



Tuck School at Dartmouth

RESEARCH TO PRACTICE SEMINAR

CORPORATE TAKEOVERS: MODERN EMPIRICAL DEVELOPMENTS

Spring 2010

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DESCRIPTION

In this seminar, we discuss the results of recent large-scale empirical investigations into the economic effects of corporate takeovers. We focus exclusively on empirical studies in financial economics (as opposed to in the areas of strategy or organizational behavior). The research papers address questions such as: what drives aggregate takeover activity (merger waves); how large are stockholder gains from takeovers; what are likely sources of takeover gains; what are optimal bid strategies in a competitive environment; are targets in financial distress sold at “fire-sale” prices; to what extent do deal protection devices such as termination agreements and defensive tactics such as poison pills affect takeover premiums; does the presence of large institutional target shareholders affect deal outcomes; does the bidder’s choice of deal financing matter; how does takeovers affect CEOs; do cross-border takeovers cause convergence of corporate governance standards; and what are the expected profits from merger arbitrage strategies. The course develops the basic empirical methodologies required to understand the course readings. Intense student involvement in both the presentation and the class discussion of the scientific papers is required.

GRADING

- 60% of the grade:
 - Individual participation in discussions of the readings.
 - Two power point presentations of assigned class readings.
- 40% of the grade: Paper to be presented to class in the last week of the term

READINGS:

The following two volumes contain all the original scientific articles that are discussed in class (expected publication date is early March 2010):

Eckbo, B. Espen (ed.), 2010, *Corporate Takeovers: Modern Empirical Developments. Volume 1: Valuation Estimates and Takeover Activity*, (Elsevier), (in press)

Eckbo, B. Espen (ed.), 2010, *Corporate Takeovers: Modern Empirical Developments. Volume 2: Bidding Strategies, Financing, and Corporate Control*, (Elsevier), (in press)

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SPRING 2010
B. Espen Eckbo

<u>WEEK#/SESSION #</u>	<u>DATE</u>	<u>TOPIC</u>
WEEK 1(NOTE: A SINGLE 3-HOUR MEET)		
1,2	Fri 3/26	Introduction: Methodological issues
WEEK 2		
3	Mon 3/29	What drives aggregate takeover activity?
4	Tue 3/30	Estimating Takeover Gains
WEEK 3		
5	Mon 4/03	Where do merger gains come from?
6	Tue 4/06	Auctions and optimal bidding theory
WEEK 4		
7	Mon 4/12	Toehold bidding, competition and winner's curse
8	Tue 4/13	Does CEO overconfidence drive acquisitions?
WEEK 5		
9	Mon 4/19	Bidding for distressed targets: Do fire-sales exist?
10	Tue 4/20	Do deal protection and defenses affect offer premiums?
WEEK 6		
11	Mon 4/26	Shareholder voting: Are merger outcomes affected?
12	Tue 4/27	Does deal financing matter?
WEEK 7		
13	Mon 5/03	Does a takeover affect CEO and director compensation?
14	Tue 5/04	Do cross-border mergers cause governance convergence?
WEEK 8		
15	Mon 5/10	Returns to merger arbitrage
16	Tue 5/11	Corporate restructuring activity other than takeovers
WEEK 9		
17	Mon 5/17	Term project presentations
18	Tue 5/18	Term project presentations

READINGS FOR CORPORATE TAKEOVERS: MODERN EMPIRICAL DEVELOPMENTS

Unless otherwise noted, the references below are all found in the two reprint volumes listed above. Some of the readings are recommended – details explained in class.

SESSION 1: Introduction

The following survey spans the entire course and students should start reading it for the first class:

Betton, Sandra, B. Espen Eckbo, and Karin S. Thorburn, 2008, “Corporate Takeovers,” in B. Espen Eckbo (ed.), *Handbook of Corporate Finance: Empirical Corporate Finance, Volume 2*, (Elsevier/North-Holland Handbook of Finance Series), Ch. 15, 291-430

SESSION 2: Methodological Issues

Khotari, S. P. and Jerold B. Warner, 2007, “Econometrics of Event Studies”, in B. Espen Eckbo (ed.), *Handbook of Corporate Finance: Empirical Corporate Finance, Volume 1*, (Elsevier/North-Holland Handbook of Finance Series), Ch. 1, 3- 36.

SESSION 3: What drives aggregate takeover activity?

Andrade, Gregor and Erik Stafford, 2004, “Investigating the Economic Role of Mergers,” *Journal of Corporate Finance* 10, 1-36.

Rhodes-Kropf, Matthew, David T. Robinson and S. Viswanathan, 2005, “Valuation Waves and Merger Activity: The Empirical Evidence,” *Journal of Financial Economics* 77, 561-603.

Harford, Jarrad, 2005, “What Drives Merger Waves?” *Journal of Financial Economics* 77, 529-560.

SESSION 4: Estimating Takeover Gains

Moeller, Sara, Frederik Schlingemann and Rene M. Stulz, 2004, “Firm Size and the Gains from Acquisitions,” *Journal of Financial Economics* 73, 201–228.

Bargeron, Leonce L., Frederik P. Schlingemann, Rene M. Stulz and Chad Zutter, 2008, “Why do Private Acquirers Pay so Little Compared to Public Acquirers?” *Journal of Financial Economics* 89, 375-390.

Cooney, John W., Thomas Moeller and Mike Stegemoller, 2009, “The Underpricing of Private Targets,” *Journal of Financial Economics* 93, 51-66.

SESSION 5: Where do merger gains come from?

Eckbo, B. Espen, 1983, "Horizontal Mergers, Collusion, and Stockholder Wealth," *Journal of Financial Economics* 11, 241-273.

Fee, C. Edward and Shawn Thomas, 2004, "Sources of Gains in Horizontal Mergers: Evidence from Customers, Supplier, and Rival Firms," *Journal of Financial Economics* 74, 423-460.

Song, Moon H., and Ralph A. Walkling, 2000, "Abnormal Returns to Rivals of Acquisition Targets: A Test of the Acquisition Probability Hypothesis," *Journal of Financial Economics* 55, 143-172.

SESSION 6: Auctions and optimal bidding theory

Hirshleifer, David, 1995, "Mergers and Acquisitions: Strategic and Informational Issues", in Robert A. Jarrow, Vojislav Maksimovic, and William T. Ziemba, (eds.), *Finance*, (North-Holland Handbooks in Operation Research and Management Science Series), Ch. 26, 839-885

Dasgupta, Sudipto, and Robert G. Hansen, 2007, "Auctions in Corporate Finance", in B. E. Eckbo, ed.: *Handbook of Corporate Finance: Empirical Corporate Finance, Volume 1*, (Elsevier/North-Holland, Handbooks in Finance Series), Ch. 3, pp. 87-143.

Eckbo, B. Espen, 2009, "Bidding Strategies and Takeover Premiums: A Review", *Journal of Corporate Finance* 15, 149-178.

SESSION 7: Toehold bidding, competition and winner's curse

Betton, Sandra, B. Espen Eckbo and Karin S. Thorburn, 2009, "Merger Negotiations and the Toehold Puzzle", *Journal of Financial Economics* 91, 158-178.

Atkas, Nihat, Eric de Bodt and Richard Roll, 2009, "Negotiations under the threat of an Auction," *Journal of Financial Economics* (forthcoming).

Boone, Audra L. and J. Harold Mulherin, 2008, "Do Auctions Induce a Winner's Curse? New Evidence from the Corporate Takeover Market", *Journal of Financial Economics* 89, 1-19.

SESSION 8: Does CEO overconfidence drive acquisitions?

Malmendier, Ulrike, and Geoffrey Tate, 2008, "Who Makes Acquisitions? CEO Overconfidence and the Market's Reaction", *Journal of Financial Economics* 89, 20-43.

Betton, Sandra, B. Espen Eckbo, and Karin S. Thorburn, 2008, "Corporate Takeovers," in B. Espen Eckbo (ed.), *Handbook of Corporate Finance: Empirical Corporate Finance, Volume 2*, (Elsevier/North-Holland Handbook of Finance Series), Ch. 15, 291-430 – SECTION 4.5

SESSION 9: Bidding for distressed targets: Do fire-sales exist?

Hotchkiss, Edith S. and Robert M. Mooradian, 1998, "Acquisitions as a Means of Restructuring Firms in Chapter 11", *Journal of Financial Intermediation* 7, 240-262.

Pulvino, Todd C., 1999, "Effects of Bankruptcy Court Protection on Asset Sales," *Journal of Financial Economics* 52, 151-186.

Eckbo, B. Espen and Karin S. Thorburn, 2008, "Automatic Bankruptcy Auctions and Fire-Sales", *Journal of Financial Economics* 89, 404-422.

SESSION 10: Do deal protection and defenses affect offer premiums?

Officer, Micah S., 2003, "Termination Fees in Mergers and Acquisitions", *Journal of Financial Economics* 69, 431-467.

Comment, Robert and G. William Schwert 1995. "Poison or Placebo? Evidence on the Deterrence and Wealth Effects of Modern Anti-Takeover Measures", *Journal of Financial Economics* 39, 3-43.

Bates, Thomas W., David A. Becher and Michael L. Lemmon, 2008, "Board Classification and Managerial Entrenchment: Evidence from the Market for Corporate Control", *Journal of Financial Economics* 87, 656-677.

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SESSION 11: Shareholder voting: Are merger outcomes affected?

Moeller, Thomas, 2005, "Let's Make a Deal! How Shareholder Control Impacts Merger Payoffs," *Journal of Financial Economics* 76, 167-190.

Matvos, Gregor and Michael Ostrovsky, 2008, "Cross-Ownership, Returns, and Voting in Mergers," *Journal of Financial Economics* 89, 391-403.

Greenwood, Robin and Michael Schor, 2009, "Investor Activism and Takeovers," *Journal of Financial Economics* 92, 362-375.

SESSION 12: Does deal financing matter?

Bharadwaj, Anu and Anil Shivdasani, 2003, "Valuation Effects of Bank Financing in Acquisitions," *Journal of Financial Economics* 67, 113-148.

Schlingemann, Frederik P., 2004, "Financing Decisions and Bidder Gains," *Journal of Corporate Finance* 10, 683-701.

Harford, Jarrad, Sandy Klasa and Nathan Walcott, 2009, "Do Firms have Leverage Targets? Evidence from Acquisitions," *Journal of Financial Economics* 93, 1-14.

SESSION 13: Does a takeover affect CEO and director compensation?

Grinstein, Yaniv and Paul Hribar, 2004, “CEO Compensation and Incentives: Evidence from M&A Bonuses”, *Journal of Financial Economics* 73, 119-143.

Harford, Jarrad, 2003. “Takeover Bids and Target Directors’ Incentives: Retention, Experience, and Settling Up”, *Journal of Financial Economics* 69, 51–83.

Denis, David J. and Timothy A. Kruse, 2000, “Managerial Discipline and Corporate Restructuring following Performance Declines,” *Journal Financial Economics* 55, 391-424.

SESSION 14: Do cross-border mergers cause governance convergence?

Rossi, Stefano and Paolo F. Volpin, 2004, “Cross-Country Determinants of Mergers and Acquisitions. *Journal of Financial Economics* 74, 277-304.

Martynova, Marina and Luc Renneboog, 2008, “Spillover of Corporate Governance Standards as a Takeover Synergy in Cross-Border Mergers and Acquisitions,” *Journal of Corporate Finance* 14, 200–223.

Bris, Arturo, Neil Brisley, and Christos Cabolis, 2008, “Adopting Better Corporate Governance: Evidence from Cross-Border Mergers,” *Journal of Corporate Finance* 14, 224-240.

SESSION 15: Returns to merger arbitrage

Hsieh, J., and Ralph A. Walking, 2005, “Determinants and Implications of Arbitrage Holdings in Acquisitions”, *Journal of Financial Economics* 77, 605–648.

Baker, M., and S. Savasoglu, 2002, “Limited Arbitrage in Mergers and Acquisitions”, *Journal of Financial Economics* 64, 91–15.

SESSION 16: Corporate restructuring activity other than takeovers

Eckbo, B. Espen and Karin S. Thorburn, 2008, “Corporate Restructuring: Breakups and LBOs,” in B. E. Eckbo (ed.), *Handbook of Corporate Finance: Empirical Corporate Finance Volume 2*, (Elsevier/North-Holland Handbook of Finance Series), Ch. 16, 431-496.

SESSIONS 17 and 18: Term paper presentations