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The European M&A Industry:

A Market in the Process of Construction

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ABSTRACT

In 2007 for the first time in recent history, the volume of M&As by European companies surpassed that by their US counterparts. This paper provides a comprehensive overview of the trends and drivers of this surge in recent M&A activity in the European Union. It reviews the key impact that the European Commission is having in fostering a level playing field for takeover activity and the key characteristics of M&A deals in Europe. Despite evidence of a significant progress towards the development of a homogeneous market for M&As, important differences still hold among European countries both in the rules in place and in the patterns that M&A activity takes. The analysis suggests that this dissimilarity is not exclusively linked to the existence of a harmonized market but rather arises from unique institutional characteristics ingrained in the corporate structure of companies that differ among European countries.

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INTRODUCTION

Worldwide M&A activity rose during the beginning of this century to reach an all time record of $4,367 billions in 2007. Within this flow of takeovers, there have been underlying forces that imply an important change in the M&A industry. Most striking has been the growth in M&As beyond the US and UK markets. In 2007, for the first time, M&A activity in the US, the dominant market for corporate takeovers, was surpassed by M&As involving European targets. This increase added to the surge of M&A transactions in Asian and emerging markets. Additionally, the number and volume of cross-border M&As increased worldwide. The share of cross-border M&As doubled from 20 percent of all deals in 2000 to 40 percent in 2007. About 80 percent of this M&A activity was concentrated in the European Union (EU) and the US (Capaldo, Dobbs, & Suonio, 2008).

This increase in cross-border M&As and in the relative weight of European markets raises the importance of a deep understanding of the key determinants for a successful transaction to take place in these markets. The European business environment has been undergoing a long process of economic integration, driven by the European Commission's efforts to foster standardization and increase transparency in the development of a single market for M&As. It is widely believed that the introduction of the euro, increased market integration, coupled with industry dynamics such as technological innovation, deregulation and privatization, have spurred European companies to take part in M&As during this last decade.

This paper provides an understanding of the effects that the harmonization of the European regulation has had on M&A activity and of the main characteristics of M&As in Europe. It analyzes the process that M&As go through by looking at a sample of 2,122 transactions announced in Europe in 2001-2007. The focus is on those deals that imply control transfer. This paper underscores the main features of corporate takeovers in Europe structuring them

along two parallel themes: (i) the increasing role of European Commission in fostering a level playing field for European takeover activity and in overseeing national industrial and competition authorities to construct a harmonized market; (ii) the key characteristics of M&As in Europe, with a special focus on the drivers for their success and on the effects of the institutional characteristics of different European countries. The paper also provides a rational link between both of these aspects - mainly how the main features observed in European M&As spawn from some of the economic and regulatory characteristics prevalent in the business structure of these countries.

Our analysis indicates that the recent regulatory actions undertaken by the European Commission led to an increase in harmonization within Europe in corporate practice and regulations, which results in a change in the pattern of European M&A activity in this decade. We provide evidence of an increased use of cash as payment method, probably due to the introduction of the single currency, of an increased importance of cross-border deals, of a process of industry consolidation, mostly within a trend to focus on core business, and of an increase of Private Equity activity from 2001 to 2007. In this period, the time of execution of M&As decreases. Cross-border and domestic deals take about the same amount of time to complete and have a similar likelihood of completion. In this period, while domestic deals still dominate by number, the average value of cross-border deals increases. These results suggest that the importance of foreign M&As is increasing and that the European Commission partially succeeded in creating an homogeneous market for takeovers.

Nevertheless, our analysis shows that despite this significant progress made in the European Union towards an integrated economic area, large dissimilarities remain in terms of regulatory approaches, ownership structures, and business practices that require a customized approach to effective management across European countries. These differences partially originate from a diffuse reluctance of European countries to homogenize and converge in the

legal requirements for M&As. Despite the drawing of a common set of rules for corporate takeovers across European countries, the implementation and enforcement of this new legislation have been subject to several nationalistic biases (European-Commission, 2007). National differences translate in a lack of convergence to a standardized legal framework within the European Union, which adds up to already existing cultural distinctions often hampering the execution and completion of takeovers in Europe.

These differences emerge especially between the United Kingdom and the rest of European countries, such as Germany, France or Italy. For example, in terms of acquisition techniques, public tender offers are more frequent in the UK than the rest of Europe, where deals often occur also through private negotiations. This dissimilarity arises not only from regulations, which establish the requirements for the launch of a public tender offer and/or the limits and size of such offers, but also from the structural characteristics of the business environment, such as the ownership and governance structure of corporations and the degree of bank dependence to finance corporate transactions. These different characteristics are ingrained in the European corporate structure and are not directly linked to the existence of a harmonized market. For example, German, Spanish, and Italian companies typically have a higher degree of ownership concentration than similar US or UK companies (Barca & Becht, 2001; La Porta, Lopez-de-Silanes, & Shleifer, 1999). This reflects not only in the acquisition techniques, but also in the friendliness of the bids, payment method, premia, role of Private Equity firms, and likelihood of completion and time of execution of announced bids. M&As in the UK are less likely to be friendly, more likely to be paid in cash and are executed faster than in the rest of Europe.

This European-wide study contributes to extant literature on M&A activity that has so far focused primarily on the M&A markets of the USA and the UK (see for example Cebenoyan et al. (1992), Harris and Ravenscraft (1991), Seth et al. (2000)) and only marginally on the

European M&A market (see for example Zollo & Meier (2008)). Our analysis underscores some distinct features of M&As in Europe. In general, European takeovers continue to be primarily domestic and friendly. Hostile deals are extremely rare, although their proportion increases in the later years. Competing bids are also rare. This prevalence of friendly, non-competing deals, often arranged through a private transaction, contrasts with the increasing role that hostile deals through public tender offers have in the US (Haspeslagh, 1991).

From a broader perspective, the results of this analysis provide new insights about the trends that the European market for M&As is likely to take. On the one hand, the European M&A market seems to be on a maturing path to looking more like other active markets for corporate control, such as the US. For example, we provide evidence of an increased use of cash as payment method, an increase in cross-border activity, a process of industry consolidation, and an increased importance of financial investors. The recent changes in economic and regulatory factors in Europe have led to these shifts in both quantity and quality of European M&A deals. The evidence provided suggests that M&A activity will continue to increase in Europe as companies learn about the rules in place and the predictability of the decisions made by both national and European wide competition authorities. On the other hand, our analysis documents that, even with increasing economic and regulatory convergence, because of the effect of the concentrated ownership of European companies, the markets for corporate control in Europe will maintain some unique characteristics, distinct from North America and Asia.

The rest of the paper is structured as follows. The next section provides an overview of the institutional context for M&A activity in Europe. The second section presents the evidence on M&A activity from a sample of transactions involving publicly traded target firms for the period 2001-2007. The discussion is developed in two sections, focusing first of the evolution

of M&A activity after 2001 and then on the idiosyncrasies of European deals. The final section provides some conclusions and suggestions for future research.

THE INSTITUTIONAL CONTEXT FOR M&As IN EUROPE

Little research has so far analyzed the quality of the economic and regulatory environment within a country in the context of M&A activity (e.g. Rossi & Volpin (2004), Bjorvatn (2004), Calori et al. (1994) and Lubatkin et al. (1998)). The legal and regulatory environment are particularly important in Europe, where allegedly progress towards a European cross-border M&A market is still hindered by the existence of different national systems of takeover regulation and by the retention of costly structural and technical barriers to takeovers. Other frictions spawn from the legal, normative, and political differences in the framing of economic activity that are still present in Europe.

Managers and policy makers in EU believe that the creation of an integrated economic space within Europe depends on changing and homogenizing EU legislation (European-Commission, 2005, 2007). However, this process has proven painfully slow. In 1985 the European Commission drafted a first proposal for a Takeover Directive[1] to create favorable conditions for the emergence of a European market for corporate control. Key provisions in this harmonization process included: efficient takeover mechanisms, a common regulatory framework and strengthening of shareholders rights, including minority shareholders (European-Commission, 2007). The Directive was finally approved in 2003 after several rounds of negotiation, but it made all of the provisions that may be controversial[2] merely optional for member states, allowing them to maintain in their national legislation existing

[1] A directive is a legislative act of the European Union which requires member states to achieve a particular result without dictating the means of achieving that result. Directives normally leave member states with a certain amount of leeway as to the exact rules to be adopted.

[2] Such as a new mandatory bid rule, prohibition against defensive measures initiated by the management board, and board neutrality, breakthrough, reciprocity, and squeeze-outs rules.

practices (see the Annex for a summary of the most controversial provisions, their current treatment, and the rules in place in 2006). As a consequence, the implementation of these rules by the national authorities in their legislation has followed strong nationalistic biases[3].

Beyond this lack of convergence to a standardized legal framework within the European Union, there are also important differences in the degree to which corporations are actually converging in their use of these takeover defense practices. An example is the applicability of the proportionality principle of "one share, one vote" that regulates the relationship between ownership and voting rights within corporations. No EU-15 country has opted for a full blown application of the proportionality principle and firms often limit the ability of certain investors to exercise political rights. However, although shareholder agreements, voting right ceilings, supermajority provisions, cross-share holdings, and pyramid structures are still prevalent in most EU countries[4], their use has been decreasing and the range of policies in place has been converging across countries (Institutional-Shareholders-Services, 2007).

Although these formal differences in legal standards are one of the main shortcomings of the European Directive on takeover bids, they are not the only ones. The directive imposes a strange asymmetry. Its guidelines are restricted to bidders from the EU and do not necessarily apply to outside-EU bidders for the same European target company (McCahery, Renneboog, Ritter, & Haller, 2003). This asymmetry may result in awkward situations if the same target faces competing bids from an EU and a non-EU based firm. Even worse, a regulatory arbitrage may arise by choosing instrumental corporations incorporated outside the EU.

Another factor contributing to increase the harmonization of the M&A market in Europe is the evaluation of the competition and antitrust implications of corporate takeovers. The

[3] Most EU countries have not transferred the provisions that implied a liberalization of their national markets to foreign bidders (European-Commission, 2007). In contrast, all countries have plans to implement a squeeze-out threshold for minority shareholders and the reciprocity rule, allowing their home companies to use it to build defenses against potential foreign bids.

[4] Differences also exist in other takeover regulations, such as "poison pills", assets sale and issue of new equity with voting rights in response to an unwelcome bid.

Commission has become more and more active over time on this front with a final saying in all M&As that have a Community, i.e. supranational, dimension[5]. However, national competition authorities still play an important role. Differences in regulatory functioning of these entities add to the lack of predictability and consistency in the decisions made by these agencies and become major sources of concern in large M&A transactions.

Professional advisors in the M&A process also highlight issues about the predictability of the implementation of these regulations by countries as an additional important difference. Intense debate exists on the ways that the same provisions would be implemented in the UK, where shareholders rights are paramount, and in the rest of Europe, e.g. in France or Germany, where corporate governance is dominated by stakeholders. The lack of experience by national authorities in evaluating complex transactions, the independence of the regulatory agencies, and the degree of explicit or implicit government involvement are clear barriers to a homogenous implementation of rules across countries.

Finally, a number of other regulatory approvals beyond takeover rules and competition concerns may arise in M&As. They have to comply with local or national regulations that determine issues as diverse as employment levels, restructuring plans, capital structure, ownership structure, leverage, or environmental concerns. Regulated industries or industries perceived to be of special national interest - in particular power and water supply, telecoms, broadcasting, railways, energy, finance, basic transportation, defense, and some other areas perceived to be strategic – are often subject to additional regulatory approval. In these industries the state reserves to itself sufficient powers to monitor impact in pricing and quality standards, and/or to require minimum levels of capital investment and leverage.

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[5] The number of merger cases notified to the Commission in 2007 reached an all-time high of 402, a rise of more than 12% compared to 2006. In total the Commission adopted 396 final Decisions in 2007 (European-Commission, 2008).

Most interesting are regulations that discriminate among transactions depending on the national ownership of the companies involved. The basic argument is that of 'national security', mainly applied in the defense field, energy, and agriculture or food related concerns. Within the EU there is the widespread perception that things vital and sensitive to the national interest cannot be exposed to the free play of international capital and the possibility of foreign ownership, and are therefore in need of protection from foreign ownership. In particular, a number of regulations, such as golden shares, limits to foreign ownership, exist in member countries that discriminate between foreign and domestic ownership in specific industries. The European Commission has been long struggling with national authorities to decrease the number and importance of these regulations.

ANALYSIS OF THE M&A PROCESS IN EUROPE

This paper examines the evolution of mergers and acquisitions in Europe between 2001 and 2007 by looking at a broad sample of transactions of publicly traded companies. We select transactions for which both the target and the acquirer company are based in the EU-15 area (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and United Kingdom). The sample includes only transactions from publicly traded and private acquirers bidding for publicly traded companies, where there was a change in control of the acquired firm. It is difficult to determine a unique parameter to identify transactions involving a change in control. Although effective control depends not only on the percentage of ownership sought or actually acquired but also on other parameters such as the degree of concentration in the remaining ownership, board structure, regulatory regime and management structure of the

acquired company, the most commonly used parameter to identify a control change is the acquisition of a certain percentage of the target company's ownership stake.

We define a 20 percent ownership as the threshold for having a controlling stake in a corporation (Faccio & Lang, 2002). We drop from the sample those transactions in which the ownership of the target company controlled by the acquirer was still below 20 percent after the transaction. We also drop transactions where the acquirer already had control over the target firm prior to the announcement, such as internal reorganization, buybacks, exchanges, and acquisitions of remaining interests. For this reason, we exclude from the sample those transactions in which the acquirer already held 50 percent of the shares of the target prior to the announcement, as this does not represent a change in control of the target company (for more details, see Data Appendix).

Filtering for these specificities, our final sample includes 2,122 announced transactions on public EU-15 companies, for a total deal value of $1,834.8 billions. Out of these announced deals, 1,340 transactions were finally completed, for a total value of $1,205.2 billions[6]. In this sample, the top 100 completed deals accounted for $982.9 billions in value, 82 percent of the overall value of completed deals. The data come from Thomson One Banker's M&A module.

Our interest is on the evolution of transactions among the EU large economies accounting for most of the observed transactions. Drawing from previous studies (e.g. Kogut (2002), Martynova & Renneboog (2006; 2008), and Campa & Hernando (2006)), we analyze each and every one of the European countries, focusing on the country specific details for the most active markets in M&A activity: Benelux & Denmark, France, Germany, Italy, Spain, and the United Kingdom. The remaining European countries account for only 18 percent of the total number of completed deals.

[6] Bids from EU-15 companies represent 84 percent of the overall number of announced deals on European targets, while bids from other markets account for the remaining 16 percent, with 9 percent originating from North America, 4 percent from European countries outside EU-15, and the rest from Asia, Russia, Central and South America, and the Middle-East

Evolution of the M&A industry after the creation of a homogeneous market

We revised the patters and characteristics of domestic and cross-border deals, the time of execution and likelihood of completion of announced bids, and the industry trends in M&As, to understand the pattern of M&A activity in Europe and specifically whether the creation of a homogeneous market for M&As facilitates the execution and completion of bids and eases cross-border takeovers within Europe.

Geographic focus

We first analyzed the characteristics and patterns of domestic and cross-border M&As, to understand not only to what extent the creation of a new legal and economic context facilitates M&A activity but also whether or not it eases overcoming national differences in cross-border takeovers. Figure 1 illustrates the evolution of the average value of completed deals and the likelihood of completion of announced bids by cross-border and domestic deals in 2001-2007. Table 1 reports the proportion of completed deals and of completed domestic and cross-border M&As by target nation and year of announcement. These data show that there has been a shift in the geographic focus of takeovers in Europe across time. This change is due first to the increased importance of cross-border deals and second to a shift in the relative weight of countries where M&A activity takes place. Most transactions still occur among domestic firms (81 percent on average, over the observation period), i.e. firms from the same country, while only 19 percent of M&As are cross-border. However, EU companies are engaging in larger cross-border deals. The average value of cross-border deals increases from $523 million in 2001 to $2,529 million in 2007. Over the observation period, the likelihood of completion of cross-border deals appears similar to that of domestic deals.

In general cross-border deals represent important decisions for organizations. They can be disruptive, producing unexpected entries by buyers, cross-cultural dislocations, high purchase prices, and changes in strategic assumptions about a local market (Ghoshal & Bartlett, 1990;

Kogut, 1991; Lubatkin et al., 1998; Zaheer, 1995). Cross-border deals in EU-15 are typically motivated by a range of factors different from domestic deals, such as growth by market expansion (either by the expansion of technology and brands across borders or by the establishment of larger market shares), acquisition of special resources, and the benefits of international diversification. Several factors can explain the increase in volume and likelihood of completion of cross-border deals. First, as industry consolidation reduces the number of viable M&A opportunities at home, buyers start engaging in larger cross-border transactions. This implies that when measured in value terms, the weight of domestic M&A decreases. This increase in the value of cross-border transactions may derive from the fact that cross-border deals within the European Community have some advantages with respect to cross-border deals outside Europe. Bidders within Europe rely on a single currency[7], which diminishes the risks of foreign currency volatility, and also operate in a single integrated market and legislative framework (Campa & Hernando, 2008; Campa & Hernando, 2006; McCahery et al., 2003). Overall, this reduces entry barriers, easing the exploitation of economies of scale and the transfer of intellectual capital and technology, and fosters the growth of cross-border deals.

Second, there is a significant change in the relative weight of the European countries' M&A cross-border activity. In the 1990s British, German, and French firms were the most active acquirers (jointly accounting for 70 percent of the total amount spent on cross-border European M&As) and the most frequent targets of cross-border acquisitions (about 60 percent of the overall value of cross-border M&As) (Martynova & Renneboog, 2006). In 2001-2007, British, German, and French acquirers continue to account for a large share (67 percent) of the value of completed deals, together with Italy and Benelux & Denmark, which also become very important investors.

[7] With the exception of the UK, Denmark, and Sweden, which retained their original currencies.

As shown in Table 1, as target, the UK also experiences a proportion of cross-border deals higher than the European average. One explanation for the greater proportion of cross-border M&As in the UK is that cross-border deals are more common in countries with higher investor protection, such as common law countries (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998; Rossi & Volpin, 2004). British firms have a more decentralized financial decision-making process (Gates & Egelhoff, 1986), better accounting standards, stronger shareholders protection (Rossi & Volpin, 2004), and operate in a more active and competitive market (Smith & Walter, 1990) than companies in the rest of EU-15 countries. The firm's ownership structure is more dispersed in the UK (Faccio & Lang, 2002), where only 2.4 percent of the traded firms are estimated to have a majority shareholder (Barca & Becht, 2001), while it is very concentrated in countries such as Germany, France, and Italy, where often one or two shareholders have effective control over the management of the firm (Barca & Becht, 2001). Overall, these characteristics of the UK explain why British firms are more active in M&As (Franks, Mayer, & Renneboog, 2001) and why they are more attractive to foreign bidders.

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Time to completion

We calculated the time to completion of announced M&As to understand whether the economic and regulatory changes in Europe post-2001 have eased the execution of M&A bids and specifically of cross-border deals. Table 2 reports the percentage of deals completed on

the announcement day and the number of days from the announcement date to the completion date for deals completed after the announcement day. On average 59 percent of announced M&A deals get completed. The majority of completed deals are effective after the day of announcement (66 percent)[8], while only 34 percent of completed transactions are effective upon announcement.

Overall, complex deals take longer to complete than smaller deals. This reflects both on the proportion of complex deals completed on the announcement date and on the days to completion for deals completed after the announcement date. Completion upon announcement happens mainly in smaller deals, which are also completed more quickly than larger deals. The average size of deals completed on announcement is $130 million, a tenth of the size of the remaining deals. Completion on announcement is also much more likely in open market purchases and in private deals than in public offers. Only 3 percent of the top 100 deals are effective on the announcement date.

After announcement, complex deals, i.e. large deals and public tender offers, take longest to complete. Larger deals can take up to an average of 161 days to complete, considerably more that the average for the whole sample of deals (109 days). Specifically, larger deals involving domestic firms in regulated industries are the deals that take longest to complete. This is mainly due to the fact that domestic deals tend to involve industry concentration and are more likely to be subject to regulatory approval by competition authorities and other specific regulatory agencies (especially in financial, energy and telecoms). Share deals are slower to complete, on average in 134 days, 34 days more than cash deals.

As shown in Figure 1, the time of execution of cross-border deals decreases towards the end of the observation period. This may be due to several changes over this period. First, on average, the time of execution of deals decreases in these years. This evidence, jointly with

[8] Most transactions are effective after announcement in the UK (79%), Italy (71%), and Benelux & Denmark (67%). Germany is the only country with a majority of deals effective on the same date of the announcement (60%).

the fact that over the observation period the likelihood of completion of cross-border deals is similar to that of domestic deals, suggests that companies are learning to engage in cross-border M&As.

Nevertheless, differences among countries also exist. The UK is the "quickest" country, with only 95 days from announcement to completion. In contrast in other European countries like Germany, Italy, and Spain completion takes longer. Complex deals and deals in countries with weak investor protection and accounting standards still take long to complete. A possible explanation is that the time of execution depends on country legislations, which can hamper or ease the execution of M&As. These results also suggest that the European Commission at least partially succeeded in evening out differences between domestic and foreign targets, creating a homogeneous market for takeovers.

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Industry analysis

The integration of the national economies and the deregulation of a large number of economic sectors have allegedly decreased the cost of making corporate acquisitions and transactions across European borders. In Europe, many cross-border M&As made in the 1990s were between firms from the same or related industries. This trend continues after 2001, when M&A deals predominantly occur within the same industry, with a higher proportion for larger cross-border deals than before. This confirms that the international business expansion was one of the goals inciting firms to participate in European cross-border M&As in the 1990s (Martynova & Renneboog, 2006). The restructuring needs in the major national industries – together with processes like deregulation and privatization - have led to cross-border consolidations in, amongst others, the financial sector and utilities, allowing

former state-owned companies to acquire firms abroad and to have foreign investors participate in their equity capital (Martynova & Renneboog, 2006).

Figure 2 shows the trend of announced M&As in EU-15 in the four industries that in 2001-2007 host the majority of M&A deals: energy and power, financial services, high-technology, and industrials. In terms of number of completed deals, industrials has on average the highest number of announced bids, followed by deals in financial services and high-technology. More recent large transactions take place in the power and energy industry, in real estate, in materials, and in industrials. Although there are great differences in number and value of deals per industry across the sample, the fact that most of the European deals (both horizontal and vertical ones) involve firms in related industries consolidates the trend to focus on core business. In other words, despite the emphasis on industry consolidation and the restructuring in the major national industries coupled with deregulation and privatization in the European Union, in 2001-2007 still about half of the transactions take place within the same industry.

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Preponderance of Private Equity Investors (PE)

M&A activity is fostered by the presence of Private Equity firms (Gaughan, 2007). In this respect, the US market is more mature and developed than the European market and in the last 20 years it accounted for the majority of Private Equity funds raised. However, European private equity funds and venture capital firms (PE) increase their size and in the five years from 2001 to 2005 account for 55 percent of the global total value of PE investments (Thomson One Banker analysis, 2008). In Europe, the number of deals involving PEs in 2001-2007 slightly increases, with a peak in value of M&A in 2006 and 2007. The UK – followed by France - is the country where the large majority of deals with PE, both by value

and by number of deals, take place. This rise in M&A activity in Europe can be explained by the increase of PEs. The boom of European M&A activity in the last decade was fuelled by capital rich private equity firms and hedge funds (Gaughan, 2007)[9].

Idiosyncrasies of the European M&A market

The analysis of European M&A activity shows that takeovers within EU-15 countries still have specific characteristics, different from M&As in the US and Asia. These differences mainly arise in their attitude, acquisition techniques, payment methods, and premia.

Deal attitude and competing bids

Table 3 reports the deal attitude and competing bids for completed deals. One important feature of M&As in Europe is their attitude. Most completed deals in Europe in 2001-2007 are either friendly or neutral (97 percent). The presence of hostile deals in European M&A transactions is very low (1 percent), although it increases slightly in recent transactions. In contrast, the ten-year average of hostile takeovers worldwide is about 3 percent, with a peak of 12 percent of total deal volume in 2007 (Capaldo *et al.*, 2008). Hostile bids in Europe tend to be slightly more likely in larger deals (3 percent of the top 100 deals by value) and much less likely to be successful (only 52 percent of announced hostile deals are actually completed, versus 64 percent of announced friendly deals).

The low proportion of hostile deals is a direct consequence of the concentrated ownership structure prevalent in most European companies, such as German, Spanish, and French companies. Firms traded in these countries tend to have a concentrated ownership structure. This concentration determines that control transfers in many cases rely upon the decision of one or two shareholders that exercise effective control over the target. Ownership

[9] However in the second half of 2007 and until the first quarter of 2008, the value of M&A transactions participated by PE starts to decline (HSBC, 2008). PE activity, representing 34% of the total M&A value at the beginning of 2007, falls to 29% at the beginning of 2008, and its value falls by three-quarters from $230bn at the end of 2007 to $55bn at the beginning of 2008 (HSBC, 2008).

concentration facilitates friendly transfers of control and not hostile deals (Shleifer & Vishny, 1986). Consistently, hostile deals are more common in countries with better shareholder protection, such as the UK (Rossi & Volpin, 2004).

Linked to the absence of hostile bids is the lack of competing bids in Europe. Competing bids are not only rare (3 percent of announced transactions receive competing bids) but also much less likely to succeed than non-competing bids. The likelihood of completion of a deal facing a competing bid is only 43 percent, a third lower than for transactions without a competing bid (64 percent).

Different factors can explain the lack of competing bids in Europe. The single most important one is the lack of hostile transactions. Competing bids are typically present in hostile deals, where arbitrageurs are the significant decision makers (Bruner, 2004). Additional factors include the large presence of domestic transactions that result in consolidation in the industry, the relatively smaller role performed by financial investors (such as private equity and restructuring funds), and the predominance of financial and industrial conglomerates in most European countries.

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Acquisition techniques

The first four columns of Table 4 report the percentage of deals completed over the total of announced bids by acquisition technique and target country. On average, M&As in Europe are mostly public tender offers (36 percent by number and 72 percent by value of all completed deals) which are also most frequent in large value transactions. The second most common acquisition technique is private deals (27 percent by number and 15 percent by value), while divestitures, open market purchases, unsolicited deals, and white squires /

knights represent only a minority of the completed deals, both in terms of number and total value of transactions.

In general, the preferred method to acquire control of a company depends on transaction specific aspects, such as the existing ownership structure of the firm, the liquidity of the shares of the target firm, as well as the specific takeover regulations of the country of the target. In Europe, the use of alternative acquisition techniques varies by country. This is probably a reflection of the ownership structure of publicly traded firms, which varies substantially among European countries, and of still existing country differences in corporate takeover regulations that establish the requirements for the launching of a public tender offer and/or the limits and size of such offers.

This is particularly evident in the different proportion of public tender offers in the UK and in the rest of Europe. For example, in France deals are typically negotiated privately or via public tender offers (28 percent each, for a value respectively of 80 and 4 percent of the value of all completed deals). In contrast, in the UK the number of public tender offers (46 percent) almost doubles the number of private deals (25 percent) and represents 86 percent of the value of all completed deals (versus 12 percent of private deals).

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Insert Table 4 about here

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Payment method

Table 4 shows in its last three columns the percentage of deals completed by payment method and target country. It highlights another important feature of European M&As, which are predominantly cash deals (30 percent of completed deals). With a pattern similar to that in the US, we find a significant difference in terms of attitude of the deal. European hostile deals are mostly cash deals. This reflects on the aggressiveness of hostile deals while

removing any contingency about the assessment of the value of the bid. These results differ from the literature, which predicts that cash deals are typically not hostile bids and receive few competing offers (Fishman, 1989). Nevertheless in Europe the preponderance of cash deals among non hostile bids is also high.

Although we find no major differences between the UK and the rest of Europe in the volume of deals paid in cash only or shares only, the number of cash-only deals in the UK is higher than in the rest of Europe (33 percent). These results differ from the findings of previous literature, which reports that stock-only deals are more common in the UK, while all-cash bids are more common in the rest of Europe (Faccio & Masulis, 2005; Rossi & Volpin, 2004). This discrepancy may be linked to the fact that we observe a trend in which the proportional value of cash-only transactions increases from 2001 to 2007 (with a peak in 2006, when cash deals represent 43 percent of the total value of completed deals). We also observe that cash-only deals are more likely to be completed than other forms of payments[10]. This suggests that cash becomes more frequently used in large deals at the end of the observation period.

Cash is usually preferred to stocks by sellers in M&As in periods of easy financing conditions and in smaller acquisitions. Previous research suggests that stock deals are related to negative value creation while cash purchasers have zero or positive cumulative abnormal returns (Campa & Hernando, 2008). The sources of these returns are not only from tax savings due to debt and depreciation shields. Gains also accrue significantly from efficiencies and greater operational improvements implemented after the buyout by the new managers who tend to have a significant portion of their net worth committed to the success of the transaction (Healy, Palepu, & Ruback, 1997; You, Caves, Smith, & Henry, 1986). In fact,

[10] On average 19% of cash-only deals are completed, versus 8% of shares-only deals, and 3% of shares and cash deals.

returns to buyer firm shareholders are positively related to share ownership by managers and employees.

In Europe, larger deals tend to be paid in shares or a hybrid of shares and cash. This is consistent with previous evidence, showing that deal value is more likely to increase when stock market valuations are at historically high values. The share of megadeals - those with a value of more than $10 billion - contributes 30 percent of 2007 overall volume, considerably higher that the ten-year average of about 20 percent. A bidder is more likely to pay a high price for a target firm during peaks of takeover activity, because bids become more aggressive and are more likely to trigger opposition from the target (Martynova & Renneboog, 2006).

Jointly these results suggest that M&As in Europe are characterized by a tension between cash and stock. On the one hand, stock deals are associated with lower returns. Furthermore companies observe the greater likelihood of success and the higher returns of cash deals and therefore become more prone to launch cash-only bids. On the other hand, the average deal size and stock market valuations have increased in the last decade. This may have led to an increase in deals paid totally or partially in shares.

Premia

Table 5 reports the average one-day and four-week premia of completed M&As in EU-15. Premia appear to be linked to the characteristics of the deal and of the companies involved rather than to the target country. In Europe the average one-day premium (i.e. the difference between the offer price and the target price the day prior to announcement) for completed transactions is 18 percent. This premium is very different from the 24 percent average premium relative to the target price four-weeks prior to announcement. This difference suggests that there are opportunities for arbitrage through leveraged bids or option trading.

These opportunities seem to be equally distributed across industries, despite the recent process of deregulation of some national industries in EU-15. There are no substantial

differences in average premia across industries. However, diversifying M&As tend to yield lower premia [17 (22)] than intra-industry deals [18 (24)]. In other words, investors in deals not originating from the restructuring of national industries and leading to industry concentration (Martynova & Renneboog, 2006) receive greater premia than investors engaging in inter-industry activity.

Table 5 also shows a slight negative correlation between the premium size and the value of the transaction. With the exception of very few individual mega-deals that show a very high premium, average premium is smaller for larger transactions, decreasing to about 10 percent. The lower premium for large deals suggests that the deal is already anticipated in the stock price of the company.

Premium size also differs substantially by acquisition technique. Private deals are less likely to provide large premia than other acquisition techniques. Private deals yield average one-day (four-week) premia slightly above 10 (8) percent, while public tender offers show premia 50 percent higher, and open market purchases show premia three times as high as private deals. One possible explanation is that the great majority of private deals in Europe are friendly or neutral, which typically yield lower takeover premia (Grossman & Hart, 1980).

While the above mentioned difference between one-day and four-week premia hold in almost all European countries, consistently with previous literature (Nenova, 2003), we find that Scandinavian/Nordic countries yield on average the lowest premia (Belgium, Luxemburg, Denmark, Sweden, the Netherlands, and Finland according to the GLOBE classification based on country cultural differences (Hofstede, 1980; House, Javidan, Hanges, & Dorfman, 2002)). M&As in Europe yield premia on average slightly lower than those the literature reports for M&As in the US, where takeovers premia fluctuate in the 20 to 30 percent range (Haspeslagh, 1991; Jensen & Ruback, 1983). As higher premia tend to accrue in countries with better shareholder protection, e.g. the US (Rossi & Volpin, 2004), the lower average premia in

Europe may result from the higher likelihood of arranging friendly deals that allows bidders to pay a lower takeover premium in friendly takeovers (Grossman & Hart, 1980).

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Insert Table 5 about here

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CONCLUSIONS

This European-wide study contributes to extant literature on M&A activity that has so far focused primarily on the M&A markets of the USA and the UK, contributing to our understanding of the change process undergone by the European business environment and of the key characteristics of takeovers in the EU. While in Europe M&A activity in the late 1980s and 1990s was characterized by an increase in intra-European consolidations driven mostly by domestic transactions to build large national firms, in 2001-2007 it features an increased importance of cross-border deals, despite the fact that most takeovers continue to take place within national borders. This paper proposes several factors to explain this change in proportion of domestic and cross-border deals, mainly: industry consolidation, the introduction of a single currency, the deepening of a single integrated market, and a more homogeneous regulatory framework arising from the European Union.

Our analysis suggests that, despite this homogenization process, differences in M&A activity hold across European countries. Countries have implemented the European Takeover Directive that was supposed to provide a liberalization of the corporate takeover market in Europe in a seemingly protectionist manner, so that the presence of takeover defenses and substantial regulatory discretion remains. By evaluating the impact of the introduction of the single currency and of a wide range of regulatory rules on the pattern, speed and form in which M&A activity takes place, this European-wide study specifically identifies that the UK market for corporate control differs in many aspects from the M&A markets of the rest of

Europe. However, we argue that this dissimilarity derives from unique characteristics ingrained in the corporate structure of companies that differs between the UK and the rest of Europe – and not from a supposed failure in the creation of a harmonized, homogeneous market for M&As in Europe. The less concentrated ownership structure, the stronger investor protection, and the more developed capital markets of the UK (Barca & Becht, 2001; Faccio & Lang, 2002) lead to a higher proportion of hostile deals, competing bids, deals involving PE firms, cash-only bids and public tender offers than in the rest of Europe. These characteristics also reflect in a higher proportion of cross-border deals, while domestic, private deals are more frequent in the large European countries like Germany, Italy, and Spain. Deals taking place in the UK are also the "quicker" to complete. Nevertheless, these differences are not driven by discrimination against foreign companies. Cross-border and domestic deals take a similar period to complete after controlling for other factors.

These results also indicate possible future trends of the European market for M&As. On the one hand, even with increasing economic and regulatory convergence, European countries will maintain some unique characteristics in the market for corporate control, distinct from North America and Asia. The concentrated ownership that characterizes European companies affects M&As attitude, acquisition techniques, payment methods, and premia. European transactions are mostly domestic, paid in cash or a mix of payment methods, yield premia on average slightly lower than M&As in the US (Haspeslagh, 1991; Jensen & Ruback, 1983), and are often arranged through private deals. On the other hand, the shift in the prevalence of payment methods, in the importance of cross-border deals, and in the role of financial investors suggests a progress towards the development of a homogenous, harmonized market for M&As. This progress is likely to be accompanied by an ongoing role of European Commission in fostering a level playing field for European takeover activity and in overseeing national industrial and competition authorities to construct a harmonized market.

Overall, these results suggest that to understand M&As in Europe we may need to move beyond the extant frameworks and theoretical models, which are valid for US M&As but may not work in the analysis of European deals. Drawing on our analysis, future research can further explore the European market for M&As and its idiosyncrasies. Literature has underscored the importance of various institutional factors (Peng, Sun, Pinkham, & Chen, 2009), specifically in the treatment of M&As (Kogut et al., 2002; Walker, Madsen, & Carini, 2002). However little research has focused on the quality of the legal, regulatory, and economic environment within a country to study M&As (e.g. Rossi & Volpin (2004) Calori et al. (1994) and Lubatkin et al. (1998)). Future research could examine the effect of the development of a homogeneous legal, regulatory, and economic framework on M&A deals.

In the specific setting of European transactions, future research could analyze the M&A activity before and after the introduction of the euro as a single currency, industry deregulation, and the development of a common regulation for acquisitions. The analysis of M&A deals pre- and post- these changes would shed light on the effects of the transition to a more homogeneous regulatory and economic context. More broadly, it could also provide new explanations about the global economic downturn of the first decade of the 21st century and about the role of the US economy versus other geographic regions, such as Europe (Davis, 2009). This research could also focus on the speed at which the European M&A market is transitioning towards the model of other more active markets for corporate control, such as the US. In this respect, it could also analyze the broader economic and social implications of this change.

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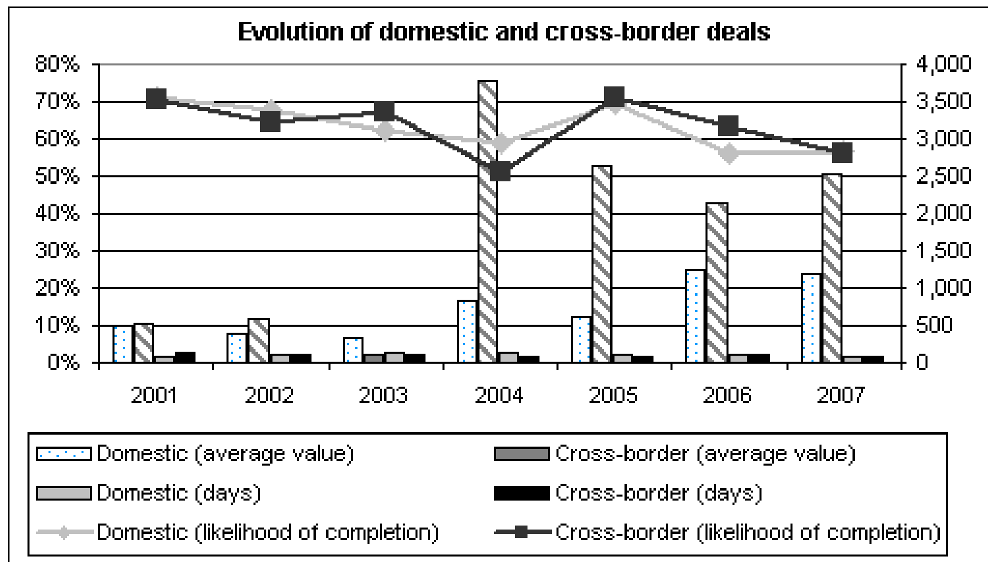
FIGURES AND TABLES

Figure 1:

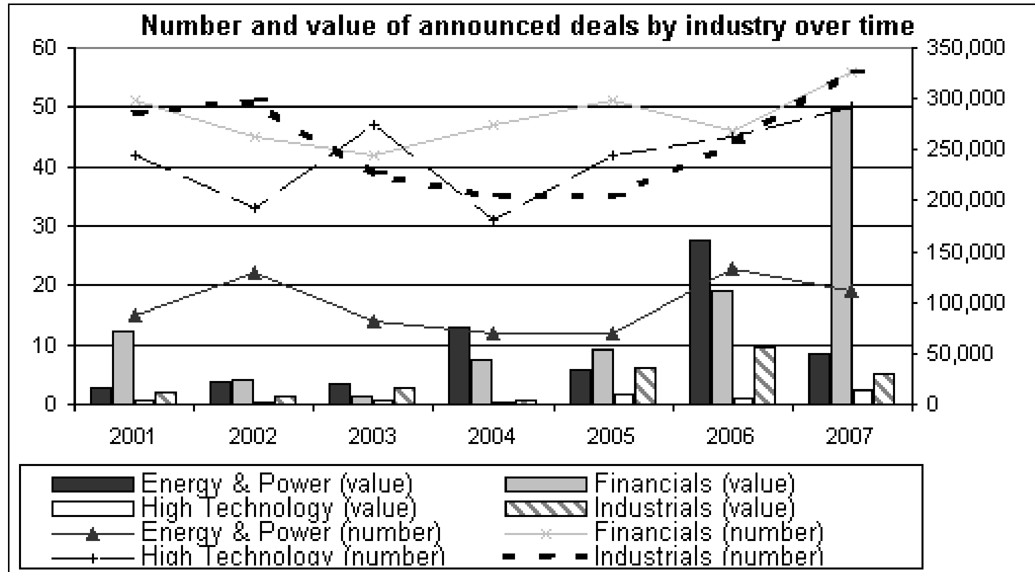
Likelihood of completion of announced bids (left axis, lines), number of days from announcement date to completion date for deals completed after the announcement date (right axes, columns) and average value of completed deals (right axes, columns, mil. dollars), by cross-border and domestic in EU-15 (2001-2007).



Source: Own calculations, see Data Appendix for description of original source.

Figure 2:

Total number (left axis, lines) and value (right axis, columns, mil. dollars) of announced bids by target industries (Energy & Power, High Technology, Financials, and Industrials; other industries, e.g. media, are not reported for visual clarity) in EU-15 (2001-2007).



Source: Own calculations, see Data Appendix for description of original source (Thomson Financial industrial classification).

Table 1:

By value, proportion of completed domestic and cross-border M&As in EU-15 (2001-2007) segmented by target nation, domestic and cross-border deals, and by year of announcement.

Year announ.	Benelux		France		Germany		Italy		Spain		United Kingdom		Rest of Europe	
	Domes.	Cross-border	Domes.	Cross-border	Domes.	Cross-border	Domes.	Cross-border	Domes.	Cross-border	Domes.	Cross-border	Domes.	Cross-border
2001	80%	20%	93%	7%	98%	2%	100%	0%	19%	81%	66%	34%	61%	39%
2002	68%	32%	94%	6%	83%	17%	92%	8%	100%	0%	68%	32%	17%	83%
2003	92%	8%	91%	9%	87%	13%	99%	1%	100%	0%	100%	0%	47%	53%
2004	100%	0%	98%	2%	55%	45%	92%	8%	100%	0%	8%	92%	87%	13%
2005	87%	13%	60%	40%	30%	70%	100%	0%	52%	48%	37%	63%	49%	51%
2006	100%	0%	82%	18%	82%	18%	84%	16%	83%	17%	27%	73%	72%	28%
2007	77%	23%	91%	9%	70%	30%	94%	6%	10%	90%	61%	39%	26%	74%
Total average	84%	16%	86%	14%	72%	28%	90%	10%	49%	51%	37%	63%	52%	48%

Source: Own calculations, see Data Appendix for description of original source.

Table 2:

Percentage of deals completed on the announcement day and number of days from the announcement date to the completion date for deals completed after the announcement day, by payment method, deal size, acquisition technique, and target nation in EU-15 (2001-2007).

	Percentage of deals completed on announcement	N. of days for deals completed after announcement
Grand Total	34%	109
Deal size (,000$)		
up to 500	23%	93
500 to 1,000	10%	123
1,000 to 5,000	4%	136
5,000 to 10,000	0%	161
10,000+	0%	157
Acquisition technique		
Open Market Purchase	100%	n.a.
Private	49%	77
Public Tender Offer	11%	119
Payment method		
Cash only	18%	100
Hybrid	3%	107
Other	61%	125
Shares only	1%	134
Unknown	42%	87
Target nation		
Benelux & Denmark	33%	111
France	39%	98
Germany	60%	122
Italy	29%	127
Spain	32%	126
United Kingdom	21%	95
Rest of Europe	42%	128
Domestic	36%	109
Cross-border	37%	107

Source: Own calculations, see Data Appendix for description of original source.

Table 3:

Deal attitude (friendly or neutral, hostile, and unsolicited) and competing bids for completed deals in Europe-15 in 2001-2007. The table reports the number of completed deals and the likelihood of completion for the different deal attitudes, for deals that received a competing bid, and for deals that did not receive a competing bid.

	Number of completed deals			Likelihood of completion		
	Total	With competing bids	Without competing bids	Total	With competing bids	Without competing bids
Friendly or neutral	1,300	42	1,258	64%	45%	65%
Hostile	15	8	7	52%	67%	41%
Not Appl.	18	1	17	47%	33%	49%
Unsolic.	7	1	6	19%	9%	24%
Total	1,340	52	1,288	59%	64%	43%

Source: Own calculations, see Data Appendix for description of original source.

Table 4:

Percentage of deals completed over total announced bids by acquisition technique (open market purchase, private negotiation, or public tender offer, in columns 2 to 4; other less used acquisition techniques are not reported) and by payment method (cash only, shares only, cash and shares, and other, in columns 5 to 8; "unknown" payment method deals are not reported) over the total number and total value of completed deals by target country of EU-15 (2001-2007).

Target nation	Acquisition technique			Payment method			
	Open Market Purchase (2)	Private (3)	Public Tender Offer (4)	Cash only (5)	Shares only (6)	Cash and shares (7)	Other (8)
By number of deals							
Average	*4%*	*27%*	*36%*	*30%*	*11%*	*3%*	*32%*
Benemark	4%	38%	25%	32%	13%	5%	13%
France	14%	28%	28%	24%	7%	5%	7%
Germany	2%	23%	30%	23%	5%	2%	5%
Italy	0%	22%	28%	25%	15%	0%	15%
Spain	0%	38%	38%	42%	7%	1%	7%
United Kingdom	10%	25%	46%	33%	16%	10%	16%
Rest of Europe	2%	9%	13%	29%	17%	3%	17%
Domestic	*74%*	*79%*	*84%*	*58%*	*84%*	*88%*	*16%*
Cross-border	*26%*	*21%*	*16%*	*42%*	*16%*	*12%*	*84%*
By value of deals							
Average	*15%*	*15%*	*72%*	*33%*	*26%*	*19%*	*6%*
Benemark	36%	36%	52%	14%	23%	55%	6%
France	4%	4%	80%	14%	9%	57%	1%
Germany	18%	18%	72%	38%	21%	23%	0%
Italy	25%	25%	63%	15%	76%	0%	1%
Spain	29%	29%	62%	67%	5%	2%	0%
United Kingdom	12%	12%	86%	27%	14%	6%	51%
Rest of Europe	2%	10%	10%	34%	29%	23%	4%
Domestic	*19%*	*71%*	*61%*	*78%*	*92%*	*81%*	*81%*
Cross-border	*81%*	*29%*	*39%*	*22%*	*8%*	*19%*	*19%*

Source: Own calculations, see Data Appendix for description of original source.

Table 5:

Average one-day and four-week premia of completed M&As in EU-15 (2001-2007) by deal size, acquisition technique, target nation, and target industry. The grand total refers to the average premia for the whole sample of completed deals. All values are percentage.

Average premia	**1 day**	**4 weeks**
Grand Total	**18**	**24**
Across industry	17	22
Within industry	18	24
Deal size (,000$)		
up to 500	15	21
500 to 1,000	23	24
1,000 to 5,000	18	20
5,000 to 10,000	10	14
10,000+	25	47
Acquisition technique		
Open Market Purchase	31	39
Private	11	18
Public Tender Offer	17	23
Target nation		
Benelux & Denmark	15	27
France	22	33
Germany	38	35
Italy	14	17
Spain	9	14
United Kingdom	16	24
Rest of Europe	20	27
Domestic	16	20
Cross-border	24	34

Source: Own calculations, see Data Appendix for description of original source.

Data Appendix

We examine the evolution of M&As in Europe between 2001 and 2007. We select M&As announced from 1st January 2001 to 31st December 2007 from Thomson One Banker M&A module (Deal Analysis tool). For the announcement, we use Thomson's definition of date announced, as the date one or more parties involved in the deal makes the first public disclosure of common or unilateral intent to pursue the deal (no formal agreement required. The announcement can be a disclosure of discussions between parties, of a unilateral approach made by a potential bidder, or of a signed Memorandum of Understanding or other agreements).

We then select bids for which both the target company and the acquirer are based in the EU-15 area (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and United Kingdom). This gives us a sample of 56,230 European M&As. From this sample, we select only those bids originated by publicly traded and private acquirers bidding publicly traded companies (4,160 deals).

Our goal is to focus only on those deals that imply a change in control of the acquired firm. We use the acquisition of a significant ownership stake as a determinant of a change in control. We define a 20 percent ownership as the threshold for having a controlling stake in a corporation. This threshold derives from the equity method which requires companies to mention their participation in other organizations if it is above or equal to 20 percent. This mitigated form of consolidated statement reflects a significant influence over a controlled organization. We drop from the sample those deals in which the ownership of the target company after the transaction controlled by the acquirer was still below 20 percent. For percentage of shares acquired, we use Thomson's calculation of the number of common shares acquired in the deal divided by the total number of shares outstanding.

We also drop from the sample those transactions where the acquirer already had control over the target firm prior to the announcement, such as internal buybacks, exchanges, splitoffs, and bankruptcy acquisitions. For the same reason, we also drop from the sample those transactions in which the acquirer already held 50 percent of the shares of the target company prior to the announcement, as this does not represent a change in control of the target company. For the percentage of shares owned after transaction, we use Thomson's calculation of the number of common shares acquired in the transaction plus any shares previously owned by the acquirer divided by the total number of shares outstanding.

We also drop from the sample those transactions that were rumored.

Specifically, the sample includes: public tender offer (aggregate category including leveraged buyouts, Dutch auction tender offers, stock swaps, three way mergers, scheme of arrangements), open market purchases, mandatory offers, acquisitions with white knights or white squires, divestitures, unsolicited deals, and private deals.

The final sample includes a total of 2,122 announced deals, which account for a total deal value of $1,834.8 billions. Out of these announced deals, 1,340 transactions were finally completed, for a total value of $1,205.2 billions. Out of this sample, the top 100 completed deals account for $982.9 billions in value, 82 percent of the overall value of completed deals.

For each deal, we collect data for the announcement and effectiveness date, a history and synopsis of the deal process, information about the target and the acquirer company (e.g. name, nation, industry, SIC codes), information about the deal itself (e.g. percentage of shares owned before the deal, percentage of shares acquired, percentage of shares sought, value of transaction, attitude, one-day and four weeks premia, payment methods, and acquisition techniques), and information about competing bids. From this data, we calculate other information, e.g. number of days from announcement to completion, geographic (domestic versus cross-border) and industry (across versus within) focus of the deal.

We define a deal domestic if both the target and the bidder reside in the same nation, and cross-border if they reside in two different EU-15 nations.

Annex: Differences in M&A regulation in EU countries.

For selected EU countries, this table illustrates the transposition of key provisions from EU Directive and the availability of some Control Enhancing Mechanisms (CEMs) in relation to their availability under the law in the European countries, USA, Japan, and Australia. The availability of a CEM provided for in a country's legislation does not necessarily translate into the actual utilization of such CEM by companies. "No" means that the specified CEM is not available; "Unclear" means that it is not clear whether the specified CEM is available; "yes" means that the specified CEM is available, but no one of the companies examined introduced it; the percentage numbers indicate the frequency of occurrence of this CEM in relation to its availability under the law of each country. Data were collected and updated up to the end of 2006 (September to December).

	Provisions				Control Enhancing Mechanisms				
	Transposition of the Directive	**Board neutrality rule**	**Breakthrough rule**	**Reciprocity**	**Pyramid structure**	**Voting right ceilings**	**Super majority provisions**	**Cross-shares holdings**	**Shareholders agreements**
Belgium	no	no	no	yes	40%	0%	Yes	0%	25%
Denmark	yes	no	no	yes	0%	10%	Yes	0%	0%
France	yes	yes	no	Yes (only for board neutrality rule)	25%	20%	Uncl.	20%	15%
Germany	yes	no	no	yes	15%	5%	Yes	10%	0%
Italy	no	no	no	yes	45%	10%	Yes	5%	40%
Luxembourg	yes	no	no	yes	26%	Uncl.	Yes	0%	0%
Netherlands	no	no	no	yes	11%	0%	Yes	11%	5%
Spain	yes	yes	no	yes	20%	35%	Yes	0%	5%
UK	yes	yes	no	no	0%	10%	Yes	0%	5%
% Companies Subject to rule	100	75	1	47					
% Value Companies subject to rule		68	0	62					
USA					Yes	No	Yes	Yes	Yes
JP					Yes	Uncl.	Yes	Yes	Yes
AU					Yes	No	Yes	Yes	Yes

Source: Our own calculations and Commission of the EU from "Report on the implementation of the Directive on Takeover Bids" (2007) and from Institutional Shareholders Services' report from European Commission (2007).