays from soliciting shareholder approval could defeat even a profitable acquisition."

(3) "Defining the acquisitions to be covered would be difficult. Presumably, it would be done in terms of the dollar amount of the acquisition relative to the dollar size of the acquirer. Drawing these lines would be tricky; managers would seek acquisitions just below the cutoff line."

[4] Rock, Davies, Kanda and Kraakman (2009).
[5] See Coffee (1984), Black (1989), and Black and Kraakman (2002).
[6] See Dent (1986) and Afsharipour (2012))

Along with these objections to mandatory shareholder voting, the sceptics have proposed alternative solutions. One is a "market-based legal response" in which courts "enjoin as corporate waste or a breach of fiduciary duty any acquisition the disclosure of which causes a material decline in the price of the proposed buyer's common stock".[7] Another proposal would involve the sale by the acquirers of options to their own shareholders, for as much as 20% of the outstanding stock, conferring the right to sell their shares back to the acquirer after closing for cash at a fixed pre-acquisition announcement price. What's more, the least optimistic of this group go so far as to dismiss altogether the idea of mandatory shareholder voting in the U.S. as "politically infeasible" because of the Delaware Court's "long history of depriving acquirer shareholders of the right to vote" and "the management/director-centered ethos of corporate law in the United States."[8]

3. The U.K. Experience: The Class 1 Rule

While no jurisdiction to our knowledge has adopted these alternatives to mandatory shareholder voting, several countries, among them the U.K., Hong Kong, and Ireland, have adopted a mandatory shareholder voting rule based on relative size.

Since the 1970s, U.K. listing rules have required that shareholders have a mandatory vote when a transaction is not "in the ordinary course of business because of its size or incidence." These transactions are called "Class 1" transactions and they are defined using four "Class tests," each based on one of the four following indicators of the size of the target relative to the acquirer: (1) gross assets; (2) profits; (3) consideration (offer price); and (4) gross capital. Any transaction that is defined as "Class 1" by one or more of these four tests by having a ratio larger than 25% needs to be approved by the shareholders. Smaller relative-size deals, called "Class 2" transactions, have similar disclosure requirements but do not require a shareholder vote. Moreover, when announcing a Class 1 transaction, the company needs to disclose the date of the Extraordinary General Meeting, usually after a few weeks, when the resolution will be voted on.

[7] Dent (1986).
[8] Afsharipour (2012).

In a study of the effects of the Class 1 rule we published in 2016, we showed that most of the Class 1 deals go to the vote in less than a month and, perhaps somewhat surprisingly, *all of the Class 1 resolutions in our sample were approved at the general meeting*—a finding whose import we come back to later. Second, using a statistical approach called Multidimensional Regression Discontinuity Design, we showed that, across the multidimensional threshold, Class 1 had much higher abnormal returns than Class 2 transactions. Finally, consistent with the idea that mandatory voting might work to limit the amounts acquirers are willing to offer, we reported that the takeover premia were smaller for publicly listed targets in Class 1 than Class 2 deals, and that Class 1 acquirer returns in deals with multiple bidders—which studies have identified as notoriously bad for shareholders—were larger.

If the shareholder voting-related costs suggested by legal scholars opposed to mandatory voting were material, Class 1 deals would presumably have lower announcements returns than Class 2 deals, which have no voting requirement. On the basis of the empirical tests, the expected benefits associated with shareholder voting appear to outweigh significantly any voting-related costs from the perspective of acquirer shareholders. In fact, we take a look at each of the specific alleged costs in our analysis. We find, first of all, that the cost of preparing and distributing proxy statements and tabulating the responses has gone down dramatically in recent years thanks to technological innovations, digitalization and the internet; and to the extent such costs matter, the net benefit of shareholder voting should actually have increased in recent years—but there is no sign of this in our results. Second, if the delays attributable to voting deter profitable acquisitions—perhaps because management distrusts the market's ability to get the strategic case for the deal—we should expect to see a systematic drop in the density of deals just above the multidimensional threshold—but we find no such drop. And our finding, noted earlier, that roughly two thirds of the deals in our sample are voted on within a month from the announcement seems inconsistent with concerns about significant delays. Finally, the expressed concern about the difficulty of defining "fundamental" acquisitions, and about the potential for gaming any rule, also appears unwarranted. That the four tests of the Class 1 rule in the U.K. are reasonably clear and leave little room for manipulation is suggested by our failure to find any evidence in our sample of a clustering of Class 2 deals just below the Class 1 thresholds.

4. Empirical Evidence on U.S. Deals and Comparison with the U.K.

This brings us to the main policy question raised by this article: Would a relative size based rule on mandatory shareholder voting in acquisition be beneficial to U.S. shareholders?

To provide direct evidence on this question, we begin by analyzing the performance of deals announced—and eventually closed—by U.S. listed acquirers between 1992 and 2010 that matches the sample period of our previous study for the United Kingdom. Specifically, we want to investigate the performance of deals with relative size (defined as offer price divided by the market capitalization of the acquirer)[9] larger than 25%, and the difference in performance between these acquisitions and those with price offers smaller than 25% of the target.

Next, we compared the performance of U.S. and U.K acquisitions. There are obviously many institutional differences between the two countries—including differences in disclosure thresholds, break-up fees, and rates of public auction—making a simple comparison between the returns to acquisitions in the U.S. and in the U.K. less than conclusive. To address this problem, we performed a "differences-in-differences" analysis in which institutional differences are expected to "cancel out." We examined a large sample of U.S. acquisitions that were similar to the Class 1 deals in terms of observable characteristics, including relative size. We repeated the exercise by comparing Class 2 deals with similar U.S. deals. By so doing, we attempted to isolate the effect of shareholder voting while at the same time controlling for systematic differences between the two countries, as well as differences in company and deal characteristics, including relative size.

We calculated two measures of the performance of an acquisition for the acquirer: (1) the acquirer shareholder returns and (2) the acquirer dollar value gains implied by those returns. First, we calculated the cumulative abnormal returns (CARs) in the share price of the acquirer around the announcement of the transaction. Abnormal returns were calculated by subtracting the returns on the stock index (S&P500 for the U.S, FTSE for the U.K.) from the return on the acquiring company's equity. Like many

[9] This corresponds to the consideration test in the Class 1 regulation. For the U.S. sample we focus only on one dimension of relative size. We choose this ratio since it is readily available and it is the one used in the M&A literature to proxy for relative size.

other studies of M&A, we focused on the three-day event window around the announcement date, starting with the day before the announcement and ending with the day after.

Then we computed and compared the average acquirer dollar value gains or losses associated with these announcements. These gains or losses are computed by multiplying the market capitalization of the acquiring firm the day before the announcement with the cumulative abnormal return in the three days announcement window. By giving more weight to companies with larger market capitalizations, use of this variable provides a better measure of the economic impact of mandatory voting.

We obtained deal characteristics of all mergers and acquisitions made by acquirers listed in the U.S. and the U.K. between 1992 and 2010 from the Securities Data Corporation's (SDC) Mergers and Acquisitions database. After excluding acquirers in the financial industry, we merged this database with operating information and stock returns of the acquirers (Compustat, CRSP and Datastream). We excluded all cases where the deal value of the transaction was not reported by SDC or was less than $1 million and cases where the deal value of the transaction as a percentage of the acquirer's capitalization was smaller than 5%.

Our sample of U.K. deals, because of the demands of data collection described below, was based on a random selection of *one half* of the total number, and ended up including 1,109 transactions. For each of them, we manually collected additional information from Factiva by reading the information that the acquirers are obliged to disclose publicly through the Regulatory News Service. In particular, we recorded whether the transaction was subject to shareholder vote and the reason for the vote. The classification into Class 1 and Class 2 deals had the effect of further reducing our sample. We were forced to drop deals where shareholders voted for different reasons, for example share issuance or related-party transactions.[10] After this winnowing process, we were left with a sample of 10,037 U.S. deals and the 1,109 U.K. deals noted above.

Our Findings

[10] See Becht, Polo and Rossi (2016) for further details.

We first looked at CARs in the three-day window around the announcement of the acquisitions for U.S. transactions. We regressed the CARs on a dummy variable that is equal to 1 if the transaction had a relative size larger than 25%. And as reported in Table 1, we found that the dummy variable, when controlling for a large set of deal and acquirer characteristics,[11] was positive and highly significant.[12]

One might be tempted to conclude from this exercise that in the United States, even without a Class 1 rule, transactions with a relative size of 25% or larger are in fact viewed by the market as value increasing. After all, when a proposed acquisition passes the 25% threshold, it attracts more media attention, more scrutiny by shareholder activists, or both; and therefore, transactions viewed unfavorably by the market may be less likely to be carried out.

In the next part of our study, we checked whether this is indeed what happens. First, in order to compare transactions that are similar in terms of relative size but differ in terms of the U.K. shareholder voting rules we restricted our sample to transactions larger than 15% but smaller than 35%. When we did so, as reported in Column 2 of Table 1, the 25% dummy variable was no longer significant and even changed its sign from positive to negative.

Our next step was to go back to the full sample but now use a 100% relative size dummy. In this case, as reported in Column 3, the coefficient on the dummy variable was highly significant and almost twice the size of the coefficient at the previous 25% threshold. And when viewed together, the evidence reported in Column 2 and 3 suggests that, in the U.S., the 25% threshold was not associated with any specific change of pattern in terms of the quality of deals; only those U.S. deals of very large relative size, larger than 100%, were associated with larger abnormal returns. In these cases, the target is larger than the acquirer. As a result, the acquirer might be the de facto target and benefit from a target premium, with the target management being in control post-merger.

[11] The deal characteristics are a list of variables regarding the methods of payment, whether the target is public or private, whether the transaction is hostile, whether the target is in the same country, whether it is a merger or a takeover, whether the target is in the same industry of the acquirer, whether there is more than one bidder and whether there is high takeover activity in the same industry in the same period. The acquirer characteristics are size, Tobin's Q, free cash flow and leverage ratio.

[12] In a similar setting applied to U.K. transactions the dummy variable Class 1 is positive and significant with a p-value smaller than 1%.

Next, we looked at abnormal dollar gains and losses in the three-day window around the announcement (Table 2). One widely cited study of U.S. deals from 1980 to 2001 reported that the average dollar abnormal return over the event window was a negative $25.2 million (in 2001 dollars), or roughly $37 million in today's dollars).[13] We confirmed these findings for U.S. acquisitions until 2001, and went on to find that losses in shareholder wealth in the U.S. continued until the end of our sample in 2010. What's more, when we compared the average wealth gain or loss for U.S. transactions above and below the 25% relative size threshold for the time period 1992-2011, we found that acquisitions in the U.S. were associated, on average, with lost value; but even more striking, the average loss in wealth for acquirer shareholders from U.S. transactions larger than 25% ($67 million) was almost six times larger than the $12 million losses we found for smaller transactions. The same pattern was also present in narrow bands around the 25% threshold: the dollar losses for smaller relative size (15-25%) transactions were only half that of transactions with larger relative size (25-35%).

The comparison of these results with the performance of U.K. transactions, as illustrated in Figure 1, is striking. In our 2016 study, we found that in the same period that U.S. transactions above the 25% relative size lost $67 million, the large acquirers in the U.K. gained $47 million on average in Class 1 deals and lost $5 million in Class 2 deals—losses comparable to the $12 million losses experienced by U.S. acquirers in smaller relative size deals.

Our last step was to perform a formal statistical analysis of this difference. This involved the estimation of the difference by adopting a propensity score matching technique (Table 3). The idea is to compare only transactions between the U.K. and the U.S. that are otherwise very similar according to several other observable characteristics: stock, public, hostile, industry activity, diversifying, multiple bidders, firm size, Tobin's Q, free cash flow, leverage ratio. Using these propensity scores, we then split the sample in two according to relative size. While the performance of U.K. Class 2 relative size deals between 5% and 25% was indistinguishable from that of comparable U.S. transactions, for the subsample of transactions larger than 25% we found a large and statistically significant difference in terms of dollar value creation

[13] Moeller, Schlingemann, and Stulz (2004).

between the U.K. and the U.S. These results were confirmed using various methods of Propensity Score matching and were not attributable to a few "outliers."[14]

In sum, our comparison of the dollar value gains and losses between U.S. and U.K. acquisitions provides evidence that mandatory shareholder voting works to discourage acquisitions that impose losses on acquirer shareholders. And it is of course in such larger relative-size deals that U.S. acquirers have been shown by studies to have systematically destroyed shareholder wealth.

Case Study: Occidental's Bid for Anadarko

The acquisition of Anadarko Petroleum Corp by Occidental Petroleum Corp on May 9, 2019 is a clear example that if a CEO of a U.S. listed company wants to make an acquisition and wants to avoid a shareholder vote, she can easily do it.

Occidental had been pursuing its U.S. oil and gas exploration and production rival for nearly two years before closing the deal to buy Anadarko for $38 billion. According to reports by Reuters,[15] the offers made in the previous months were considered too risky by Anadarko, mainly because all provided a large part of the payment in shares, which made them conditional on the approval by Occidental's shareholders.

In the meantime, Anadarko was also in talks with another much bigger player in the oil and gas industry, Chevron Corp. After a successful negotiation, Chevron on April 12 announced its deal to buy Anadarko, which was valued at $65 per share. On the day of the announcement, the share price of Anadarko jumped by 32%, but the share price of Chevron dropped by 5%. On April 24, Occidental made a counter offer of $76 per share—and the share price of Anadarko jumped an additional 11%; Occidental's declined. The offer was half in cash and half in Occidental stock. Given Occidental's much smaller size (a fifth the size of Chevron), Occidental's share issuance related to the deal would have required shareholder approval.

To avoid shareholder approval and make the deal more appealing to Anadarko, Occidental's CEO Vicky Hollub reached an agreement with Warren Buffett on April

[14] When we "winsorized" the abnormal dollar returns in the U.S. and in the U.K. at 1 per cent, the difference was still large: $43.48 (t-stat=2.37) with Nearest Neighbor and $62.66 (t-stat=2.62) with Kernel matching.

[15] See https://uk.reuters.com/article/anadarko-petrol-m-a-occidental-chevron/timeline-occidentals-victory-over-chevron-for-anadarko-idINKCN1SG0KG, accessed last on 02/13/2021.

30th. Buffett would pay $10 billion for 100,000 preferred Occidental shares, which would receive an 8% yearly dividend, and the right to buy 80 million shares of common stock for $62.50 each. The capital injection by Berkshire Hathaway, Buffett's holding company, enabled Occidental to change the conditions of the offer, increasing cash and reducing shares (the cash component jumped from 50% to 78%), thereby removing a requirement for any deal to receive the approval of Occidental's shareholders. After the deal with Buffett was announced, the share price of Chevron increased and the share price of Occidental fell. On May 6, Anadarko's board found Occidental's bid to be superior, leaving four days to Chevron to make a counter offer. On May 9, citing the price discipline, Chevron abandoned the deal so Occidental secured the acquisition of Anadarko. On that day, the share price of Chevron went up, reaching its pre-announcement price.[16] On the other hand, the share price of Occidental lost another 6% of its value, bringing its total losses for that month to 20%. The stock continued to decline, loosing 46% of its value relative to the S&P500 between April 20 and the end of the year.[17]

5. Policy implications

If mandatory voting deters managers from making some bad acquisitions, as our evidence suggests, why do shareholders not require firm charters to include mandatory voting on all significant acquisitions? Why are investors not asking for this provision at an IPO stage or later on, even in a seasoned firm? Why does a contractual solution not emerge?

At the IPO stage, incumbents might in theory decide to "tie themselves to the mast," especially if this type of charter amendment was known to be reflected in a higher IPO price. On the other hand, the fact that anti-takeover provisions are commonly included in IPOs suggests that agency problems are important even for firms at the IPO stage."[18] What's more, a recent study of the extent to which other corporate governance "innovations" endorsed by institutional investors or introduced by SEC regulation—things such as majority independent boards, independent board committees,

[16] Losing contested bids is often associated with positive shareholder gains in the long term, as documented by Malmendier, Moretti, and Peters (2018).
[17] In February 2020 the stock suffered another major decline due to Covid-19, loosing 77.7% of its value between April 20, 2019 and April 20, 2020. The S&P500 declined by 2.6% over the same period.
[18] See Field and Karpoff (2002). See also Smart and Zutter (2003).

proxy access, and say on pay—have been included in IPO charters reached the conclusion that, in fact, "*no* charter contained any innovation or nonstandard term."[19] Indeed, a number of the high-tech IPO companies enjoying the greatest market demand have not hesitated to go public with charter provisions, notably those allowing shares with different voting rights, which institutional investors generally resist. Although the Council of Institutional Investors has long expressed its opposition to dual-class IPOs, most technology firms since Google have gone to the market with such control-reducing ownership structures.

To be sure, even if a value-enhancing provision is not included at an IPO stage, it could still be requested and introduced by shareholders later on during the life of the firm. But, again, this does not seem to have happened. In the U.S. a contractual solution is not available without board approval. Under Delaware law, charter amendments require approval not only by the shareholders, but also by the board. And this means that entrenched managers at seasoned companies can fend off shareholder-initiated attempts to change the firm's charter.

The removal of such board veto power would allow acquirer shareholders to write a provision into the charter that would, on average, increase their wealth. But even with such a change, the want of foresight, inertia, and social norms could all prevent shareholders from *opting into* a Class 1 regime. If this is the case then such an outcome could be preempted by making voting the default rule and giving shareholders the right to *opt out*, again without board approval.

It is possible that shareholders want to grant boards the freedom to make acquisitions without shareholder approval. Hence having a binding say on acquisitions written into the corporate charter as a default rule might be preferable to making it mandatory, like in the U.K. It might be preferable to the current U.S. "say on pay" practice as well, because the vote is mandatory but not binding. An advisory "say on acquisitions" is unlikely to stop a determined acquirer management and board from moving forward.

6. Conclusions

[19] Klausner (2013), p. 1337.

The shareholders of Occidental never had a chance to express their opinion on the large acquisition of Anadarko. Since the deal destroyed almost 20% of Occidental's value in less than a month, they would have probably voted against it.

The U.S., like most countries, has effectively chosen to confer on corporate managements and boards the right not only to propose, but to ratify and carry out major acquisitions without interference from shareholders. Some legal scholars, to be sure, have been impressed by the advantages of board delegation, and bypassing shareholder approval, in the form of reduced legal costs and greater speed and flexibility. Our analysis, however, indicates that these advantages can be far outweighed by the benefits of mandatory voting on large corporate acquisitions. We find that shareholder losses in U.S. deals with relatively large targets amounted to as much as $246 billion in aggregate. During the same period, similar U.K. deals, which were subjected to shareholder approval, generated over $15 billion of shareholder wealth.

On the strength of these findings, we suggest that a binding "say on acquisitions" provision could be included in the listing requirements of U.S. stock exchanges by default, with shareholders having the right to opt out.

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Figure 1. Average Abnormal Dollar Returns to Acquisitions in U.K. and U.S.

The Figure reports average abnormal value returns for acquisitions in the U.S. and the U.K. in 2020 dollars. Abnormal dollar returns are calculated by multiplying the market capitalization of the acquiring firm the day before the announcement by the cumulative abnormal returns in the three days around the announcement. The U.K. returns are split over Class 1 and Class 2 transactions, the U.S. returns over relative size: the deal value divided by market capitalization of the acquirer larger and smaller than 25%. The difference in the average value between a U.K. deal that is subject to a mandatory vote (Class 1) and a U.S. deal that is relatively large (≥25%) but not subject to a mandatory vote is $114 million. The difference between a U.K. Class 2 deal and a relatively small deal in the U.S. is $7 million. The difference in the differences is $107 million. The results for the U.K. sample come from Becht, Polo and Rossi (2016).

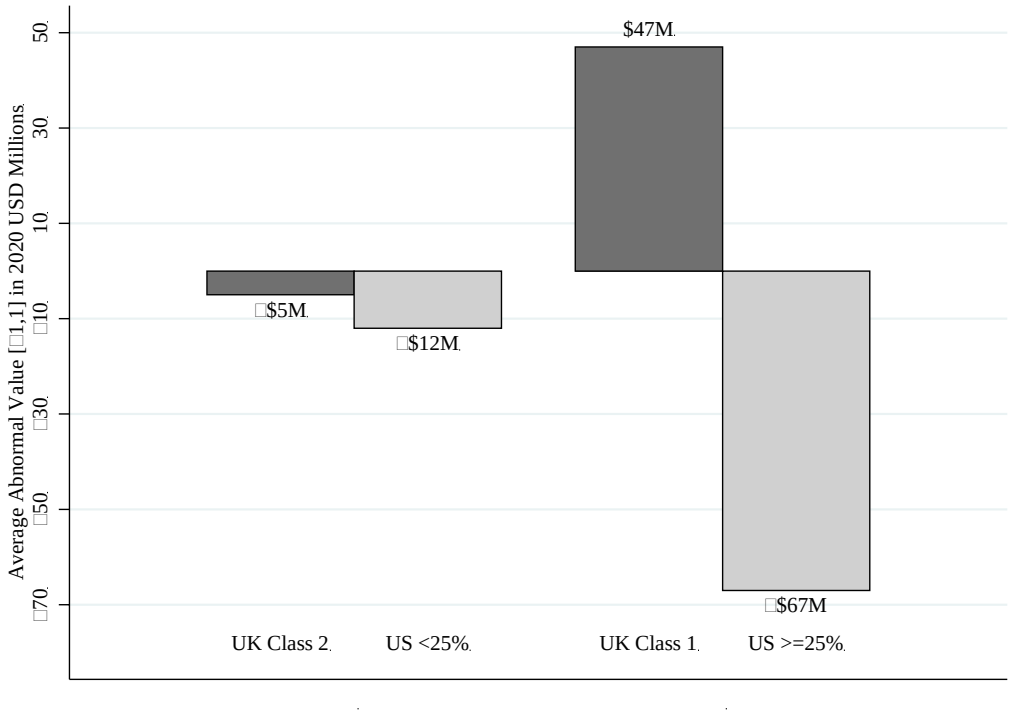
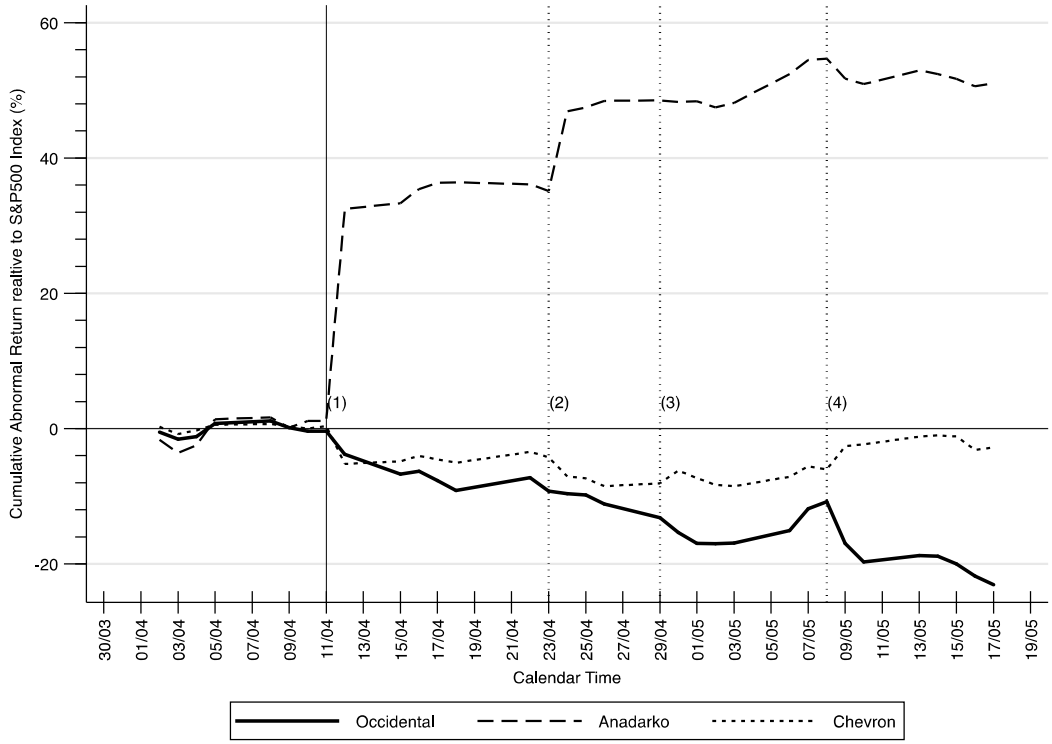


Figure 2: Occidental's Acquisition of Anadarko



The line traces the daily cumulative abnormal returns for Occidental, Chevron and Anadarko from the initial Chevron's bid for Anadarko to the abandonment of the deal by Chevron. The first vertical line marks the date the deal was announced by Chevron (1); the second line marks the announcement of a competing offer by Occidental (2); the 3th line is drawn on the day Occidental secured a financing deal with Warren Buffet (3); the fourth line demarks Chevron's decision to abandon the deal (4).

Table 1. Abnormal Returns in the United States

The sample consists of completed mergers and acquisitions (listed in SDC) made by acquirers listed on U.S. stock exchanges between 1992 and 2010. Table 1 reports the results of OLS regressions with standard errors clustered by acquirer. The dependent variable is the CAR in the event window (-1, +1). Abnormal returns are calculated by subtracting the S&P index from the raw return of the firm's equity. The three models control for deal characteristics, Acquirer characteristics. The Deal characteristics include dummy variables set to 1 when the following conditions are met: *Stock* if the deal is at least partially stock financed; *All cash* if the deal is purely-cash financed; *Private* if the target is a private company; *Public* if the target is a public company (the reference group for public and private is subsidiary); *Hostile* if the deal is hostile; *Cross border* if the target is not from the U.S.; *Merger* is set equal to 1 if the deal is a merger; *Diversifying* if the bidder and target do not share the Fama French 12 industry; *Multiple bidders* is set to 1 if there is more than one bidder for the same target. *Industry activity* is calculated as the number of target firms with the same first three-digit SIC code acquired each year. The acquirer characteristics are the following: *Firm size* is the book value of the total assets; *Tobin's Q* is calculated as the ratio of the acquirer's market value of assets over its book value of assets, where the market value of assets is computed as the book value of assets minus the book value of common equity plus the market value of common equity; *Free cash flow* is calculated as the operating income before depreciation minus interest expense minus income taxes minus capital expenditures, scaled by book value of total assets; *Leverage ratio* is calculated as the book value of long-term debt and short-term debt divided by the market value of total assets. All three models include year and industry fixed effects. In model 1 we use as an independent variable the dummy variable *Transactions with RS > 25%*. RS is relative size and is calculated as the deal value divided by the market capitalization of the acquirer. In model 2 we restrict the sample to transactions with relative size between 15% and 35%. In model 3 we use the full sample but the independent variable is the dummy variable *Transactions with RS > 100%*. T-statistics are in parenthesis. *, ** and *** denote significance at .10, .05 and .01 levels, respectively.

	Dependent variables CAR		
	All sample	Narrow bands	All sample
	(1)	(2)	(3)
Transactions with	1.69***	-0.06	
Relative Size > 25%	(5.89)	(-0.06)	
Transactions with			2.80***
Relative Size > 100%			(3.57)
Deal controls	Yes	Yes	Yes
Acquirer controls	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes
N	8288	2306	8288
R^2	0.05	0.05	0.05

Table 2. Abnormal Dollar Returns in the United States

The sample consists of completed mergers and acquisitions (listed in SDC) made by acquirers listed on U.S. stock exchanges between 1992 and 2010. Table 2 reports abnormal dollar returns. Abnormal dollar returns are calculated multiplying the market capitalization of the acquiring firm the day before the announcement by the cumulative abnormal returns obtained in the three days around announcement. We report the values in 2020 dollars. Values are in $ Millions. We split the sample in transaction with Relative size larger and smaller than 25%. In Panel A we consider the all sample. In Panel B we consider only a sample within narrow bands around the 25% threshold (from 15% to 35%). *, ** and *** denote significance at .10, .05 and .01 levels, respectively.

		Relative Size ≥25% (1)	Relative Size < 25% (2)	Difference (1)-(2)	t/z statistic for the tests of difference
Panel A - Full sample					
Dollar Returns ($M)	Mean	-67.02	-11.84	-55.18	-2.93***
	Median	1.94	2.61	-0.67	-1.56*
	Sum of Values	*-$246,356*	*-$75,292*		
	N	3676	6361		
Panel B - Narrow bands					
Dollar Returns ($M)	Mean	-50.76	-26.82	-23.94	-0.60
	Median	1.70	2.46	-0.76	-0.22
	Sum of Values	*-$49,396*	*-$41,320*		
	N	973	1780		

Table 3. Comparison of Abnormal Dollar Returns in the U.S. and the U.K.

The sample consists of completed mergers and acquisitions (listed in SDC) made by acquirers listed on U.S. stock exchanges and in the Main Market of the London Stock Exchange between 1992 and 2010. In Table 3 we compare we compare the U.K .abnormal dollar returns of Class 1 and Class 2 transactions for matching samples of U.S. transactions in the subsamples of transactions between 5% and 25% and larger than 25%. We report the Average Treatment Effects for the Treated where the treatment is being a U.K. transaction. We use two different matching techniques: Kernel matching method and Nearest Neighbor matching method. Values are in $ Millions. The standard errors are bootstrapped (1000 replications). *, ** and *** denote significance at .10, .05 and .01 levels, respectively.

Method	N of treated (U.K.)	N of control (U.S.)	ATT	t-statistic mean difference test
U.K. Class 1 and U.S. with Relative Size ≥ 25%				
Kernel	245	4456	$104.17	1.54*
Nearest Neighbor	245	829	$143.79	1.51*
U.K. Class 2 and U.S. with Relative size < 25%				
Kernel	628	7138	$1.43	0.19
Nearest Neighbor	628	1630	$1.42	0.15

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