

SECTION 4  
PRACTITIONER'S CORNER

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THE PREMIUM PAID FOR M&A: THE NASDAQ CASE

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**Abstract**

Our study is focused on the premium paid for an acquisition of a target company, especially on the Nasdaq market. We find that the relative size of the companies, the strategy of international diversification and the mean of payment influence the premium. There is no effect of market timing on the premium paid and the ownership structure of the group of directors doesn't seem to be significant.

**Keywords:** corporate governance, ownership structure, premium paid

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**1. Introduction**

The companies evolving in the sectors of high technology play a considerable role in the current economic development. For example, we can see the spectacular evolution of index NASDAQ, being raised of more than 200% between 1998 to 2000. During the last decade, such companies were placed massively on the stock market throughout the world (Ginglinger, 2001). The NASDAQ accommodated these companies in the United States. The European stock exchange authorities, as for them, created new compartments of market allowing this multitude young companies to enter the stock exchange market, and this in particular in a preoccupation with a transparency and easier access to the capital market (for example, the New Market in France, Neuer Market in Germany or Nuovo Mercato in Italy). Parallel to the introductions, many companies evolving in sectors of high technology were implied in operations of mergers and acquisitions during this same period (Kohers and Kohers, 2000), in a concern

of reaching a critical size. It should be known that mergers and acquisitions are the roots of multiples studies since a lot of years. It is however since the Sixties that they are the object of thorough research. The principal object of this research was to collect the effect of the creation of value in the short run initially, and more recently in the long run. In substance, the principal conclusion of these two types of studies (in the short and long term) is that the shareholders of the target companies are the winners and that the combined companies create, in the facts, little value. Insofar as the launching of such operations requires a complex work of evaluation of the profits anticipated by the purchaser, we seek to check if the amplitude of the premium paid depends on the strategy pursued by the purchaser. This study, which is focused primarily on the premium paid by the purchasers, seems to us original for the two following reasons. On the one hand, work in finance relating to acquisitions of companies is interested mainly in the reaction of the market to the advertisement of these operations, like with financial

performances in the long run (Datta and Al, 1992; Mitchell and Stafford, 2000). In other words, the researchers primarily were concerned with the incidence of these acquisitions on the value of the target and acquiror companies. The point of view of the leaders of the acquiror companies, which determine the amount of the premium to pay the shareholders of the target, to encourage them to yield their actions, did not make, to date, the object of thorough studies. In addition, this study is focused on the companies evolving in sectors of high technology, which prove very specific compared to the companies evolving in more traditional branches of industry, and for which the evaluation of the profits resulting from acquisition significantly appear more complex to evaluate. This work is registered thus, at least partially, in the current debate on the difficulties of evaluation of these companies, which gained in intensity since the bursting of bubble Internet in March 2000.

Our research thus will relate as well to the creation of value following mergers and acquisitions as on the amount of the premium which the directors will decide to pay to acquire a target company. We thus go further in the research of creation of value since we will try to understand if the premium influences the creation of value. The attitude of the leader compared to the choice of the premium to be paid is thus a key variable which was not yet treated to our knowledge. On this subject, a lot of variables can influence the directors in her choice to evaluate the amount of the premium. Our research thus will take into account a set of variables which will include:

- variables specific to the target company;
- variables specific to the acquiror company;
- variables which will be more specific to the transaction.

## 2. The framework

When a acquiror company wishes to take the control of a target company, it is necessary to pay a premium to encourage the shareholders of the target company to sell their shares.

If the leaders of the acquiror company manage their company in accordance with the interests of their shareholders, then we should note that this premium grows with the hoped profits. On the other hand, the paid premium is not a function of the profits anticipated by the acquiror company in the two following cases. Firstly, if there are conflicts of interests between the shareholders and the leaders of the acquiror company, then the paid premium can reflect the profits hoped by the leaders (evolution of their remuneration, if this one is related to the size of the company, etc), but it can be disconnected from

the value created for the shareholders. Secondly, if the consequences of the operation are particularly complex to evaluate, then the paid premium can also be disconnected from the hoped profits. Although the literature on merger and acquisition is abundant, very few work tried to check the existence of a positive relation between the premium paid and the profits anticipated by the leaders of the acquiror company. The empirical studies have tried to explain the short-term and long-term evolution of the value of the acquiror companies and targets. This work in particular made it possible to highlight which the value of the target companies increases with the advertisement of such operation, but the impact on the value of the acquiror companies is generally almost zero (Jensen and Ruback, 1983, Husson, 1990; Datta and Al, 1992; Pécherot, 2000, 2002). By admitting that the investors are confronted with an informational problem - they are less informed on the characteristics and the profitability of the projects of investment that the leaders of the acquiror company -, it is completely conceivable that the profits hoped by the investors translate only very imperfectly those hoped by the leaders. For this reason, the thorough study of the paid premium proves to be relevant. We focus our research on the variables which will influence the directors to undertake a merger and acquisition and, consequently, to pay a premium of acquisition that will allow the shareholders of the target company to sell their shares. The fact of being interested only on the Nasdaq will make it possible to characterize this market in term of merging companies. It is indeed easier for a company to repurchase another company situated on the same market because the rules are identical. Moreover, it should be known that the Nasdaq market allows the introduction out of purse of rather young companies and in growth and allows easier conditions of entry compared to the traditional market (for example the NYSE). It is thus relevant to focus our study on mergers and acquisitions "inter market" and especially in the case of Nasdaq which was the subject of a lot attention by the investors these last years.

Parallel to the premium paid, we also will study the creation of value following a merger and acquisition. Indeed, the premium of acquisition and the creation of value are connected by the following way: the more important creation of anticipated value are, the more the leaders will be ready to pay a more important premium to acquire the target. In our work, we will thus study, initially, the creation of value and, in the second time, the premium. The creation of value was very largely studied since many years and the conclusions of this research are rather unanimous on the subject: the shareholders of the target are the winners of this strategies merger and acquisition and the shareholders of the acquiror companies gain only very little value. Thanks to the

study on the creation of value, we will be able to analyze the market of Nasdaq and compare it with other markets.

As we higher presented in the introduction, we focus our study on the point of view of the directors of the acquiror company which will decide to undertake a strategy of merger and acquisition. In our study, we will differentiate fusions and acquisitions which took place in the same sector of those which take place in different sectors (sectoral diversification). In the same state of mind, we will also study the geographical strategy of diversification, i.e. the fact of buying a company which is in a different country. Indeed, according to the periods and the environment of the market, the effects of a strategy of diversification, sectoral as well as geographical, can be different and by consequent interesting to study.

We will also approach an aspect of valorization of the market ("market timing") which seems relatively important to us since the literature seems to advance that the waves of mergers and acquisitions occur for periods of high valorization of the market. We will thus divide our sample into two periods: before and after the bursting of the speculative bubble of March 2000 on the market of Nasdaq. The fact of dividing our sample into two periods having different characteristics in term of valorization will enable us to analyze wich mergers and acquisitions can be influenced by a variable of valorization of the markets. These three variables are specific to the transaction. Like statement in the introduction, our study will taking into account three types of specific variables, namely the variables specific to the transaction, the variables specific to the acquiror company and to the target company. Characteristics of the transaction, like sectoral or geographical diversification, the valorization of the market, the method of payment, the offers simple versus multiple offers, the friendly offers versus aggressive offers will allow us to make tests of comparison in order to determine which types of transactions are most powerful. This kind of test was largely used in the past but the originality of the studies of difference in our study rests on the fact that w can differentiate the transactions within the same market. For example, we will be able to compare the rate of debt, the sales, and, in a more general way, the performance, to be able to show if there are possible correlations between the respective ratios.

The ownership structure is the last important variable in our work. We found interesting to integrate a variable of ownership structure of the directors of the acquiror company. Indeed, as they will determine the amount of the premium at the time of a merger, the fact of having a part of the capital of the company will influence the amount of

the premium. Indeed, we can think that since the interests of the directors are directly influenced, the premium should be less important. We position our reasoning in the optics of the agency theory.

Our objective is to show if the strategies developed by the leader, and in particular the strategies of diversification, help to explain the premiums of acquisitions. Several articles were interested in the motivations of acquisition. Among those, we find mainly three of them : synergies; the weakness of the directors of the target company; hubris (Roll, 1986).

According to that, we will try to show that the strategies of diversification (which generally destroy value and thus do not consolidate the synergy) are in general worse than the strategies of concentration of the activities. We bring more to our study by dividing at the same time sectoral diversification and geographical diversification. We also take into account a variable of ownership structure of the directors in order to be able to differentiate the strategies from diversification and concentration. Indeed, more the directors will be in shareholding of the company, less there will be problems of agency. That thus leads us to say that the premium should be lower.

The other variables (specific to the transaction, with the target and acquiror company) of controls will make it possible to give more explanation on the amount of the premium.

In a general way, we can say that two possibilities are offered to us to answer the choices of the directorsto launch an operation of merger and acquisition.

The leader makes a decision which is good for the shareholder. In this case, that result in an increase of the shareholder value.

The decision of the leader is not good and is thus not create value.

If the decision does not maximize the shareholder value , we can think that there is a cognitive skew on behalf of the leaders or whereas the leaders act in an opportunist way. The aspect of valorization of the market will enable us to understand if the premium and the creation of value are different according to whether the market is bull or bear (during a bull period, i.e. the price of the actions is higher). The literature shows us that the strategies of industrial merger are not advantageous to the shareholders of the acquiror company (at least with regard to the studies of short-term performance). We can thus wonder why the leaders still decide to undertake this kind of strategy whereas they are destroying of shareholder value.

Our empirical study relates to 388 companies situated in Nasdaq, having been the target of an acquisition between 1997 and 2003 by a company being itself on the Nasdaq market.

### 3. Characteristics of the NASDAQ

The market of Nasdaq is characterized by a market of growth companies. Indeed, the fact to give the possibility to young companies to enter on a stock exchange where the constraints are less than traditional markets such NYSE. These last years, this tendency was marked by the entry of companies of high technologies (Internet, biotechnology, etc...). This agitation around this new phenomenon made climb the index of security prices, and put the Nasdaq on incredibly high levels.

Since half of the Nineties, the market of Nasdaq did not stop to being appreciated. Indeed, from January 1998 to March 2000, the composite index of

Nasdaq climbed of 212%. However, this rise was brutally stopped in March 2000 because of the bursting of the bubble present on the markets of the new economy (falls of 68% from March 2000 to April 2002). The wave of mergers and acquisitions was nevertheless present on Nasdaq, with one relatively prosperous period until the beginning of the year 2000. We wondered whether the characteristics of mergers and acquisitions were different according to valorization from the market. For information the index of Nasdaq reached in March the 2000 5.048 points whereas it was only 1.114 point in 1997.



Figure 1. Evolution of the Nasdaq index

This unusual increase and this fall of the price of the technological shares carried out many academic and experts to describe this event like a speculative bubble of the share price (Thaler (1999); Shiller (2000); Ofek et Richardson (2002 et 2003); Ritter et Warr (2002); Ritter et Welch (2002); Abreu et Brunnermeier (2003); Brunnermeier et Nagel (2003); Ljungqvist et Wilhem (2003) et Stein (2004).

This label seems suitable if the term of bubble is interpreted as a description ex post of a raising of prices of the shares followed by a drastic fall (Kindleberger, 1978). However, a more current interpretation is that the price of the technological shares exceeds their fundamental values at the end of the Nineties.

## 4. Hypothesis

### 4.1. Variables

#### 4.1.1. The explained variable: the premium.

We retained two measurements of the premium of acquisition. First (PRIME4) compares the price paid by the purchaser with the price of the target four weeks before the date of advertisement. PRIME4 is calculated as follows:  $(\text{price paid} - \text{price of the target four weeks before the date of annonce}) / (\text{price of the target four weeks before the date of advertisement})$ . We also retained the second measurement (PRIME1), which is calculated with shorter interval.

The price of reference is the price of the share of the targets company one week before the date of advertisement. PRIME1 is equal to: (price paid - price of the target one week before the date of annonce)/(price of the target one week before the date of advertisement). The difference noted between two variables PRIME1 and PRIME4 highlights that the price of the actions of the target company increased between the fourth and the last week preceding the advertisement by acquisition. It is probable that this raising of prices of the actions is the result of rumours on the money market during weeks preceding acquisition

#### 4.1.2. Determinants of the premium

##### A. Strategy of diversification

The strategy of diversification (activities and/or international), supposed to have a negative effect on the premium paid because of less synergies and a less increase in capacity market the purchaser, is apprehended using two variables. DIVSECT makes it possible to appreciate the diversification of the activities of the purchaser. It acts of a dichotomic variable equal to 1 if the purchaser diversifies, i.e. if its code SIC differ from that of the target, and equal to zero in the contrary case. The second variable of diversification (DIVINT) makes it possible to take into account the international diversification of the purchasers. It's also a dichotomic variable, equal to 1 if the purchaser diversifies internationally, i.e. if the nationality of the target is different from that of the purchaser, and equal to zero in the contrary case.

**Table 1.** Distribution of the operations according to the strategy of the purchaser

	Total (388)
Internationalization	22
No Diversification	366
Internationalization of the activities	101
No diversification of the activities	287

##### B. The means of payment

Many work was focus on means of payment to explain the creation of value following acquisitions. The empirical results are the following: the market react more strongly when the companies are acquired with cash. On the other hand in the case of payment by, cumulated abnormal returns are negative for the acquiror companies and the companies target are less strong. From a theoretical point of view, these results are explained in particular by an information effect (Eckbo and Al, 1990). The companies which pay in cash, announce to the investors that the project is profitable. On the other hand, the payment by share does not convey positive information on the quality

of the project. If one is interested in the amount of the premium paid by the purchaser, and not in the reaction of the market, the incidence of the means of payment on the premium is ambiguous. On the one hand, the cash payment of the target share involves the payment (immediate) of a capital gains tax, which is not the case if the payment is carried out by shares. We can thus anticipate that the premium paid by the purchasers is higher for a cash payment. In addition, one can also advance that the share payment of the target makes it possible to carry out operations with "good deal", in particular when the titles of the purchaser are overestimated, as the highlight recent behavioral analysis of Shleifer and Vishny (2003). Thus, the purchasers can agree to pay a higher premium with share payment, to encourage the shareholders of the target to sell their shares. To check if the means of payment is related to the premium of acquisition, we distinguish three types of payment: the cash payment, the payment by exchange share and the mixed payment (simultaneously share and cash). Taking into account these results, we retain a dichotomic variable STOCK equalizes to 1, if the payment is carried out by share, is equal to zero in the contrary case.

##### C. The performance of the target

The profit hoped by a purchaser can also depend on the past performance of the target. Indeed, if these performance are not very powerful, the acquiror company has the possibility of carrying out various reorganizations, likely to generate "a strong" short-term profitability. Thus, we anticipate that the premium paid by the purchaser decrease with the preliminary performance of the target. This relation can be also explained by the fact that a purchaser is not encouraged to pay a very high premium for a very powerful company, because its marginal profit would be (relatively) weaker. We use a measurement of ratio of sale and EPS, to measure the performance of the target.

##### D. Market timing

The variable introduced into the analysis is called MARKET Timing. It acts of a dichotomic variable, equal to 1 if the market is bull, and equal to zero in the contrary case. For the period of study selected, we consider that it is possible to distinguish two periods. The first begins in March 1997 and finishes in March 2000. The second under period begins in March 2000, which corresponds to the date of bursting of Internet bubble, and stop in March 2003.

##### E. Ownership structure

In this part, we primarily will treat ownership structure of the directors of the acquiror company.

By ownership structure, we understand the percentage of share held by the group of leader took as a whole. The data on the ownership structure were obtained manually on the Internet site EDGAR (<http://www.sec.gov/edgar.html>) which takes all the SEC files (Securities and Exchange Commission). The ultimate goal of this part is to understand if the amount of the premium and the creation of value will be influenced by the ownership structure. We can think that if the directors has a significant part in the ownership of the company, they will make decisions in conformity with the shareholder value . By knowing that, we can wonder how will behave the

directors in a situation of merger and acquisition when they has a significant part of the ownership. According to the agency theory, there is a division between the interests of the shareholders and the leaders when the ownership structure of the leader in the company is small.

## 5. Results

### 5.1. Regression: variable specific to the transaction + variable specific to the purchaser and the target

#### Summary of the model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,423	,179	,088	70,863

a Predictors: (Constant), acquisitions multiples (=1 si multiple), market timing (=0 if after), SIC 2 (=1 si 2ch=), offre mult (=1 si 1offer), CrossB (=1 si same country), % ofCash, OWN\_DIR, Log size Rel(T/A)

#### ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	127393,9	13	9799,533	1,961	,030
	Residual	5844539,0	117	4996,060		
	Total	711932,1	130			

a Predictors: (Constant), acquisitions multiples (=1 si multiple), market timing (=0 si apres), SIC 2 (=1 si 2ch=), offre mult (=1 si 1offer), CrossB (=1 si same country), % ofCash, OWN\_DIR, Log size Rel(T/A); net sales/AT (target); debt/AT (target); net sales/AT (acq); debt/AT (acq); EPS (target); EPS (acq); premium.

b Dependent Variable: rang -1;+1

#### Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-59,962	72,470		-,827	,411
	offre mult (=1 si 1offer)	65,600	73,614	,097	,891	,376
	SIC 2 (=1 si 2ch=)	-24,102	20,360	-,145	-1,184	,240
	CrossB (=1 si same country)	53,273	26,534	,095	1,952	,056*
	% ofStock	82,190	26,656	-,330	-3,083	,003*
	market timing (=0 si apres)	-21,558	15,897	-,143	-1,356	,179
	acquisitions multiples (=1 si multiple)	-15,355	19,369	-,103	-,793	,431
	OWN_DIR	-,159	,490	-,037	-,324	,747
	Log size Rel(T/A)	-9,581	16,129	-,073	-2,178	,031*
	net sales/AT (target)	13,128	7,021	,130	1,870	,063*
	debt CT/AT (target)	-14,985	10,156	-,102	-1,475	,142
	net sales/AT (acq)	33,089	18,134	,122	1,825	,069*
	debt CT/AT (acq)	-3,891	28,056	-,009	-,139	,890*
	EPS (target)	6,138	2,765	,654	2,220	,034*
	EPS (acq)	15,335	165,317	,024	,093	,927
	Prime	-3,02E-02	,262	-,013	-,115	,909

a Dependent Variable: rank 0;+1

## 5.2. Interpretation of the results

In this regression, we added variables relating to the acquiror and the target: Net sales/Active Total of the target, EPS of the purchaser and the target, debt of the target, the ownership structure the purchaser and the premium paid by the purchaser. With regard to the variable of debt, we notice that the ratio of the target is characterized by a negative and statistically significant sign. The more the debt of the target is raised, the less there will be creation of value for the purchasers.

The debt of the target influences negatively the creation of value and makes it possible to consolidate our assumption. The higher the EPS of the target and the better creation of value will be. This relation is

also in conformity with our assumption, i.e. target companies with good performances will make it possible to create more value. On the other hand, of the companies with a high degree of EPS do not manage to undertake creative merger and acquisition.

The variable net sale/ total asset does not arise in a significant way as well for the target as the purchaser. We cannot thus establish any result. We obtain nevertheless a positive sign (statistically significant) which enables us to advance that the higher the net sales of the target are, the larger creation of value is. The two last variables which are tested, the ownership structure of the directors and the premium, do not arise significantly.

### Regression Summary of the model

Modèle	R	R-deux	R-deux ajusté	Erreur standard de l'estimation
1	,283(a)	,080	,043	42,42121

a Valeurs prédites : (constantes), offre mult (=1 si l'offre), market timing (=0 si apres), % of Cash, CrossB (=1 si same country), Net Sales/AT (acq), own dir, SIC 2 (=1 si 2ch=), size relative T/A, debt /AT (target), debt /AT (Acq), net sales/AT (target)

### ANOVA(b)

Modèle		Somme des carrés	ddl	Carré moyen	F	Signification
1	Régression	12856,465	11	1168,770	2,159	,059(a)
	Résidu	147563,838	82	1799,559		
	Total	160420,302	93			

a Valeurs prédites : (constantes), offre mult (=1 si l'offre), market timing (=0 si apres), % of Cash, CrossB (=1 si same country), Net Sales/AT (acq), own dir, SIC 2 (=1 si 2ch=), size relative T/A, debt tot/AT (target), debt CT/AT (Acq), net sales/AT (target)

b Variable dépendante : Premium 1 week prior to announcement date

### Coefficients(a)

Modèle		Coefficients non standardisés	Coefficients standardisés	t	Signification
	B	Std. Error	Beta		
(constante)	9,977	59,925		0,166	0,868
Net Sales/AT (acq)	-1,48	11,164	-0,019	-0,133	0,895
own dir	-0,022	0,26	-0,01	-0,086	0,932
size relative T/A	-7,45	13,287	-0,065	-2,077	-0,042
net sales/AT (target)	-4,855	10,994	-0,07	-0,442	0,66
SIC 2 (=1 si 2ch=)	9,951	11,533	0,1	0,863	0,391
CrossB (=1 si same country)	22,777	43,866	0,057	1,752	0,084
% of Cash	-14,206	15,732	-0,242	-1,952	0,053
market timing (=0 si apres)	10,334	9,209	0,125	1,122	0,265
offre mult (=1 si l'offre)	14,906	32,877	0,052	0,453	0,651

a Variable dépendante : Premium 1 week prior to, announcement date

### 5.3. Comments

First of all, the stability of the model is relatively good since the F stat is higher than 2. The significativity is equal to 0,059 and can be regarded as relatively correct.  $R^2$  is equal to 0,08 and adjusted  $R^2$  equal to 0,043. These figures represent the degree of explanation of the various variables for the premium of acquisition. This degree of explanation can be regarded as acceptable if we refers to others studies in finance. The variables of the regression are dissociated in three types of variables: variables relating to the transaction, variables relating to the target company and variables relating to the acquiror company.

#### ***Variables relating to the transaction***

For the five variables relating to the transaction, we notice that two of them are statistically significant: geographical strategy of diversification and method of payment. The fact of acquiring a company which is in a different country seems to have a positive effect (statistically significant) on the premium of acquisition. That results from an increase of the premium of acquisition when the purchaser buy a target company which is located in a different country. The strategy of diversification of the purchaser influences the premium positively, but this contrary result compared with our anticipations is not statistically significant. Thus, the companies which diversify internationally do not pay a weaker premium because of a less increase in market capacity or less synergies. Our assumption is thus not checked. In the case of payment by share, the premium is significantly higher, which does not enable us to confirm the idea according to which the leaders pay a weaker premium for tax reasons. In fact, it is possible that the leaders agree to pay a higher premium, (for share payment), because of the impact on the default risk of their company is relatively weaker and because these operations are "good deal", in particular when the companies are overestimated (Shleifer and Vishny, 2003). Besides this relation between the premium and the mode of payment, it makes possible to explain, at least partially, why the market reacts more negatively to the advertisement of acquisition financed by exchange of shares.

To check our predictions, and to highlight sectoral specificities discussed previously, we carry out a linear regression.

That leads us to conclude that the bond between the profits anticipated by the leaders of the acquiror companies and the premium paid to the shareholders of the target company seems to be important. The absence of a positive relation can result, either of the existence of conflicts of interests between the shareholders and the leaders of the acquiror

company, or real difficulties encountered by the leaders at the time of the evaluation of the target companies (cognitive problems). For reasons of access to governance data of the companies implied in these operations (characteristic of the structure, boards of directors of property of the companies, etc), it is unfortunately not possible for us to conclude on the reason from this absence of relation. The description of one long-term under-performance by Kohers and Kohers (2001) encourages us to advance that there are probably conflicts of interests between shareholders and leaders on the Nasdaq market (exchange their "overestimated" shares against target shares). In this case, acquisition is carried out "at a cheap rate", even if the premium is not directly related to the hoped profits of the operation. This approach makes it possible to explain, on the one hand, why a significant number of leaders prefers a payment by shares (71,6 % of the companies of our sample), in addition, why the leaders agree to pay a higher premium when they pay by shares. With regard to the valorization of the market, we do not observe any significant result. We can interpret this result as being surprising because the valorization of the market does not seem to have any influence on the amount of the premium of acquisition. That lead us to not support our assumption. However, we notice in our sample that the valorization of the stock exchange market is higher for the period "before crash" than for the period "after crash ". Moreover, it should be known that the number of the merger and acquisition is more important for the period characterized by the bull market.

Although, the shares are probably over valued, the premium does not seem not to be affected. That can be explained by the fact that the price of the share is higher and imply a higher amount of premium in term of liquidity. For the variable "simple offers versus multiple offers", i.e. if it there has several acquiror companies competing for the target company (and involves the price of the acquisition upwards), we realize that there is no significant effect. That carries out us to saying that there is not significant difference between the acquisition premium of the companies acquired by simple offer or multiple offer. According to this result, the number of competitor for the same target company does not seem to make increase acquisition premium of significantly. The hypothesis is not checked. The variable which relates to sectoral diversification does not arise significantly according to our results. It does not seem to have significant difference concerning sectoral diversification i.e. the premium does not vary significantly between the fact of acquiring a target company in the same sector than in a different sector. Our assumption is not checked.



#### 5.4. Variables relating to the target and acquiror companies

First of all, it should be announced that we have to remove from our regression the variables relative to the debt because they were correlated with the premium of acquisition. For these variables specific to the companies, we notice that the variable "size relative" is the only one which arises significantly. I.e. the more the size of the target compared to the size of the purchaser increases, the more the premium decreases. According to these significant results, we can say that the more the size of target increases, the more the premium of acquisition paid by the shareholders of the purchaser will decrease. However, the review of the literature did not enable us to pose assumption for the relative size because the conclusions of the former studies were not univocal. According to Kuehn (1975), a larger target company requires more effort in the merger of two companies and will create a financial constraint for the purchaser. The probability of having detectable effects on the return of the purchaser share is larger when the target company is larger relative to the acquiror company. The other variables relating to the performance of the acquiror companies and targets do not seem to have of significant effect on the premium of acquisition. In short, we can say that according to our results, the variables which influence the amount of the premium of acquisition are: relative size, means of payment, strategy of geographical diversification. The other variables of our model do not seem to have an influence on the premium of acquisition.

#### 6. Conclusion

The acquisition of company gave place to an abundant literature during 20 last years. The majority of work focuses itself on the reaction of the market to the advertisement of such operations. Very few studies tried to understand the amplitude of the premiums of acquisition paid by the managers. This question however seems to be relevant. If we replaces it in more general context of governance, it makes it possible to include/understand if the strategic choices of the leaders are in conformity with the interests of their shareholders. For this reason, our empirical study, which relates to 388 acquisitions of companies carried out between 1997 and 2003, implying target and acquiror companies traded on the NASDAQ, provides interesting information. Firstly, we note that the strategy of the purchaser does not influence the payment of the premium. This result leads us to think that the leaders, who are engaged in such operations, do not take systematically protect the interests of their shareholders. Taking into account the weak profits associated with the strategies of diversification,

(highlighted in the financial literature) it is extremely surprising to note that the companies who diversify pour a premium as high as that paid by the companies who do not diversify. This result can be explained by the opportunist behavior of the leaders, analyzed in particular with the agency theory (Jensen and Meckling, 1976). It is possible that the leaders have a preference for diversification, in particular because these strategies make it possible to smooth the results and flows of liquidities of the company. Consequently, it can reduce the risk and the job loss of the leaders (Amihud et Lev, 1981).

We obtain significant results for the strategy of international diversification. The premiums are weaker for acquisitions which are carried out in the same country. That is not in assumed by our anticipations according to which the premium should decrease when the operation of merger is carried out in the same country. However, these results are to be taken with precaution because the number of "international" acquisition is weak in our sample and does not allow us to conclude in strong results. Secondly, the fact that the leaders prefer to pay a lot of operations by shares announce that the leaders of the acquiror company have a "limited" confidence in the quality of their projects. Another solution can be found in the overestimated shares. Thorough work would be carried out, in particular in the way of the original modeling suggested by Shleifer and Vishny (2003) to explain the choice of the means of payment. The other variables do not seem to have significant effects on the premium of acquisition. Indeed, the performance variables and debt do not seem to have of significant effect on the premium of acquisition. In a surprising way, the valorization of the market does not have impact on the premium. But as we said, that can be explained by the fact that the shareprice was too high.

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