NOTES

1 In a review of studies of merger returns, Michael Jensen and Richard Ruback, "The Market for Corporate Control: The Scientific Evidence," *Journal of Financial Economics* 11 (April 1983): 5–50, conclude that target shareholders earn positive returns from takeovers, but that acquiring shareholders only break even.

2 See Steven Kaplan, "Management Buyouts: Evidence on Taxes as a Source of Value," *Journal of Finance* 44 (1989): 611–632.

3 Krishna Palepu, "Predicting Takeover Targets: A Methodological and Empirical Analysis," *Journal of Accounting and Economics* 8 (March 1986): 3–36.

4 Chapter 2 discusses the pros and cons of corporate diversification and evidence on its implications for firm performance.

5 See Paul Healy, Krishna Palepu, and Richard Ruback, "Which Mergers Are Profitable – Strategic or Financial?," *Sloan Management Review* 38(4) (Summer 1997): 45–58. For empirical evidence on European target firms' cumulative stock returns around the takeover announcement, see Martina Martynova and Luc Renneboog, "Mergers and Acquisitions in Europe," Working Paper, Tilburg University, 2006. This study reports that 60 days after a hostile takeover announcement, European target firms' share prices have run up by, on average, 45 percent since 60 days prior to the announcement. In contrast, after friendly takeover announcements, share prices have run up by, on average, 10 percent. The average difference in price run-up of 35 percent can be interpreted as the average difference in (expected) takeover premiums.

6 See, for example, Martina Martynova and Luc Renneboog, op. cit.

7 See Stewart Myers and Nicholas Majluf, "Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not," *Journal of Financial Economics* (June 1984): 187–221.

8 For evidence see Nicholas Travlos, "Corporate Takeover Bids, Methods of Payments, and Bidding Firms' Stock Returns," *Journal of Finance* 42 (1987): 943–963.

9 See S. Datar, R. Frankel, and M. Wolfson, "Earnouts: The Effects of Adverse Selection and Agency Costs on Acquisition Techniques," *Journal of Law, Economics, and Organization* 17 (2001): 201–238.

10 See Mara Faccio and Ronald W. Masulis, "The Choice of Payment Method in European Mergers and Acquisitions," *Journal of Finance* 60 (2005): 1345–1388.

11 See Mara Faccio and Ronald W. Masulis, op. cit.

12 In several European countries, such as in Belgium, Denmark, and Germany, individual shareholders pay no or little taxes on the capital gains that they make from selling or exchanging their shares in a takeover, provided that they have held the shares for a defined period, typically being a period of one or two years. For these shareholders

the after-tax value of a takeover offer does not depend on whether they receive cash or shares as consideration.

13 See Rezaul Kabir, Dolph Cantrijn, and Andreas Jeunink, "Takeover Defenses, Ownership Structures, and Stock Returns in the Netherlands: An Empirical Analysis," *Strategic Management Journal* 18 (1997): 97–109.

14 Marc Goergen, Marina Martynova, and Luc Renneboog give a complete description of the most important rules in the EU Takeover Directive in their study "Corporate Governance Convergence: Evidence from Takeover Regulation Reforms in Europe," *Oxford Review of Economic Policy* 21 (2005): 243–268.

15 The Appraisal Foundation summarizes some of the best practices in purchase price allocations in "The Identification of Contributory Assets and Calculation of Economic Rents" (May 2010).

16 Purchase price allocation experts have debated on whether one should use the required return on net operating assets or the internal rate of return on the acquisition to measure the required return on intangible assets. Some experts prefer using the internal rate of return because of the complexities surrounding the estimation of required returns on net operating assets (see Chapter 8).

17 See Chapter 4 for a discussion of deferred taxes.