THE PERFORMANCE OF CROSS-BORDER ACQUISITIONS IN EMERGING AND DEVELOPED MARKETS

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ABSTRACT

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We examine the impact of cross–border mergers in emerging and developed markets on shareholders wealth between 1988 and 2008. In addition to the acquiror gains that have been discussed by number of prior researches, we also looked at the target and combined returns in order to present a more complete picture. Our results confirm that developed market acquirors gain on average 1.56% more when they acquire emerging market targets as compared to when they acquire targets in developed markets. We also find that emerging market targets' shareholder values are not maximized when acquired by developed market acquirors. Furthermore, we observe that no matter the acquiror's origin, developed market targets experience greater average cumulative abnormal returns than emerging market targets. We conjecture that at least a part of the positive acquiror returns cannot be attributed to the transfer of superior governance practices or intangibles as suggested by Chari, Ouimet and Tesar (2010). Moreover, our results indicate that the sophistication level of the acquiror and the target as well as their relative bargaining ability might be important determinants of the sharing of gains.

DEDICATION

To my loving parents, Jacqueline & Cosme Ahouansou

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TABLE OF CONTENTS

LIST OF TABLES

1. Introduction

The number and value of cross-border mergers have grown steadily and at last count appears to greatly exceed the comparable numbers for purely U.S. mergers. They also constitute an increasing fraction of total foreign direct investment (FDI) in emerging markets. Black (2000) notes that U.S. only merger activity is only about 40% of the worldwide total by value and 30% of the total by the number of transactions. Similarly, Evenett (2003) notes the sharp acceleration in cross-border merger activity during the decade of the 1990s and notes the growing importance of cross-border mergers as a vehicle of FDI. Several recent studies have helped us better understand this increasingly important phenomenon[1]. However, they almost universally focus on the role of governance in the transfer and addition of value to acquirors and targets involved. As a result, it remains unclear if there are other as yet undiscovered factors that remain important determinants of shareholder value for acquiror and target firms. In addition, to our knowledge, there are no studies at this point that provide a detailed comparison of the effects of cross–border mergers on the wealth of different groups of acquiror and target shareholders.

In this paper, we provide a comprehensive analysis of the wealth effects of cross–border mergers. Our inclusion of target and combined returns along with acquiror returns allow us to present a more complete picture than that provided by prior studies. For ease of exposition, we divide our sample into four groups based on the country where the acquiror and the target are headquartered. In particular, we refer to our subsample where

[1] See, for example, Starks and Wei (2004), Moeller and Schlingemann (2005), Bris and Cabolis (2008), Kuipers, Miller, and Patel (2009) and Chari, Ouimet, and Tesar (2010).

the acquiror is from a developed market and the target from an emerging market as the DM-EM sample. Following a similar nomenclature, we define the DM-DM, EM-DM, and EM-EM samples.[2] We find that acquirors in the DM-EM sample gain 1.56% more than acquirors in the DM-DM sample. This finding only partially confirms the transfer of governance hypothesis developed by Chari et al. (2010) because we also find that emerging market targets lose when acquired by developed market acquirors. In addition, we find that no matter where the acquiror is from, developed market targets always make more money than emerging market targets. Finally, we confirm that cross-border mergers are greater source of synergy when both the target and the acquiror are from dissimilar markets. In other words EM-DM and DM-EM transactions create greater value than EM-EM and DM-DM transactions. We conjecture that at least a part of the positive acquiror returns found by Chari, Ouimet and Tesar (2010) cannot be attributed to the transfer of superior governance practices or intangibles. We further test for the relation between acquiror and target returns and find a significant and negative relation when the acquiror is from a developed market and the target from an emerging market. The significant and negative relation does not hold when both the target and the acquiror are from markets at a similar level of development (i.e. either both firms are from developed markets or both firms are from emerging markets). Our results indicate that the sophistication of the acquiror and the target is an important determinant of the sharing of gains and their relative bargaining ability is an important determinant of cross-border merger returns. Our results provide a fresh perspective on cross-border mergers and highlight the

[2] Thus we refer to the subsample where the acquiror and target are from developed markets as the DM-DM sample, where the acquiror is from an emerging market but the target is from a developed market as the EM-DM sample, and where both the acquiror and the target are from an emerging market as the EM-EM sample.

importance of the sharing of gains in determining the wealth of acquiror and target shareholders.

The rest of the paper is organized as follows. Section 2 discusses prior work and our hypotheses. Section 3 describes our data. Section 4 and section 5 describe our methodology and present the main results. Finally, section 6 concludes. In addition, section 6 presents the limitations of this paper and suggests eventual directions for further research on this arising topic.

2. Prior work and hypotheses

There is an exhaustive literature that has examined the impact of domestic mergers and acquisitions on the wealth of acquiror and target shareholders[3] and many of them have analyzed the wealth effects of such deals.

Jensen and Ruback (1983) find that corporate takeovers generate positive gains, that target firm shareholders benefit, and that bidding firm shareholders do not lose. However, they also find that the gains created by corporate takeovers do not appear to come from the creation of market power. Jarrell, Brickley and Netter (1990) look at corporate takeovers in the 1980's and confirm the basic conclusions of Jensen and Ruback (1983). They find that larger premiums are paid to target shareholders for later tender offers than for earlier tender offers. They also find that acquirors receive at best modest increases in their stock price, and suffer stock-price declines as often as they do gains. They however provide evidence that premiums in takeovers represent real wealth

[3] We discuss only a small part of this literature. In addition to Jensen and Ruback (1983) and Jarell, Brickley and Netter (1990) this literature is surveyed by Andrade, Mitchell and Stafford (2001).

gains and are not simply wealth redistributions as hypothesize by Jensen and Ruback (1983).

There are several studies that have looked at the changes in corporate governance associated with mergers. For example, Holmstrom and Kaplan (2001) looked at corporate governance changes in the 1980's and 1990's and found that many of the changes occurred due to deregulation and capital market forces. Many managers at the time had become entrenched in their methods and were no longer operating their firms near their maximum potential. This led to the rise of leveraged buyouts and corporate takeovers in order to increase both firm and shareholder value. They found that capital markets aided in changing corporate governance practices by permitting poorly managed firms to be taken over as well as punishing the value of firms where poor corporate governance was the norm. The 1980's and 1990's ushered in an era where markets rewarded good corporate governance.

However, there are relatively fewer studies that examine the changes in corporate governance in cross-border mergers. Bris and Cabolis (2008) look at 506 cross-borders mergers and acquisitions between 1989 and 2002. They find that acquisitions of firms in weaker shareholder protection countries by firms in stronger protective regimes results in a higher premium, relative to similar target in a domestic acquisition. In other words, the higher the transfer of governance, the higher the acquiror gain.

Kuiper Miller and Patel (2009) examine the cumulative abnormal returns to U.S. targets, their foreign acquirors, and the target-acquiror portfolio in 181 successful cross-border tender offers during the period 1982–1991. They find that the incentive

mechanisms created by the degree of shareholder-creditor rights protection and legal enforcement in the acquiring firm country can explain the observed variation in target, acquiror, and portfolio returns.

Moeller and Schlingemann (2004) examined mergers and acquisitions between US bidders and both domestic and foreign targets between 1985 and 1995. Interestingly, their results indicated that firms who performed mergers within the US fared better in terms of year end operating results as well as stock performance. This result thus indicates that international diversification does not create lead to highest shareholder value. In terms of international mergers, the authors were able to conclude that legal systems which promoted shareholder rights as well as the level of merger activity were strongly positively correlated with the bidder's ultimate returns.

Starks and Wei (2004) look at cross-border mergers with U.S. target firms over the 1980-1998 period. They find that takeover premiums are decreasing in the quality of the foreign bidding firm's home country governance for deals completed with stock. Their result suggests that foreign acquirors compensate target firm shareholders for the resulting exposure to inferior corporate governance regimes. This implies that the sharing of gains between acquirors and targets could be an important determinant of the wealth effects of such transactions. They find that the acquiring firm stockholders' abnormal returns are increasing in the quality of the home country corporate governance.

Our paper is most closely related to the work of Chari, Ouimet, and Tesar (2010) who analyze a sample of cross border mergers from the perspective of developed market acquirors. They find that the acquisition of emerging market targets by bidders from

developed markets results in a mean abnormal return of over 1.16% to the acquiror. This is in contrast to the insignificant or negative abnormal returns that they report for domestic acquisitions. They explain this anomalous return by governance transfer and intangible assets transfer. However, their analysis is confined to the acquirors and does not include target returns. As a result, it is still not clear if the higher returns of the acquiror are a result of greater total value creation or a skewed sharing of the gains from the merger whereby the acquiror gains at the expense of the target.

3. Data

3.1 Mergers and Acquisitions

3.1.1 Sample Selection

We use Thomson Reuters Security Data Corporation's (SDC) Platinum Mergers and Corporate Transactions database to collect data on 637514 private and public, domestic and cross-border acquisitions announced between 1988 and 2008. SDC collates information from over 200 English and foreign language news sources, SEC filings and the filings from its international counterparts, trade publications, news wire reports, and proprietary surveys of investment banks, law firms, and other advisory firms. For each transaction, the SDC database provides the date on which the transaction was first announced and the date on which the transaction became effective, as well as some characteristics of the target and acquiring firms including: name, nation, industry sector, primary North American Industry Classification System (NAICS), SEDOL number and the amount – over the last twelve months before the announcement date - of intangible assets, cash and marketable securities, common equity, net income, earnings before interests and taxes (EBIT), total assets, net sales, market capitalization, total liabilities

and capital expenditure. The database also includes transaction-specific information on percentage of shares acquired, the percentage of shares owned before and after the transaction is completed, the percentage of shares sought by the acquiring firm, the method of payment and the deal status; whether or not the deal is completed.

Following Betton and Eckbo (2000) we group all the successive bids for the same target into a takeover contest. According to Betton and Eckbo (2000), a contest is initiated by a control bid if there are no other public control bids for the same target over the preceding six months. All subsequent control bids within six months of a previous bid belong to the same contest. The contest ends when there are no additional control bids for the same target over the following six-month period. In our study, the above mentioned definition of contest has been extended to allow a contest to begin with a non-for-control bid and also to include all private bids. The total number of contests obtained is 589 026. For each of them, we only keep the first bidder which is the one that initiated the contest. The rationale behind this choice is that, in contests where there is more than one bidder, it is impossible to dissociate the abnormal return on the target share price that comes from the first bid to the abnormal return that comes from the second, third or fourth bid.

We then narrow down the sample to the deals that were completed. Out of the remaining 436 533 deals, we keep the takeovers that are motivated by "taking control of the target". A deal is defined as a "for-control-deal" if the percentage of shares owns by the acquiror before the announcement date plus the percentage of shares sought is greater or equal to fifty one percent. As noted by Chari, Ouimet, and Tesar (2010), transactions that are for control appear to drive the positive returns to developed market acquirors of emerging market targets while the transactions that are not for control do not appear to

have a significant effect. As a result, these transactions are potentially more interesting to us as we seek to uncover the wealth effects that could arise from cross-border mergers.

Out of the remaining 338 570 deals, we retain the 11 618 involving a public target and a public acquiror in order to have access to the daily stock prices of both the acquiror and the target. This criterion has also been used by Kiymaz and Mukherjee (2000) and Lowinski, Schiereck and Thomas (2004). In addition, Fuller, Netter and Stegemoller (2002) found that bidder shareholders gain when buying a private firm or subsidiary but lose when purchasing a public firm. Therefore, we would not want to examine a sample that includes both public and private firms for evidence of sources of synergy.

Finally, we delete 4054 deals that include a financial firm - all SIC codes from 6000 to 6999- or a utility – all SIC codes from 4900 to 4949-. The remaining 7435 transactions are classified into the DM-DM, DM-EM, EM-EM, and EM-DM sample.

To determine whether a country is a developed, an emerging, or a frontier market, we followed the market definition and the country classification of two well established indices designed to measure the equity market performance of developed, emerging and frontier markets: the MSCI All Country World Index (ACWI) and the MSCI Frontier Markets (FM) Index[4]. Both indices are free float-adjusted market capitalization weighted and held by Morgan Stanley Capital International. The Morgan Stanley's country

[4] The FTSE Global Equity Index Series and the MSCI All Country World Index have been compared together in order to make sure that choosing the MSCI country list does not entail a significantly special assumption that will drive the results toward a different way. In 2009, both indices had approximately the same definition of emerging, developed and frontier markets except that MSCI ACWI included the sustainability of the economic development in their selection criteria. This leads to some minor differences in country classification. We selected MSCI ACWI because it is the one that had data available over our sample period, published all the changes in country classification and made the distinction between emerging and frontier since 1997.

classification is based on three criteria: the sustainability of the economic development of each country, the size and the liquidity of their equity market and finally, their market accessibility.

As of June 2009 the MSCI ACWI consisted of 45 country indices comprising 23 developed and 22 emerging market country indices and the MSCI FM consisted of 25 frontier market country indices.

The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.

The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

The frontier market country indices included are: Argentina, Bahrain, Bulgaria, Croatia, Estonia, Jordan, Kenya, Kuwait, Lebanon, Lithuania, Kazakhstan, Mauritius, Nigeria, Oman, Pakistan, Qatar, Romania, Serbia, Slovenia, Sri Lanka, Tunisia, Trinidad & Tobago, Ukraine, United Arab Emirates, and Vietnam.

From the list above, we exclude all countries that are classified as tax havens by the Organisation for Economic Co-operation and Development (OECD) as of June 2009 like Bahamas, British Virgin Islands, Cayman Islands, Guernsey, Isle of Man, and Jersey. DM-DM, DM-EM, EM-EM and EM-DM respectively includes 6729, 208, 405 and 93

transactions. Finally, following Chari et al. (2010), we restrict the DM-DM sample to the 223 transactions where the acquiror has at least once, made an acquisition in an emerging market.

3.1.2 Summary Statistics

Table 2, Table 3 and Table 4 present the structure of our four analyzed sample by country, by year and by industrial classification respectively.

From Table 2 Panel A it appears that the DM-DM sample is driven by U.S and U.K firms. Together, they represent about 52% of the acquirors and 70% of the targets. This sample concentration is probably to the fact that we restricted our developed market acquirors to firms that have at least once, between 1988 and 1998, made an acquisition in an emerging market country. Indeed, and as shown by Panel B, almost 50% of the acquirors in the DM-EM sample are from the United States or the United Kingdom. Regarding the targets in the DM-EM sample, Panel B shows that during our sample period, developed market firms shopped in 24 different emerging market countries. The three most attractive targets are South Africa (11.54%), Brazil (11.06%) and India (11.06%). Similar patterns are replicated in the EM-EM and EM-DM samples; acquirors and targets in EM-EM and acquirors in EM-DM are from various countries but almost 30% of them are from South Africa, Brazil, India and South Korea. Regarding developed market targets in EM-DM, 47.31% of them are U.S firms.

Table 3 provides the repartition of the total number of transactions in each sample by year. By doing so, we confirm that our results are not specific to any particular and are representative of the whole sample period. Panel A, B, C and D confirm that the total

number of deals is fairly distributed among every year for DM-DM, DM-EM, EM-EM and EM-DM respectively.

In addition, Table 4 indicates that most of the mergers and acquisitions in our four samples happen between an acquiror and a target from the same industry. Even cross-market mergers and acquisitions (DM-EM and EM-DM) do not reflect industry diversification. We also observe that cross-markets mergers mostly occur in the manufacturing, the mining and the services industries.

Finally Table 5 provides the mean, the median, the minimum and the maximum of the level of market capitalization, total assets, intangible assets, total cash and total liabilities for acquirors and targets in each of our four samples.

3.2 Daily stock returns

Daily opening and closing stock prices are collected from Bloomberg from January 1st 1988 to December 31st 2008 for all the acquirors and targets in our four subsamples. The prices are in local currency and are adjusted to reflect capital changes like spin-offs, stock splits and/or consolidations, stock dividends and/or bonus and rights offerings and/or entitlement. We used the SEDOL number collected from SDC as the identifier for each acquiror and target in Bloomberg. The daily stock returns are calculated as following:

$$R_{it} = \frac{Close_{it} - Close_{i\,t-1}}{Close_{i\,t-1}} \qquad (1)$$

where R_{it} is the return of a given firm i on a trading day t. $Close_{it}$ is the adjusted closing price of stock i on day t and $Close_{i\,t-1}$ is the adjusted closing price of i on the trading day before day t .

3.3 Market Benchmarks

In this study, the choice of a benchmark for each country's stock market is of a high importance because each nation index has to represent the performance of the stock market of the given nation and by proxy, reflect investor sentiment on the state of its economy. In other words, the choice of a good stock market benchmark will help in making accurate predictions of the stock returns of the company in the nation as described in the event study section which will in turn result in a more precise calculation of the abnormal returns.

To be consistent with the literature, we used the broadest market-capitalization-weighted index available for each country in our subsamples as a default option. Since free-float indices are calculated by using the number of shares readily available in the market - locked-in shares such as those held by promoters and governments are excluded - instead of using all of the shares outstanding, they provide a more accurate reflection of market movements. Therefore, when available, we substituted the free-float-market capitalization index to the full-market capitalization index. Also, in order to be selected as a nation's benchmark, a given index has to be calculated in the local currency and have daily opening and closing prices - adjusted to reflect capital changes like spin-offs, stock splits and/or consolidations, stock dividends and/or bonus and rights offerings and/or

entitlement - recorded on Bloomberg from January 1st, 1988 to December 31st, 2008. Finally, for emerging and frontier markets, we required the index to include a portion of the most actively traded stocks in the specific country.

With all the filters in place, we manually checked all the indexes listed by country on Bloomberg and selected the most appropriate one for each nation in our sample based the above mentioned criteria. Table 6 presents the list of the countries covered by this study along with the benchmark selected for each of them. The daily market returns are calculated as following.

$$R_{mt} = \frac{Close_{mt} - Close_{m\,t-1}}{Close_{m\,t-1}} \qquad (2)$$

where R_{mt} is the return of a given index m on a trading day t. $Close_{mt}$ is the adjusted closing price of index m on day t and $Close_{m\,t-1}$ is the adjusted closing price of m on the trading day before day t .

3.4 Exchange Rates

We use the Pacific Exchange Rate Service[5] to collect daily currency exchange rates in order to convert all the stock returns and market returns from their local currencies to U.S. Dollar (USD).

[5] http://fx.sauder.ubc.ca/. The Pacific Exchange Rate Service is a free database supported by the Sauder School of Business at the University of British Columbia and designed as a repository of historical exchange rates for the academic community, i.e., economists and other researchers.

4. Market Reactions to Announcements in Emerging and Developed Markets

In the first part of this study, we follow the event study methodology used by Schwert (1996) to estimate the cumulative abnormal return for all the acquirors and targets in our four samples. We calculate the market model regression [eq.(3)] for the 253 trading days (about one year) ending 127 trading days (about six months) before the first public announcement (day $t = 0$) of a merger or acquisition:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}, \qquad t = -379, \ldots, -127, \qquad (3)$$

where R_{it} is the daily return on the stock of acquiror (or target) firm i; R_{mt} is the daily return on day t of the index selected as benchmark for the stock market activity in the country of firm i. Note that we replaced the continuously compounded returns used by Schwert (1996) by the daily returns. ε_{it} is assumed to be a normally, identically distributed, serially uncorrelated zero mean disturbance term. We only include acquirors or targets that have at least 100 daily returns available to estimate the parameters of (1) in order to have the best possible market model estimation. Finally, we use the estimates from (1) to estimate the abnormal returns, ε_{it}, on the announcement date. Since our samples cover countries with different level of market efficiency, we also estimate the cumulative abnormal return for the 21-, 11- and 3-day period centered on the announcement date, as well as the cumulative abnormal returns for (0, +1) for every acquiror and target in each of our four samples. All the abnormal returns are estimated in local currency - in order to reflect the reaction of local investors - and in U.S. dollar (USD) - in order to make all the cumulative abnormal returns comparable across samples-. We then calculate the market capitalization weighted joint returns in USD.

Since frequent acquirors in the sample period indicate a high chance of other acquisition announcements in the estimation periods, and any abnormal returns influenced by these announcements will bias our parameters estimates, we wanted to re-estimate the abnormal returns of our acquirors and targets using a different methodology. Like Bouwman et al. (2009) and Dong et al. (2006), we use the modified market model initially proposed by Brown and Warner (1985) to estimate abnormal returns. The abnormal return for a firm is measured by removing the value-weighted market returns from the firm's return:

$$AR_{it} = R_{it} - R_{Mt} \qquad (4)$$

where R_{it} is firm i's daily stock return on date t and R_{mt} is the daily return on day t of the index selected as benchmark for the stock market activity in the country of firm i on date t. The market adjusted cumulative abnormal returns are estimated for the announcement date, the 21-, 11- and 3-day period centered on the announcement date, and the (0, +1) event window. Once again, both the local currency and the USD cumulative abnormal returns are estimated. We also calculate the market capitalization weighted joint returns in USD.

For both the market model and the market adjusted returns method, we use a Student t-test (Wilcoxon signed-rank test) to evaluate whether or not the mean (median) of the estimated market reactions – acquirors and targets - are significantly different from zero in each of our samples.

Table 7 presents the cumulative abnormal stock market reactions – in local currency and in USD - to the announcement of mergers and acquisitions transactions in

the DM-DM, DM-EM, EM-EM and the EM-DM sample using the market model. For each window, Table 7 presents the mean and the median CARs along with the *p*-value of the student t-test of the mean and the Wilcoxon signed-rank test of the median in parentheses. Table 8 presents the results obtained using the market-adjusted returns model. In our sample, there is no evidence that the CARs in USD significantly differ from the CARs calculated in local currency; the CARs in local currency are really close to the CARs in USD. This is verified for every window in every sample for both the market model and the market adjusted return model. There is also no evidence that CARs estimated with the market model significantly differ from the CARs estimated with the market-adjusted returns model. Finally, the sign of the CARs and the strength of the results are consistent over the different event windows used. Therefore, in order to lighten the text and unless further notice, the upcoming discussion on the findings will be based on the CARs estimated in USD, with the market model, and for the announcement date and the three day period centered on the announcement date.

Table 7 Panel A presents the results for the DM-DM sample. On average, between 1988 and 2008, the developed market acquirors - that have at least once made an acquisition in an emerging market during the same period of time experienced a non-significant negative gain when they acquired a developed market target. The CARs are -0.23% on the event date and -0.31% for the (-1, +1) event window. On the other hand, developed market targets realised a positive and highly significant large gain; 20.38% on the announcement date and 23.64% for the three day period centered on the event date. Overall, the DM-DM transactions during the sample period turn out to a little value destruction as shown by the combined gains; a non-significant -0.31% for day 0.

Panel B of the same table focus on the stylized facts of the DM-EM sample and reports a cumulative abnormal return of 1.25% for developed market bidders that acquired targets in an emerging market. It also appears that on average, the cumulative abnormal returns for emerging markets targets bought by developed market acquirors are significantly positive; 2.26% on the announcement date. This abnormal return is even higher when we consider a wider event window; we report a cumulative abnormal return to the target stock price of 10.94% for the 10-day period centered on the announcement day. In our attempt to explain this difference, we turn to the weak market efficiency of the emerging markets. Overall, DM-EM transactions seem to result in a synergy. Even if the long term event windows do not provide significant results, we notice a 1.51% cumulative abnormal return on the announcement day. To our knowledge, Chari et al. (2010) is the only one paper that looked at takeovers between developed market acquirors and emerging market targets. Note however that they only looked at the acquiror's gain. Our results are in line with theirs; they reported a cumulative abnormal return to acquiror's stock price of 1.16% for a 3-day period centered on the announcement date.

Table 7 Panel C presents strong evidence that, in the EM-EM sample, takeover transactions are profitable for both the acquiror and the target. The cumulative abnormal return of the acquiror is 1.69% on the announcement day. From the target point of view, the gain is around 2.55% on the announcement day and 6.63% for the 10-day period centered on the announcement day. Both of the acquiror and the target gains are significant at the 1% level. Remark however that the target abnormal return is relatively small compared to the one we are used to see in DM-DM deals. Finally, Panel C also shows weak evidence that takeover transaction involving an emerging market target and

an emerging market acquiror overall result in a little positive gain. For example, the market capitalization weighted joint abnormal return on the announcement date is 0.73% but not significant. However, the abnormal return for (-1+1) is 2.84% significant at the 5% level of significance and the abnormal return for (0+1) is 2.00% significant at the 10% level of significance.

Finally, Panel D exhibits the patterns of the acquiror, the target and the joint returns in the EM-DM sample. Nothing significant seems to happen on the acquiror's side; we report a negative return of 0.30%. Conversely, there is strong evidence that developed market targets acquired by emerging market acquirors experienced a positive gain. For example, the target's abnormal return on the announcement date is of 12.62%. Overall it appears that EM-DM transaction create synergy; the market capitalization weighted joint returns is 18.08% on the announcement date. This anomalous return is even bigger, 26.37%, when we consider the 10-day period centered on the announcement date.

Now that we have a big picture on the outcome of mergers and acquisitions in each of our four samples, we pursue the analysis by highlighting the differences between acquirors – as well as targets and joint returns – across samples. We use a Student t-test (Wilcoxon ranked sign test) to estimate whether or not the difference in the mean (median) between any given two samples is significantly different from zero. We perform this test on the announcement date as well as on the 10-period centered on the announcement date in order to control for any possible effect of weak market efficiency.

Table 9 Panel A summarizes the differences in market reaction of the acquirors. It shows that acquirors in the DM-EM sample gain 1.56% more than acquirors in the DM-DM sample. This difference confirms our previous results. Note however that there is no significant evidence that the acquiror gains in the DM-EM sample are greater than the acquiror gains in the EM-EM sample.

The differences in target reaction to merger announcement are reported in Table 9 Panel B. When comparing DM-DM to EM-EM it appears that on average, on the announcement day, developed market targets acquired by a developed market acquirors earn about 16.71% more than emerging market targets acquired by emerging market acquirors. According to Chari et al. (2010), DM-EM takeovers on average result in a transfer of superior governance practices or intangibles. If this hypothesis is true and assuming that everything else being equal, we expect a positive gain to both the target and the acquiror. Therefore, the difference in gain between the targets of DM-EM and EM-EM should be less than 16.71%. Unfortunately, Panel B shows that this difference is 18%. In other words, emerging market targets are not better off when acquired by developed market acquirors. This result is confirmed by the comparison of EM-EM and DM-EM. Panel B reports that emerging market targets acquired by emerging markets acquirors realise 1.28% - statistically non-significant - more than emerging market targets acquired by developed market acquirors. We conclude that either the transfer of superior governance practices or intangibles hypothesis does not hold or there is something else happening at the same time and resulting in value destruction for emerging market targets in the DM-EM sample.

Panel B also shows that no matter where the acquiror is from, developed market targets always make more money than an emerging market target. For example[6] targets in the EM-DM sample make 14.29% more than targets in the EM-EM sample. Even when considering cross-markets mergers, targets in the EM-DM sample make 15.57% more than targets in the DM-EM sample.

Finally, Panel C summarizes the differences in the market-capitalization joint returns between our four samples. We observe that cross-market mergers generally generate more synergy than mergers where both the target and the acquiror are from markets at a similar level of development. For example, DM-EM deals generate 1.82% more than DM-DM. Also, EM-DM deals generate 18.40% more than DM-DM and 17.38% more than EM-EM deals. Remark that there is no evidence that DM-EM transactions are more profitable than EM-EM transactions.

In summary, we find that acquirors in the DM-EM sample gain 1.56% more than acquirors in the DM-DM sample. This finding only partially confirms the transfer of governance hypothesis because we also find that emerging market targets lose when acquired by developed market acquirors. In addition, we find that no matter where the acquiror is from, developed market targets always make more money than emerging market targets. We finally confirm that cross-border mergers are greater source of synergy than mergers where both the target and the acquiror are from the same markets.

[6] We only provide two examples but all the possible combinations in Table 9 Panel B confirm that no matter where the acquiror is from, developed market targets make more gain than emerging market targets.

5. Determinants of acquiror's gain

The second part of this research sheds some light on the determinants of the stylized facts found in the previous section. We use ordinary least square regressions (OLS) to provide evidence that (1) developed market acquiror make money at the expense of their emerging market target. This is also the case for developed market target that experience a gain at the expense of their emerging market acquiror. (2) Transfer of governance is not the only one source of gain for developed markets that buy emerging market targets. [eq. (6)] explores the relation between acquiror and target's winsorized cumulative abnormal returns for the 3-day period centered on the merger date in our four samples:

$$Acquiror's\ CAR_i = \alpha_i + \beta_i \times Target's\ CAR_i + Control\ variables + \varepsilon_i \qquad (6)$$

We control for the asymmetries in institutional settings by using the legal and institutional measures suggested by La Porta et al. (1998) in order to confirm that the relation between the acquiror and the target's abnormal return holds even in presence of transfer of governance. The control variables are: "rule of law", "efficiency of judiciary system", "corruption", "risk of expropriation", "risk of contract repudiation" and are defined in Appendix A. Following Chari et al. (2010) we estimate the asymmetries in institutional setting using the difference between the acquiror and target country scores for each variable. For example, Switzerland scores 9.98 for the risk of contract repudiation, while Philippines scores 5.22 along the same institutional quality dimension. The transfer of governance will therefore be 4.76.

Table 10 reports the results of [eq. (6)] for the four samples of interest. Model (1) is the relation between the CARs of the acquiror and the CARs of the corresponding target for (-1, +1). Model (2), (3), (4), (5) and (6) control for the asymmetries in "rule of law", "efficiency of judiciary system", "corruption", "risk of expropriation" and "risk of contract repudiation" respectively. Panel A (DM-DM) and Panel C (EM-EM) show a positive relation between the acquiror's abnormal return and the target's abnormal return. Even if the relation is not statistically significant for the DM-DM sample, it appears that the positive sign of the coefficient is consistent no matter if there is a transfer of governance or not. On the other hand, Panel B (DM-EM) and Panel D (EM-DM) show a negative relation between the acquiror's abnormal return and the target's abnormal return. Once again, the relation is not statistically significant in the DM-EM sample but the coefficient always shows a negative relation even when we control for the asymmetries in institutional environment. In other words, except the non-statistical significance for DM-DM and DM-EM, deals between acquiror and target from the same market seem to results in a synergy. Conversely, in cross-market mergers, the developed market firm seem to gain at the expenses of the emerging market firm as shown by the negative sign of the coefficient.

So as to make sure that the weak relation obtained in DM-DM and DM-EM is not the result of a small sample size - or any other reason not related to the relation between the acquiror and the target abnormal returns -, we re-estimate [eq. (6)] with two new samples. The first sample includes all the deals that involve an acquiror and a target from the same market (DM-DM and EM-EM). The second sample includes all the cross-

market mergers and acquisitions (DM-EM and EM-DM). By doing so, we also confirm whether the relation found in the EM-EM and the EM-DM samples are robust or not.

Table 11 presents the new estimation of the relation between the acquiror and the target's abnormal return in our two new samples. Models (1) – (6) remain as defined previously. From Panel A it appears that, for mergers involving an acquiror and a target in a same market between 1988 and 2008, an increase in 1% of the target's abnormal return, results in an increase of 0.037% in the acquiror's abnormal return. This relation is significant at the 10% level but becomes even stronger when we control for the transfer of governance. On the other hand, Panel B confirms our previous findings. In cross-markets mergers and acquisitions over our sample period, the acquiror's gain is negatively related to the target's gain. An increase of 1% in the target's abnormal return results in a decrease of about 0.069% in the acquiror's abnormal return. This relation remains statistically significant when we control for the asymmetries in institutional settings.

Additionally we maximize the cross-sectional variance by combining the four samples and we look at the statistical difference between the negative relation found in cross-market acquisitions and the positive relation shown by acquisitions involving acquirors and targets in the same market. [eq. (7)] and [eq. (8)] investigate this difference:

$$ACAR = \alpha + (\beta_1 \times TCAR) + [\beta_2(TCAR \times dummy)] + Control\ variables \quad (7)$$

$$ACAR = \alpha + \beta_1(TCAR) + [\beta_2(TCAR \times dummy)] + \beta_3\ dummy + Control\ variables \quad (8)$$

where $ACAR$ is the acquiror's cumulative abnormal return for (-1, +1), $TCAR$ is the target's cumulative abnormal return for (-1, +1) and $dummy$ is a dummy variable which equals 1 the transaction is a cross-market acquisition and 0 otherwise. $TCAR \times dummy$ is the interaction between the target's cumulative abnormal return and the dummy variable. The control variables are the same proxies for asymmetries in institutional settings between the acquiror nation and the target nation. Note that [eq. (7)] only includes the interaction between the dummy variable and the target's CAR in its explanatory variables while [eq. (8)] includes both the interaction factor and the dummy itself.

In Table 12, models (1) and (3) present the estimations of [eq. (7)] while model models (2) and (4) show the estimation of [eq. (8)] for the new combined sample. We only report "rule of law" as control variable since none of them add any significant information to this test. It appears that, between 1988 and 1998, the negative relation between the acquiror's CARs and the target's CARs in cross-borders acquisitions is significantly different from the relation between the acquiror and the target gain in the other type of transaction[7]; in all the four models the coefficients of the target's CARs, the interaction factor and the dummy variable are significant.

In summary, our sample suggested that, for the cross-market acquisitions oriented by "control" and completed between 1988 and 2008, the cumulative abnormal returns of the targets are negatively related to the cumulative abnormal returns of the acquirors. This result confirms our conclusions from the previous section. In a DM-EM the

[7] This results still hold when we revert the dummy variable; dummy = 0 if cross-market acquisitions and 1 otherwise.

developed market acquiror gains while the emerging market target loses. On the other hand, in an EM-DM transaction, the developed market target gains while the emerging market acquiror loses. We hypothesize that developed market firms embodies a bargaining power that helps them in dragging the maximum profit from their transactions with emerging market firms.

Before we conclude, we follow Chari et al. (2010) and replicate their hypothesis on the transfer of governance. By doing so we (1) confirm that our samples exhibit the same characteristics as theirs; (2) verify whether or not the bargaining power hypothesis comes in addition to the transfer of governance. [eq. (8)] tests the transfer governance hypothesis:

$$ACAR = \alpha + \beta_1(Institutional\ variable) \quad (8)$$

where $ACAR$ is the acquiror's cumulative abnormal return for (-1, +1). $Institutional\ variable$ is the asymmetries in "rule of law", "efficiency of judiciary system", "corruption", "risk of expropriation" and "risk of contract repudiation". Note that each institutional variable is tested separately.

Table 13 exhibits the estimation of [eq. (8)]. Models (1) - (3) provide evidence that the greater the distance between the institutional quality of the acquiror and the target nations, the greater the acquiror returns; the estimated coefficients of "rule of law", "efficiency of judiciary system" and "corruption" are positive and significant.

We conclude that yes, there is a transfer of governance in DM-EM transactions. This transfer results in a significant combined return of 1.51% on the announcement date;

the acquiror and the target earn respectively 1.25% and 6.26% for the 3-day period centered on the announcement day. When compared to other equivalent transactions, it appears that the acquiror's gain generated by DM-EM deals is significantly higher than the one generated by a DM-DM or an EM-EM transaction for example. Conversely, the target's gain in DM-EM, even if still positive and significant, is lower than the one generated by an EM-EM transaction for example. In sum, when a developed market acquiror buys an emerging market target, there is a transfer of governance which results in a positive gain for both the target and the acquiror. However, this gain is offset by a hypothesized bargaining power of the developed market acquiror. The sample indicates that part of the acquiror's gain comes from the target.

6. Conclusion

The number and value of cross-border mergers has grown steadily and at last count appears to greatly exceed the comparable numbers for purely U.S. mergers. They also constitute an increasing fraction of total foreign direct investment (FDI) in emerging markets. Whereas prior research has focus on the role of governance in the transfer and addition of value to acquirors, we examine the impact of cross–border mergers in emerging and developed markets on shareholders wealth between 1988 and 2008. Our inclusion of target and combined returns along with acquiror returns allow us to present a more complete picture than that provided by prior studies.

Our results confirm that developed market acquirors gain on average 1.56% more when they acquire emerging market targets as compared to when they acquire targets in developed markets.

However, we also find that emerging market targets' shareholder values are not maximized when acquired by developed market acquirors which contradicts the value creation hypothesis. Furthermore, we observe that no matter the acquiror's origin, developed market targets experience a greater average CAR than emerging market targets. For example, targets in the EM-DM sample make 14.29% more than targets in the EM-EM sample. Even when considering cross-markets mergers, targets in the EM-DM sample make 15.57% more than targets in the DM-EM sample.

We then conjecture that at least a part of the positive acquiror returns cannot be attributed to the transfer of superior governance practices or intangibles as suggested by Chari, Ouimet and Tesar (2010). Our results indicate that the sophistication level of the acquiror and the target as well as their relative bargaining ability are important determinants of the sharing of gains.

It is worth mentioning that the major issue encountered while performing this study was the small sample sizes. Since mergers and acquisitions is a pretty new phenomenon in emerging markets, there are few emerging market firms that are involved in significant mergers and acquisitions. Also, most of the biggest companies in emerging markets belong to the government and are sometimes privately held. Those two factors together limit the number of transactions and the availability of data for such studies.

Except from the above mentioned limitations, our results raise interesting questions. One of them - that we will leave open for further research - determining which portion of the emerging market target's wealth goes to the developed market acquiror in compensation of the transfer of governance. This could also be done by estimating the

proportion of the target's wealth that is loss due to weak bargaining abilities in order to make better investment decisions in the future.

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Table 1: Sample Selection

Table 1 summarizes all the manipulations made on the initial sample of 637 514 mergers and acquisitions collected on SDC from January 1st, 1988 to December 31st, 2008. For each operation, it provides the reason why the deletion has been made, the number of deals deleted, the percentage of the previous sample size represented by the deleted transactions, and the new sample size. The final sample obtained is divided into the four subsamples of interest. DM-DM, DM-EM, EM-EM and EM-DM have respectively 6729, 208, 405 and 93 transactions. Finally, DM-DM has been restricted to the 223 deals where the acquiror has made, at least once between 1988 and 2008, an acquisition in an emerging market.

Reason	Number of deals deleted	% of the sample size	New sample size
Initial Sample	-	-	637514
Multiple Bids	48488	7.61	589026
Not Completed	152493	25.89	436533
Not-for-Control	97963	22.44	338570
Non-Public Acquirors	193661	57.20	144909
Non-Public Targets	133291	91.98	11618
Financial & Utilities	4054	34.89	7564
Tax Haven other Countries	129	1.71	7435

Table 2: Sample Structure by Country

Table 2 presents the structure of the analyzed samples by country. Panel A provides the number of acquirors (targets) per country between 1988 and 2008 for the DM-DM sample. Panel A also provides the percentage of the total number of acquirors (targets) in the sample represented by each country. Panel B, Panel C and Panel D present the same information for sample DM-EM, EM-EM and EM-DM respectively.

Panel A: DM-DM

Acquiror			Target		
Nation	Freq.	Percent	Nation	Freq.	Percent
Canada	5	2.24	Australia	4	1.79
France	24	10.76	Canada	13	5.83
Germany	4	1.79	Finland	1	0.45
Hong Kong	1	0.45	France	9	4.04
Italy	1	0.45	Germany	6	2.69
Japan	12	5.38	Hong Kong	1	0.45
Netherlands	10	4.48	Italy	3	1.35
Singapore	6	2.69	Japan	9	4.04
Spain	4	1.79	Netherlands	3	1.35
Sweden	7	3.14	Norway	1	0.45
Switzerland	11	4.93	Singapore	4	1.79
United Kingdom	28	12.56	Spain	4	1.79
United States	110	49.33	Sweden	6	2.69
			Switzerland	2	0.9
			United Kingdom	28	12.56
			United States	129	57.85
Total	223	100	Total	223	100

Panel B: DM-EM

Acquiror			Target		
Nation	Freq.	Percent	Nation	Freq.	Percent
Australia	1	0.48	Argentina	5	2.4
Austria	3	1.44	Brazil	23	11.06
Belgium	1	0.48	Chile	6	2.88
Canada	14	6.73	China	6	2.88
Finland	3	1.44	Colombia	1	0.48
France	17	8.17	Czech Republic	5	2.4
Germany	9	4.33	Egypt	3	1.44
Hong Kong	4	1.92	Hungary	4	1.92
Ireland	1	0.48	India	23	11.06
Italy	10	4.81	Indonesia	2	0.96
Japan	11	5.29	Israel	20	9.62
Netherlands	2	0.96	Malaysia	7	3.37
Norway	2	0.96	Mexico	8	3.85
Singapore	7	3.37	Peru	4	1.92
Spain	7	3.37	Philippines	2	0.96
Sweden	8	3.85	Poland	14	6.73
Switzerland	6	2.88	Romania	8	3.85
United Kingdom	20	9.62	Russian Fed	1	0.48
United States	82	39.42	Slovenia	2	0.96
			South Africa	24	11.54
			South Korea	16	7.69
			Taiwan	9	4.33
			Thailand	7	3.37
			Turkey	8	3.85
Total	208	100	Total	208	100

Panel C: EM-EM

Acquiror			Target		
Nation	Freq.	Percent	Nation	Freq.	Percent
Argentina	4	0.99	Argentina	6	1.48
Brazil	29	7.16	Brazil	27	6.67
Chile	2	0.49	Chile	3	0.74
China	10	2.47	China	10	2.47
Colombia	6	1.48	Colombia	8	1.98
Czech Republic	1	0.25	Czech Republic	2	0.49
Egypt	3	0.74	Egypt	2	0.49
Hungary	2	0.49	Ghana	1	0.25
India	79	19.51	Hungary	2	0.49
Indonesia	5	1.23	India	79	19.51
Israel	12	2.96	Indonesia	7	1.73
Malaysia	18	4.44	Israel	11	2.72
Mexico	18	4.44	Kuwait	2	0.49
Peru	9	2.22	Malaysia	17	4.2
Philippines	7	1.73	Mexico	13	3.21
Poland	16	3.95	Peru	10	2.47
Qatar	2	0.49	Philippines	7	1.73
Russian Fed	13	3.21	Poland	15	3.7
Slovenia	4	0.99	Qatar	1	0.25
South Africa	72	17.78	Romania	2	0.49
South Korea	49	12.1	Russian Fed	14	3.46
Taiwan	23	5.68	Slovenia	4	0.99
Thailand	15	3.7	South Africa	70	17.28
Turkey	6	1.48	South Korea	47	11.6
			Taiwan	23	5.68
			Thailand	15	3.7
			Turkey	7	1.73
Total	405	100	Total	405	100

Panel D: EM-DM

Acquiror			Target		
Nation	Freq.	Percent	Nation	Freq.	Percent
Argentina	3	3.23	Australia	12	12.9
Brazil	4	4.3	Belgium	1	1.08
China	6	6.45	Canada	14	15.05
Ghana	2	2.15	Finland	1	1.08
India	9	9.68	France	2	2.15
Indonesia	2	2.15	Germany	3	3.23
Israel	17	18.28	Hong Kong	2	2.15
Kuwait	1	1.08	Italy	2	2.15
Malaysia	5	5.38	Japan	3	3.23
Mexico	4	4.3	Netherlands	1	1.08
Peru	1	1.08	Singapore	4	4.3
Philippines	3	3.23	United Kingdom	4	4.3
Russian Fed	8	8.6	United States	44	47.31
South Africa	14	15.05			
South Korea	7	7.53			
Taiwan	5	5.38			
Utd Arab Em	2	2.15			
Total	93	100	Total	93	100

Table 3: Sample Structure by year

Table 3 presents the structure of the analyzed samples by year. Panel A provides the number of mergers and acquisitions transactions in each year between 1988 and 2008 for the DM-DM sample. Panel A also provides the percentage of the total number of transactions in DM-DM represented by each year. Panel A, Panel B, Panel C, and Panel D present the same information for the DM-DM, DM-EM, EM-EM and EM-DM samples respectively.

Panel A: DM-DM

Year	Freq.	Percent
1988	10	4.48
1989	9	4.04
1990	2	0.9
1991	3	1.35
1992	6	2.69
1993	6	2.69
1994	6	2.69
1995	5	2.24
1996	8	3.59
1997	11	4.93
1998	19	8.52
1999	29	13
2000	21	9.42
2001	13	5.83
2002	7	3.14
2003	12	5.38
2004	11	4.93
2005	13	5.83
2006	10	4.48
2007	11	4.93
2008	11	4.93
Total	223	100

Panel B: DM-EM

Year	Freq.	Percent
1989	1	0.48
1990	1	0.48
1992	1	0.48
1993	5	2.4
1994	8	3.85
1995	8	3.85
1996	9	4.33
1997	19	9.13
1998	26	12.5
1999	17	8.17
2000	18	8.65
2001	11	5.29
2002	10	4.81
2003	8	3.85
2004	12	5.77
2005	14	6.73
2006	16	7.69
2007	13	6.25
2008	11	5.29
Total	208	100

Panel C: EM-EM

Year	Freq.	Percent
1988	2	0.49
1989	4	0.99
1990	1	0.25
1991	7	1.73
1992	5	1.23
1993	4	0.99
1994	12	2.96
1995	8	1.98
1996	17	4.2
1997	26	6.42
1998	27	6.67
1999	27	6.67
2000	28	6.91
2001	22	5.43
2002	16	3.95
2003	22	5.43
2004	25	6.17
2005	28	6.91
2006	40	9.88
2007	50	12.35
2008	34	8.4
Total	405	100

Panel D: EM-DM

Year	Freq.	Percent
1989	1	1.08
1990	2	2.15
1992	1	1.08
1994	4	4.3
1995	3	3.23
1996	5	5.38
1997	5	5.38
1998	4	4.3
1999	7	7.53
2000	6	6.45
2001	2	2.15
2002	4	4.3
2003	7	7.53
2004	5	5.38
2005	6	6.45
2006	5	5.38
2007	10	10.75
2008	16	17.2
Total	93	100

Table 4: Sample Structure by Industrial Classification

Table 4 presents the structure the analyzed samples by Industrial Classification Code. Panel A provides the number of transactions between different industries in the DM-DM sample. Panel B, Panel C and Panel D provides the same information for the DM-EM, EM-EM and EM-DM samples respectively. Agriculture, Forestry, and Fishing (AFF) are acquirors or targets with 2-digit SIC codes 01-09; Mining are acquirors or targets with 2-digit SIC codes 10-14; Construction are acquirors or targets with 2-digit SIC codes 15-17; Manufacturing are acquirors or targets with 2-digit SIC codes 20-39; Transportation are acquirors or targets with 2-digit SIC codes 40-49; Wholesale Trade are acquirors or targets with 2-digit SIC codes 50-51; Retail Trade are acquirors or targets with 2-digit SIC codes 52-59; Services are acquirors or targets with 2-digit SIC codes 70-89; Public administration are acquirors or targets with 2-digit SIC codes 91-97.

Panel A: DM-DM

Acquiror Industry	Target Industry								
	AFF	Construction	Manufacturing	Mining	Retail Trade	Services	Transportation	Wholesale Trade	Total
AFF	**0**	0	3	0	0	0	0	0	3
Construction	0	**1**	0	0	0	0	0	0	1
Manufacturing	3	3	**124**	1	0	12	1	2	146
Mining	0	0	0	**6**	0	0	0	0	6
Retail Trade	0	0	1	0	**5**	1	0	1	8
Services	0	0	0	0	1	**26**	0	0	27
Transportation	0	0	8	0	0	4	**6**	0	18
Wholesale Trade	0	0	2	0	0	4	0	**8**	14
Total	3	4	138	7	6	47	7	11	223

Panel B: DM-EM

Acquiror Industry	Target Industry								
	AFF	Construction	Manufacturing	Mining	Retail Trade	Services	Transportation	Wholesale Trade	Total
AFF	**1**	0	2	0	0	0	0	0	3
Construction	0	**2**	0	0	0	0	0	0	2
Manufacturing	1	0	**117**	3	0	10	1	5	137
Mining	0	0	4	**14**	0	0	0	0	18
Retail Trade	0	0	0	0	**4**	0	0	0	4
Services	0	0	3	0	1	**19**	3	1	27
Transportation	0	0	1	0	1	0	**9**	0	11
Wholesale Trade	0	0	2	0	0	1	0	**3**	6
Total	2	2	129	17	6	30	13	9	208

Panel C: EM-EM

Acq. Industry	Target Industry									
	AFF	Construction	Manufacturing	Mining	Public Admin.	Retail Trade	Services	Transportation	Wholesale Trade	Total
AFF	**2**	0	4	0	0	0	0	0	0	6
Construction	0	**6**	2	0	0	0	0	0	0	8
Manufacturing	1	1	**222**	7	0	4	7	5	6	253
Mining	1	1	5	**41**	0	0	0	1	0	49
Retail Trade	0	1	2	0	0	**3**	0	0	1	7
Services	0	0	8	0	0	0	**20**	5	2	35
Transportation	0	0	6	0	1	0	**2**	**28**	0	37
Wholesale Trade	0	0	4	1	0	0	3	0	**2**	10
Total	4	9	253	49	1	7	32	39	11	405

Panel D: EM-DM

Acquiror Industry	Target Industry						
	Construction	Manufacturing	Mining	Services	Transportation	Wholesale Trade	Total
Construction	**1**	0	0	0	0	0	1
Manufacturing	0	**52**	4	0	1	0	57
Mining	0	2	**20**	0	0	1	23
Retail Trade	0	1	0	0	0	0	1
Services	0	1	0	**5**	2	0	8
Transportation	0	0	0	1	**1**	0	2
Wholesale Trade	0	0	0	1	0	**0**	1
Total	1	56	24	7	4	1	93

Table 5: Summary Statistics

Table 5 Panel A reports summary statistics for the acquirors in the four analyzed samples while Panel B reports the same statistics for the targets. The variables are in million USD and described in Appendix A. The sample period is 1988 to 2008. Note: Total liabilities is missing for the targets because SDC only reports this variable in local currency and not USD.

Panel A: Acquiror				
	DM-DM	DM-EM	EM-EM	EM-DM
Mean				
Market Capitalization	29,548.57	13,353.61	23,287.39	6,464.71
Total Assets	46,549.12	12,756.65	4,506.97	13,603.93
Intangible Assets	3,691.04	2,297.30	295.79	1,297.72
Total Cash	4,419.48	1,027.70	399.57	3,017.53
Total Liabilities	35,978.57	8,699.33	2,128.56	7,659.64
Median				
Market Capitalization	9,682.05	3,629.90	557.90	1,270.90
Total Assets	9,412.60	3,626.65	822.40	1,403.45
Intangible Assets	872.10	381.50	17.93	60.10
Total Cash	692.04	238.50	54.02	311.39
Total Liabilities	4,509.80	1,855.70	279.60	608.75
Minimum				
Market Capitalization	13.70	2.40	2.90	9.20
Total Assets	18.70	0.50	0.00	1.80
Intangible Assets	0.17	0.47	0.01	0.01
Total Cash	0.31	0.13	0.00	0.05
Total Liabilities	0.70	0.30	0.00	2.10
Maximum				
Market Capitalization	250,379.40	194,558.60	3,270,450.00	39,757.50
Total Assets	6,162,969.00	314,829.00	201,745.30	416,050.30
Intangible Assets	97,012.85	52,155.07	23,435.31	22,445.21
Total Cash	518,708.00	19,377.00	14,747.52	109,730.40
Total Liabilities	5,156,373.00	293,350.00	74,472.20	272,140.60

Panel B: Target				
	DM-DM	DM-EM	EM-EM	EM-DM
Mean				
Market Capitalization	2,087.75	398.94	3,348.69	552.64
Total Assets	1,321.96	480.48	861.52	490.76
Intangible Assets	492.08	60.88	67.81	130.52
Total Cash	198.89	40.09	102.50	72.04
Total Liabilities	-	-	-	-
Median				
Market Capitalization	273.50	86.70	97.25	153.40
Total Assets	192.30	119.00	238.55	126.60
Intangible Assets	29.95	3.35	3.10	7.80
Total Cash	27.08	10.89	12.93	9.21
Total Liabilities	-	-	-	-
Minimum				
Market Capitalization	2.00	2.90	0.10	0.30
Total Assets	2.90	0.00	0.00	0.80
Intangible Assets	0.10	0.00	0.00	0.00
Total Cash	0.02	0.00	0.00	0.00
Total Liabilities	-	-	-	-
Maximum				
Market Capitalization	72,146.70	10,533.10	531,304.40	5,685.00
Total Assets	34,153.00	9,173.70	26,222.00	5,511.20
Intangible Assets	14,352.20	1,041.70	3,535.50	1,785.00
Total Cash	6,224.34	585.00	4,205.00	2,280.07
Total Liabilities	-	-	-	-

Table 6: Market Benchmarks

For each country that is a developed market, Table 6, Panel A provides the index used to proxy the stock market activity along with its ticker. Panel B provides the same information for emerging market countries. For each country we have selected the broadest market-capitalization-weighted index – or the free-float-market capitalization index – available. To be kept, any given index have to be calculated in local currency and have daily opening and closing prices - adjusted to reflect capital changes like spin-offs, stock splits and/or consolidations, stock dividends and/or bonus and rights offerings and/or entitlement - recorded on Bloomberg from January 1st 1987 to December 31st 2009. Finally, for emerging and frontier markets, we required the index to include a portion of the most actively traded stocks in the specific country.

Panel A: Developed Markets		
Country	Selected Market Benchmark	Ticker
Australia	All Ordinaries Index	AS30
Austria	Austrian Traded ATX Index	ATX
Belgium	Bel 20 Index	BEL20
Canada	S&P/TSX Composite Index	SPTSX
Finland	OMX Helsinki 25 Index	HEX25
France	CAC-40 Index	CAC
Germany	DAX Index	DAX
Greece	Athex Composite Share price	ASE
Hong Kong	Hang Seng Index	HSI
Ireland	Irish Overall Index	ISEQ
Italy	FTSE MIB Index	FTSEMIB
Japan	Nikkei 300 Index	NEY
Netherlands	AEX Index	AEX
Norway	OBX Stock Index	OBX
Singapore	FTSE all share Index	FSTAS
Spain	IBEX 35	IBEX
Sweden	OMX Stockholm Index	SBX
Switzerland	Swiss Market Index	SMI
United Kingdom	FTSE 100	UKX
United States	S&P 500 Index	SPX

Panel B: Emerging Markets		
Country	Selected Market Benchmark	Ticker
Argentina	Argentina Merval Index	MERVAL
Brazil	Brazil Bovespa Index	IBOV
Chile	Chile Stock Market General Index	IGPA
China	CSI 300 Index	SHSZ300
Colombia	Colombia Colcap Index	COLCAP
Czech Republic	Prague Stock Exchange Index	PX
Egypt	EGX 30 Index	CASE
Ghana	Ghana All Share	GGSEGSE
Hungary	Budapest Stock Exchange	BUX
India	BSE SENSEX 30 Index	SENSEX
Indonesia	Jakarta composite index	JCI
Israel	Tel Aviv 25 Index	TA-25
Kuwait	Kuwait SE Weighted Index	SECTMIND
Malaysia	FTSE Bursa Malaysia KLCI	FBMKLCI
Mexico	Mexico Bolsa Index	MEXBOLD
Peru	Peru Lima General Index	IGBVL
Philippines	PSEI - Philippine SE INDEX	PCOMP
Poland	WSE WIG 20 Index	WIG20
Qatar	QE Index	DSM
Romania	Bucharest BET Index	BET
Russian Fed	MICEX INDEX	INDEXCF
Slovenia	LJSE Composite Index	SVSM
South Africa	FTSE/JSE Africa all shares	JALSH
South Korea	KOSPI Index	KOSPI
Taiwan	Taiwan TAIEX Index	TWSE
Thailand	Stock Exchange of Thai Index	SET
Turkey	ISE NATIONAL 100 Index	XU100
Utd Arab Em	DFM General Index	DFMGI

Table 7: Acquirors and Targets Returns - Market Model

Table 7 Panel A summarizes the cumulative average stock market reactions to the announcement of mergers and acquisitions transactions in the DM-DM sample. The market reactions are reported for the 21-day, 11-day, 5-day, 3-day periods centered on the announcement day. We also reported reactions on the announcement day and the day right after. Panel A provides the CARs in local currency one side and in USd on the other side. For each event window, Panel A provides the mean and the median of the cumulative abnormal returns for both the acquiror and the target – and the combined CARs for USD. P-values of the mean and the median are shown in parentheses. CARs are calculated using the market model. Panel B, Panel C and Panel D present the same information for DM-EM", EM-EM and EM-DM samples respectively. *, **, and *** denote the statistical significance at the 10%, 5% and 1% levels respectively.

Panel A: DM-DM

Local Currency				**USD**				
		Acquiror	Target			Acquiror	Target	Combined
(-10,+10)	Mean	-0.23%	26.29%***	(-10,+10)	Mean	-0.18%	26.11%***	-0.58%
		(0.73)	(<0.0001)			(0.79)	(<0.0001)	(0.58)
	Median	-0.18%	23.27%***		Median	-0.15%	23.08%***	-0.32%
		(0.58)	(<0.0001)			(0.65)	(<0.0001)	(0.45)
(-5,+5)	Mean	-0.32%	25.79%***	(-5,+5)	Mean	-0.33%	25.69%***	-0.45%
		(0.55)	(<0.0001)			(0.55)	(<0.0001)	(0.55)
	Median	-0.21%	23.73%***		Median	-0.21%	23.45%***	-0.62%
		(0.78)	(<0.0001)			(0.76)	(<0.0001)	(0.45)
(-2,+2)	Mean	-0.03%	24.71%***	(-2,+2)	Mean	-0.03%	24.68%***	-0.11%
		(0.95)	(<0.0001)			(0.95)	(<0.0001)	(0.86)
	Median	-0.18%	20.61%***		Median	-0.24%	20.43%***	-0.21%
		(0.59)	(<0.0001)			(0.55)	(<0.0001)	(0.43)
(-1+1)	Mean	-0.30%	23.70%***	(-1+1)	Mean	-0.31%	23.64%***	-0.49%
		(0.42)	(<0.0001)			(0.42)	(<0.0001)	(0.39)
	Median	-0.35%	19.23%***		Median	-0.31%	19.04%***	-0.58%*
		(0.21)	(<0.0001)			(0.19)	(<0.0001)	(0.07)
(0,0)	Mean	-0.23%	20.46%***	(0,0)	Mean	-0.23%	20.38%***	-0.31%
		(0.43)	(<0.0001)			(0.41)	(<0.0001)	(0.49)
	Median	-0.36%**	16.14%***		Median	-0.37%**	16.14%***	-0.41%*
		(0.03)	(<0.0001)			(0.03)	(<0.0001)	(0.06)
(0,+1)	Mean	-0.25%	22.82%***	(0,+1)	Mean	-0.25%	22.75%***	-0.34%
		(0.47)	(<0.0001)			(0.47)	(<0.0001)	(0.54)
	Median	-0.36%	18.23%***		Median	-0.39%	18.11%***	-0.42%*
		(0.13)	(<0.0001)			(0.12)	(<0.0001)	(0.09)

Panel B: DM-EM								
Local Currency					**USD**			
		Acquiror	Target			Acquiror	Target	Combined
(-10,+10)	Mean	0.42%	11.50%***	(-10,+10)	Mean	0.52%	10.69%***	2.50%
		(0.73)	(0.0003)			(0.67)	(0.0008)	(0.47)
	Median	0.10%	4.42%***		Median	-0.50%	3.91%***	-0.38%
		(0.81)	(0.0004)			(0.76)	(0.001)	(0.7)
(-5,+5)	Mean	2.05%**	10.94%***	(-5,+5)	Mean	2.06%**	10.56%***	4.71%
		(0.05)	(<0.0001)			(0.04)	(0.0002)	(0.22)
	Median	0.47%	6.18%***		Median	0.27%	5.64%***	2.83%
		(0.20)	(<0.0001)			(0.19)	(<0.0001)	(0.63)
(-2,+2)	Mean	1.36%**	9.73%***	(-2,+2)	Mean	1.35%***	7.46%***	2.14%
		(0.02)	(<0.0001)			(0.02)	(<0.0001)	(0.27)
	Median	0.41%**	4.22%***		Median	3.91%*	3.57%***	0.16%
		(0.05)	(<0.0001)			(0.05)	(<0.0001)	(0.8)
(-1+1)	Mean	1.25%**	8.57%***	(-1,+1)	Mean	1.25%**	6.26%***	2.17%
		(0.02)	(0.0004)			(0.02)	(0.0003)	(0.24)
	Median	0.53%**	3.91%***		Median	0.72%**	3.84%***	0.28%
		(0.02)	(<0.0001)			(0.02)	(<0.0001)	(0.36)
(0,0)	Mean	0.57%***	3.36%***	(0,0)	Mean	0.58%***	2.26%***	1.51%***
		(0.0097)	(0.002)			(0.0085)	(0.006)	(0.007)
	Median	0.06%	1.35%***		Median	0.059%*	0.93%***	0.70%***
		(0.11)	(0.0018)			(0.08)	(0.01)	(0.0068)
(0,+1)	Mean	1.15%**	7.95%***	(0,+1)	Mean	1.17%**	5.32%***	2.53%
		(0.03)	(0.0007)			(0.03)	(0.0009)	(0.16)
	Median	0.22%**	2.35%***		Median	0.28%**	1.87%***	0.24%*
		(0.03)	(<0.0001)			(0.02)	(0.0007)	(0.08)

Panel C: EM-EM								
Local Currency					**USD**			
		Acquiror	Target			Acquiror	Target	Combined
(-10,+10)	Mean	0.56%	5.96%***	(-10,+10)	Mean	0.57%	5.78%***	-0.23%
		(0.53)	(0.0009)			(0.54)	(0.0013)	(0.89)
	Median	-0.96%	4.97%***		Median	-1.50%	4.07%***	-0.43%
		(0.47)	(0.0008)			(0.39)	(0.0012)	(0.73)
(-5,+5)	Mean	1.90%**	6.67%***	(-5,+5)	Mean	2.01%**	6.63%***	2.13%
		(0.02)	(<0.0001)			(0.0148)	(<0.0001)	(0.18)
	Median	0.12%	5.13%***		Median	0.23%	4.86%***	0.89%
		(0.36)	(<0.0001)			(0.28)	(<0.0001)	(0.36)
(-2,+2)	Mean	1.86%***	4.75%***	(-2,+2)	Mean	1.86%***	4.68%***	2.18%*
		(0.0048)	(0.0002)			(0.0051)	(0.0002)	(0.09)
	Median	0.68%**	2.40%***		Median	0.46%**	2.13%***	1.05%
		(0.03)	(<0.0001)			(0.04)	(<0.0001)	(0.15)
(-1+1)	Mean	1.73%***	4.76%***	(-1,+1)	Mean	1.75%***	4.73%***	2.84%**
		(0.005)	(<0.0001)			(0.005)	(<0.0001)	(0.016)
	Median	0.33%**	2.09%***		Median	0.29%**	2.08%***	0.77%**
		(0.02)	(<0.0001)			(0.0169)	(<0.0001)	(0.02)
(0,0)	Mean	1.69%**	2.55%***	(0,0)	Mean	1.70%**	2.49%***	0.73%
		(0.0$)	(0.001)			(0.04)	(0.0013)	(0.12)
	Median	0.48%	1.52%***		Median	0.48%*	1.42%***	1.27%
		(0.11)	(<0.0001)			(0.09)	(0.0002)	(0.12)
(0,+1)	Mean	1.38%**	3.67%***	(0,+1)	Mean	1.44%**	3.63%***	2.00%*
		(0.02)	(0.0005)			(0.0166)	(0.0006)	(0.052)
	Median	0.00%	1.42%***		Median	0.00%	1.34%***	1.15%**
		(0.12)	(<0.0001)			(0.1024)	(0.00020	(0.048)

Panel D: EM-DM

		Local Currency				USD		
		Acquiror	Target			Acquiror	Target	Combined
(-10,+10)	Mean	-1.38%	23.42%***	(-10,+10)	Mean	-1.53%	23.72%***	36.37%***
		(0.39)	(<0.0001)			(0.35)	(<0.0001)	(<0.0001)
	Median	-1.72%	25.10%***		Median	-2.22%	25.63%	29.72%***
		(0.22)	(<0.0001)			(0.15)	(<0.0001)	(<0.0001)
(-5,+5)	Mean	-0.79%	16.32%***	(-5,+5)	Mean	-0.49%	16.47%***	26.37%***
		(0.45)	(0.0002)			(0.65)	(0.0002)	(0.0003)
	Median	-1.19%	11.05%***		Median	-1.34%	11.05%***	27.33%***
		(0.22)	(<0.0001)			(0.29)	(<0.0001)	(<0.0001)
(-2,+2)	Mean	-0.79%	16.58%***	(-2,+2)	Mean	-0.73%	16.59%***	24.98%***
		(0.29)	(<0.0001)			(0.33)	(<0.0001)	(0.0002)
	Median	-0.50%	9.78%***		Median	-0.33%	9.78%***	18.53%***
		(0.36)	(<0.0001)			(0.41)	(<0.0001)	(<0.0001)
(-1+1)	Mean	-0.77%	17.85%***	(-1,+1)	Mean	-0.76%	17.83%***	25.91%***
		(0.23)	(<0.0001)			(0.25)	(<0.0001)	(0.0003)
	Median	-0.57%	8.36%***		Median	-0.44%	8.36%***	17.94%***
		(0.23)	(<0.0001)			(0.29)	(<0.0001)	(<0.0001)
(0,0)	Mean	-0.57%	12.68%***	(0,0)	Mean	-0.43%	12.62%***	18.08%***
		(0.24)	(<0.0001)			(0.39)	(<0.0001)	(0.0052)
	Median	-0.59%	7.04%***		Median	-0.65%	7.04%***	10.37%***
		(0.17)	(<0.0001)			(0.26)	(<0.0001)	(0.001)
(0,+1)	Mean	-0.86%	16.70%***	(0,+1)	Mean	-0.87%	16.65%***	24.84%***
		(0.11)	(<0.0001)			(0.11)	(<0.0001)	(0.0004)
	Median	-0.99%*	9.41%***		Median	-1.08%*	9.28%***	10.71%***
		(0.08)	(<0.0001)			(0.07)	(<0.0001)	(<0.0001)

Table 8: Acquirors Returns, Targets Returns and Joint Returns- MAR

Table 8 Panel A summarizes the cumulative average stock market reactions to the announcement of mergers and acquisitions transactions in the DM-DM sample. The market reactions are reported for the 21-day, 11-day, 5-day, 3-day periods centered on the announcement day. We also reported reactions on the announcement day and the day right after. Panel A provides the CARs in local currency one side and in USD on the other side. For each event window, Panel A provides the mean and the median of the cumulative abnormal returns for both the acquiror and the target – and the combined CARs for USD. P-values of the mean and the median are shown in parentheses. CARs are calculated using the market adjusted returns. Panel B, Panel C and Panel D present the same information for DM-EM", EM-EM and EM-DM samples respectively. *, **, and *** denote the statistical significance at the 10%, 5% and 1% levels respectively.

Panel A: DM-DM

		Local Currency				**USD**		
		Acquiror	Target			Acquiror	Target	Combined
(-10,+10)	Mean	0.62%	28.08%***	(-10,+10)	Mean	0.63%	28.04%***	4.22%***
		(0.29)	(<0.0001)			(0.280	(<0.0001)	(<0.0001)
	Median	-0.16%	23.60%***		Median	-0.15%	23.39%***	3.46%***
		(0.42)	(<0.0001)			(0.41)	(<0.0001)	(<0.0001)
(-5,+5)	Mean	-0.03%	26.55%***	(-5,+5)	Mean	-0.02%	26.52%***	3.62%***
		(0.95)	(<0.0001)			(0.96)	(<0.0001)	(<0.0001)
	Median	0.13%	24.67%***		Median	0.12%	24.64%***	3.55%***
		(0.89)	(<0.0001)			(0.87)	(<0.0001)	(<0.0001)
(-2,+2)	Mean	0.06%	25.10%***	(-2,+2)	Mean	0.06%	25.06%***	3.54%***
		(0.88)	(<0.0001)			(0.88)	(<0.0001)	(<0.0001)
	Median	-0.23%	20.57%***		Median	-0.22%	20.53%***	2.94%***
		(0.66)	(<0.0001)			(0.66)	(<0.0001)	(<0.0001)
(-1+1)	Mean	-0.23%	23.94%***	(-1+1)	Mean	-0.23%	23.89%***	2.85%***
		(0.53)	(<0.0001)			(0.53)	(<0.0001)	(<0.0001)
	Median	-0.28%	20.45%***		Median	-0.28%	20.40%***	2.37%***
		(0.17)	(<0.0001)			(0.17)	(<0.0001)	(<0.0001)
(0,0)	Mean	-0.14%	20.53%***	(0,0)	Mean	-0.14%	20.43%***	2.50%***
		(0.61)	(<0.0001)			(0.62)	(<0.0001)	(<0.0001)
	Median	-0.34%**	17.25%***		Median	-0.33%*	17.20%***	1.37%***
		(0.05)	(<0.0001)			(0.058)	(<0.0001)	(<0.0001)
(0,+1)	Mean	-0.17%	22.86%***	(0,+1)	Mean	-0.17%	22.80%***	2.81%***
		(0.60)	(<0.0001)			(0.60)	(<0.0001)	(<0.0001)
	Median	-0.45%*	18.36%***		Median	-0.46%*	18.28%***	2.11%***
		(0.09)	(<0.0001)			(0.09)	(<0.0001)	(<0.0001)

Panel B: DM-EM								
Local Currency					USD			
		Acquiror	Target			Acquiror	Target	Combined
(-10,+10)	Mean	1.60%	11.94%***	(-10,+10)	Mean	1.59%	11.53%***	5.62%*
		(0.16)	(<0.0001)			(0.160	(<0.0001)	(0.06)
	Median	0.04%	5.94%***		Median	0.02%	5.44%***	2.87%**
		(0.20)	(<0.0001)			(0.21)	(<0.0001)	(0.02)
(-5,+5)	Mean	2.62%**	10.84%***	(-5,+5)	Mean	2.59%**	10.53%***	6.84%*
		(0.012)	(<0.0001)			(0.012)	(0.0001)	(0.051)
	Median	0.87%**	5.33%***		Median	0.87%**	4.98%***	2.22%**
		(0.02)	(<0.0001)			(0.02)	(<0.0001)	(0.02)
(-2,+2)	Mean	1.52%**	9.82%***	(-2,+2)	Mean	1.50%**	7.69%***	3.47%**
		(0.011)	(<0.0001)			(0.0102)	(<0.0001)	(0.04)
	Median	0.55%**	3.87%***		Median	0.55%**	3.29%***	1.58%**
		(0.03)	(<0.0001)			(0.03)	(<0.0001)	(0.02)
(-1+1)	Mean	1.30%**	8.72%***	(-1,+1)	Mean	1.29%**	6.52%***	2.94%*
		(0.02)	(0.0002)			(0.02)	(<0.0001)	(0.06)
	Median	1.59%**	5.18%***		Median	0.61%**	4.02%***	1.15%***
		(0.018)	(<0.0001)			(0.018)	(<0.0001)	(0.0055)
(0,0)	Mean	0.66%***	3.43%***	(0,0)	Mean	0.66%***	2.36%***	1.76%***
		(0.003)	(0.0013)			(0.004)	(0.0032)	(0.0021)
	Median	0.18%**	1.63%***		Median	0.18%**	1.39%***	1.36%***
		(0.04)	(0.0016)			(0.04)	(0.0064)	(0.0008)
(0,+1)	Mean	1.28%**	7.93%***	(0,+1)	Mean	1.26%**	5.41%***	3.12%**
		(0.017)	(0.0005)			(0.016)	(0.0005)	(0.04)
	Median	0.22%**	2.67%***		Median	0.23%**	1.79%***	0.86%***
		(0.015)	(<0.0001)			(0.015)	(0.0009)	(0.001)

Panel C: EM-EM								
Local Currency					USD			
		Acquiror	Target			Acquiror	Target	Combined
(-10,+10)	Mean	1.66%**	7.18%***	(-10,+10)	Mean	1.70%**	7.20%***	1.61%
		(0.04)	(<0.0001)			(0.04)	(<0.0001)	(0.23)
	Median	-0.86%	6.39%***		Median	-0.78%	6.35%***	0.54%
		(0.86)	(<0.0001)			(0.80)	(<0.0001)	(0.31)
(-5,+5)	Mean	2.47%***	7.36%***	(-5,+5)	Mean	2.54%***	7.41%***	2.76%*
		(0.002)	(<0.0001)			(0.001)	(<0.0001)	(0.06)
	Median	0.64%**	5.35%***		Median	0.58%**	5.35%***	1.54%*
		(0.04)	(<0.0001)			(0.04)	(<0.0001)	(0.06)
(-2,+2)	Mean	2.06%***	5.13%***	(-2,+2)	Mean	2.09%***	5.17%***	2.34%*
		(0.001)	(<0.0001)			(0.001)	(<0.0001)	(0.055)
	Median	0.48%***	2.57%***		Median	0.43%***	2.56%***	1.36%*
		(0.0075)	(<0.0001)			(0.007)	(<0.0001)	(0.08)
(-1+1)	Mean	1.84%***	5.10%***	(-1,+1)	Mean	1.90%***	5.11%***	2.90%***
		(0.0025)	(<0.0001)			(0.002)	(<0.0001)	(0.008)
	Median	0.26%***	2.77%***		Median	0.24%***	2.77%***	0.98%**
		(0.006)	(<0.0001)			(0.0043)	(<0.0001)	(0.006)
(0,0)	Mean	1.77%**	2.64%***	(0,0)	Mean	1.82%**	2.64%***	0.67%
		(0.03)	(0.0008)			(0.03)	(0.0008)	(0.13)
	Median	0.39%**	1.57%***		Median	0.39%**	1.46%***	0.86%
		(0.047)	(0.0001)			(0.03)	(0.0001)	(0.17)
(0,+1)	Mean	1.49%**	3.86%***	(0,+1)	Mean	1.58%***	3.87%***	1.95%**
		(0.011)	(0.0003)			(0.007)	(0.0003)	(0.04)
	Median	0%*	1.46%***		Median	0%*	1.44%***	0.67%*
		(0.07)	(<0.0001)			(0.051)	(<0.0001)	(0.055)

Panel D: EM-DM								
Local Currency					USD			
		Acquiror	Target			Acquiror	Target	Combined
(-10,+10)	Mean	-0.40%	25.84%***	(-10,+10)	Mean	0.05%	26.07%***	5.69%***
		(0.74)	(<0.0001)			(0.96)	(<0.0001)	(0.004)
	Median	-0.21%	26.55%***		Median	0.12%	26.37%***	4.54%***
		(0.65)	(<0.0001)			(0.96)	(<0.0001)	(0.006)
(-5,+5)	Mean	-0.24%	17.61%***	(-5,+5)	Mean	0.43%	17.67%***	3.98%***
		(0.80)	(<0.0001)			(0.64)	(<0.0001)	(0.0004)
	Median	-0.30%	11.95%***		Median	0.34%	11.95%***	4.11%***
		(0.51)	(<0.0001)			(0.99)	(<0.0001)	(0.0004)
(-2,+2)	Mean	-0.29%	17.05%***	(-2,+2)	Mean	-0.01%	17.03%***	3.80%***
		(0.68)	(<0.0001)			(0.99)	(<0.0001)	(0.0007)
	Median	-0.24%	10.89%***		Median	0.08%	10.97%***	3.93%***
		(0.83)	(<0.0001)			(0.81)	(<0.0001)	(0.001)
(-1+1)	Mean	-0.36%	18.05%***	(-1,+1)	Mean	-0.13%	18.03%***	3.76%***
		(0.59)	(<0.0001)			(0.84)	(<0.0001)	(0.001)
	Median	-0.12%	9.40%***		Median	0.01%	9.43%***	4.10%***
		(0.61)	(<0.0001)			(0.92)	(<0.0001)	(0.0014)
(0,0)	Mean	-0.29%	12.76%***	(0,0)	Mean	-0.06%	12.74%***	2.68%***
		(0.55)	(<0.0001)			(0.90)	(<0.0001)	(0.0072)
	Median	-0.24%	7.55%***		Median	-0.16%	7.55%***	2.40%***
		(0.60)	(<0.0001)			(0.95)	(<0.0001)	(0.0082)
(0,+1)	Mean	-0.44%	16.80%***	(0,+1)	Mean	-0.25%	1679%***	3.16%***
		(0.43)	(<0.0001)			(0.65)	(<0.0001)	(0.0026)
	Median	-0.54%	9.36%***		Median	-0.53%	940%***	2.94%***
		(0.36)	(<0.0001)			(0.52)	(<0.0001)	(0.0019)

Table 9: Differences in CARs between Emerging and Developed Markets

Table 9 Panel A summarizes the difference in market reaction between the acquirors of the four samples. For any given two samples, Panel A provides the difference in the mean and the median of the CARs – on announcement day and also for (-5,+5) . P-values are shown in parentheses. Panel B and Panel C present the same information for target and joint returns respectively. *, **, and *** denote the statistical significance at the 10%, 5% and 1% levels respectively.

Panel A: Acquiror

		(0,0)						(-5,5)			
		DM-DM	DM-EM	EM-EM	EM-DM			DM-DM	DM-EM	EM-EM	EM-DM
DM-DM	Mean	-				DM-DM	Mean	-			
		-						-			
	Median	-					Median	-			
		-						-			
DM-EM	Mean	1.56%**	-			DM-EM	Mean	5.24%*	-		
		(0.0459)	-					(0.0521)	-		
	Median	-0.31%***	-				Median	0.48%	-		
		(0.008)	-					(0.44)	-		
EM-EM	Mean	1.32%	0.24%	-		EM-EM	Mean	1.54%	3.70%	-	
		(0.1497)	(0.8447)	-				(0.3360)	(0.3193)	-	
	Median	0.71%	0.43%	-			Median	0.44%	-0.04%	-	
		(0.14)	(0.75)	-				(0.36)	(0.73)	-	
EM-DM	Mean	0.13%	-1.44%	-1.20%	-	EM-DM	Mean	-0.52%	-5.76%	-2.06%	-
		(0.9082)	(0.1948)	(0.4814)	-			(0.7615)	(0.2689)	(0.4693)	-
	Median	-0.28%	-0.71%	-1.13%	-		Median	-1.13%	-1.61%	-1.57%	-
		(0.80)	(0.77)	(0.84)	-			(0.63)	(0.59)	(0.66)	-

Panel B: Target

		(0,0)						(-5,5)			
		DM-DM	DM-EM	EM-EM	EM-DM			DM-DM	DM-EM	EM-EM	EM-DM
DM-DM	Mean	-				DM-DM	Mean	-			
		-						-			
	Median	-					Median	-			
		-						-			
DM-EM	Mean	-18%***	-			DM-EM	Mean	-11.03%*	-		
		(0.0064)	-					(0.0847)	-		
	Median	-15.21%***	-				Median	-17.81%***	-		
		(<0.0001)	-					(0.0022)	-		
EM-EM	Mean	-16.71%***	1.28%	-		EM-EM	Mean	-16.84%***	-5.81%	-	
		(0.0012)	(0.4826)	-				(0.0013)	(0.2171)	-	
	Median	-14.72%***	0.49%	-			Median	-18.59%***	-0.78%	-	
		(<0.0001)	(0.81)	-				(<0.0001)	(0.35)	-	
EM-DM	Mean	-2.42%	15.57%***	14.29%***	-	EM-DM	Mean	1.84%	12.87%*	18.68%***	-
		(0.7639)	(0.0024)	(0.0007)	-			(0.8229)	(0.0845)	(0.0018)	-
	Median	-9.10%	11.69%***	10.13%***	-		Median	-12.40%	5.41%	6.19%**	-
		(0.47)	(0.0018)	(0.0044)	-			(0.63)	(0.11)	(0.038)	-

Panel C: Combined

		(0,0)						(-5,5)			
		DM-DM	DM-EM	EM-EM	EM-DM			DM-DM	DM-EM	EM-EM	EM-DM
DM-DM	Mean	-				DM-DM	Mean	-			
		-						-			
	Median	-					Median	-			
		-						-			
DM-EM	Mean	1.82%**	-			DM-EM	Mean	5.16%*	-		
		(0.0339)	-					(0.0554)	-		
	Median	1.11%***	-				Median	3.28%	-		
		(0.001)	-					(0.44)	-		
EM-EM	Mean	1.04%	0.78%	-		EM-EM	Mean	2.57%	2.59%	-	
		(0.1327)	(0.2861)	-				(0.1018)	(0.4816)	-	
	Median	1.68%**	0.57%	-			Median	1.51%*	-1.94%	-	
		(0.049)	(0.23)	-				(0.056)	(0.24)	-	
EM-DM	Mean	18.40%***	16.57%***	17.36%***	-	EM-DM	Mean	26.82%***	21.66%***	24.25%***	-
		(<0.0001)	(0.0012)	(<0.0001)	-			(<0.0001)	(0.0022)	(<0.0001)	-
	Median	10.78%***	17.38%***	17.35%***	-		Median	26.99%***	24.5%***	26.44%***	-
		(0.005)	(0.0077)	(0.0032)	-			(0.0002)	(0.0014)	(0.0022)	-

Table 10: Relation between Acquiror and Target Cumulative Abnormal Returns

Table 10 shows regression estimates of the acquiror cumulative abnormal return on the target cumulative abnormal return in each of our four samples. In column (1) the dependant variable is the acquiror CAR for (-1, +1) and the explanatory variable is the target CAR for the same window. Columns (2) - (6) control for the asymmetries in institutional settings between the acquiror's nation and the target's nation. All the institutional variables are described in Appendix A. Panel A, B, C and D presents the estimates for DM-DM, DM-EM, EM-EM and EM-DM respectively. Absolute value of t-statistics is shown in parentheses. * significant at 10%; ** significant at 5%; *** significant at 1%.

Panel A: DM-DM

	(1)	(2)	(3)	(4)	(5)	(6)
$TCAR_4$	0.014	0.012	0.015	0.015	0.013	0.015
	(0.56)	(0.48)	(0.62)	(0.61)	(0.54)	(0.63)
Rule of Law		0.008				
		(0.82)				
Efficacy of Judiciary System			0.004			
			(0.65)			
Corruption				0.012		
				(1.69)*		
Risk of Expropriation					0.016	
					(0.59)	
Risk of Contract Repudiation						0.027
						(1.77)*
Constant	-0.008	-0.007	-0.008	-0.009	-0.008	-0.01
	(1.22)	(1.00)	(1.13)	(1.25)	(1.14)	(1.40)
Observations	94	94	94	94	94	94
R-squared	0	0.01	0.01	0.03	0.01	0.04

Panel B: DM-EM

	(1)	(2)	(3)	(4)	(5)	(6)
$TCAR_4$	-0.076	-0.077	-0.077	-0.092	-0.065	-0.083
	(1.40)	(1.38)	(1.34)	(1.57)	(1.13)	(1.46)
Rule of Law		-0.005				
		(0.97)				
Efficacy of Judiciary System			0.001			
			(0.09)			
Corruption				-0.005		
				(0.91)		
Risk of Expropriation					-0.011	
					(1.11)	
Risk of Repudiation Contract						-0.006
						(0.98)
Constant	0.013	0.03	0.014	0.028	0.031	0.023
	(1.66)	(1.57)	(1.10)	(1.53)	(1.73)*	(1.78)*
Observations	38	36	36	36	36	36
R-squared	0.05	0.08	0.05	0.08	0.09	0.08

Panel C: EM-EM

	(1)	(2)	(3)	(4)	(5)	(6)
$TCAR_4$	0.15	0.16	0.16	0.16	0.16	0.16
	(4.07)***	(4.22)***	(4.22)***	(4.22)***	(4.22)***	(4.22)***
Rule of Law		0.002				
		(0.04)				
Efficacy of Judiciary System			-0.007			
			(0.04)			
Corruption				0.001		
				(0.04)		
Risk of Expropriation					0.005	
					(0.04)	
Risk of Repudiation Contract						-0.007
						(0.04)
Constant	-0.001	-0.005	-0.005	-0.005	-0.005	-0.005
	(0.20)	(0.74)	(0.74)	(0.74)	(0.74)	(0.74)
Observations	57	51	51	51	51	51
R-squared	0.23	0.27	0.27	0.27	0.27	0.27

Panel D: EM-DM

	(1)	(2)	(3)	(4)	(5)	(6)
$TCAR_4$	-0.08	-0.078	-0.077	-0.081	-0.079	-0.076
	(2.25)**	(1.86)*	(1.92)*	(2.04)*	(1.99)*	(1.86)*
Rule of Law		-0.001				
		(0.07)				
Efficacy of Judiciary System			0.001			
			(0.26)			
Corruption				0.003		
				(0.52)		
Risk of Expropriation					0.004	
					(0.34)	
Risk of Repudiation Contract						-0.003
						(0.30)
Constant	0.017	0.013	0.02	0.03	0.024	0.009
	(1.22)	(0.26)	(0.95)	(1.04)	(0.86)	(0.28)
Observations	22	20	20	20	20	20
R-squared	0.2	0.19	0.19	0.19	0.19	0.19

Table 11: Relation between Acquiror and Target Cumulative Abnormal Returns: Robustness Test

Table 11 shows regression estimates of the acquiror cumulative abnormal return on the target cumulative abnormal return. Panel A presents the estimates for DM-DM and EM-EM combined while Panel B presents the estimates for DM-EM and EM-DM combined. In column (1) the dependant variable is the acquiror CAR for (-1, +1) and the explanatory variable is the target CAR for the same window. Columns (2) - (6) control for the asymmetries in institutional settings between the acquiror's nation and the target's nation. All the institutional variables are described in Appendix A. Absolute value of t-statistics is shown in parentheses. * significant at 10%; ** significant at 5%; *** significant at 1%.

Panel A: "Same Market" Mergers and Acquisitions						
	(1)	(2)	(3)	(4)	(5)	(6)
$TCAR_4$	0.037	0.041	0.045	0.042	0.041	0.042
	(1.82)*	(1.98)**	(2.14)**	(2.04)**	(2.00)**	(2.06)**
Rule of Law		0.009				
		(0.97)				
Efficacy of Judiciary System			0.007			
			(1.10)			
Corruption				0.012		
				(1.56)		
Risk of Expropriation					0.018	
					(0.64)	
Risk of Repudiation Contract						0.025
						(1.54)
Constant	-0.005	-0.006	-0.007	-0.007	-0.007	-0.008
	(0.99)	(1.22)	(1.32)	(1.39)	(1.34)	(1.54)
Observations	151	145	145	145	145	145
R-squared	0.02	0.03	0.04	0.04	0.03	0.04

Panel B: Cross markets mergers and acquisitions						
	(1)	(2)	(3)	(4)	(5)	(6)
$TCAR_4$	-0.069	-0.073	-0.07	-0.072	-0.072	-0.076
	(2.32)**	(2.16)**	(2.04)**	(2.07)**	(2.15)**	(2.27)**
Rule of Law		-0.001				
		(0.36)				
Efficacy of Judiciary System			0.001			
			(0.10)			
Corruption				0.001		
				(0.20)		
Risk of Expropriation					-0.001	
					(0.30)	
Risk of Repudiation Contract						-0.002
						(0.61)
Constant	0.013	0.014	0.014	0.014	0.014	0.015
	(1.99)*	(1.84)*	-1.67	(1.73)*	(1.80)*	(1.93)*
Observations	60	56	56	56	56	56
R-squared	0.08	0.09	0.08	0.08	0.08	0.09

Table 12: Relation between Acquiror and Target Cumulative Abnormal Returns: Difference between "Domestic" and "Cross-Market" Takeovers

Table 12 shows regression estimates of the acquiror cumulative abnormal return on the target cumulative abnormal return and highlights the difference between "domestic" takeovers (DM-DM and EM-EM) and "cross-market" (DM-EM and EM-DM) takeovers. The dependant variable is the acquiror CAR for (-1, +1). The explanatory variables are the target CAR for (-1, +1); dummy is a dummy variable which equals 1 if the takeover is "cross-market" and 0 otherwise; $TCAR_4$*dummy is the interaction between $TCAR_4$ dummy; Rule of Law is the distance between acquiror's rule of law score and the target's rule of law score. Absolute value of t-statistics is shown in parentheses * significant at 10%; ** significant at 5%; *** significant at 1%.

	(1)	(2)	(3)	(4)
ACAR				
TCAR	0.022	0.037	0.03	0.04
	(1.20)	(1.88)*	(1.38)	(2.07)**
TCAR*dummy	-0.058	-0.18	-0.053	-0.11
	(1.89)*	(2.77)***	(1.70)*	(2.72)***
dummy		0.018**		0.02
		(2.06)		(2.17)**
Rule of Law			0.0007	-0.0003
			(0.49)	(0.17)
Constant	0.0006	-0.005	-0.001	-0.007
	(0.15)	(1.02)	(0.33)	(1.44)
Observations	211	211	201	201
R-squared	0.02	0.04	0.02	0.04

Table 13: Transfer of Governance Hypothesis Test

Table 13 shows regression estimates for acquiror cumulative abnormal return and on proxies for asymmetries in institutional settings between acquiror and target nation. The dependant variable is the acquiror cumulative abnormal returns for the 3-day period centered on the announcement date. All the explanatory variables are described in Appendix A. Absolute value of t-statistics is shown in parentheses * significant at 10%; ** significant at 5%; *** significant at 1%.

	(1)	(2)	(3)	(4)	(5)
Rule of Law	0.004				
	(1.84)*				
Efficiency of Judiciary System		0.005			
		(1.92)*			
Corruption			0.005		
			(2.08)**		
Risk of Expropriation				0.003	
				(0.71)	
Risk of Contract					0.005
					(1.25)
Constant	0.003	0.002	0.002	0.003	0.003
	(0.59)	(0.49)	(0.42)	(0.58)	(0.55)
Observations	201	201	201	201	201
R-squared	0.02	0.02	0.02	0	0.01

APPENDIX A: Variable definitions and sources

VARIABLE	DESCRIPTION
	Measure of value creation
ACAR1	Cumulative abnormal return of the acquiror stock over a 21-day event window centered on the announcement day; CAR (-10,+10)
ACAR2	Cumulative abnormal return of the acquiror stock over a 11-day event window centered on the announcement day; CAR (-5,+5)
ACAR3	Cumulative abnormal return of the acquiror stock over a 5-day event window centered on the announcement day; CAR (-2,+2)
ACAR4	Cumulative abnormal return of the acquiror stock over a 3-day event window centered on the announcement day; CAR (-1,+1)
ACAR5	Abnormal return of the acquiror stock on the announcement day (day 0)
ACAR6	Cumulative abnormal return of the acquiror stock over a two-day event window centered on the announcement day ; CAR (0, +1)
TCAR1	Cumulative abnormal return of the target stock over a 21-day event window centered on the announcement day; CAR (-10,+10)
TCAR2	Cumulative abnormal return of the target stock over a 11-day event window starting 5 centered on the announcement day; CAR (-5,+5)
TCAR3	Cumulative abnormal return of the target stock over a 5-day event window centered on the announcement day; CAR (-2,+2)
TCAR4	Cumulative abnormal return of the target stock over a 3-day event window centered on the announcement day; CAR (-1,+1)
TCAR5	Abnormal return of the target stock on the announcement day (day 0)
TCAR6	Cumulative abnormal return of the target stock over a two-day event window starting on the announcement day ; CAR (0, +1)

APPENDIX A: *Continued*

	Governance Variables
RULE OF LAW	Assessment of the law and order tradition in the country produced by the country-risk ratingagency *International Country Risk* (ICR). Average of the months of April and October of themonthly index between 1982 and 1995. Scale from 0 to 10, with lower scores for lesstradition for law and order. *Sources:* International Country Risk Guides and La Porta et al. (1998)
CORRUPTION	ICR's assessment of the corruption in government. Lower scores indicate "high government officials are likely to demand special payments" and "illegal payments are generally expected throughout lower levels of government" in the form of "bribes connected with import and export licenses, exchange controls, tax assessment, policy protection, or loans". Average of the months of April and October of the monthly index between 1982 and 1995. Scale from 0 to 10, with lower scores for higher levels of corruption. *Sources:* International Country Risk Guides and La Porta et al. (1998)
EFFICIENCY OF JUDICIAL SYSTEM	Assessment of the "efficiency and integrity of the legal environment as it affects business, particularly foreign firms" produced by the country-risk rating agency Business International Corporation. It "may be taken to represent investors' assessments of conditions in the country in question". Average between 1980-1983. Scale from 0 to 10, with lower scores lower efficiency levels. *Sources:* La Porta et al. (1998)
RISK OF EXPROPRIATION	Risk of "outright confiscation and forced nationalization" of property in the. This variable ranges from 0 (high probability of expropriation) to 10 (low probability of expropriation) and is calculated as the average from 1982 through 1997. *Sources:* International Country Risk Guides and La Porta et al. (1998)
REPUDIATION OF CONTRACTS BY GOVENMENT	ICR's assessment of the "risk of a modification in a contract taking the form of a repudiation, postponement, or scaling down" due to "budget cutbacks, indigenization pressure, a change in government, or a change in government economic and social priorities." Average of the months of April and October of the monthly index between 1982 and 1995. Scale from 0 to 10, with lower scores for higher risks.

APPENDIX A: *Continued*

	Firm specific variables
MARKET CAPITALIZATION	Market Value: Calculated by multiplying the total number of acquiror shares outstanding times the acquiror's stock price 4 weeks prior to announcement date ($mil).
TOTAL ASSETS	Total Assets: Total balance sheet assets including, current assets, long-term investments and funds, net fixed assets, intangible assets, and deferred charges, as of the date of the most current financial information prior to the announcement of the transaction ($mil). TASS equals total liabilities plus shareholders' equity plus minority interest.
INTANGIBLE ASSETS	Intangible Assets: Value of assets having no physical existence, yet having substantial value to the firm, including goodwill, patents, trademarks, copyrights, franchises, and costs in excess of net book value of businesses acquired, as of the date of the most recent financial information prior to the announcement of the transaction ($mil).
TOTAL CASH	Cash and Marketable Securities: Cash and the temporary investment vehicles for cash, including commercial paper and short-term government securities, as of the date of the most current financial information prior to the announcement of the transaction ($mil).
TOTAL LIABILITIES	Total Liabilities: All debt and obligations owed to creditors, including all current and long-term liabilities, as of the date of the most current financial information prior to the announcement of the transaction ($mil). TLIA equals total assets minus shareholders equity minus minority interest