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Shareholder Wealth Effects of Cross-Border Acquisitions: Evidence from Italian Bidders

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Introduction

We live in a time of continuous changes for businesses. Markets worldwide have become more connected and dependent on each other. Companies have the chance of expanding their geographic reach but also face the risk that foreign enterprises increase competition in their local market. Disruptive technologies are accessible not only to large enterprises but also to medium firms or start-ups. Finally, the COVID-19 outbreak is reshaping the short- and long-term corporate strategies conceived before the pandemics. Given this environment, companies that fail in keeping the pace with these developments are doomed to failure due to the loss of their market presence and the destruction of stakeholder values.

Mergers and acquisitions (M&A) are the most common mean that companies employ to expand their activities, reacting or anticipating the evolution of the business environment. The term M&A broadly refers to any transaction that determines the consolidation of a company with another business. The rationale behind these deals is that one combined company can created more value than two separated firms. In the US, M&A were already trending 120 years ago, when few large companies acquired many smaller ones to gain the control on the core industries of the time. Since then, the M&A market and its drivers changed, but the phenomenon remained and spread worldwide. To give an idea of its reach, from 2011 to 2020 there were completed on average more than 46,500 deals every year, with an average annual aggregated value superior to US$ 3,300 billion.

Meanwhile, financial literature has been interested in M&A as well. Nowadays, there exists plenty of research focussed on understanding the determinants of consolidations and their effects on companies and stakeholders. Among the most recurrent studies, there are the works about the effects of an acquisition announcement on the wealth of the companies' shareholders. These analyses employ the so-called "event study" methodology. It assumes that stock prices reflect the discounted value of companies' future flows of profits so that the abnormal changes in the equity value of firms, observed around the date of announcement, can be considered as a measure of the additional profits that the deal is expected to generate. Moreover, acknowledging the typical effects of M&A also provides useful insights to investors and managers on the expected results of the operations.

The scope of the thesis is to provide a detailed description of the phenomenon of cross-border M&A, i.e., deals that involve the takeover of companies or assets based in different countries, and to study the wealth effect of the announcement of a cross-border acquisition on the shareholders of Italian bidding companies. Since the second half of the 1990s, cross-border M&A have become a core component of both the global and the Italian M&A market. In the last decade, inbound and

outbound cross-border M&A accounted for about a half of deals in terms of volume and about three-quarters in terms of value of the Italian M&A market.

I consider cross-border M&A more fascinating than domestic ones because they add a layer of complexity related to the country of the target. During the configuration of any deal, the acquirer must always consider several aspects such as economy, regulation, markets, competition, assets, people, technologies, and so on. While these elements are usually known at the domestic level, they are less understood at an international level. Therefore, they become topics to study in deep before preparing any strategy of international expansion.

On the one hand, the decision to focus on Italian acquirers comes from the fact that the local literature lacks recent research on this exact topic as studies are mainly focussed on specific industries or deals, or taken in consideration within the European stock markets. On the other hand, it is preferred to analyse bidder companies as financial literature agrees that target companies register abnormal returns after the announcement of their sale, while the result is more debated for the acquiring ones. Finally, the period chosen for the analysis consists in the last decade, starting from January 2010 and finishing before the Coronacrisis, in February 2020. It was decided to start from 2010 since, on that year, financial markets had recovered from most of the shocks caused by the Great Recession and, again, literature presents less studies focussed on the period that followed the crisis.

In order to provide a deep description of the M&A phenomenon and cross-border deals, the thesis comprises four chapters. The first chapter explores the world of M&A, the different type of acquisitions and the motives behind the deals. It is also explained how they are supposed to create value, and which are the most common methodologies applied to measure the value created. Finally, there are described the past and current trends of the M&A industry worldwide, as well as an overview of the evolution of the Italian M&A market and its current status.

The second chapter focusses on cross-border deals. It begins with a discussion on the different possibilities available for companies to internationalize their business and the principal theories regarding the internationalization process. Then, it illustrates the cross-border M&A activity worldwide, which are the specificities of these deals and the jurisdictional implications, and the main factors detected as drivers of international acquisitions. At the end of the chapter, there are considered the activities and the peculiarities of the Italian M&A market regarding cross-border transactions.

The third chapter is a review of the financial literature over three topics: the effect of M&A announcement on shareholders' wealth, the studies on cross-border deals, and the Italian literature on the country M&A market. This review discusses about the empirical findings over some of the topic covered in the first two chapters and provides the estimations of the effects of M&A on company performance and shareholders' wealth.

The fourth and last chapter, after a deep explanation of the event study methodology, presents the results of the empirical analysis on the effects of cross-border M&A on the stock prices of Italian acquirers. They initially refer to the overall sample, so without differentiation between domestic and cross-border deals, and then they are divided under these two categories. Then, cross-border acquisitions are furtherly split as deals targeting companies inside the European Union (ex-Italy) or outside of it, as it is found that results vary under these different circumstances. In the end, they are also split as acquisitions done in countries with a GDP higher or lower than US$ 500 billion. The results show that cross-border acquisitions have a significant positive effect on stock prices over a window of three days cantered around the announcement date. Domestic acquisitions are found to generate a positive effect as well, although the returns from cross-border acquisitions are higher. In addition, all the considered subsamples of cross-border deals show that the average announcement effect is positive. Although the results are limited from the reduced size of the samples, the largest returns are achieved at the announcement of acquisitions of targets based in the EU or in nations with a GDP lower than US$ 500 billion.

Chapter 1

Mergers and Acquisitions

1.1 M&A Overview

The term Mergers and Acquisitions (M&A) refers to any transaction that determines the consolidation of a company with another business. Even though they are often used together, there is a subtle difference among these two kinds of deal. A merger occurs when two or more companies agree to consolidate and form a new joint enterprise, with a common management usually composed by former employees from both firms. The owners of the two merging companies agree to dilute their individual powers for the prospective of achieving long-term advantages such as reducing costs or boosting profits. On the other hand, an acquisition takes place when there is a single company that acquires the assets, a subsidiary, or the equity shares of another firm to get its control. In this case, it is the acquiring company, also known as bidder, that decides the terms under which the acquired business, also known as target, will continue its operations after the conclusions of the transaction. Since the power is only on the bidder company, acquisitions are sometimes referred to as takeovers, carrying a more negative connotation than mergers. Moreover, while a merger must be mutual agreed, the decision of an acquisition is not required to be so: when the management of the target company do not agree with the acquisition, the deal is called hostile takeover[1].

During the life of a company, both these consolidations represent fundamental steps as they allow, for instance, to expand the market presence, to overcome existing challenges, and to gain a competitive edge over other firms. Nevertheless, issues like the large investment of capital that an acquisition requires or the challenges arising from a merger that creates an organization more complex to manage make every transaction different in terms risks and returns. Finally, companies must also consider the regulation surrounding M&A, which differs country by country. Most of these laws are usually drafted with the intend of avoiding that the elimination of the competition following an acquisition may cause a restriction on outputs and an increase of prices and are subject to antitrust approval.

In order to make clear the determinants of M&A and what are the main implications of these deals, the most common types of M&A, the rationale underlying these transactions and how they create value for companies are described in the following paragraphs. Finally, the last part of the chapter describes the past and recent trends of the M&A industry worldwide and in Italy, also in light of the shocks caused by the COVID-19 outbreak.

[1] Corporate Finance Institute, *Merger vs Acquisition*

1.2 Types and Goals of M&A

The most widespread classification for M&A consists of three different categories: horizontal, vertical, and conglomerate[2]. These categories carry their own characteristics and economic rationales, in particular:

- Horizontal mergers happen when the acquiring and the target company operate in the same industry, and their output is sold at the same stage of the production. These combinations usually aspire to increase the market power of the company and to improve profits by cutting redundant costs. As these deals usually happen between competitors, they are often scrutinized by antitrust organizations.
- Vertical mergers are consolidations between two companies operating in the same value chain, but at a different stage of the production. Therefore, before the transactions, the acquiring and the target company often present a buyer-seller relationship. These M&A aim either to integrate dependable source of supply, in terms of quantity, quality and delivery time, or to get closer to the final consumer.
- Conglomerate mergers occur when the business lines of the acquiring and the target are not related, and the acquirer is trying to diversify the markets where it operates.

Even though the various types of merger already denote a first difference that can be highlighted between deals, M&A are driven by further determinants: behind the choice of a target, there are strategic motives that are drafted well before the acquisition, and these motives are themselves crucial factors leading to the operation.

The most common motive is growth. When a company decides to expand its business, it faces the choice of trying to achieve this goal through an internal growth or an expansion through M&A. Both alternatives present their own uncertainties. Moreover, growth can be sought either within the company core business or outside of it. The latter is commonly referred to as diversification and represents another determinant for M&A. Focussing on expansions in the same industry, a company may conclude that pursuing internal growth is not feasible for its case. Especially for a short window of opportunity, internal development presents the issue that it is slower than doing an acquisition, and competitors may notice and anticipate this expansion. If it is the case, acquiring the required assets from other firms becomes the only possible choice, and the uncertainties related to the large investment are overshadowed by the advantages coming from the speed of the operation and the fact that the target business is already established. Indeed, there are multiples examples of growth opportunities that are difficulty feasible with internal growth. For instance, if a company manage to

[2] Gaughan P.A., *Mergers, acquisitions and corporate restructurings*, Fourth Edition, John Wiley & Sons, Inc., 2007

get an edge on competitors by selling new innovative products or running optimized processes, then it must exploit its lead quickly. This advantage can be noticed by larger companies with greater funds and become an opportunity for them. Conversely, M&A with growth motives are also common when a company lags behind its competitors and sees in a consolidation the only way to recover its market position.

Market expansion mergers represent another typical example of deal with growth motives. The geographic expansion can either be within the company's country of activity, such as to reach other regions, or across countries, to get an immediate access to a new market. Especially for international expansions, M&A are considered safer and quicker than internal growth. When the company decide to establish in new markets, it needs to be aware of all the cultural differences it presents, to adapt to legislative and bureaucratic dissimilarities, to recruit new personnel and circumvent other hurdles. To faces these challenges, M&A, strategic alliances and joint ventures usually represent the best alternative.

Diversification, i.e., the growth of a company outside its current industry, is another reason why M&A are completed. These deals were more common in the past: their popularity peaked in the 1960s, when companies completed numerous conglomerate mergers and acquisitions of assets outside their core business following the trend of the time. In the following decades, this trend disappeared and a process of disassembling conglomerations through spin-offs began. The empirical results of conglomerate M&A are debated: despite there were deals that caused more damages than improvements, there are still examples of conglomerations generating rewarding returns. In a study that examined 337 mergers between 1957 and 1975, it is shown that shareholders in conglomerate acquisitions, on both the bidder and the acquirer side, obtained higher returns than in non-conglomerate acquisitions[3]. However, this result is disputed as following studies found that horizontal and vertical acquisitions granted larger stock returns then conglomerate acquisitions[4], or failed to present evidence that diversified firms were valued more than single segment[5]. Also, the fact that the number of conglomerate mergers reduced over the decades suggests that M&A within the same industry are more appreciated by investors. Even though it is difficult to draw broad generalizations about diversification, it is still possible to extract some strategies that, in past deals, manage to more frequently provide advantages to companies acquiring targets operating outside their core business.

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[3] Elgers P. T., Clark J.J., *Merger Types and Shareholder Returns: Additional Evidence*, Financial Management, 1980, Vol. 9, No. 2, pp. 66–72

[4] Wansley J. W., Lane W. R., Yang H. C., *Abnormal Returns to Acquired Firms by Type of Acquisition and Method of Payment*, Financial Management, 1983, Vol. 12, No. 3, pp. 16–22

[5] Servaes H., *The Value of Diversification During the Conglomerate Merger Wave*, The Journal of Finance, 1996, Vol. 51, Issue 4, pp. 1201-1225

The first element is the dominance of the target in its industry: acquiring a firm holding a leading position in a certain business, interpreted as a top ranking by market shares, provides an influential position to the bidding company. A cheaper investment in a company holding smaller market shares would likely bring less returns since the advantages deriving from a dominant position would not manifest, while these resources could have been used to acquire companies dominating other markets. Another factor that drove acquisitions with diversification purposes is the entrance in markets more profitable than the current industry of the bidding firm. For instance, this could happen when the industry where the acquirer is already active has reached a mature stage. Such situation could push the major players of the industry toward less competitive and more profitable businesses. However, this strategy presents a serious issue: in the long run, also the new market is expected to saturate and, if the acquirer manages to break into this market, also other competitors could move in, pushing down returns of the new industry and causing the expansion strategy to fail.

Some acquisitions are driven by the belief that the management of the target company is not employing the assets of the firm optimally. Therefore, the executives of the acquiring firms push for a takeover in order to get control of these resource, even at the cost of paying them more than their current market price. This motive is commonly called "improved management" and it often arises when large companies acquire smaller firms at a growth stage: the belief is that the absence of experience in managing large companies may prevent an organic expansion of the small company and limit its long-term activities. However, it is difficult to determine when this motive is the predominant one behind an acquisition as it is more commonly a cofactor, complementary with other determinants.

Finally, a recurrent motive that is theorized to drive M&A is managerial hubris, from the ancient Greek term that described a personality quality of arrogance and overconfidence. The first one to propose this hypothesis was Roll[6]: CEOs push for acquiring other firms not only under strategic goals and to create value for their company, but also for their own personal interests. As for the improved management motive, the acquirer pays a premium for the target compared to the market price. However, in this case, this is done not because the assets of acquired firm are underperforming, but because mangers impose their own valuations over the one objectively determined by the market. Financial literature initially approached at the hubris hypothesis assuming that these takeovers caused the stock prices of the target company to rise, those of the bidder to fall, and the combination of the two to result in a net negative effect. While there is a widespread agreement that acquisitions of public companies lead to positive effects on the stock price of the target, the results on the bidders' stock

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[6] Roll R., *The Hubris Hypothesis of Corporate Takeovers*, Journal of Business, 1986, Vol. 59, No. 2, pp. 197-216

prices sometimes show significant negative returns[7], while other studies failed to find consistent declines of prices[8]. As a hubris parameter is difficult to extrapolate under this approach, later studies applied different methods whose results have seemed to support the hypothesis. For instance, it was found that, measuring hubris by variables such as the self-perceived importance of the CEO or the recent performance of the acquirer, the factor is positively correlated with the size of the premium paid[9]. Alternatively, hubris was measured as a variable of overconfidence of CEOs, where the overconfidence was measured either as overinvestment in the stock of their own companies and their statements in the media[10], or based on the number of acquisitions they completed in the past[11]. The results showed that overconfident CEOs are more likely to pursue acquisitions, and there is less time between their deals.

1.3 Value Creation

In addition to the strategic motives driving mergers and acquisitions, these deals are also expected to be effective methods for maximizing the wealth of the company's shareholders. Value creation is a fundamental aspect of M&A: in order to consider a deal successful, the management of the acquiring company must evaluate the capability of the transaction in increasing the value of its company while also maintaining it financially healthy. Failing in doing so may result in useless destructions of company value, loss of trust in the management and eventually financial distress. Before the crisis of 2008, financial literature found that M&A often failed to create value for the shareholders of the acquiring company as the returns related to the transaction were rewarding only for the investors of the target firm. These negative results were mainly recorded in acquisitions of public companies and mega deals, where agency problems and management hubris are more common[12][13]. However, more recent studies suggest that, after 2009, also the shareholders of the bidding company are now expected to obtain gains related to the acquisitions of large public

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[7] Dodd P., *Merger Proposals, Management Discretion and Stockholder Wealth*, Journal of Financial Economics, 1980, Vol. 8, No. 2, pp. 105-137

[8] Asquith P., *Merger Bids, Uncertainty and Stockholder Returns*, Journal of Financial Economics, 1983, Vol. 11, No. 1, pp. 51-83

[9] Hayward M. L. A., Hambrick D. C., *Explaining Premiums Paid for Large Acquisitions: Evidence of CEO Hubris*, Administrative Sciences Quarterly, 1997, Vol. 42, pp. 103-127

[10] Malmendier U., Tate G., *Who Makes Acquisitions? CEO Overconfidence and the Market's Reaction*, Journal of Financial Economics, 2008, Vol. 89, No. 1, pp. 20-43

[11] Billet M. T., Qian Y., *Are Overconfident CEOs Born or Made? Evidence of Self-Attribution Bias from Frequent Acquirers*, Management Science, 2008, Vol. 54, No. 6, pp. 1037-1051

[12] Damodaran A., *The Value of Synergy*, Stern School of Business, 2005

[13] Moeller S.B., Schlingemann F. P., Stulz R. M., *Wealth Destruction on a Massive Scale? A Study of Acquiring-Firm Returns in the Recent Merger Wave*, The Journal of Finance, 2005, Vol. 60, No. 2, pp. 757-782

companies. Auctors suggest that these results may derive from the improvements in the quality of corporate governance and due diligence following the crisis[14].

1.3.1 Synergies

When it is not possible to acquire assets or companies underpriced or underperforming, the alternative to create value through M&A is represented by the synergies obtained from the consolidation. The term synergy refers to the ability of a corporate combination to be more profitable than the individual parts of the firms that are combined. They are often associated with horizontal and vertical mergers. The presence of synergies in a deal should lead to a positive Net Acquisition Value (NAV) after accounting for the expenses for the acquisition and the premium paid to the investors of the target company[15]. Supposing a company A is buying B, synergies can be represented as follows:

$$NAV = [V_{AB} - (V_A + V_B)] - (P + E)$$

The term in the first bracket is called *synergistic effect* and represents the difference between the combined value of the two firms and the sum of their individual values. Then, the premium P paid for B and the expenses E of the acquisition process are subtracted from the synergistic effect to get the NAV. If the synergistic effect is lower than the sum of P and E, the target firm is considered overpaid.

The value of the expected synergies needs to be clearly defined before the combination process as it is insufficient to simply expect that they will emerge at the end of the operation. The process of identification and estimation should keep realistic beliefs for both the type and the magnitude of synergies achievable. There are three commonly considered types: cost, revenue, and capital synergies.

Cost synergies emerge when the acquisition either reduces the operations' cost base of the combined organization, or when it allows one of the two company to cut the cost base to a level which was not achievable before the combination. They are usually the most tangible creations of value from M&A and the easiest to estimate accurately. The lower costs are usually achieved through economies of scale and economies of scope. Indeed, the banking, the utility, and the industrial sectors tends to be the most common businesses where consolidations take place as they can exploit these advantages more easily. Even though it is more difficult to quantify, another cost synergy may derive from the increased buying power obtained from the consolidation and the consequent reduction on

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[14] Alexandridis G., Antypas N., Travlos, N. G., *Value Creation from M&As: New Evidence*, Journal of Corporate Finance, 2017, Vol. 45, Issue C, pp. 632-650

[15] Gaughan P.A., *Mergers, acquisitions and corporate restructurings*, Fourth Edition, John Wiley & Sons, Inc., 2007

supply costs. It is also important to consider that cost advantages sometimes disappear over the long run as processes keep on improving and competitors consolidate as well.

Revenue synergies are more difficult to create. Financial literature commonly considers their value as illusive and difficult to quantify. For instance, it is problematic to split them from the organic growth that the companies conducting the deal would have achieved without the combination. Unlike cost synergies, the revenue ones are mainly affected by external factors such as the response of customers and competitors to the completion of the transaction and to the new marketing and sales initiatives. Indeed, these synergies usually come from the pricing power acquired, the combination of functional strengths of the two companies and an enhanced growth coming from new commercial strategies or the entrance in new markets. Considering the last example, although large companies operating in a mature market are likely to benefit from moving into a new growing market through an acquisition, the process of properly evaluating the revenue synergy before the deal is tricky. So, the bidding company may still end up paying too much for the target, and this would fail in adding value to the wealth of its shareholders.

Capital synergies are the last way M&A can create value. As cost strategies, they are an internal factor, so they are relatively easy to quantify. On the one hand, they can be related to a lower cost of capital since a larger company is more likely to access to cheaper credit. Similarly, large company also present a better debt capacity, giving the company the ability to do leverage investments. On the other hand, also tax benefits are considered as capital synergies. In this case, the most common instruments for creating value are government incentives to M&A or a revised tax structures in the new organization.

1.3.2 Measuring Value Creation

There are two different approaches that financial literature applies to measure ex-post the value created by a consolidation. The first method is related to the operative performance of the company after the deal and refers only to accounting measures and ratios. The analysis evaluates the financial results of the company during the years after the completion of the deal and examine if there are significant improvements compared to the past or to a benchmark. Such measures are: ROI, ROA, net income, sales, margins, and others. The rational is that they are considered reliable measurements for the results obtained and that M&A always affect financial statements[16]. However, this approach presents several downsides. In the short term, financial synergies may not immediately realise, so financial statements could fail in identifying the value created by the deal. On the other hand, in the

[16] Ciobanu R., Caloian F., Brad L., Staicu A., *The Analysis of Companies' Accounting Performance Ratios from Mergers and Acquisition*¸ 2012

long term, it may be difficult to separate the takeover effect from the organic growth of the firm or other external events. Finally, this method does not measure directly the wealth created to investors.

The alternative approach is based on the market reaction to the announcement. The object of the study are the prices of the stock of the companies involved in the acquisition and their variations after that deal is announced. This is accomplished either by estimating the expected returns as variables dependent on market factors and then taking the difference with realized returns, or by comparing the performance of the stock of the company with its peers[17]. The rationale behind this methodology is that stock prices are supposed to reflect the discounted value of companies' future flows of profits. Therefore, the abnormal changes in the equity value of firms, observed around the date of announcement, can be considered as a measure of the additional profits that the deal is expected to generate. Differently from the first method, this one allows a straightforward separation between the M&A effect on the company value and other variables that, conversely, may affect the financial ratios considered with the first method. Nevertheless, this computation has its own drawbacks too. First, it must assume some degree of market efficiency. Second, the analysis could be skewed by large deals, which are more likely to affect share prices, while small ones could be underrepresented even though they account for the majority of M&A. Finally, the value created by multideal strategies, that usually emerges over a long term, may be underestimated by the market reaction[18].

1.4 M&A Industry Trends

1.4.1 Past Trends: Merger Waves

Researchers who study corporate mergers tends to agree that, in the last 120 years, M&A occurred in distinctive patterns. The periods characterized by a more intensive merger activity are referred to as merger waves. Even though there are commonly identified six merger waves, the US are the only country that experienced all of them[19]. On the other hand, European countries had their first merger wave only during the 1980s, when they started setting the basis for the construction of the Single Market[20]. At that time, the US were already experiencing their fourth merger wave. Finally, between the fifth and sixth merger waves, the M&A activity in the Asian countries increased as well.

The first wave (1897-1904) involved few industries, namely the dealers of petroleum products, metals, mining, and consumers products. It was characterized by the consolidation of the largest

[17] Martynova M., Renneboog L., *A century of corporate takeovers: What have we learned and where do we stand?*, Journal of Banking & Finance, 2008, Vol. 32, No. 10, pp. 2148-2177
[18] Rehm W., Uhlaner R., West A., *Taking a longer-term look at M&A value creation*, McKinsey, 2012
[19] Gaughan P.A., *Mergers, acquisitions and corporate restructurings*, Fourth Edition, John Wiley & Sons, Inc., 2007
[20] Vancea M., *Mergers and Acquisitions Waves from The European Union Perspective*, Annals of Faculty of Economics, University of Oradea, Faculty of Economics, 2013, vol. 1(2), pp. 272-283

companies active in these sectors through horizontal mergers and a consequent concentration of market shares in the hands of few companies. The most notably example is the Standard Oil Co., of John D. Rockefeller: in the year 1904, the company controlled 91% of oil production and 85% of final sales in the United States[21]. The wave ended when American courts started enforcing the Sherman Antitrust Act (1890) from 1904 and monopolies were dismantled.

The second wave (1916-1929) started in the middle of the World War I. The most common deals were vertical integrations, that aimed to scale the company capacity to compete against the giants resulted from the first wave and to optimize the operations in growing industries, such as the automotive one. This led to oligopolistic industries rather than the monopolies that emerged from the first wave. The high number of deals lasted until the beginning of the great depression and recovered only twenty years after the end of the World War II.

The third wave (1965-1969) was the peak of the economic growth that the US experienced in the 1960s. The wave was fuelled by two factors that incentivized mergers: the so called “P/E Game”, where company managed to do accretive acquisitions by paying through their overvalue shares, and the accounting regulation of those years, that allowed the generation of paper gains through the acquisition of companies with assets recorded below their market value. Moreover, since the laws became stricter on monopolies and oligopolies, the main transactions were conglomerate mergers. Companies like ITT and Litton Industries did not really present a main business where they were active in but conducted a large percentage of their operations in different sectors. The M&A activity slowed as the bull run of the stock market ended at the end of the decade.

The fourth wave (1984-1989) was experienced under the Reagan administration. The government brought a different economic approach based on the concept of *laissez-faire*, with a deregulated market and a reduced participation of the government in economic activities. Moreover, the trends of the third wave were reversed: most of the conglomerates were dismantled and companies started focussing only on their core business. The period was also characterized by the increased number of hostile takeovers, a larger use of leverage for acquisitions (LBOs) and a surge in the value of acquisitions. In the final years of the wave, also the volumes of the European M&A market spiked and started closing the gap with those of the US.

The fifth wave (1992-2001) followed the early 1990s recession. Both deal volumes and values increased over the decade. The number of hostile takeovers dropped, while companies engaged in strategic acquisition and focussed on long-term growth plans. As the world was becoming more global and Asian economies opened their country to foreign investments, cross-border acquisitions

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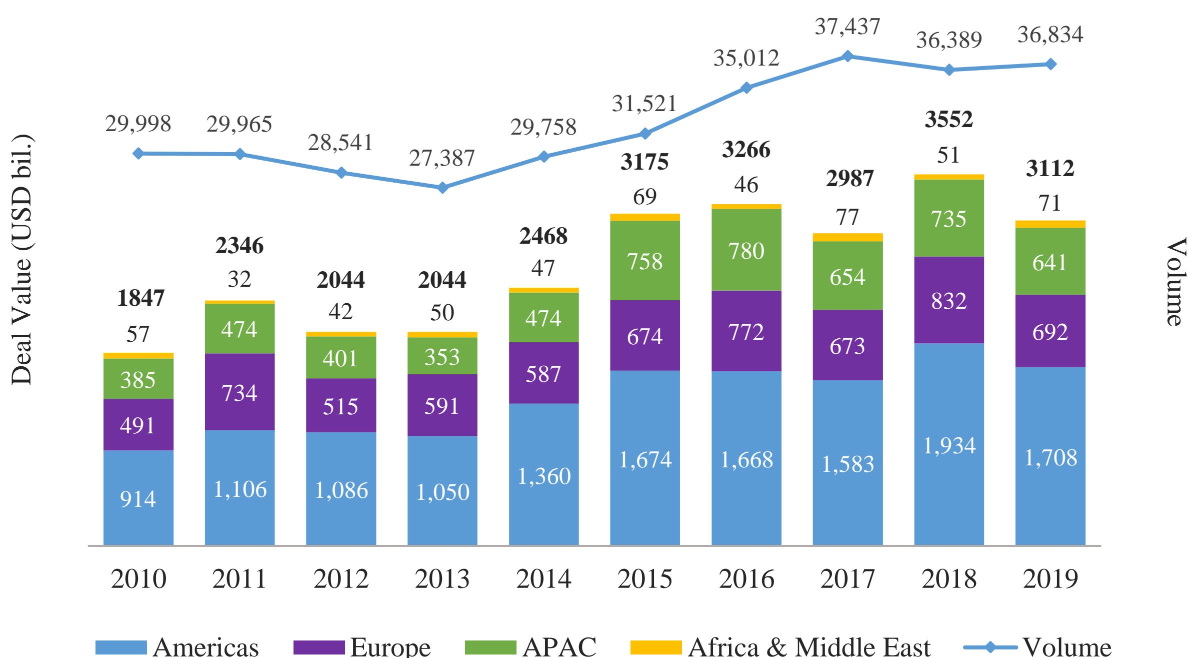
[21] Visual Capitalist, *The Evolution of Standard Oil*, 2017

dominated the wave in the US. The large value of deals was also pushed up by the continue of the deregulation process that was still ongoing in the US. This fuelled the consolidations of certain industries, mainly the financial sector and the communications and broadcasting industry. In the 1990s, the European M&A activity was still dominated by domestic acquisitions, although the total value almost reached the one achieved in North American and the European integration started supporting more deals across the different countries of the continent.

The sixth wave (2004-2007) is the last unanimously recognized merger wave. The economic framework was totally different from the past: following the dot-com bubble burst and the shock caused by the 9/11 terroristic attack, interest rates were extremely low, and they stayed so for many years. The cheap credit not only fed the mortgage market, and therefore all the firms active in real estate or financial businesses, but also increased the appetite for deals and new consolidations. Moreover, as the cost of debt was so low and the stock market kept on growing, private equity firm dominated the wave. They could easily rise the equity and debt capital required for their investments, and then they would simply wait that the market pushed up the value of the acquired assets at the point that they could sell them for a profit. The wave stopped as the subprime bubble burst and disrupted the US economy.

1.4.2 Global M&A Market

Chart 1.1: M&A Worldwide - Deals Value and Volume

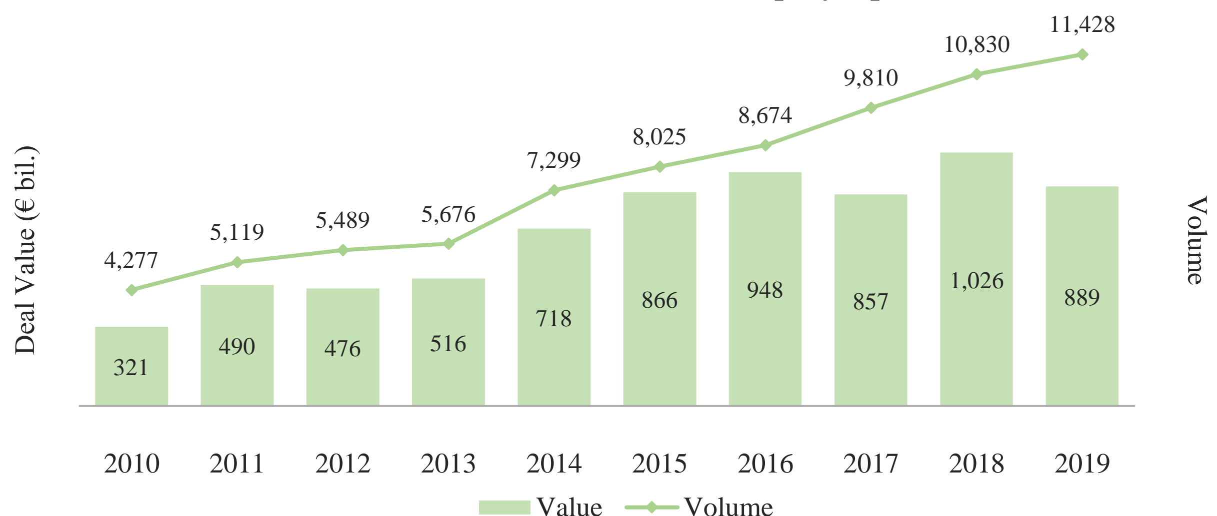


Source: KPMG Corporate Finance (data based on country of the target)

In the last decade, the volumes and the values of deals around the world slowly recovered from the plunge that followed the great recession. Since 2014, after the end of the European sovereign debt crisis and the surge of Chinese deals, the global M&A market achieved the same levels of the sixth wave. In terms of total transaction value, North America keeps on being the region dominating the ranking. In contrast, considering the number of deals completed, European activities closed the gap, and their volume is practically the same of the American one[22].

Indeed, despite the sixth wave faced a dramatic end, new drivers pushed up again the global M&A industry. The crisis of 2008 for the US and the one of 2011 for the EU were handled through innovative monetary policies that aimed to boost investments. Both the FED and the ECB not only dropped their rates at historical minimum, but also started asset purchase programs which decreased the cost of debt, supported the rally of stock markets, and increased business confidence. The M&A market was again characterized by divestitures from non-core businesses and acquisitions under strategies that pointed at growth and innovation. Companies used M&A or venture deals also to secure opportunities of growth through disruptive innovations. This led to a boost in deals not only in the IT industry, but also in the consumer businesses, telecoms, and financial services sectors[23]. Moreover, companies from the US and the EU increased their operations in BRICS countries (Brazil, Russia, India, China and South Africa) by acquiring stakes in local firms or opening subsidiaries[24]. Finally, private equity activities bounced back too, with the deal volume that achieved a CAGR of 10.3% from 2010 to 2019 and ended up accounting for approximately 30% of the total deals in 2019[24].

Chart 1.2: M&A Worldwide - Private Equity Operations



Source: KPMG Corporate Finance

[22] Data from IMAA Institute
[23] Deloitte, *The future of the deal - The beginning of a new M&A season*
[24] KPMG, *Rapporto M&A 2019*, 06/2020

All these positive trends were suddenly disrupted as the COVID-19 outbreak impacted the world activities in 2020. In order to protect the population, governments had to impose several restrictions on commercial activities and the freedom of movements of the citizens inside and outside their countries was limited. The dramatic effects of the losses in human lives and the damages to the economies are likely to be carried over the next years. Even though for the 2021 the outlook looks more positive as vaccines started being distributed across the world, economic uncertainty is still expected to be dominant in the short term as most of the countries keeps on failing on maintaining the daily infections under control.

The global M&A market slowed down consequently to the pandemic: the first estimates for 2020 showed a contraction by 9% in terms of volumes and by 16% in terms of value compared to 2019[25]. The reduced number of megadeals (15 in the first three quarters compared to 27 during the same window in 2019) shows a scarce appetite for complex M&A since, in the first months of the pandemics, companies focussed on preventing revenue losses. However, after the reparations will be completed, companies will have to shift their focus on rethinking at their long-term strategies in light of the pandemic and the restriction it carries. At that point, they are anticipated to engage in M&A deal based on value creation and as a part of broader strategies[26].

Some of the trends of the last decade such as cross-border acquisitions and joint ventures are expected to slow down as countries have become more protective in the last couple of years and the new barriers created by the pandemic could limit further international operations. Nevertheless, other past trends may represent the drivers for the recovery of the M&A market in the aftermath of the crisis. First, the companies that are suffering more because of the effects of the pandemic could be forced into divestitures from non-core business not only for efficiency purposes, but also to reduce their debt load. This could also drive industry consolidations as the most solid companies of a sector engage in rollups or large-scale mergers to increase their market shares and to boost future growth as the economies recover. Then, the surge of activities done in remote, from working to shopping, has given more relevance to the megatrends of digitalization and disruptive technologies. In order to adapt to the new business environment and exploit these opportunities before competitors, companies could be forced to complete acquisitions for securing these technologies.

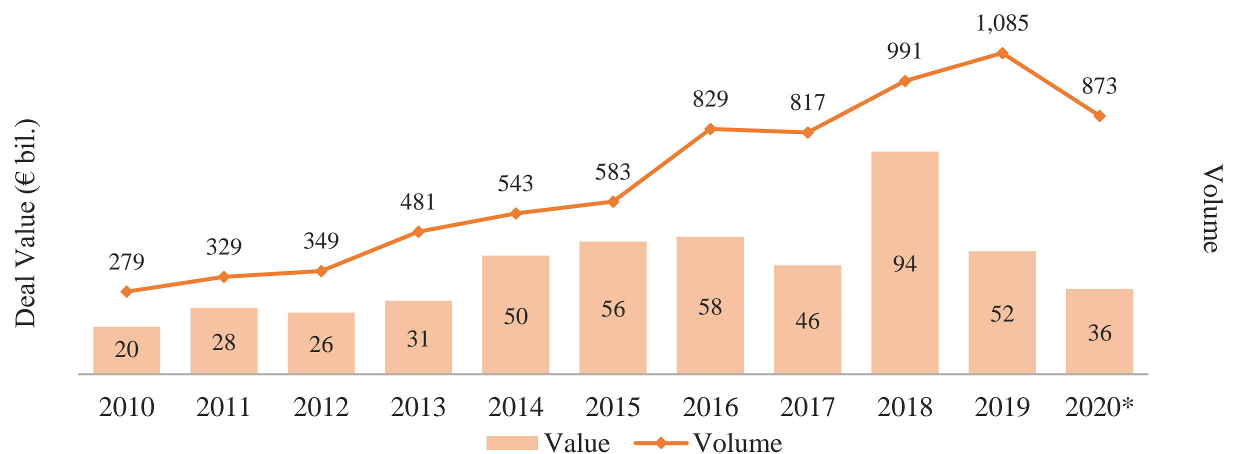
Finally, distressed deals have made a comeback. The companies that saw their revenues shrinking and were without cash cushion or lacked assets to divest at the beginning of the pandemic are now facing or could face soon insolvency issues. This could lead to acquisition opportunities at lower prices and, therefore, with a potentially higher ROI. In the first months of the pandemic, private

[25] Data from IMAA Institute
[26] PwC, *Global M&A Industry Trends*, 01/2021

equity funds were mainly focussed on reorganizing their portfolios and balance the risks of their highly leveraged activities. However, as the course of the pandemic will become clearer, they will have the chance to access to cheap credit thanks to injection of capital from central banks, and to investment opportunities related either to the business lines divestments of large companies or to owners looking for exit opportunities from their firms[27].

1.4.3 Italian M&A Market

Chart 1.3: M&A Italy - Deals Value and Volume



*provisional data

Source: KPMG Corporate Finance

The Italian M&A market was already dynamic in terms of volumes at the end of the 1980s, when it was taking place the first European merger wave. However, at that time, the total value was extremely low: at its peak in 1990, 920 deals were completed, but their overall value was only €25 billion. After a drop caused by the economic turmoil of the early 1990s, the M&A activity grew up again for the whole decade since 1993, pushed by the development of the domestic middle market, and the privatizations of some of the largest Italian companies of the time. Then, when the Euro became the official currency in 1999 and the Italian economic policies had to comply to the parameters of the Maastricht treaty, foreign investors were even more attracted by the Italian opportunities and the value of the M&A market reached new all times high (respectively €145 and €129 billion in 1999 and 2000). During the 2000s, the Italian M&A continued its development as a global market, with good volumes and values compared the previous decade and a growing share of

[27] BCG, *The 2020 M&A Report: Alternative Deals Gain Traction*, 2020

cross-border deals[28]. However, this expansion stopped in 2008: because of the crisis that stormed the country from that year until 2013, the trust of investors toward Italy dropped, and so it did the number of deals. Since 2014, the total deal value has recovered at the levels of the early 2000s, but it is still dependent on the few megadeals that take place every year. Conversely, volumes constantly grew during the decade, and achieved a historical record in 2019. Unfortunately, as for the global market, also the Italian M&A activities suffered because of the coronacrisis. The number of deals dropped by 24% and their value by 34% compared to 2019. Nevertheless, these results are better than initially thought, and the current pipeline is estimated at €75 billion, giving hopes for a recovery in 2021[29].

The low average deal value that emerges from the overview has always been a characteristic of the Italian M&A market, historically dominated by middle market operations. The table 1.1 shows that, from 2015 to 2019, small deals (less than €50 million) accounted for approximately 82%-86% of the total volumes of the Italian M&A market, although their combined value never exceeded 10% of the total. Conversely, the few deals with a value over €1 billion usually accounted for about a half of the yearly total value. Despite the average low value of deals, the trend of the Italian M&A market pre-coronavirus appeared positive as the deal volume almost doubled in four years and the Italian SMEs themselves are more open to operations of consolidations.

For what concerns the low deal value of the Italian M&A market, there are different factors leading to this situation. One of the most mentioned is the size and structure of Italian companies. Indeed, the local economy is full of small and medium enterprises: the firms with an annual turnover lower than €50 million employ around 82% of the workers on the Italian territory and comprise 92% of the total Italian enterprises. Both these data are well above the EU average[30]. How the dominance of the SMEs reflect on the M&A market is straightforward. Under a technical point of view, it is difficult to expect large deals if most of the active companies are small. Under a cultural point of view, Italian SMEs historically financed themselves through bank loans instead of equity as the entrepreneurs prefer to keep the governance in its hand, even at the cost of a less efficient capital structure and less resources. The limited capital cause them to fail having the funds necessary for M&A operations and missing potential opportunities for scaling their business[31].

[28] Tabellini G., *20 anni di M&A: fusioni e acquisizioni in Italia dal 1988 al 2010*, Egea, 2010
[29] KPMG, *Rapporto M&A 2020*, 01/2021
[30] Il Sole 24 Ore, *Pmi, quanto conta in Italia il 92% delle aziende attive sul territorio?*
[31] Industria Italiana, *Perché ci vuole più M&A per le aziende italiane*

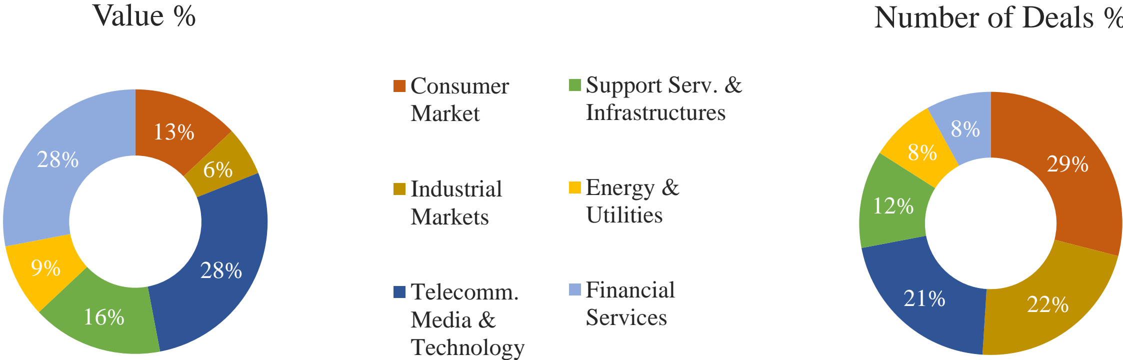
Table 1.1: M&A Market in Italy										
	2015		2016		2017		2018		2019	
Deal Size (€ mil.)	Deal	€ bil.	Deal	€ bil.	Deal	€ bil.	Deal	€ bil.	Deal	€ bil.
> 1,000	13	31.6	10	23.9	8	15.7	15	65.7	9	21.5
Between 100 and 1,000	61	19.8	82	26.9	85	22.9	74	22.4	84	24.7
Between 50 and 100	36	2.5	53	3.9	53	3.8	42	2.9	41	3.0
< 50	473	2.5	684	3.1	671	4.1	860	2.8	951	3.2
Total	**583**	**56.4**	**829**	**57.9**	**817**	**46.5**	**991**	**93.9**	**1085**	**52.4**
Average deal Value	**97**		**70**		**57**		**95**		**48**	

Source: KPMG Corporate Finance

Considering the sectors of the Italian M&A market in 2020, the TMT sector was the one that generated the highest value: 28% of the total €36 billion. TMT deals were driven by the completion of the consolidation between INWIT and Vodafone Towers: the merger, that was announced in 2019 but has become effective in March 2020, has the goal of supporting Tim and Vodafone Italia in creating the new network for the development of 5G. The other important deal of the sector was the acquisition completed by Cellnex on the Portuguese telecommunications towers and sites operator OMTE. Then, the financial sector offered among the largest value contribution too, despite the number of transaction accounts only for approximately 8% of the 873 operations that had place. The largest deal of the sector was the acquisition of UBI done by Intesa Sanpaolo, that could also push the Italian banking industry toward further consolidations in 2021. In terms of M&A volumes, consumer markets were the sector with the largest number of transactions (242), despite the share in terms of total value was only 13%. Consumer and industrial markets together accounted for 51% of the total number of deals. Private equity activities were also relevant during the year despite the pandemic: the funds completed 123 new acquisitions in Italy in 2020, of which 44 were completed by foreign companies[32] [33].

[32] KPMG, *Rapporto M&A 2020*, 01/2021
[33] AIFI, *Web Conference "M&A 2021"*

Chart 1.4: M&A in Italy (2020) - Target Sectors



Source: KPMG Corporate Finance

Chapter 2

Cross-Border M&A

2.1 Cross-Border Deals and Foreign Direct Investments

Cross-border M&A are deals that involve the merger or the takeover of companies or assets based in different countries. The reason is that firms presenting a successful business in the domestic market may improve their sales and profits through the consolidation with a foreign organization rather than seeking potentially diminishing returns by pursuing further growth within their own country[34].

For the acquirer company, cross-border M&A are the best alternative for expanding its business abroad in terms of time required when the goal is to achieve a total control on activities and commit profoundly in the market of the target. Indeed, doing operations of internationalization such as licensing or instituting joint ventures provides a limited control for the parent company on the foreign activities. Alternatively, if the goal is to commit heavily in a foreign country, a company may decide to establish a local subsidiary and invests in the construction of facilities instead of acquiring a local firm. This operation is called greenfield investment and, as cross-border M&A, is a type of foreign direct investment (FDI)[35]. However, these two types of FDI cannot always replace each other as they have their own advantages and disadvantages[36]. In support of this idea, studies managed to create models which includes institutional and cultural variables, as well as transaction cost variables, that can predict with a good precision the choices of firms between M&A and greenfield start-ups in international expansions[37].

In some situations, greenfield investments are the only possible choice for large FDI that require an important commitment: for instance, in developing countries, it is unlikely to always find companies to acquire with the required technology or dimensions. On the other hand, cross-border M&A can be dominant under some specific circumstances where governments encourage liberalization policies and privatizations, as it happened in the Asian countries damaged by the financial crisis in 1997-1999[38].

[34] Gaughan P.A., *Mergers, acquisitions and corporate restructurings*, Fourth Edition, John Wiley & Sons, Inc., 2007
[35] FDI is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy (OECD).
[36] Morresi O., Pezzi A., *Cross-border Mergers and Acquisitions: Theory and Empirical Evidence*, Palgrave Macmillan, 2014
[37] Brouthers K. D., Brouthers L. E., *Acquisition or greenfield start-up? Institutional, cultural and transaction cost influences*, Strategic Management Journal, 2000, Vol. 41, No. 1, pp. 89-97
[38] Mody A., Negishi S., *Cross-border mergers and acquisitions in East Asia: Trends and Implications*, Finance and Development, 2001, No. 38

Alternatively, considering the investments under an industry-specific perspective, sectors that present a market already concentrated, a slow growth or high barriers to entry may be feasible only to entrances through takeovers.

Table 1.1 - Main advantages and disadvantages of M&A and greenfield investments

	Cross-Border Acquisition	Greenfield
Advantages	Speed of entry Access to distribution channels Increase market share Consolidate brand Availability of skilled workers	Economies of scale and scope Operational efficiencies Integrated manufacturing Greater control of the business Able to implement the best long-term strategy
Disadvantages	Integration difficulties Hidden surprises Cultural distance Communication and organizational problems Overpayment of the assets of the target firm	High level of investments Operational difficulties Competition will be difficult to overcome Long entry process Governmental regulations can limit the business

Source: Morresi, Pezzi (2014)

2.2 Internationalization Theory Overview

Internationalization represents the main strategical motive supporting the decision of a company to expand its activities abroad. It can be considered as an extension of the growth motive that drives companies into M&A. The internationalizations process is a common topic in financial literature and different theories have been advanced to explain it, even though the applicability of models is debated due to the radical evolutions that have taken place in businesses worldwide over the decades. The theories on the internationalization process approach to the topic in two broad ways[39]: the economic approach, that focuses on the company and the business environment, and the behavioural approach, that emphasises on the figure of the entrepreneur and the influence of perception, knowledge, and experience of foreign market on the pace and direction of internationalizations[40]. The table 1.2 summarizes the key differences between the two schools of thought.

[39] Hermannsdóttir A., *Theoretical Underpinnings of the Internationalization Process*, Institute of Business Research, University of Iceland, Working Paper Series, 2008, W08:02

[40] Seifert R. E., Machado-da-Silva C. L., *Environment, resources and interpretation: Influences in the international strategies of the food industry in Brazil*, Brazilian Administration Review, 2007, Vol. 4, No. 2, pp. 40-63.

Table 1.2 - Main Variables of each approach to internationalization theory

	Economic Approach	Behavioural Approach
Internal Variables	Ownership advantages Product characteristics Communication ability	Experiential knowledge Learning
External Variables	Location advantages Comparative advantages Industry characteristics Government intervention Opportunism	Geographic distance Cultural differences Inter-organizational networks

Source: Seifert and Machado-da-Silva (2007)

This paragraph covers only the economic aspects of the theory that allow to show how, under different aims, companies have different factors to consider when planning an international expansion.

The access to natural resources is a common goal. This expansion is based on the attempt of controlling goods not available in the home country of the acquiring firm. A deal undertaken with this aim requires attention to all the aspects surrounding the ownership, the extraction, the use, and the commerce of the resources. Moreover, companies need to properly forecast all the additional factors related to the operative part of the activities, the management of the inventory, and the sale or transformation of the goods.

The access to new markets and customers is the second aim theorized. The idea is that the bidding company expands its activities to capture foreign customers, develop a local market base and enhance its revenue through economies of scope. All the aspects surrounding the evaluations of the acquired assets and the potential of the foreign market must be assessed precisely as this kind of expansion tries to achieve revenue synergies, that are intrinsically difficult to forecast accurately.

The access to production assets is the third purpose observed. In this case, the company invests internationally to take advantage of production factors that are economically better than to those available in the home country. This could be either a vertical takeover on a supplier, or the expansion in an economy with lower costs of labour, investment subsidies or better infrastructures. As for the previous scope, also these synergies must be properly evaluated before completing the transaction.

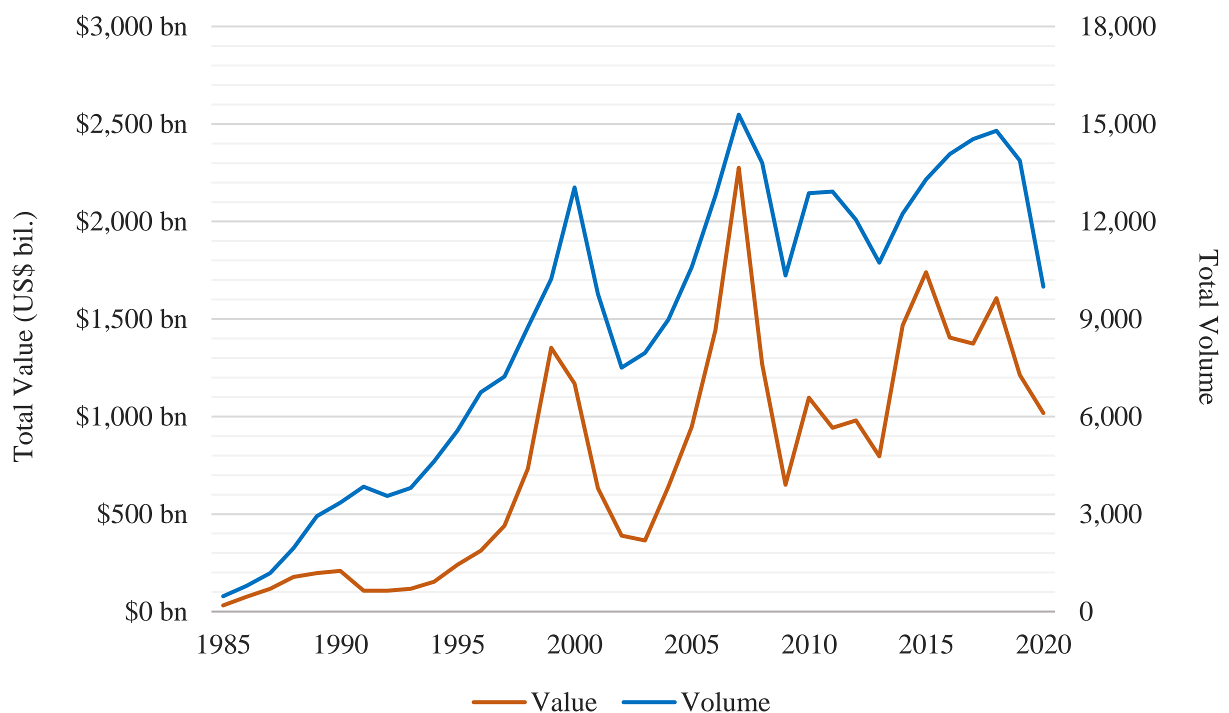
The accesses to research and development (R&D) assets and intellectual property represent the last potential goal. International deals driven by this motive involve the takeover of attractive

companies in nations with a specialized human capital and an economic environment that support the development of innovation and know-how. Alternatively, after a deep due diligence, the bidder may directly push for acquisitions of foreign enterprises with appealing R&D departments in industries where global competition is advancing[41].

2.3 Cross-Border M&A Activity

Since the end of the 1980s, corresponding to the final years of the fourth merger wave, companies started internationalization processes that caused an increasing percentage of M&A deals to be cross-border. However, it was only from the middle of the 1990s that their volume and value achieved an exponential growth and then peaked between 1999-2000. These record values were reached and surpassed only on the verge of the great recession and have not been achieved again yet[42]. Although the last decade was positive for cross-border deals, in 2019 and 2020 both deal volume and value dropped because of the international tensions and the coronavirus outbreak. This also caused a drop in the overall value of M&A deals worldwide. The chart 2.1 shows the evolution of these patterns in the last thirty-five years.

Chart 2.1: Total value and volume of cross-border M&A worldwide

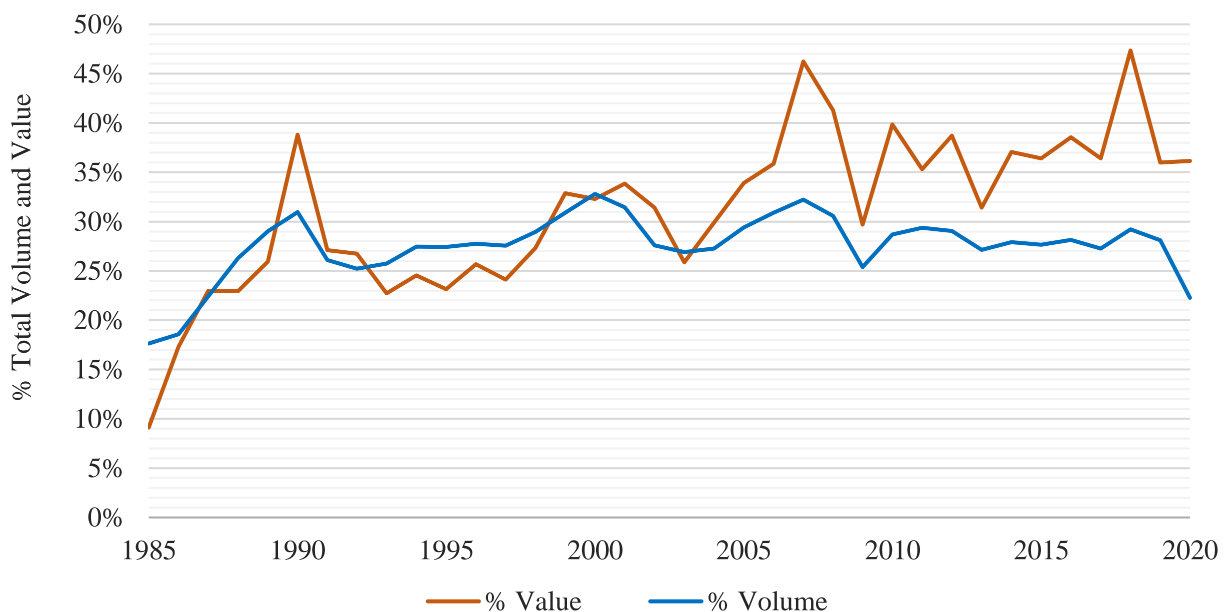


Source: IMAA Institute

[41] Whitaker S. C., *Cross-Border Mergers and Acquisitions*, John Wiley & Sons, Inc., 2016
[42] Data from IMAA Institute

As it can be observed in the chart 2.2, cross-border M&A represent a large portion of the overall deals. Even though the number of cross-border transactions was usually between 25%-30% of the total worldwide, in the last fifteen years their weight in terms of value was larger and accounted for more than 45% during peaks. This also implies that the M&A market heavily relies on foreign companies to takeover large assets or enterprises that cannot be acquired by domestic firms. Moreover, an increased number of inbound cross-border investments often provides virtuous consequences on the country. The growth of the local M&A market leads to a better access to competencies, incentives to improve the regulatory frameworks, increased informational flows and market scrutiny by financial operators or the press, and a rising acceptance of M&A deals as business opportunities. These components support investment interests and forecasts, multiplying potential inward deals and potentially valorising local businesses[43].

Chart 2.2: Share of the total volume and total value of cross-border M&A worldwide



Source: data from IMAA Institute, auctor's elaboration

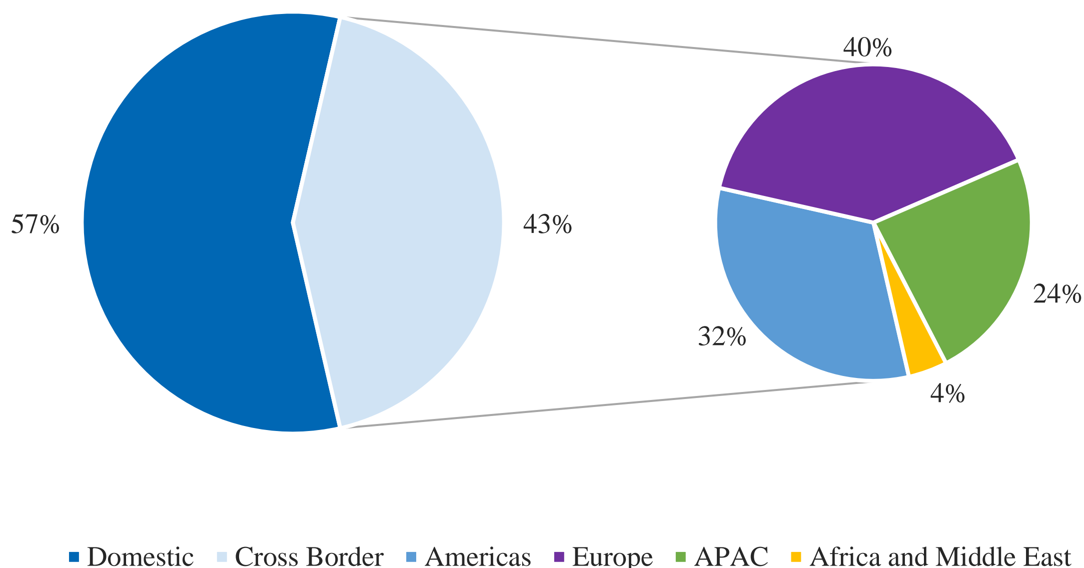
The chart 2.3 shows the share of cross border deal value over the total M&A market value in 2019 based on a KPMG report. These figures not only present a larger weight of cross-border deals over the overall transactions worldwide than those provided by the IMAA, but also show how the cross-border deals are distributed across regions. Indeed, the European M&A market accounted for the largest share of cross border deal value worldwide, with 6,643 transactions worth $623 billion.

[43] Whitaker S. C., *Cross-Border Mergers and Acquisitions*, John Wiley & Sons, Inc., 2016

These operations drove the activities in the old continent as the 7,447 domestic M&A were worth only $238 billion. Instead, the American market was carried by domestic deals: thanks to 21 megadeals[44] completed in the US, the total value of domestic transactions in the Americas reached $1,342 billion against $501 billion of cross-border M&A. In terms of value, Europe and Americas together accounted for almost three quarters of the total cross border deals happened in 2019. Their cross-border M&A also valued for 31% of the overall deal value (domestic and cross-border).

The value of the M&A market in the Asia and Pacific region was fuelled as well more by domestic M&A rather than cross-border deals: $472 billion for the firsts, $373 billion for the latter. Finally, the M&A activities in the Middle East and Africa area were almost entirely driven by cross-border deals, despite the small weight of the regions on global data. The cross-border transactions there reached a value of $62 billion, almost the double of the domestic operations whose value was $32 billion[45].

Chart 2.3: Share of domestic and cross-border deal value worldwide by region (2019)



Source: data from KPMG, auctor's elaboration

An interesting result appearing from the last chart is the concentration of cross-border M&A in advanced economies over developing ones. This is in contrast with the neoclassical model in its standard formulation, that considers only capital and labour as inputs and identical technologies

[44] Deal value higher than $10 billion. In 2019, 29 megadeals occurred worldwide.
[45] KPMG, *Rapporto M&A 2019*, 06/2020

across countries. Indeed, such model fails to explain why companies are less attracted by developing economies even though they should provide higher returns thanks to lower costs of factors and the effect of diminishing returns of capital in the countries where investments are concentrated[46]. Even considering that the high number of cross-border M&A in Europe are supported by the European Single Market, that makes the movement of capital across the EU members states extremely cheap and simple, the country that has historically attracted more cross-border deals is the US.

The observation that capital flows from rich to poor countries are modest and nowhere near the levels predicted in theory is named Lucas Paradox[47]. Two different groups of modifications on the standard neoclassical theory have been developed to solve the puzzle. A group considers the differences in the fundamentals of the production structure among countries, such as technological disparities, features and availability of the factors of production, institutional quality, and government policies. The other modifications focus on international capital market imperfections, in particular the presence of asymmetries in the information and the political risk of the country. This second group of explanations points at market failures as the cause for the under-exploit of the higher returns of developing countries[48].

An analysis on a sample of cross-border M&A that were completed between 1990-2005 confirmed the fact that, in the considered period, companies mainly acquired firms located in advanced economies. It was also pointed out that the consolidations between companies based in developed countries were mainly horizontal. Therefore, the study defined the acquirers pursuing this type of expansion as “market-seeking” because they looked for large and profitable markets where to expand their activities and improve their revenue. Conversely, in the less common case of vertical cross-border M&A, companies were said to pursue a “factor-market” motive as they tried to consolidate their activities to face lower costs of factors such as wages[49].

2.4 Specificities of International Deal

It is a fact that cross-border M&A are embedded with a structural complexity that is absent in domestic transactions. During the configuration of any deal, the acquirer must always consider several aspects such as economy, regulation, markets, competition, assets, people, technologies, and so on.

[46] Zebregs H., *Can the Neoclassical Model Explain the Distribution of Foreign Direct Investment Across Developing Countries?*, IMF Working Papers, 1998, No. 98/139

[47] Lucas R. E. Jr, *Why Doesn't Capital Flow from Rich to Poor Countries?*, The American Economic Review, 1990, Vol. 80, No. 2, pp. 92-96

[48] Alfaro L., Kalemli-Ozcan S., Volosovych V., *Why Doesn't Capital Flow from Rich to Poor Countries? An Empirical Investigation*, National Bureau of Economic Research Working Paper Series, 2005, No. 11901

[49] Brakman S., Garretsen H., van Marrewijk C., *Cross-Border Mergers & Acquisitions: The Facts as a Guide for International Economics,* CESifo Working Paper Series No. 1823, 2006

While these elements are usually known at the domestic level, they are less understood at an international level. Therefore, they become topics to study in deep before preparing any strategy of international expansion. An effective line of action is to assume that most of the parameters change between countries and, therefore, check them all. Some of the most analysed are the recent economic performance, the forecasted growth, the local M&A market, how national infrastructures are spread over the country, how they optimize raw materials, how employees and clients consider the concept of proper social relations, and all the cultural approaches that may influence operations. After having a clear understanding of these subjects, it can be structured the framework for an acquisition plan that considers all the gathered information.

It is important to underline that the comprehension of the foreign context should not be limited to an isolated interpretation but should also consider the business base already existing. This means that the acquirer company should build its strategy on exploiting the competitive gaps that identifies when it compares the foreign contest with the one where is already operating. These potential gaps can be found in the same aspects mentioned above: greater GDP growth, higher customer demands, tax advantages, manufacturing or supply costs, and many others. The exploitation of these gaps is one of the typical determinants for the creation of value from cross-border M&A[50]. Moreover, it is observed that qualitative gaps such as the availability of higher educational programs, managerial expertise and industry specialization are further sources of value for investors. On the one hand, acquisitions from countries with more specialized industries are more likely to occur when the target is based in a nation that is less specialized in these same industries. On the other hand, also post-acquisition performances are higher when there is this technical gap[51]. The idea is that the acquirer company can optimize the gaps of the target country through the skills and the expertise domestically developed.

Other major specificities of cross-border M&A are related to the funding of the deal. Indeed, the financial markets of different countries always present some gaps that the bidding company can exploit considering three factors related to the financial aspect of the deal. The first one is the structural ability of the firm in generating cash. This is valid for companies with an established domestic market as they can employ their cash flows to accelerate the expansion abroad through aggressive product pricing or productivity investments. Alternatively, these resources can be used to leverage the assets of the target trying to boost growth at the local level. Another factor is related to the accessibility and the cost of debt. On the one hand, acquirers from developed economies have

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[50] Whitaker S. C., *Cross-Border Mergers and Acquisitions*, John Wiley & Sons, Inc., 2016
[51] Frésard L., Hege U., Phillips G., *Extending Industry Specialization, Intangibles, and Cross-Border Acquisitions*, Working Paper, 2015

access to multiple banking institutions and advanced financial services to optimize their capital structure and hedge risks. On the other hand, they can benefit from cheaper bank lending or corporate bonds thanks to the low interest rates in their home country. However, if the acquirer wants to finance the deal through debt obtained on the market of the target, then a high spread makes the transaction less favourable and unlikely to happen. The final funding factor to be considered is equity. It was observed that the higher are the stock prices in the acquirer country, the more favourable are the conditions for the deal[52].

A final specificity embedded in cross-border M&A is the geopolitical risk. Since the world has become so globalized and interconnected, any substantial change in international policies or relationships may fuel or hamper cross-border transactions. For instance, the tensions between China and the US started in 2018 has brought down the cross-border M&A activity between the two countries because of the tariffs and the increasing scrutiny of transactions. At the same time, investments in Europe and Southeast Asia have risen as China is striving to reduce its reliance on the US while American companies are spending their reserves of cash domestically[53].

2.5 Factors Influencing of Cross-Border Deals

In addition to the firm- and deal-specific elements, numerous external factors have been identified as aspect that influence the likelihood of engaging in cross-border deals and the returns to investors. They can be arranged in broad groups that cover four different dimensions: financial, regulatory, sociopolitical, and cultural.

2.5.1 Financial Markets and Economy

This group of factors is related to all the financial and economic features that may encourage or discourage cross-border deals. The development and the liquidity of the local stock exchange is generally considered a fundamental fuel for cross-border M&A, both inbound and outbound. Indeed, an established stock market provides a solid and recognized valuation basis and a potential exit opportunity for eventual future divestments. Then, two measures related to the size of the financial markets, the stock market capitalization to GDP ratio and the credit to GDP ratio, are found to be positively correlated with the number of domestic firms investing abroad. This result is in line with the idea that a developed financial market allows companies to access more easily to the capital

[52] Kish R. J., Vasconcellos G. M., *An Empirical Analysis of Factors Affecting Cross-Border Acquisitions: U.S.- Japan*, Management International Review, 1993, Vo. 33, No. 3, pp. 227-245
[53] EY, *How escalating tension between the US and China impacts the deal market*

required for investments[54]. This result is also valid when companies decide to cross-list their shares in a more liquid stock market: from a sample of European companies, it was observed that "cross-listed firms are significantly more active in acquiring US companies than are their domestically listed peers". The cross-listing also lead to an increased percentage of M&A financed through equity[55].

Valuation and recent stock performance are factors that, in some situations support the likelihood of cross-border deals, while in others hamper it. As it has been already pointed out when describing managerial hubris and merger waves, a high valuation of stocks leads to an increased number of M&A as booming companies tend to acquire less valued firms. Conversely, poor performances increase the probability of being acquired. Indeed, in both the domestic and cross-border context, firms with a high market-to-book value are more likely to complete acquisitions of companies that present a low market-to-book value[56]. This argument can be also applied to the relative stock market performance between two countries: the larger is the over-performance of one country over the other, the higher are the chances that a company from the better performing country acquires one from the worst performing one[57].

Economics factors such as GDP growth and interest, inflation, and forex rates are the final components of this cluster. GDP forecasts that show a considerable growth in a country increase the likelihood of inbound investment as companies looking for international expansions prefer to move in fast growing markets[58]. The effects of a significative difference in the interest rates of the bidder and the target country are more uncertain. Large spreads fuel cross-border deals only if the acquirer can fund itself through loans in the country that present the lowest rate[59]. Finally, a sudden appreciation of the domestic currency supports companies in pursuing takeovers abroad as the targets will be cheaper to acquire. Conversely, the devaluation of a currency makes the local M&A market more prone to inbound transactions[24].

2.5.2 Governance

The second group consists of factors whose structure and features affect the context of decisions, the powers of the management, and the duties imposed by the legislation in terms of reporting and

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[54] Di Giovanni J., *What drives capital flows? The case of cross-border M&A activity and financial deepening*, Journal of International Economics, 2005, Vol. 65, pp. 127-149

[55] Tolmunen P., Torstila S., *Cross-Listings and M&A Activity: Transatlantic Evidence*, Financial Management, 2005, Vol. 34, No. 1, pp. 123-142

[56] Rhodes-Kropf M., Viswanathan S., Robinson D., *Valuation Waves and Merger Activity: The Empirical Evidence*, Journal of Financial Economics, 2005, Vol. 77, pp. 561-603

[57] Erel I., Liao R. C., Weisbach M. S., *Determinants of Cross-Border Mergers and Acquisitions*, The Journal of Finance, 2012, Vol. 67, No. 3, pp. 1045-1082

[58] Gaughan P.A., *Mergers, acquisitions and corporate restructurings*, Fourth Edition, John Wiley & Sons, Inc., 2007

[59] Kish R. J., Vasconcellos G. M., *An Empirical Analysis of Factors Affecting Cross-Border Acquisitions: U.S.- Japan*, Management International Review, 1993, Vo. 33, No. 3, pp. 227-245

acting. The core element of this cluster is clearly corporate governance. Across countries, there are wide differences in the legislations that structure the governance of companies, the supervisors, and the rights and the protections given to investors and minority shareholders. Studies on domestic US M&A deals show that a developed corporate governance, such as the American one, benefits to both the acquirer and the target companies when a takeover is completed. Indeed, literature noticed that corporate governance practices worldwide are slowly converging toward models that are more shareholder friendly and separate the positions of CEO and chairman of the board as they are found to valorise more companies[60]. This convergence is happening in three ways: formal convergence, caused by new business laws, functional convergence, driven by market pressure, and contractual convergence, produced by commitment into better governance regimes[61]. In cross-border M&A, when the acquirer is based in a country with a relative stronger shareholder orientation than the target, “part of the total synergy value of the takeover may result from the improvement in the governance of the target assets” (spillover effect). The improvement of the corporate governance of the target can be either by law, when it is imposed by a full takeover, or by control, when it happens on a voluntary basis, for instance in a partial acquisition. Conversely, when the bidder is from a country with poorer shareholder protection, it is found that “the poor-governance bidders voluntarily bootstrap to the better-governance regime of the target” (alternative bootstrapping hypothesis)[62].

2.5.3 Sociopolitical Factors

The first sociopolitical parameter to consider in cross-border deals are unions. Although many governments and managers perceive them as a burden that disrupts the market self-regulation, limits innovation, reduces profits and hinders management strategies, this standpoint is not accepted worldwide. For instance, European economies consider them as an apparatus useful for rebalancing the collective interests and achieve sustainable profits. The effects of the presence of large unions on cross-border M&A are not agreed in literature. This uncertainty is also caused by the fact that unions usually operate in response to the behaviours of the management. Therefore, structuring and following a long-term strategy that also accounts for their opinion should bring a smoother integration of the human resources of the target company. In contrast, strong unions can become a serious encumbrance if the profits of the operation are expected to be obtained exploiting poor labour standards or the low costs of the local workforce.

[60] Masulis R.W., Wang C., Xie F., *Corporate Governance and Acquirer Returns*, The Journal of Finance, 2007, Vol. 62, No. 4, pp. 1851-1889

[61] Gilson R. J., *Globalizing Corporate Governance: Convergence of Form or Function*, The American Journal of Comparative Law, 2001, Volume 49, No. 2, pp. 329-358

[62] Martynova M., Renneboog L., *Spillover of corporate governance standards in cross-border mergers and acquisitions*, Journal of Corporate Finance, 2008, Vol. 14, No. 3, pp. 200-223

The other sociopolitical aspect to consider is the quality of the institutions in the target country. Factors such as a developed legislation, a low level of corruption, a fast bureaucracy or the independence of public organizations support innovation enthusiasm and the likelihood of successful cross-border deals[31]. This aspect also reconciles with the observations on cross-border M&A activity: the largest shares of foreign investments are concentrated in advanced economies, while developing countries receive a much smaller share of the investments. Indeed, it was observed that "the quality of institutions is one source of sluggishness of cross-border M&A inflows to developing countries". Moreover, the increase in cross-border transactions caused by the improvements of the quality of local institutions is larger in advanced economies, while it is less relevant in developing nations[63].

2.5.4 Cultural and Geographical Aspect

Numerous surveys evidence that cultural differences are a major determinant to make a cross-border deal successful. The term culture is confusing as it is not straightforward to identify all the set of behaviours, aptitudes, skills, and beliefs that are connected to a community. For instance, scholastic systems differ across countries in terms of visions and topics taught, and this create some sort of collective identification that individuals consider themselves part of. However, the cultural aspect also encompasses factors such as the appetite for innovation and resistance to change. Companies operating in countries that are more traditionalist or that present sophisticated chains of command are less open to change compared to those based in regions with a pioneer type of mind-set. Moreover, firms from developed economies can impose their concept of innovation and evolution on enterprises from developing country more easily than the other way around. Finally, nations sometimes present different communities inside their own territory, and knowing their dissimilarities becomes fundamental at the moment of structuring the acquisition strategy and during the discussions with the management of the target.

Numerous papers agree with the view that cross-border M&A between companies with wide cultural differences, in term of nationality or organization, are more likely to fail than domestic deals because of integration issues[64]. In a study on a sample of European countries and European neighbouring countries, it was noticed that geographical distance is also a factor that reduces the likelihood of completing the process of acquisitions[65]. Nevertheless, other analyses challenge these beliefs and show that the cultural distance can facilitate synergies as acquisitions become an

[63] Whitaker S. C., *Cross-Border Mergers and Acquisitions*, John Wiley & Sons, Inc., 2016
[64] Pablo A.L., *Determinants of Acquisition Integration Level: A Decision-Making Perspective*, Academy of Management Journal, 1994, Vol. 37, pp. 803–836.
[65] Di Guardo M. C., Marrocu E., Paci R., *The Concurrent Impact of Cultural, Political, and Spatial Distances on International Mergers and Acquisitions*, The World Economy, 2016, Vol. 39, No. 6, pp. 824-852

instrument to access and exchange complementary capabilities[66]. This positive outcome was noticed for the first time in a sample of cross-border deals happened between 1991-2000. The analysis shows that cross-border acquisitions provide higher stock returns in long-run if the acquirer and the target come from two nations that are culturally more dissimilar[67].

2.6 Jurisdictional Implications

Cross-border deals also present legal and financial implications. While economic and cultural factors of the target mainly affect the decisions of pursuing the acquisition, the structure of the operation, the market reaction, and the performance of the consolidated organization, overlooking these jurisdictional elements could even abruptly block the completion of a deal. From a survey of Global PMI Partners to M&A professionals, China, India, and South Africa result as the most challenging regulatory and political countries for cross-border acquisitions. Conversely, UK, Australasia, US, and Canada present a less challenging environment[68].

In large M&A, specifically in cross-border ones, the local competition authority plays a major role in the execution of the deal. In theory, the function of these government agencies is to defend the interests of customers by identifying the operations that could negatively impact on the local competition and enforcing the policies aimed to prevent these situations. Their powers are usually larger when the local M&A market is active, and when protectionist laws have been implemented. Although almost all the competition authorities are nation based, some trade blocks have their own agency, such as the Directorate-General for Competition of the European Commission in the EU. In 2019, the Commission role was crucial in blocking the merger between Siemens and Alstom, respectively based in Germany and France. The deal would have created a giant in the European rail industry, but the regulator prohibited the transaction as companies did not address the competitions concerns on consumer interest advanced by the Commission[69].

Nonetheless, in practice, the behaviours and the verdicts of competition authorities are often politicized. In centralized countries, for instance China, the anti-trust regulation has become a cover for protectionism, and foreign companies need to comply to several practices before receiving the

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[66] Björkman I., Stahl G. K., Vaara E., *Cultural Differences and Capability Transfer in Cross-Border Acquisitions: The Mediating Roles of Capability Complementarity, Absorptive Capacity, and Social Integration*, Journal of International Business Studies, 2007, Vol. 38, pp. 658–672.

[67] Chakrabarti R., Gupta-Mukherjee S., Jayaraman N., *Mars-Venus Marriages: Culture and Cross-Border M&A*, Journal of International Business Studies, 2009, Vol. 40, No. 2, pp. 216-236

[68] Global PMI Partners, *Cross-Border M&A Integration Survey*, Question 12 - “Based on your general experience, identify geographies where you have experienced the greatest degree of cross-border challenges (legal, regulatory, political, etc.).” 2015

[69] European Commission, *Mergers: Commission prohibits Siemens' proposed acquisition of Alstom*

authorization for investing there[70]. Western authorities are considered more independent in their decisions, even though protectionists motive were advocated to stop foreign acquisitions on assets of national interests. A recent example was the takeover attempted by the Singaporean Broadcom on the American Qualcomm in 2018: the US government blocked a $117 billion bid citing national security concerns on the chips produced by Qualcomm[71].

One of the two financial implications of cross-border M&A is taxation. As corporate tax levels vary across countries, they can increase or decrease the synergies expected from a deal. Studies identify a negative relation between the national tax rate and FDI[72], even though the tax elasticity for greenfield investments is more negative than that associated with M&A[73]. Moreover, cross-border acquisitions sometimes trigger two supplementary taxes on the earnings of the target: dividend withholding taxes and acquirer-country corporate income taxation. However, it is found that the additional international taxation is fully capitalized into lower takeover premiums at the announcement of the deal. Therefore, the shareholders of the target bear the burden of the higher taxes, while the returns of the bidder do not reflect this difference[74]. Another phenomenon related to the different tax levels and systems is tax inversion: "the term describes a company's restructuring or reorganization done to reduce its tax obligations by legally moving to a lower tax country, often via acquiring a company headquartered there" [75]. US-based multinational companies used tax inversions for a long time because of the high corporate income tax rate imposed on all the profits that firms had produced worldwide. However, the Tax Cuts and Jobs Act (TCJA) of 2017 addressed the issue and instituted a unique repatriation tax, reducing the incentives for American companies to retain the earnings from foreign activities outside the US[76].

The other major financial implication interests financial due diligence and reporting. Accounting standards have been found to play a role in shaping the direction of cross-border deals. As for corporate governance, also the international standards are converging, especially for listed companies. However, the differences that are still present encourage deals between companies based in countries with similar Generally Accepted Accounting Principles (GAAP). The controls and the

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[70] Horton T. J., *Antitrust or Industrial Protectionism? Emerging International Issues in China's Anti-Monopoly Law Enforcement Efforts*, Santa Clara Journal of International Law, 2015, Vol. 14, No. 1, pp. 109-142
[71] Reuters, *Timeline: Broadcom-Qualcomm saga comes to an abrupt end*
[72] De Mooij R. A., Ederveen S., *Taxation and Foreign Direct Investment: A Synthesis of Empirical Research*, International Tax and Public Finance, 2003, Vol. 10, pp. 673-693
[73] Hebous S., Ruf M., Weichenrieder A. J., *The Effects of Taxation on the Location Decision of Multinational Firms: M&A vs. Greenfield Investments*, CESifo Working Paper Series, No. 3076, 2010
[74] Huizinga H., Voget J, Wagner W., *Who bears the burden of international taxation? Evidence from cross-border M&As*, Journal of International Economics, 2012, Vol. 88, No. 1, pp. 186-197
[75] Whitaker S. C., *Cross-Border Mergers and Acquisitions*, John Wiley & Sons, Inc., 2016
[76] Tax Policy Center, *What are inversions, and how will TCJA affect them?*

enforcement of the local GAAP are also considered favourable for the inward M&A market as foreign bidders can consider the public financial statements reliable[77].

2.7 Cross-Border M&A Activity in Italy

The charts 2.4 and 2.5 show the portion of domestic and cross-border M&A over the total Italian market during the last decade. The first chart considers the number of deals completed, while the second one is in terms of deal value.

Chart 2.4: Italian M&A Market - Share of domestic and crossborder deals based on total volume

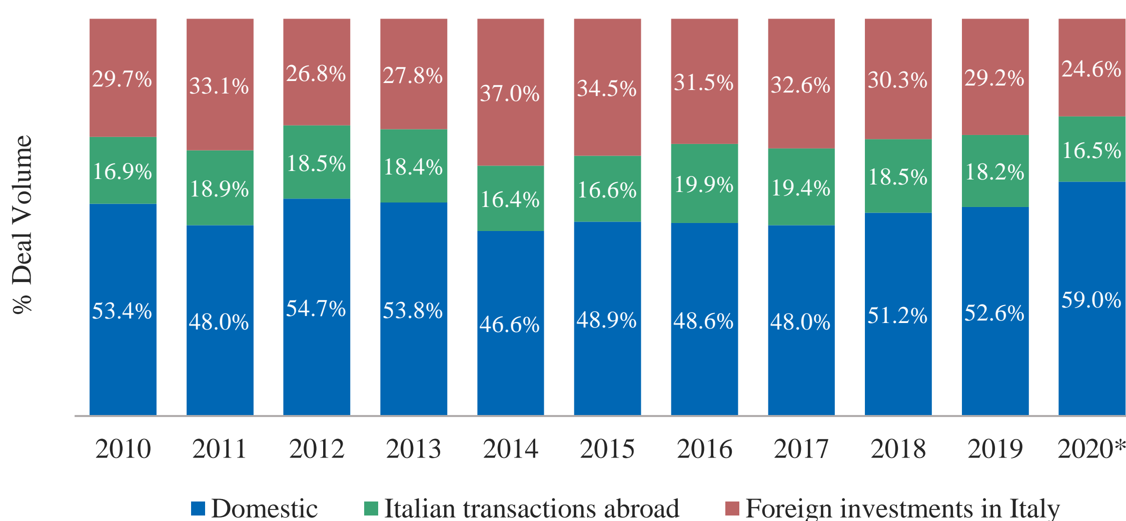
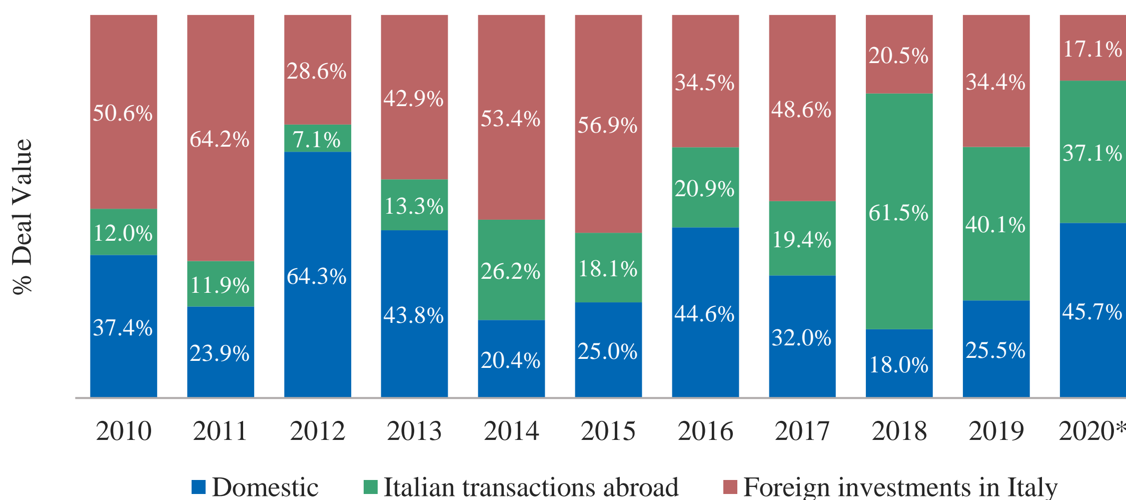


Chart 2.5: Italian M&A Market - Share of domestic and crossborder deals based on total value



*provisional data

Source: KPMG Corporate Finance

[77] Francis J. R., Huang S. X., Khurana I. K., *The Role of Similar Accounting Standards in Cross-Border Mergers and Acquisitions*, Contemporary Accounting Research, 2015, Vol. 33, No. 3, pp. 1298-1330

It is straightforward to see that, as the global M&A market, also the Italian one profoundly relies on cross-border deals. Until 2019, the number of cross-border operations usually accounted for almost half of the total M&A completed. Considering the deal value, their importance is even higher: cross-border transactions accounted, on average, for approximately three-quarters of the M&A activities that involved Italian firms. Then, in 2019, there were completed 514 cross-border M&A: 197 were outbound deals, while 317 were inbound deals. In terms of deal value, the transaction of Italian companies on foreign reached €21 billion, while the foreign M&A in Italy had a value of €18 billion. Meanwhile, the 571 domestic deals were worth €13.4 billion.

The relative higher value of cross-border deals compared to that of domestic transactions is mainly connected to the phenomenon of megadeals. Indeed, in the last years, more than a half of the largest 10 deals were cross-border. For instance, the €24 billion merger between Luxottica SpA with the Essilor SA drove the outbound deal value in 2018. In 2019, the first four largest M&A were cross-border. This trend can be observed in the table 1.3.

Table 1.3 – Direction of the largest 10 deals in Italy

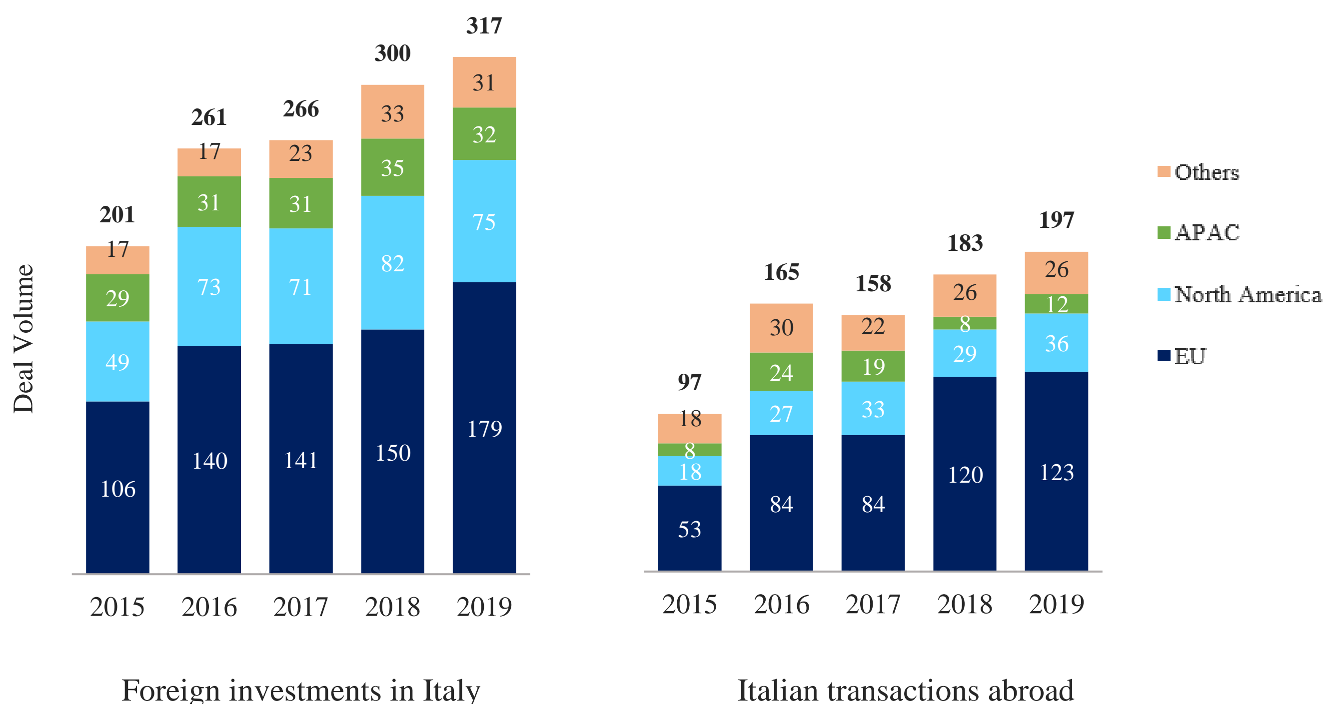
Direction	2015	2016	2017	2018	2019
Domestic	2	5	2	2	1
Italian transactions abroad	3	1	2	5	6
Foreign investments in Italy	5	4	6	3	3

Source: KPMG Corporate Finance

Chart 2.6 shows the number of deals split by region. Countries of the European Unions are the main fuel for both inbound and outbound investments, followed by North American companies. Asian companies remain a relevant component for foreign investments in Italy, while the number of Italian investments there remains low. A breakdown by country reveals that, in 2019, the US companies were the main foreign investors in Italy with 70 operations completed, followed by France (60), UK (48) and Germany (22). On the other hand, the Italian transactions abroad targeted the most French companies with 37 deals completed. The other main target countries were the US (30), Germany (27) and Spain (20) [78].

[78] KPMG, *Rapporto M&A 2019*, 06/2020

Chart 2.6: Italian M&A Market – Number of Cross-Border by region



Source: KPMG Corporate Finance

Although all the detailed data are not available yet, it is still possible to partially comment the activity of the Italian cross-border M&A market in 2020. Since the pandemic showed some limits of the globalization and hampered the internationalization driver worldwide, the transnational deals involving Italian companies shrank as well.

In 2020, the value of foreign investments in Italy was €6 billion, a third of that reached in 2019. Moreover, none of the 200 cross-border M&A from foreign acquirers (-37% compared to 2019) had a value superior to €1 billion. The main operation was the €240 million tender offer of the Japanese company AGC on MolMed.

The value of outward investments remained stable at €13 billion, although they were distributed across 134 deal (-32% compared to 2019). The largest cross-border acquisition was done by Abertis, a subsidiary of Atlantia SpA, in a partnership with GIC: Abertis acquired the majority shares of Red de Carreteras de Occidente, a Mexican provider of highway services, for approximately €1.5 billion.

Finally, the value of domestic deals increased by 18% despite the crisis and reached €16 billion. On the other hand, the number of deals dropped to 480 (-16% compared to 2019). The largest operation was the acquisition of UBI completed by Intesa for more than €4 billion[79].

[79] KPMG, *Rapporto M&A 2020*, 01/2021

Chart 2.7: Italian M&A Market - Number of Domestic and Cross-border Deals

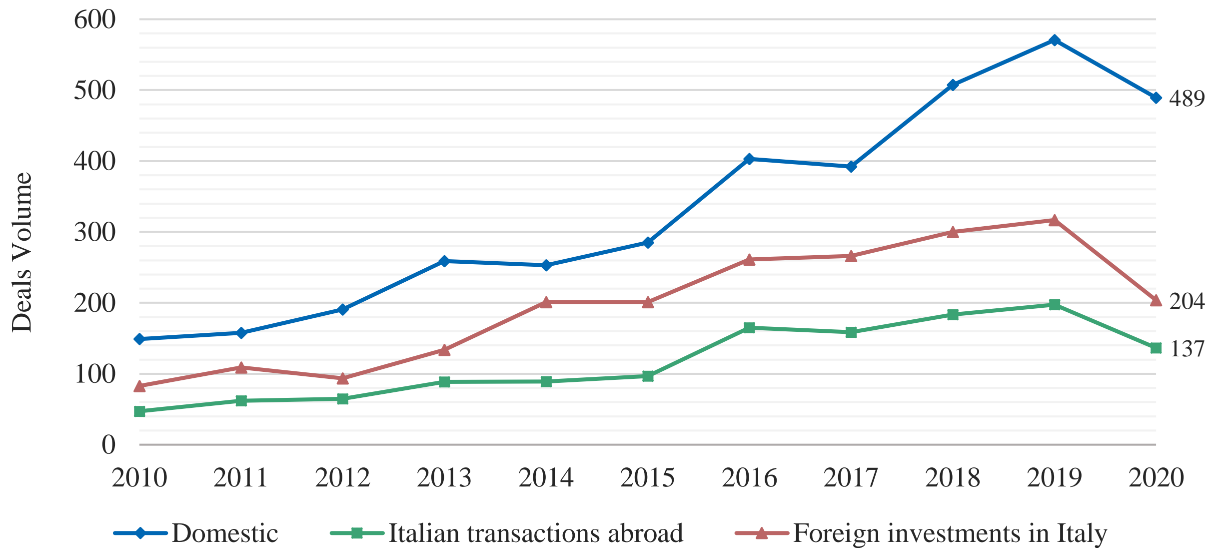
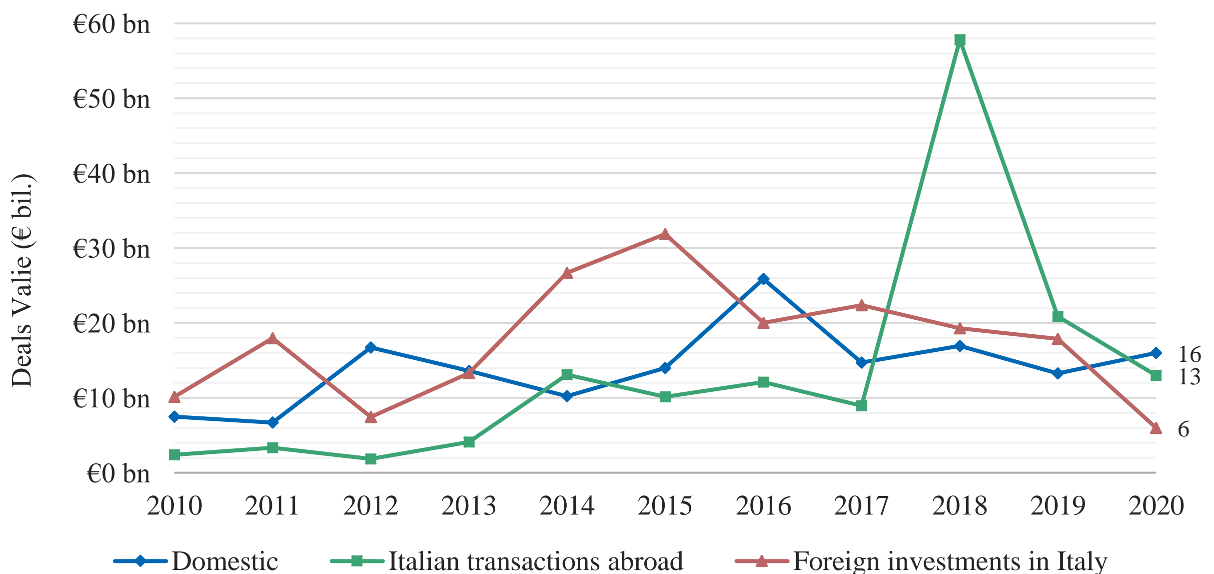


Chart 2.8: Italian M&A Market - Value of Domestic and Cross-border Deals



Source: KPMG Corporate Finance, auctor's elaboration

Overall, Italy has been able to successfully attract foreign investments in the recent years. The number of foreign acquisitions of Italian companies constantly grew until the COVID-19 outbreak, and in terms of deal value, these investments were consistent as well. From the latest figures available, referring to 2018, there are 15,515 Italian companies with a significant ownership from foreign investors. They employ 1.45 million of workers and their combined revenue reaches €594 billion[80].

[80] ISTAT: *Struttura e Competitività delle Imprese Multinazionali - Anno 2018*, 2020

Italy presents numerous strengths that can be appealing for foreign companies interested in expanding in a new market. For instance, it is the third largest European economy and has an established industrial sector, competitive SMEs, a skilled workforce and a strategic position between Europe, North Africa, and Middle East. Nonetheless, the numbers of foreign investments could be better. The country is well known for its structural issues that cause it to fail attracting amounts of investments relatively similar to those which neighbour economies like France and Germany receive. From a survey of AIBE to investors, the heavy bureaucracy and the high taxation were equally identified as the main cause of the low appeal of Italy. Moreover, further issues are detected in the slow time of civil processes and the uncertainties related to the regulatory framework[81]. In the 2020 Doing Business report of the World Bank, the Italian business environment is ranked 58th, 7 position lowers than 2019 and behind Kenya and Kosovo. The report signals that firms operating in Italy are advantaged in terms of international trading and infrastructures but face critical difficulties in enforcing contracts and accessing to credit, in addition to the known problems regarding taxes[82].

Italian investments abroad have been less consistent than those inbound, although more variable in terms of value. Indeed, the cross-border acquisitions of Italian companies are often lower in both volumes and value than the those domestic unless megadeals drive the value up. ISTAT reported that in 2018 there were 23,778 foreign firms controlled by Italian companies, employing around 1.80 workers and with cumulative sales of €546 billion[83]. More than a half of these firms operate in two of the leading Italian sectors: the retail industry (31%) and the manufacturing industry (27%)[84]. The geographical distribution of these subsidiaries reflects the data of the chart 2.6: the EU hosts 54% of these subsidiaries, that account for 49% of the total revenue; the US host 10% of these controlled companies, but they account for 24% of total sales[85].

The limited expansion abroad of Italian companies is often addressed as a structural problem of the country economy. The motives that are usually mentioned are similar to those that cause the Italian M&A market to have a low average deal value: dominance of SMEs, no separation between ownership and management, and scarce use of equity as a funding instrument. However, while the small Italian firms hesitate in pursuing deals abroad, large companies are aware of the advantages of international expansion. A research conducted by the University of Padua – CMR for HSBC studied the M&A activity and the internationalization approach for the Italian companies with a turnover larger than €200 million in 2018 (they were 1,276 at that time). The results show that, considering all

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[81] AIBE, *Second Instant Survey November 2020 - The effects of Covid 19 on Foreign investment in Italy*
[82] World Bank Group, *Italy – Doing Business 2020*
[83] ISTAT, *Struttura e Competitività delle Imprese Multinazionali - Anno 2018*
[84] ISTAT, *Annuario Statistico Italiano 2020*
[85] ICE, *Rapporto ICE 'L'Italia nell'economia internazionale' 2019-2020*

these large companies over the years, 52% of them acquired at least another firm, while 42% acquired at least a foreign enterprise. When questioned about the motives for pursuing international relations process, the surveyed managers gave answers in line with the core aspects delineated in the previous paragraphs: 39% of the respondents considered the presence of suppliers and customers as the core motive for the internationalization, while 22% looked to foreign markets for the reduced costs, 20% for the presence of qualified local partners, and 18% to get closer to their final consumer. The main difficult that companies faced was the approach to the local legislation and bureaucracy (experienced by 62% of respondents), followed by tax regulation (53%) and the quality of human capital (47%). The local languages and cultures were a problem only for 32% of the managers. A final consideration is also done on the "Made in Italy" brand: it is found that only 35% of the companies researched use it abroad, although 90% of them asserted that it generates additional value[86].

2.8 Italian Regulation Framework for M&A

The Italian M&A regulatory context presents well-established deal processes, arrangements, and documentations. The features of the legislation have not received any major modification in the recent years and are in line with those of the other members of the EU. Besides, the system has some differences in the provisions that regard private M&A, i.e., acquisitions of non-listed companies, and public M&A, i.e., acquisitions of listed companies.

Italian unlisted companies can take the form of joint stock companies whose ownership is based on shares (*Società per Azioni*, *SpA)* or limited liability companies represented by quota (*Società a responsabilità limitata*, *Srl*). The framework of the regulation for private M&A is structured by the Italian Civil Code (ICC) and by the Italian Antitrust Law, although there are some special provisions for specific transaction issues or for deals that involve SMEs and start-ups. The core articles of the ICC for M&A are the number 2501-2505, but the code also includes specific rules for the arrangements of corporate entities and business contracts.

Italian listed companies can only take the form of joint stock companies. The ICC and the Antitrust Law are also the pillars for public deals, although they are complemented by more detailed provisions and regulations: the Consolidated Law on Finance (TUF) enacted by Legislative Decree No. 58/1998, as emended; the Issuers' Regulation (*Regolamento Emittenti*) no. 11971/1999, as emended, which is set by the National Commission for Companies and the Stock Exchange (CONSOB); the rules issued by Borsa Italiana, the private entity that manage and monitors the Italian Stock Exchange.

[86] HSBC, *Italy goes global - The views and strategies of Italian companies*

The legislation offers three core possibilities, or a combination of them, for structuring a transaction, namely: share or quota deal, eventually sided with a cash payment, which is also the most common structure; purchase of assets, which is used for acquiring only a part of the assets or a specific business of a company; merger by incorporation, although it is the less used in practice[87]. For public companies, the acquisitions can be realised through a public tender offer, a statutory merger, or the subscription of reserved capital increases. The public tender offer can be either voluntary or mandatory, when an investor passes a threshold of shares held. Hostile bids are allowed and can be launched using tender offers, although they are uncommon as many of the Italian listed companies present a concentrated shareholder base.

Overall, despite the issues related to taxation and bureaucracy mentioned in the previous paragraph, the Italian jurisdiction is open to foreign investments as there are no special tax regulations for M&A or general restrictions against them. The only exceptions apply in two specific circumstances. The first one is the reciprocity principle, under which the authorities can oppose and prevent a deal in the event of non-reciprocity with the jurisdiction of a foreign acquirer. Countries from the European Economic Area and those that signed bilateral investment agreement with Italy are exempted from this principle by law[88].

The second and major potential restriction is the Golden Power Law. It was set out in the Law Decree no.21/2012 with the goal of limiting certain deals in specific industries of national interest, namely: defence, national security, energy, communications, transportation, and high-tech intensive industries. Moreover, a new amendment, that expands the sectors of interest of the law, was approved last year as a response to the damages on businesses and the changes in the geopolitical environment that followed the COVID-19 outbreak: the Golden Power Law applies now also on deals that involve banking or insurance institutions, and that target companies active in the supply of healthcare, water, and food supply sectors. Under the amended Golden Power Law, any acquisition of shareholdings, including minority stakes, in companies that hold strategic assets in these industries must be notified to the Italian government. Then, the latter has the powers to impose conditions to the deal or even prohibit it in exceptional cases[88].

[87] Global Legal Insights, *Mergers & Acquisitions Laws and Regulations - Italy*
[88] Bianchi S., Carlotti P., *Private mergers and acquisitions in Italy: overview*, Thomson Reuters Practical Law

Chapter 3

Literature Review

3.1 Core Topics of M&A Literature

The importance and the complexity of mergers and acquisitions makes them a recurrent topic in financial literature. They are broadly considered as an effective and fast way to expand or innovate a business, consequently becoming a core tool for corporate development. Nonetheless, they also present several complications, such as the large amount of money they absorb, or the difficulties in integrating two different organizations, that could cause a deal to produce more damages than benefits. Therefore, not only scholars, but also professionals are interested in understanding more this phenomenon and the repercussions it carries as they may be relevant not only for the firms involved, but also for a whole industry or even the county economy.

The approach of the studies on this subject is not unique. Ultimately, a company completes M&A to increase the firm value and enrich its shareholders. However, the concept of value created by the transaction can be considered under different forms, as it is shown by the existence of different methodologies applicable to compute it. The main ones are those already covered in the sub-paragraph 1.3.2 on value creation: the study of abnormal returns to check the additional wealth created (or destroyed) by the transaction to shareholders; the analysis of financial ratios and operative performance in the years after the competition of the deal.

Furthermore, the creation of value can derive by countless different motives as every deal is different from the others. Given that the outcome of every analysis is influenced by the sample considered, it is impossible to present a single framework universally valid. Indeed, studies tend to group a certain number of deals with common characteristics and consider the average effects caused by the transactions under these conditions. These features are variegated: from the geography of the deal to a specific industry, or from the structure of the bidder company to the characteristics of the target. Alternatively, a peculiar deal may be considered on its own and be presented as a case study for a specific topic, such as a valuation method, the analysis of a regulatory framework, or a phenomenon such as internationalization.

In relation to the empirical analysis run in the fourth chapter of this thesis, this review mainly covers the studies that examine the effects of M&A on the wealth of investors of both the bidder and the target company, therefore focussing on the so-called "abnormal returns" or "cumulative average abnormal returns" generated by shares around the announcement day. There are also few mentions on the post-deal financial performances of the acquiring firms to verify if deals actually improve their

fundamentals. The chapter begins reporting studies on M&A that considered the effects of different features on the outcome of the deal. Researches are mainly concentrated on the M&A completed in the USA or in the UK, although also those considering the European and Asian regions are included thanks to a recently growing literature. Moreover, some studies consider the same geography but at a different moment in time. There are covered two specific topics as well: the returns and the over-performances associated to cross-border deals, and the effects and performances of mergers and acquisitions that involve Italian companies. At the end of this chapter, it is presented a table summarizing the main findings of the studies mentioned.

3.2 Wealth effect on M&A Announcement

3.2.1 Broad Studies

The announcement of any relevant M&A deal is expected to cause a reaction on the stock market that it reflected on a change in the wealth of the investors of the bidder and the target company. Several studies that considered the transactions occurred during the fourth and the fifth merger waves agree that the announcement of an acquisitions lead to small drops in the price of shares of the bidder company, while that of the target spikes due to the premium paid.

Jensen and Ruback (1983) revision 13 papers that cover the M&A activity in the US between 1956-1981. Their core findings are that "corporate takeovers generate positive gains, that target firm shareholders benefit, and that bidding firm shareholders do not lose". Acquisitions announcement are found to generate between 20% and 30% of positive abnormal returns for targets in both the short and long term. Conversely, across the studies reviewed, the cumulative average abnormal return for the shareholders of bidding companies is -0.05% in the window that goes from the day before to the day after the announcement, and +1.37% over a one month-long event window[89].

Few years later, Jarrel, Brickley and Netter (1988) as well complete a survey of the research on M&A. They consider the studies from 1980 as the regulatory environment was changing due to the deregulation and a new merger wave began. However, the findings are similar to those of the analysis on the two precedent decades. The paper reports that acquisitions are found to continue generating large returns for target shareholders and, at best, modest returns for the bidders' shareholders. There also found evidence that the premium paid in takeovers are real wealth gain and not redistribution from the bidder to the target[90].

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[89] Jensen M. C., Ruback R. S., *The market for corporate control: The scientific evidence*, Journal of Financial Economics, 1983, Vol. 11, No. 1-4, pp. 5-50

[90] Jarrell G. A., Brickley J. A., Netter J. M., *The Market for Corporate Control: The Empirical Evidence Since 1980*, Journal of Economic Perspectives, 1988, Vol. 2, No. 1, pp. 49-68

Boone and Mulherin (2000) study the acquisitions and divestitures between 1990-1999. The wealth effect in their sample is found again substantially positive for targets (20.2%) and negative for acquirers (-0.37%) in the event window [-1, +1][91], where 0 is the day of the announcement of the acquisition offer. This study as well shows that deals generate a positive combined wealth effect of 3.56%, measured as the value-weighted cumulative abnormal return of the bidder and the acquirer[92].

Moeller, Schlingemann and Stulz (2005) focusses on the value destroyed by the US deals completed in last years of the fifth merger wave. They use a different metric, the aggregate dollar return, i.e., the sum of the product of the abnormal return of each announcement multiplied by the equity capitalization of the acquirer. The research finds that, until 1997, acquisitions were profitable in the aggregate for investors in bidding companies. In contrast, from 1998 to 2001, they became more costly and wiped out all the gains of the previous years. "The losses resulted from relatively few acquisition announcements, as can be seen from the fact that from 1998 through 2001, the equally weighted average abnormal return associated with acquisition announcements is positive". So, although deals announcements were still profitable for acquirers on average, the negative economic impact few large takeovers overshadowed the small positive effects of other thousands of smaller transactions completed in those three years[93].

Focussing on Europe, a core study is Martynova and Renneboog (2006) on the characteristics and the short-term wealth effect of domestic and cross-border M&A. Their sample is composed by 1,681 domestic and 740 cross-border deals that involved companies based in 28 Continental European countries, UK, and Ireland between 1993-2001. Overall, during the event window [-1, +1], the shares of the target firms generate on average 12.47% of cumulative abnormal returns, while those of bidders obtain a significant 0.72%. However, these results vary a lot under different attributes of the bids. On the announcement day, friendly M&As are less advantageous than average for targets (3%) and more advantageous for bidders (0.8%), while in hostile takeovers it is the opposite (15.5% for targets and -0.4% for bidders). The takeovers of private targets are associated with a significant positive average abnormal return on the announcement day (0.8%) to the bidders. In contrast, those of public companies generate negative average abnormal returns, although not significantly different from zero. Moreover, intra-industry acquisitions reward bidding companies more than the diversifying ones do. Exactly as Moeller (2005) shows for the US market, also the results of Martynova and Renneboog

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[91] The event window [-1, +1] refer to the three days that surround the announcement date (day 0). In other words, this event window goes from the day before the announcement day to that after it. The same notation is used for the other event windows mentioned in the chapter.
[92] Mulherin J. H., Boone A. L., *Comparing acquisitions and divestitures*, Journal of Corporate Finance, 2000, Vol. 6, No. 2, pp. 117-139
[93] Moeller S. B., Schlingemann F. P., Stulz R. M., *Wealth Destruction on a Massive Scale? A Study of Acquiring-Firm Returns in the Recent Merger Wave*, The Journal of Finance, 2005, Vol. 60, No. 2, pp. 757-782

confirm that the long-term returns got worse as the merger wave approached to its final years. The cumulative average abnormal for bidders are 0.52% for deals completed between 1993-96, -1.30% between 1997-1999, and -9.87% between 2000-2001. The main reason indicated as the cause for the bad outcomes of the deals completed in the last years of the wave is managerial hubris, that pushed companies into M&A although the stock market was pointing downward and business confidence was shrinking[94].

Since the beginning of the sixth merger wave, studies have been finding proofs of short-term benefits of deals. In a research published on the Financial Times, Moeller (2006) analyses more than 1,400 large mergers worldwide, worth over $400 million each, and find out that those announced between 2003-2005 created shareholder value for the bidder company. On the other hand, the same analysis run on deals completed in the late 1980s and in the late 1990s shows a destruction of shareholder value. The research also covers the performance of financial measures like ROE and EPS, and confirms that, for acquirers, the improvements of these metrics were better in recent deals than in those of the two previous merger waves. The benefits are concentrated not only in North American transactions, but also in those that involve Asian and European acquirers. The study also observes that the benefits continue to increase over time and are still in place after 18 months. Finally, for bidding companies, domestic deals bring more benefits than cross-border acquisitions. The main differences pointed out between past and recent transactions is a combination of deeper due diligence and better deal assessment, achieved through an improvement to the deal governance and an increased focus on integration strategies[95].

Alexandridis, Antypas, Travlos (2017) compare the wealth effect for acquisitions completed before-2009 and post-2009 by US acquirers. The 2008 financial crisis caused a regulatory overhaul that improved the effectiveness of monitoring and governance systems for all US public companies, introducing new control mechanisms, disclosure rules, and granting more powers to shareholders. The improvements to the regulations were sided by the spread of responsible practices, such as greater director specialisation and diversity, or executive compensations based on long term performance, with the goal of enhancing a sustainable value-creation mechanism and transmit more confidence to stakeholders. Alexandridis et al. (2017) find that these changes positively influenced the outcomes of acquisitions: over the event window [-1, +1], the average abnormal return is 1.05% for post-2009 acquisitions, an improvement from the loss of -1.08% associated to deals between 1990-2009. This return corresponds to a wealth gain of $30.2 million for bidding shareholders, $208 million more than

[94] Martynova M., Renneboog L., *Mergers and Acquisitions in Europe*, ECGI - Finance Working Paper No. 114/2006, CentER Discussion Paper Series No. 2006-06, 2006
[95] Moeller S., *Studying M&A targets*, Financial Times, 2006

the two precedent decades[96]. In addition, their research focuses as well on mega deals, M&A operations valued more than $500 million, that are often associated with agency problems, investor scrutiny and media coverage. A previous study of Alexandridis reports a significance negative relation between the premium paid and deal size in acquisitions completed between 1990-2007. Around the announcement, the average large deal is found to cause a loss of $518 million for bidding shareholders[97]. On the contrary, Alexandridis et al. (2017) report that the negative relation is not present anymore in post-2009 deals: the wealth effect is larger for these operations, with an abnormal return around the announcement of 2.54%, equivalent to an average $62.3 million of gain for the shareholders[98].

3.2.2 Corporate Governance and CEO Characteristics

Financial literature also studied the relations between recurrent factors in the characteristics of CEOs or in the governance of the bidding company and the number or the wealth effect on the shareholders of the acquirers.

Malmendier and Tate (2008) argue that companies with an overconfident CEO have a higher likelihood of completing acquisitions, although transactions generate negative stock returns at the announcement. Their idea is that overconfident executives pay premiums too high for their targets because they overestimate their ability in creating value and, consequently, overestimate the expected returns that acquisitions generate. To measure the overconfidence, they consider as proxy the overinvestments of CEOs in the company they manage and the press coverage. From a sample of 394 large US firms between 1980-1994, the results show that companies with a CEO classified as overconfident are 65% more likely to make acquisitions. Moreover, in the event window [-1, +1] around the announcement, the wealth effect on companies with an overconfidence CEO is significantly more negative (-0.90%) than for those with a non-overconfident CEO (-0.12%)[99].

Ferris, Jayaraman and Sabherwal (2013) extend the study on the CEO overconfidence to international M&A between 2000-2006. They confirm that most of the findings valid on the US market apply internationally as well and observe that there are specific cultural and political environments where the odds of having an overconfident CEO are higher. The largest percentage of

[96] Alexandridis G., Antypas N., Travlos N., *Value creation from M&As: New evidence*, Journal of Corporate Finance, 2017, Vol. 45, Issue C, pp. 632-650

[97] Alexandridis G., Fuller K., Terhaar L., Travlos N., *Deal Size, Acquisition Premia and Shareholder Gains*, Journal of Corporate Finance, 2013, Vol. 20, Issue C, pp. 1-13

[98] Alexandridis G., Antypas N., Travlos N., *Value creation from M&As: New evidence*, Journal of Corporate Finance, 2017, Vol. 45, Issue C, pp. 632-650

[99] Malmendier U., Tate G., *Who makes acquisitions? CEO overconfidence and the market's reaction*, Journal of Financial Economics, 2008, Vol. 89, No. 1, pp. 20-43

overconfidence is observed in individuals managing firms based in Christian countries that encourage individualism while deemphasizing long-term orientation in their national cultures[100].

Jaffe, Pedersen and Voetmann (2013) detect in the abilities of the CEO a determinant for persistent good performances of acquisitions. Their study shows that, if a US company complete a successful deal and keep its CEO, it achieves 1.02% more returns on the subsequent acquisition than firms that completed bad acquisitions and kept their CEO. This advantage is lost if the company changes its CEO. Therefore, the research concludes that the success of acquisitions is more related to the skills of the CEO than to firm characteristics[101].

Other recent studies focus on the relationship between company returns for acquisitions and CEO skills and characteristics. Baker, Dutta, Saadi and Zhu (2012) choose a sample of Canadian companies and measure the skills of CEOs in terms of operating performances of the company. They conclude that there is a negative relation between the ability of executives in running the company and the reaction of the market at the announcement of the deal. The research associates this result to the hypothesis of overconfidence of the CEO and to the empire building theory[102]. Levi, Li and Zhang (2014) study if the gender of the director has an influence of the M&A activity in a sample of US companies between 1997-2009. They find that companies with female directors not only complete 7.6% less bids, but each additional female director on the board of the acquirer reduces the bid premium paid by 15.4%[103]. Finally, Miletkov, Poulsen, and Wintoki (2017), considering a sample of non-US companies, find that those with independent directors from nations with better governance standard experience higher wealth effects at the announcement of M&A[104].

Finally, Golubov, Yawson and Zhang (2015) argue that most of the suggested factors affecting acquirers returns, from those relative to size, cash or stock bid, and characteristics of the offer such as a friendly or hostile takeover, usually explain small amounts of their total returns. Indeed, the regressions that employ these factors usually present a R2 between 5%-6%. Instead, using a sample of US domestic M&A between 1990 and 2011, they show that a larger proportion of the wealth effect can be explained by fixed effects, i.e., factors that are firm-specify and time-invariant. Golubov et al. (2015) assert that "the explanatory power of the acquirer fixed effects matches and, in some cases,

[100] Ferris S. P., Jayaraman N., Sabherwal S., *CEO Overconfidence and International Merger and Acquisition Activity*, Journal of Financial and Quantitative Analysis, 2013, Vol. 48, No. 1, pp. 137-164

[101] Jaffe J., Pedersen D., Voetmann T., *Skill differences in corporate acquisitions*, Journal of Corporate Finance, 2013, Vol. 23, Issue C, pp. 166-181

[102] Baker H.K., Dutta S., Saadi S., Zhu P., *Are good performers bad acquirers?*, Financial Management, 2012, Vol. 41, pp. 95-118

[103] Levi M., Li K., Zhang F., *Director gender and mergers and acquisitions*, Journal of Corporate Finance, 2014, Vol. 28, Issue C, pp. 185-200

[104] Miletkov M., Poulsen A., Wintoki M. B., *Foreign independent directors and the quality of legal institutions*, Journal of International Business Studies, 2017, vol. 48, issue 2, No 7, 267-292

even overshadows that of many of the major firm and deal-specific characteristics combined". Considering a mean-sized acquirer from the sample, the effect is equivalent to $184 million in additional shareholder value at the announcement of the deal. Moreover, bidding returns persist over time: the good acquirers continue to conclude positive M&A, while bad acquirers keep on performing poorly. In contrast with Jaffe, Pedersen and Voetmann (2013), Golubov et al. (2015) report that this result is dependent on firms themselves, and not on their management. Therefore, their idea is that some companies have features that either allow them to particularly benefit from synergies or they overperform at valuing potential targets[105].

3.3 Literature on Cross-Border M&A

The increased weight of cross-border M&A on global deals made them a core topic in financial literature. Due to the international aspect of the phenomenon, studies are focussed not only on transactions of US companies, but also on examining whether the effects observed in the US also occur elsewhere or how the differences in the economic or cultural environment affect the results of the research.

Erel, Liao and Weisbach (2012) collect a sample of almost 57,000 cross-border deals that happened between 1990-2007. Around 75% of the acquirers are from outside the US, and almost all of them involve at least a private company: 96% of the target are private, and 26% of the acquirer are private. Their study focuses on the determinants of cross-border transactions and confirms the influence of many factors identified in the second chapter of this thesis. Erel et al. (2012) find that the operations are more likely to occur if the countries of the acquirer and the target are close and have trade agreements. Most of the acquirers are from developed nations and prefer purchasing firms based in countries with lower accounting standards. As jurisdictions with lower accounting standard usually present worst corporate governance too, this result support the governance arguments. Finally, the number of operations also appears correlated to the economic aspect. On the one hand, a relatively lower income tax rate attracts companies from countries with higher tax rates. On the other hand, the likelihood of cross-border acquisitions increases depending on valuation factors such as an overperformance of country-level stock returns, a higher market-to-book ratio, and the appreciation of the home-country currency[106].

Huang, Officer and Powell (2016) also cover the influence of different governance quality on the realization of cross-border M&A. Their idea, based to the information asymmetry theory, is that

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[105] Golubov A., Yawson A., Zhang H., *Extraordinary Acquirers*, Journal of Financial Economics, 2015, Vol. 116, No. 2, pp. 314-330

[106] Erel I., Liao R. C., Weisbach M., *Determinants of Cross-Border Mergers and Acquisitions*, Journal of Finance, 2012, Vol. 67, No. 3, pp. 1045-1082

companies employ different methods of payment to mitigate country-level governance risk. In general, stock-swap deals are associated with more uncertainty on the value of the target since the eventual post-acquisition loss would be shared between the shareholders of both the acquirer and the target[107]. Conversely, acquisitions done through cash payments are reported to signal a major confidence in the valuation of the target[108]. Huang et al. (2016) employ a sample composed by 47,481 domestic and cross-border M&A in 46 countries between 1990-2010 and base the country governance risk factor on parameters such as transparency, shareholder protection, corporate governance, and institutional quality. They show that, if the country governance risk of the target is relatively higher than that of the acquirer nation, the likelihood of a stock payment increases. This result is consistent with the hypothesis that acquirers try to mitigate overpayment risks in cross-border deals as well. However, stock payments have also a downside in cross-border transactions: all else equal, target shareholders usually prefer cash payments because they may lack of interest in the bidding company or in investing its country. Therefore, acquirers face the trade-off between a higher chance of completing the deal through a cash payment and mitigating the risk of overpayment doing a stock bid. Finally, the paper also reports that, since 2000, the number of deals that use stocks as a method of payment increased significantly in cross-border M&A, converging with the method of payment of domestic transactions[109].

Chang, Choi and Huang (2015) look at the governance characteristics of acquirers to estimate if their structure influence the returns generated by cross-border M&A. They employ a sample of US acquirers and use the presence of antitakeover provisions in the bidding company as a proxy for strong corporate governance. In their hypothesis, a strong corporate governance should reduce the premium paid for acquisition, therefore increasing announcement returns. In general, they find a negative wealth effect for US companies associated with cross-border acquisitions. Moreover, contrary to the results for domestic M&A, Chang et al. (2015) report that acquisitions completed by poorly governed acquirers generate higher announcement returns than those of well-governed companies. The paper does not provide a final explanation for this outcome, but it suggests that it may be caused by the fact that companies with a poorer governance may be keener to extract value from their targets[110].

Considering studies on the European M&A market, Conn, Cosh, Guest and Huges (2005) consider the impact of domestic and cross-border M&A on UK acquirers distinguishing between

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[107] Hansen R. G., *A theory for the choice of exchange medium in mergers and acquisitions*, The Journal of Business, 1987, Vol. 60, pp. 75–95

[108] Fishman M. J., *Preemptive bidding and the role of the medium of exchange in acquisitions*, The Journal of Finance, 1989, Vol. 44, pp. 41–57

[109] Huang P., Officer M. S., Powell R., *Method of payment and risk mitigation in cross-border mergers and acquisitions*, Journal of Corporate Finance, 2016, Vol. 40, Issue C, pp. 216-234

[110] Chang C., Choi P.M.S., Huang S.H., *Do Poorly Governed Acquirers Transfer Wealth to Targets in Cross-Border Acquisitions?*, Financial Management, 2015, Vol. 44, pp. 475-498

public and private targets in the period 1984 to 1998. There are considered the abnormal returns generated in the announcement window [-1, +1] and in three post-acquisition years under a buy-and-hold method. Overall, domestic acquisitions generate higher announcement (0.63%) and long run returns (-7.47%) than cross-border acquisitions (respectively 0.33% and -13.37%). Domestic deals generate negative announcement (-0.99%) and post-acquisition (-20%) returns if the target is public, and positive announcement returns (1.05%) and zero post-acquisition returns if it is private. Cross-border acquisitions of public companies are not found to produce any announcement return, while the post-acquisition effect is significantly negative (-32%). However, when the target is private, the takeover generate positive announcement returns (0.38%) and zero post-acquisition returns. For cross-border M&A, the method of payment has no significant influence on short- and long-term performance. The paper also finds that the cross-border acquisitions of foreign High-Tech[111] private companies generate significant positive abnormal returns for bidders not only at the announcement (0.90%), but also post-bid; in contrast, the takeover of non-high-tech companies does not generate any effect on returns at the announcement and a negative post-bid abnormal return on the long term. This result seems to support the internationalization theory in relation to synergies based on to intangible and information-based assets. In terms of target country characteristics, a large cultural difference between the bidding and the target nation reduces long-term returns. On the other hand, there are not found any evidence that support common explanations of cross-border M&A, such as differences in accounting standard, tax, or exchange rates[112].

A study by Mateev (2017) examines the differences of the M&A announcement effect for the bidding company between the M&A market in UK and Continental Europe collecting a sample of 2,823 European acquisitions announced between 2002-2010. The sample excludes the deals related to financial institutions and consider only intra-European takeovers. His research shows that short-term announcement effects for shareholders, measured as cumulative average abnormal returns, are not statistically different between Continental Europe and UK. In both cases, investors earn positive abnormal returns for either domestic or cross-border acquisitions, with the latter producing higher returns. Moreover, in all the event window considered, more than a half of the cumulative abnormal returns is greater than zero. In the event window [-1, +1], UK bidders obtain a cumulative abnormal return of 0.77% for domestic acquisitions and 1.26% for cross-border acquisitions. Similarly, in the same event window, the stocks of companies from Continental European firms experience abnormal

[111] The classification of high-tech company is based Butchart (1987). A company belong to a high-tech industry" if the R&D expenditure to industry output is substantially above average. If this ratio is above - but not substantially above - average, a second measure is employed based on the proportion of scientists, professional engineers and technicians in the labour force". Conn et al. (2005)

[112] Conn R., Cosh A.D., Guest P.M., Hughes A., *The Impact on UK Acquirers of Domestic, Cross-border, Public and Private Acquisitions*, Journal of Business Finance & Accounting, 2005, Vol. 32, No. 5-6, pp. 815-870

returns of 0.90% for domestic acquisitions and 1.15% for those cross-border. Although these abnormal returns are statistically significant, Mateev fails to reject the hypothesis that the difference between domestic and cross-border acquisition are significant[113]. These results partially contradict the findings of Martynova and Renneboog (2006): while both show positive cumulative abnormal returns for European-based bidding companies, the latter found that the market reacts more positively at the announcement of cross-border bids done by Continental European companies (0.5%) than those by UK companies (0.2%)[114].

Tesar and Chari (2010) study the acquisitions of majority shares finalised by companies from advanced economies on firms based in an emerging economy. They report that developed-countries bidders that acquire the control of emerging targets obtain a positive and significant cumulative abnormal return of 1.16% on the event window [-1, +1] around the announcement. This result is in contrast with the results of different studies that document underperformance of US acquirers, while confirm the positive performance of European countries engaging in cross-border M&A. The explanation advanced for the positive returns is based on the governance theory: "the ability of developed-market acquirers to bring better corporate governance through control rights to emerging-market targets can drive value gains for the shareholders of acquiring firm"[115].

Karels, Lawrence and Yu (2011) consider the cross-border M&A between US and Indian firms from 1995 to 2007. Their paper shows different wealth effect in the event window [-1, +1], centred around the announcement date, if it is an US or an Indian company to complete the acquisition. For US acquiring companies, the effect is small but negative when they acquire Indian targets (-0.41%, not statistically significant), while the latter obtain significant returns when are absorbed (4.08%). The returns are worst when the target is a privately held film (-1.10%, significant at the 10% level) than when it is public (-0.38%, not significant). On the other hand, Indian acquirers obtain significant positive returns when they announce the acquisition of US companies (2.71%), although the positive effect of acquiring US public companies (0.54%) are not significant and much smaller than those associated with acquisitions of private targets (3.09%). The returns for US targets acquired by Indian companies are substantially higher (18.12%)[116].

For the Asian M&A market, Cheng, Wickramanayake and Sagaram (2007) examine the shareholders' wealth effects of domestic and cross-border deals at the announcement from the

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[113] Mateev M., *Is the M&A Announcement Effect Different Across Europe? More Evidences from Continental Europe and the UK*, Research in International Business and Finance, 2017, Vol. 40, pp. 190-216

[114] Martynova M., Renneboog L., *Mergers and Acquisitions in Europe*, ECGI - Finance Working Paper No. 114/2006, CentER Discussion Paper Series No. 2006-06, 2006

[115] Tesar L., Chari A., Ouimet P., *The Value of Control in Emerging Markets*, Review of Financial Studies, 2010, Vol. 23, No. 4, pp. 1741-1770

[116] Karels G. V., Lawrence E., Yu J., *Cross-Border Mergers and Acquisitions between Industrialized and Developing Countries: US and Indian Merger Activity*, International Journal of Banking and Finance, 2011, Vol. 8, No. 1, pp. 35-58

prospective of Chinese and Indian acquiring company between 1999-2003. For Indian companies, the takeover announcements always have a significant positive effect on the share price. In the [-1, +1] event window, the cumulative average abnormal returns are 2.05% for domestic deals and 1.48% for cross-border deals. On the other hand, the abnormal returns for Chinese companies' shareholders are small and not significant: 0.34% for domestic deals and -0.19% for cross-border deals[117].

3.4 Literature on Italian M&A

Italian literature on M&A is less developed than that of US or UK. The process of consolidations began only in the 1980s, during the first European merger wave. Moreover, at that time, it was difficult to collect from Italian companies the data necessary to analyse the effect of takeovers. Studies are usually focussed on financial performances of the acquirer post-acquisition, without considering the market reaction. Indeed, it is necessary to refer to broad European studies to see the magnitude of the wealth effect at the announcement for Italian bidding companies.

3.4.1 Domestic M&A

Guelpa (1992) is the first empirical work on Italian M&A activity. He employs a sample of 152 bidding companies and 117 targets between 1983-1987 to study the trends of the Italian M&A market and the performances of companies after the acquisitions. About trends, he notices that most of the deals considered were in the same industry, so horizontal or vertical consolidations that acquirers complete to increase their market power, and that the number of inbound cross-border acquisitions was already higher that those outbound. He also addresses the fact that there were lower number of M&A deals that involve Italian companies compared to other major European countries. For Guelpa, the reason behind this data is the lack of ambition of Italian companies, not used to pursue external growth to improve their business. In the 1980s, this issue was extremely relevant because most of the largest Italian companies were controlled by the government and the share of SMEs compared to the large public companies was much higher than today. Guelpa (1992) does an analysis ex-ante and ex-post of the companies included in the sample with respect to a control group in order to check how they perform before the deal and whether the external expansion benefits them. He considers four classes of indicators: profitability (ROE, ROI, ROS), efficiency (added value per employee), financial (leverage, interests/sales, assets/debt) and growth (sales growth, assets growth). Most of his findings are in line with those of the international literature of his time. In the pre-deal analysis, he notices that acquirers are growing companies and they are slightly more profitable than those of the control

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[117] Cheng Y., Wickramanayake J., Sagaram J. P. A., *Acquiring Firms ' Shareholder Wealth Effects of Selected Asian Domestic and Cross-Border Takeover Bids : China and India 1999-2003*, 2007

sample. Meanwhile, targets present better growth ratios than their peers, but their efficiency and profitability are slightly worse. In the post-deal, the study reports that there is no significant effect for the operativity of acquirers, although their growth worsens following the acquisition. On the other hand, the only significant improvement for targets is on operativity ratios, in in particular their ROE becomes higher in the years after the competition of the deal[118].

Benfratello (2001) employs data from the Italian and EU antitrust authorities to study the effect of acquisitions and ownership chances in Italy between 1991-1994. His methodology is very similar to that employed by Guelpa (1992), with an analysis on the same group of indicators done before and after the competition of the deals, with the main difference that he considers only the effects on acquired companies. The paper reports that, before the acquisition, targets have worse financial and profitability characteristics than their peers. However, acquired companies do not present significant improved performance both in the short run and two years after the competition of the deals[119]. In addition, Benfratello (2001) splits companies in three subsamples based on the type of acquisition. State-owned enterprises sold to private companies performs slightly worse than private peers before the acquisition. However, a significant improvement occurs the year before the acquisition, although the benefits are small after the completion. Companies acquired through leveraged and management buyouts perform better than the control sample before the acquisition. Finally, private companies acquired by foreign firms slightly improve their financial structure but present worst operative results, in particular a lower ROE, than those of their peers in the year of the acquisition. While the findings of the first two subsamples are in line with international studies of the 1990s, the negative effect of foreign acquirers on Italian targets is not. The explanation of Benfratello is that, in the 1990s, Italian companies faced difficulties in integrating with larger foreign multinationals and that the operative improvements could require more than the two years considered in the analysis.

3.4.2 Cross-Border M&A

Morosini, Shane and Singh (1998) collect a sample of domestic and foreign companies that acquired Italian firms to study the post-acquisition sales growth in cross-border deals and how this growth is related to national cultural distance. Their sample is based on the performance of 54 companies that completed acquisitions in Italy between 1987-1991. Overall, the average growth in the two years after the acquisition is found negative, and the worst results are for acquirers of large companies. However, the study finds a positive relation between cultural distance and post-

[118] Guelpa F., *Crescita esterna e performance competitive. Un'analisi degli effetti delle acquisizioni in Italia negli anni Ottanta*, Edizioni Carocci, 1992

[119] Benfratello L., *Determinants and effects of mergers and acquisitions: an analysis based on the notifications to antitrust authorities*, L'industria, 2001, No. 3, pp. 469-55

acquisition performances as larger difference in terms of routines and repertoires improve the sales growth of the acquirers. In order to have a broader view, the authors also completed interviews to the executives of companies that engaged in these cross-border acquisitions. Their answers supported the empirical results as managers explained that the differences in routines and repertoires were transferred to the rest of their company creating value[120].

Cioli, Giannozzi, Ippoliti and Roggi (2020) complete a wide study on the post-deal performance of Italian companies involved in cross-border M&A. They collect a sample of 415 Italian bidders and 370 Italian targets from deals between 2006-2013[121]. The performance is measured in terms of profitability, leverage, and growth in sales or invested capital. The core findings are displayed in the table 3.1.

Table 3.1 - Result of the overall analysis on Italian acquirer and target performance after the completion of a cross-border deal

Dependent variables	Expected effect for bidder based on literature	Results	Expected effect for target based on literature	Results
Sales Growth	+	+	Non sign.	Non sign.
Profit growth	+	+	Non sign.	+ (first 2 years).
Invested capital growth	+	+	Non sign.	+ (last 2 years)
EBITDA margin	+	+	Non sign.	Non sign.
EBIT margin	+	+ (no year 3)	Non sign.	-
Profit margin	+	+	Non sign.	Non sign.
ROA	Non sign.	-	Non sign.	Non sign.
ROIC	Non sign.	+	Non sign.	Non sign.
Capital Turnover	Non sign.	Non sign.	Non sign.	+
Leverage	Non sign.	Non sign.	Non sign.	+ (last 2 years)
Independent variables and control	**Expected effect on bidder performance**	**Results**	**Expected effect on target performance**	**Results**
Leverage	-	-	-	-
Cultural distance in socio-legal characteristics (Hofstede Distance)	Non sign.	+	Non sign.	-.
Cultural distance in development (Heritage Distance)	Non sign.	-	Non sign.	+
Macroeconomic distance in GDP	+	-	Non sign.	Non sign.
Year Dummy (Deal in years of crisis)	-	-	-	+
Forex volatility	-	-	-	Not disposable
Deal value	+	+	+	+
Listing	+	-	+	+.
Industry growth rate	+	+	+	Not disposable
PE presence	+	Not disposable	+	- (with T test)

Source: Cioli et al. (2020)

[120] Morosini P., Shane S., Singh H., *National Cultural Distance and Cross-Border Acquisition Performance*, Journal of International Business Studies, 1998, Vol. 29, No. 1, pp. 137-158
[121] Cioli V., Giannozzi A., Ippoliti V., Roggi O., *Cross-Border M&A and Financial Performance: Empirical Evidence on Bidder/Target Companies*, International Journal of Business and Management, 2020, Vol. 15, No. 4, pp. 67-86

Overall, for Italian companies, the effects of cross-border M&A are more positive when they are bidders than when they are targets. In the considered sample, the acquirers present improved profitability and operative performance after the completion of cross-border deals. Not only the growth of profits and revenue improve, but also margins benefit from the deal. The financial structure, in particular leverage, is not damaged by the transaction, although the increase of assets has a negative impact on the ROA and a positive one on ROIC. In converse, Italian companies acquired by foreign institutions do not receive the same benefits of acquirers. Their performance remains more or less stable, although there is a significant growth in profits and invested capital during the first two years. The only significant variation on margins is the decrease of the EBIT/Sales. Finally targets show an increased leverage and capital turnover compared to that pre-acquisition. Cioli et al. (2020) also consider cultural variables and differences between Italy and the country of the counterpart. For instance, different socio-legal characteristics have a positive relation on the performance of bidders and a negative on targets. This result suggests that, while Italian targets faces problems during the integration process, acquirers can better exploit source of value in terms of competencies and resources, learning from their counterparties. The latter result supports the belief related to internationalization that securing strategic assets in different markets can improve the competitiveness of acquirers. Differently from previous studies, the difference of GDP per capita has a negative relation with bidders' performance, while it does not affect targets. Deal value has a positive relation with the performance of both acquiring and target firms: the paper associates this effect to the greater economies of scale created by large deals and to the opportunity of leveraging in full the financial and organizational capacity of the acquirer. The final point of the analysis is partially in contrast with the previous findings of Benfratello (2001): target companies acquired by foreign private equity funds do not benefit from the acquisition in terms of profitability[122].

For the wealth effects at the announcement of a cross-border deal, it is possible to obtain an indication of their magnitude through the study of Martynova and Renneboog (2006) on intra-European deals. Indeed, in addition to the findings mentioned in the paragraph 3.2.1, they also report the cumulative average abnormal returns around the announcement for each of the European country in their sample, including Italy. On the announcement date, for the 49 Italian bidding companies that acquired a European target (both domestic and cross-border), the average wealth effect is 0.70%. (not statistically different from zero). Moreover, only 47% of the acquirers presented positive returns at the announcement. During the window [-1, +1], the value of the cumulative average abnormal returns is 1.38%, which is also statistically significant. In the same window, the wealth effect is positive for

[122] Cioli V., Giannozzi A., Ippoliti V., Roggi O., *Cross-Border M&A and Financial Performance: Empirical Evidence on Bidder/Target Companies*, International Journal of Business and Management, 2020, Vol. 15, No. 4, pp. 67-86

55% of the acquirers. These returns are higher than the European average for both the announcement date and the event window considered, respectively 0.53% and 0.72%[123].

3.5 Summary Tables

The tables in the next pages summarize the main findings of the studies considered in the chapter in order of mention.

Table 3.2: Summary Table – Wealth Effect on M&A Announcement: Broad Studies

Study	Sample	Main Findings
Jensen and Ruback (1983)	Review of 13 empirical studies on US activity (1956-1981)	Corporate takeovers generate positive gains, that target firm shareholders benefit, and that bidding firm shareholders do not lose.
Jarrel, Brickley and Netter (1988)	Review of the studies in the 1980s	Acquisitions generate large returns for target shareholders and, at best, modest returns for the bidders' shareholders.
Boone and Mulherin (2000)	Acquisitions and divestitures (1990-1999)	Wealth effect substantially positive for targets (20.2%) and negative for acquirers (-0.37%) around the announcement. Deals generate a positive combined wealth effect of 3.56%.
Moeller, Schlingemann and Stulz (2005)	US deals in the 1990s	Until 1997, acquisitions were profitable in the aggregate for investors in bidding companies. From 1998 to 2001, they become more costly and wiped out all the precedent gains.
Martynova and Renneboog (2006)	Intra-European deals (1993-2001)	Significant positive returns for both target (12.47%) and acquirers (0.72%) around the event window [-1, +1]. Different results based on bid characteristics. Worst return for acquirers in the late 1990s.
Moeller (2006)	Large Mergers Worldwide (2003-2005)	M&A generate positive returns for bidders worldwide in the short and medium term. Domestic M&A bring more benefits than cross-border acquisitions.
Alexandridis, Antypas, Travlos (2017)	US acquirers (1990-2015)	The average abnormal return around the announcement for post-2009 acquisitions is positive (1.05%) and improved from the loss of -1.08% associated to deals between 1990-2009. Post-2009, the wealth effect for acquirers is larger for megadeals.

[123] Martynova M., Renneboog L., *Mergers and Acquisitions in Europe*, ECGI - Finance Working Paper No. 114/2006, CentER Discussion Paper Series No. 2006-06, 2006

Table 3.3: Summary Table – Wealth Effect on M&A Announcement: Corporate Governance and CEO Characteristics

Study	Sample	Main Findings
Malmendier and Tate (2008)	Large US firms (1980-199)	Companies with overconfident CEO are 65% more likely to make acquisitions. At the announcement, these deals destroy shareholder wealth (-0.92%) more than acquisitions done by firms with non-overconfident CEOs (-0.12%).
Ferris, Jayaraman and Sabherwal (2013)	International companies (2000-2006)	The findings on US overconfident CEOs apply internationally as well. There exist specific cultural and political environments where the odds of having an overconfident CEO are higher.
Jaffe, Pedersen and Voetmann (2013)	US acquirers (1981-2007)	The success of M&A is more related to the skills of the CEO than to firm characteristics. Keeping the same CEO after a successful acquisition has a positive effect on returns of subsequent acquisitions.
Baker, Dutta, Saadi and Zhu (2012)	Canadian listed companies at the beginning of 2006	Negative relation between the ability of executives in running the company and the reaction of the market at the announcement of the deal.
Levi, Li and Zhang (2014)	US acquirers (1997-2009)	Companies with female directors complete 7.6% less bids and each additional female director on the board of the acquirer reduces the bid premium paid by 15.4%
Miletkov, Poulsen, and Wintoki (2017)	Non-US Companies (2001-2011)	Companies with independent directors from nations with better governance standard experience higher wealth effects at the announcement of M&A
Golubov, Yawson and Zhang (2015)	Domestic deals for US acquirers (1990-2011)	A large proportion of the wealth effect of acquirers can be explained by fixed effects, i.e., factors that are firm-specify and time-invariant. The idea is that some companies have features that either allow them to particularly benefit from synergies or they overperform at valuing potential targets.

Table 3.4: Summary Table – Literature on Cross-Border M&A

Study	Sample	Main Findings
Erel, Liao and Weisbach (2012)	Cross-border M&A worldwide (1990-2007)	Report that there exist country-level factors that increase the likelihood of cross-border deals between companies from two countries.
Huang, Officer and Powell (2016)	M&A worldwide (1990-2010)	Companies face the trade-off between a higher chance of completing the deal through a cash payment and mitigating the risk of overpayment doing a stock bid.
Chang, Choi and Huang (2015)	Domestic and cross-border M&A of US acquirers (1990-2011)	Negative wealth effect associated with cross-border acquisitions. M&A completed by poorly governed bidders generate higher announcement returns than those of well-governed firms in cross-border deals.
Conn, Cosh, Guest and Huges (2005)	Domestic and cross-border M&A of UK acquirers (1984-1998)	Domestic acquisitions generate higher announcement (0.63%) and long run returns (-7.47%) than cross-border acquisitions (0.33% and -13.37%). Several bid- and target-related factors affect the announcement effect.
Mateev (2017)	European acquisitions (2002-2010)	UK bidders obtain a CAAR of 0.77% for domestic acquisitions and 1.26% for cross-border acquisitions around the announcement. Continental European firms experience abnormal returns of 0.90% for domestic acquisitions and 1.15% for those cross-border.
Tesar and Chari (2010)	M&A between advanced and emerging economies (1986-2006)	Developed-countries bidders that acquire the control of targets from emerging-markets obtain a positive and significant CAAR of 1.16% around the announcement.
Karels, Lawrence and Yu (2011)	M&A between US and India (1995-2007)	US acquiring companies have a small but negative announcement effect (-0.41%), Indian acquirers obtain significant positive returns (2.71%). Returns for targets are always significantly positive. Returns changes based on the public or private status of the target.
Cheng, Wickramanayake and Sagaram (2007)	Domestic and cross-border M&A of Chinese and Indian acquirers (1999-2003)	Announcement returns for Indian companies are 2.05% for domestic deals and 1.48% for cross-border deals. Those for Chinese companies' shareholders are small and not significant: 0.34% for domestic deals and -0.19% for cross-border deals.

Table 3.5: Summary Table – Literature on Italian M&A

Study	Sample	Main Findings
Guelpa (1992)	Italian acquirers and targets (1983-1987)	Pre-deal: acquirers are growing companies and they are slightly more profitable than those of the control sample. Targets present growth ratios better their peers, but their efficiency and profitability are slightly worse. Post-deal: no significant effect for the operativity of acquirers, although their growth worsens. The only significant improvement for targets is on ROE.
Benfratello (2001)	Acquired Italian companies (1991-1994)	Pre-deal: acquired companies have worse financial and profitability characteristics than their peers. Post-deal: Targets do not present significant improved performance both in the short and medium term. Results are slightly different based on the acquirer.
Morosini, Shane and Singh (1998)	Domestic and foreign companies that acquired Italian firms (1987-1991)	The growth worsens after the acquisition, in particular for acquirers of large companies. There is a positive relation between cultural distance and post-acquisition performances as differences in terms of routines and repertoires improve the sales growth of the acquirers.
Cioli, Giannozzi, Ippoliti and Roggi (2020)	Italian acquirers and targets (2006-2013)	Cross-border M&A more Italian bidders investing abroad than Italian targets acquired by foreigners. There are identified cultural variables and differences between Italy and the country of the counterpart that affect the post-deal performance.
Martynova and Renneboog (2006)	Intra-European deals (1993-2001)	Intra-European acquisitions announced by Italian acquirers generate positive returns at the announcement (0.70%) and around the announcement (1.70%). Both these values are above the European average of abnormal returns.

Chapter 4

Empirical Analysis

4.1 Overview

After the review of past studies on cross-border deals, this chapter shows the results of the empirical analysis conducted on the short-term returns of Italian public companies acquiring other firms. The idea is to investigate if the shareholders of bidding companies obtain significant abnormal returns in proximity to the deal announcements, and check if there is a difference in this result between domestic and cross-border acquisitions.

On the one hand, the decision to focus on Italian acquirers comes from the fact that the local literature lacks recent research on this exact topic as studies are mainly focussed on specific industries or deals, or taken in consideration within the European stock markets. On the other hand, it is preferred to analyse bidder companies as financial literature agrees that target companies register abnormal returns after the announcement of their sale, while the result is more debated for the acquiring ones. Finally, the period chosen for the analysis consists in the last decade, starting from January 2010 and finishing before the Coronacrisis, in February 2020. It was decided to start from 2010 since, on that year, financial markets had recovered from most of the shocks caused by the Great Recession and, again, literature presents less studies focussed on the period that followed the crisis.

After this introduction, the second paragraph explains the event study framework and it describes the methodology adopted for conducting this analysis, which assumptions were used, and the detailed steps used to get the final results.

The third paragraph presents a review of how the sample data were obtained and which parameters were chosen for filtering the transactions. Additionally, information regarding the geography of the deals and some of their statistics is provided.

Finally, in the last two paragraphs, the results of the analysis are respectively shown and commented. They initially refer to the overall sample, so without differentiation between domestic and cross-border deals, and then they are divided under these two categories. Then, cross-border acquisitions are furtherly split as deals targeting companies inside the European Union (ex-Italy) or outside of it, as it is found that results vary under these different circumstances. In the end, they are also split as acquisitions done in countries with a GDP higher or lower than US$500 billion. In addition to abnormal returns, also trading volume is considered to show the increase of trades on securities of companies involved in acquisitions.

4.2 Methodology: Event Study Analysis

The empirical analysis that is employed for studying returns after the announcement of a cross-border M&A transaction is the event study: it is a methodology that allows the evaluation of the impact of a significant catalyst occurrence or contingent event on the value of a security, such as company stock[124]. In financial literature, it finds numerous applications thanks to the uncertain effect of firm related events such as: mergers and acquisitions, stock splits or reverse splits, earnings announcement, inclusion in stock index, and many others.

4.2.1 Basic Structure of an Event Study and Assumptions

The standard procedure consists in employing an asset pricing model to obtain an estimate of the expected return of the security of interest, which is then compared to the actual return after a news announcement in a certain event window, i. e. the time interval during which it is likely to observe the effects of the event. The idea is that the price of the security should be quick in reflecting value relevant information, and therefore it is possible to measure the "news" effect from the unexpected returns.

The basic structure of an event study is laid out in Fama, Fisher, Jensen and Roll (1969), where they focus on examining the process by which common stock prices adjust to the information implicit in a stock split[125], and in Brown and Warner (1980), that decide to employ observed stock return data in order to examine various methodologies used in event studies to measure security price performance[126]. McWilliams and Siegel (1997) also examine the use of the event study analysis in management research and present three fundamental assumptions underlying the identification of abnormal returns:

- Market Efficiency: the first one is that the efficient market hypothesis holds. This implies that stock prices reflect all the relevant information available and that the market should react immediately as soon as new information becomes public. Moreover, after the initial reaction to news, there should be no further market reactions caused by the new information. The assumption also leads to the consideration that it is more appropriate to take in account only a short horizon around the event date. Indeed, the use of long windows implies that the effects of events are not incorporated into stock prices quickly, and this can be interpreted as a violation of the assumption of market efficiency itself.

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[124] Investopedia, *Event Study Definition*

[125] Fama E. F., Fisher L., Jensen M. C., Roll R. W., *The Adjustment of Stock Prices to New Information,* International Economic Review, 1969, Vol. 10,

[126] Brown S. J., Warner J. B., *Measuring security price performance*, Journal of Financial Economics, 1980, Vol. 8, pp. 205-258

- Unanticipated Events: the second assumption requires that the realization of the event is unknown to the market before the public release of the news to the press. Only then, traders will be aware of the information and it will be incorporated in the price of the security. However, especially for M&A transactions, the market sometimes discerns the information before its public announcement: to account for this issue, it is suggested to take in consideration an event window which also includes some days before the announcement.
- Absence of Confounding Effect: the last assumption requires that, in the event window, there are no other relevant events associated to the firm occurring. This is required as the influence on the security price caused by other events, such as a dividend distribution or the disposal of an asset, may skew the price of the security and invalidate the event study[127].

4.2.2 Event Definition

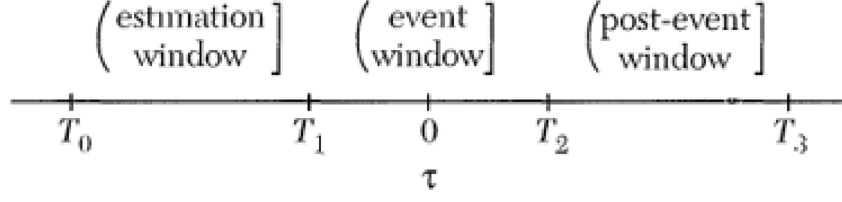
Event studies need to address practical issues about the definition of the event, how it spreads over time and how to assess the presence and the magnitude of the analysed effect. They are:

- Data sampling interval: The decision is taken considering the type of event analysed. For short term analysis, daily data are those most used, while intraday data are sometimes collected for analysis of high frequency events. Instead, when a phenomenon is studied for longer horizons, data are aggregated weekly or, more rarely, monthly.
- Event Window: It is the period during which it is expected to observe the studied effect. Its length depends not only on the event analysed, but also on the assumptions regarding the market efficiency and the anticipations of the news. The most common choice is to pick three days, from the one before the event date to the one following it [-1,1]. Alternatively, studies consider more than one event window to capture eventual anticipation or adjustments after an overreaction of the market on the event date.
- Estimation Window: It is the time period, prior to the event window, over which the parameters used to compute the expected returns during the event window are estimated. The estimation window usually encompasses the year before the event for a daily sampling interval and it stops before the event window to avoid contaminations. It acts as a sort of control group, and, by the same logic, it is sometimes sided by a post event window.

Below it is presented the timeline proposed by MacKinlay (1997)[128] for the definition of the different periods in the event study framework.

[127] McWilliams A., Siegel D., *Event Studies in Management Research: Theoretical and Empirical Issues*, The Academy of Management Journal, 1997, vol. 40, no. 3, pp. 626-657

[128] Craig MacKinlay A., *Event Studies in Economics and Finance*, Journal of Economic Literature, 1997, vol. 35, no. 1, pp. 13-39



Source: MacKinlay (1997)

The event date is represented by $\tau = 0$;

$\tau_1 = T_1 + 1$ to $\tau_2 = T_2$ is the event window of length $L_2 = T_2 - T_1$;

$T_0 + 1$ to T_1 is the estimation window of length $L_1 = T_1 - T_0$.

4.2.3 Null and Alternative Hypothesis

After the definition of the event and the time frame to consider, it is required to establish a model that provides the "normal" returns in the periods of interest and under the null hypothesis of no effect from the event. The most common model used for computing normal returns in this framework is the market model, which consists in a panel regression model where returns are computed with respect to market returns. Unlike the CAPM, it imposes no restrictions on the intercept, while returns are computed from daily prices as:

$$R_{i\tau} = \frac{P_{i,\tau} - P_{i,\tau-1}}{P_{i,\tau-1}}$$

Then, the computation of normal returns under the null, corresponding to the expected returns, is:

$$E(R_{i\tau}) = \alpha_i + \beta_i R_{M\tau}$$

With $R_{i\tau}$ and $R_{M\tau}$ being the return of the i-th asset and the market on the day τ. The error terms, that are the deviations used for computing the unexpected component of returns in the event window, must satisfy for all times T:

$$\epsilon_{i\tau} = R_{i\tau} - \alpha_i - \beta_i R_{M\tau}$$

$$E(\epsilon_{i\tau} | R_{M1}, \dots, R_{MT}) = 0$$

$$E(\epsilon_{i\tau}\epsilon_{is} | R_{M1}, \dots, R_{MT}) = \begin{cases} \sigma^2_{\epsilon_i} & if\ \tau = s \\ 0 & if\ \tau \neq s \end{cases}$$

$$(\epsilon_{i1}, \dots, \epsilon_{iT}) \sim N(0, \sigma^2_{\epsilon_i})$$

Under the null hypothesis, returns follow the market model and residuals are distributed as above during both the estimation and the event window. Under the alternative, the normal value of returns changes during the event window, i.e., the mean $\mu_{i\tau} = E(\epsilon_{i\tau})$ of the residuals is different from zero in the event window.

4.2.4 Measuring Abnormal Returns and Testing Statistical Validity

The main object of interest of the study are the abnormal returns AR, corresponding to the residuals of the regression and obtained from:

$$AR_i = R_{i\tau} - \widehat{\alpha}_i - \widehat{\beta}_i R_{M\tau} = \epsilon_{i\tau}$$

However, as the event window spreads over a time frame longer than a single day, the abnormal returns of a security are summed together to get the cumulative abnormal returns CAR from τ_1 to τ_2 ($T_1 < \tau_1 \leq \tau_2 \leq T_2$):

$$CAR_i(\tau_1, \tau_2) = \sum_{\tau=\tau_1}^{\tau_2} AR_{i\tau}$$

In order to get information about the magnitude of the studied effect, it is taken the average of the cumulative abnormal returns for all the N assets to obtain the sample aggregated cumulative average abnormal returns $CAAR$ for each event window τ:

$$CAAR(\tau_1, \tau_2) = \frac{1}{N} \sum_{i=1}^{N} CAR_i(\tau_1, \tau_2)$$

$$var\big(CAAR(\tau_1, \tau_2)\big) = \frac{1}{N^2} \sum_{i=1}^{N} \sigma_i^2(\tau_1, \tau_2)$$

Because the true σ_i^2 is unknown, an estimator must be used to calculate the variance of abnormal returns. It is obtained from the variance of residuals $\sigma_{\epsilon_i}^2$, computed over the estimation window:

$$\sigma^2(AR_{i\tau}) = \sigma_{\epsilon_i}^2 + \frac{1}{L_1}\left[1 + \frac{(R_{M\tau} - \hat{\mu}_M)^2}{\hat{\sigma}_M^2}\right] \approx \sigma_{\epsilon_i}^2 \text{ for large estimation windows}$$

$$\sigma_{\epsilon_i}^2 = \frac{1}{L_1 - 1} \sum_{\tau=T_0+1}^{T_1} \hat{\epsilon}_{i\tau}^2$$

$$\sigma_i^2(\tau_1, \tau_2) = (\tau_2 - \tau_1 + 1)\sigma_{\epsilon_i}^2$$

Under the null hypothesis, the abnormal returns are jointly normally distributed with zero conditional mean and conditional variance $\sigma^2(AR_{i\tau})$. With enough observed events, it is possible to employ a two-tails t-type test to verify if the cumulative average abnormal returns are statistically different from zero. The test holds under the assumptions of independence of the abnormal returns across securities, normality of abnormal returns and absence of clustering. It takes the following form[129]:

$$\theta = \frac{CAAR(\tau_1, \tau_2)}{\sqrt{var(CAAR(\tau_1, \tau_2))}} \sim N(0, 1)$$

[129] Craig MacKinlay A., *Event Studies in Economics and Finance*, Journal of Economic Literature, 1997, vol. 35, no. 1, pp. 13-39

4.3 Data Selection

In order to incorporate the case in which some returns may occur before the public announcement due to rumours or information leakages, or after it as the market needs time to correctly price the acquisition, different event windows are chosen: [-5, +5], [-2, +2], [-1, +1], [0], [0, +1], [0, +2], [0, +5], [-5, -1]. The day 0 is the day when the transaction is announced. The event window [-1, +1] can be considered as the main one since it is during these three days that most of the abnormal returns are expected to be observed given the initial assumptions. The last event window [-5, -1], which does not include the event day, is used to check the eventual presence of returns caused by information leakages or insider trading before the announcement. The estimation window over which the model is obtained is chosen from 252 to 20 trading days before the announcement date. This window is long enough to allow using the variance of residuals as the estimator of the process variance. It stops 20 days before the announcement to avoid the risk of leakages regarding the transaction that may affect the estimation.

The stock prices of the acquiring companies in the periods of interest are the adjusted closing prices collected from Yahoo Finance. The transactions of interest are those reported in the M&A database of Thomson Reuters Eikon as "Acquisition of Majority Asset" and "Merger", and filtered as follows:

- Reported Deal Size >US$ 1 million;
- Acquirer Nation: Italy (quoted in);
- Announcement Date: From January 2010 to February 2020;
- Acquirer Public Status: Public (SPAC excluded) for at least a year before the date of the announcement of the acquisition;
- Intra-group acquisitions and Merger deals removed from the list;
- % Acquired > 50%;
- Absence, in the event window, of other extraordinary transactions for the acquirer firm, such as asset disposal or another acquisition;
- In the case two or more transactions of different companies happened the same day or at one day one from the other, it is considered only the largest acquisition, removing the others from the sample.

The latter condition is important for hypothesis testing since overlapping event windows cause the arise of covariance matrices that make the assumptions on residuals not consistent. However, by reducing the overlapping days and removing the overlap during the main event window [-1, +1], the

covariance matrices can be assumed to go to zero. This assumption is made even more consistent by the fact that the idiosyncratic term is expected to be weakly dependent across firms[130].

The sample collected is mainly composed by domestic acquisitions, although the number of cross-border deals is large enough to make a consistent analysis. Among the cross-border transactions, the number of operations inside the EU is similar to those outside the EU[131]. Finally, the cross-border deals are also divided by the GDP of the country where the target is located. In this case, most of the companies acquired are based in large countries, considered as those with a GDP larger than US$ 500 billion in 2019. Table 4.1 displays the sample statistics while, in the chart 4.1, there are reported the information regarding the target countries.

In the chart 4.2 there are reported the data on the industry of the targets in the sample. The largest number of acquisitions targets companies in the consumer markets and industrial sectors, 24 deals each (23% of the sample). However, only 7 of the consumer markets deals are cross-border, against the 10 of industrials. There is also a substantial number of deals in the energy & utility and in the TMT sectors, respectively 19 and 14. The industries less represented are financials, with 12 deals, healthcare, with 8 deals, and support services & infrastructure with 4. The healthcare is the only sector that presents more cross-border than domestic acquisitions.

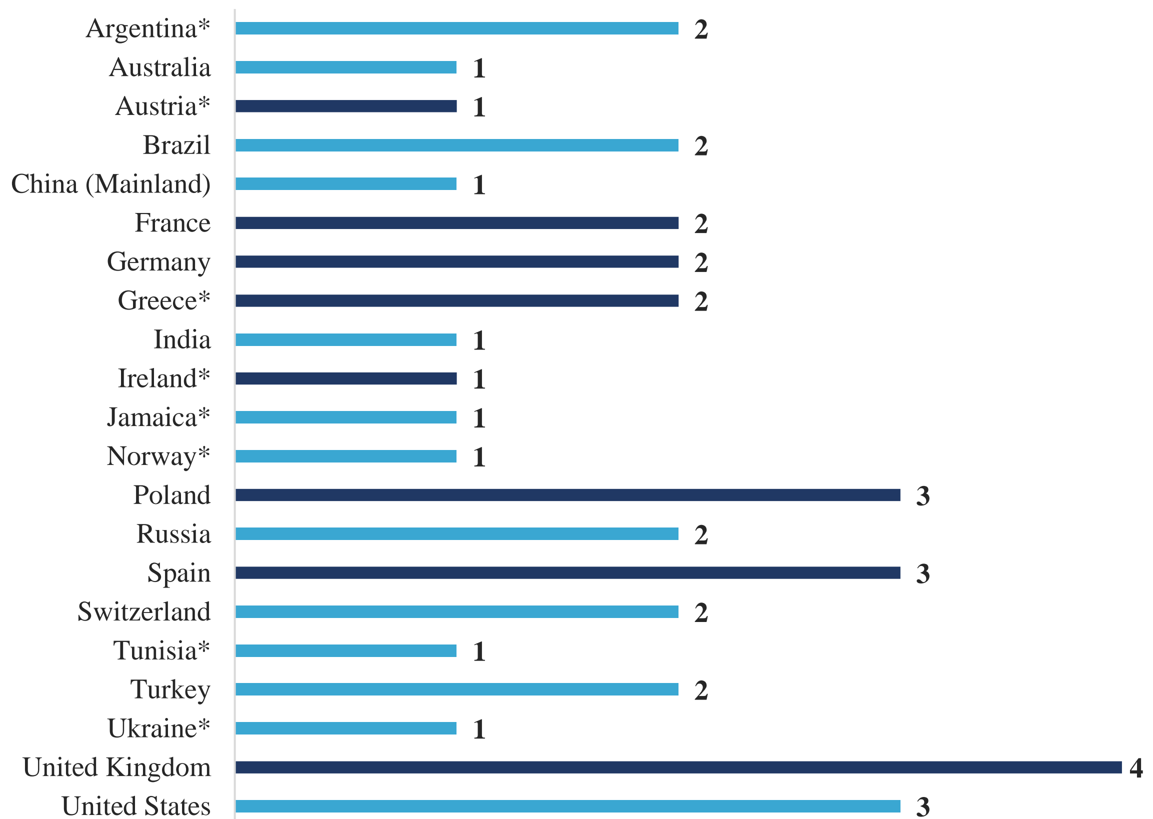
Table 4.1: Sample Statistics

Deal Type	Number of Deals	Average Deal Size (M US$)	Share of deals with positive CAAR in the event window [-1, +1]
Domestic	67	69.8	67.2%
Cross-Border	38	184.6	63.2%
CB Deals: EU	18	185.2	77.8%
CB Deals: Non-EU	20	184.0	50.0%
CB Deals: GDP > $500 bl	28	202.6	64.3%
CB Deals: GDP < $500 bl	10	134.3	60.0%

Source: Author’s elaboration

[130] Linton O., *Financial Econometrics*, First Edition, Cambridge University Press, 2019
[131] Transactions involving the U.K. based companies are considered as within the EU since they all happened before the 31st of January 2020

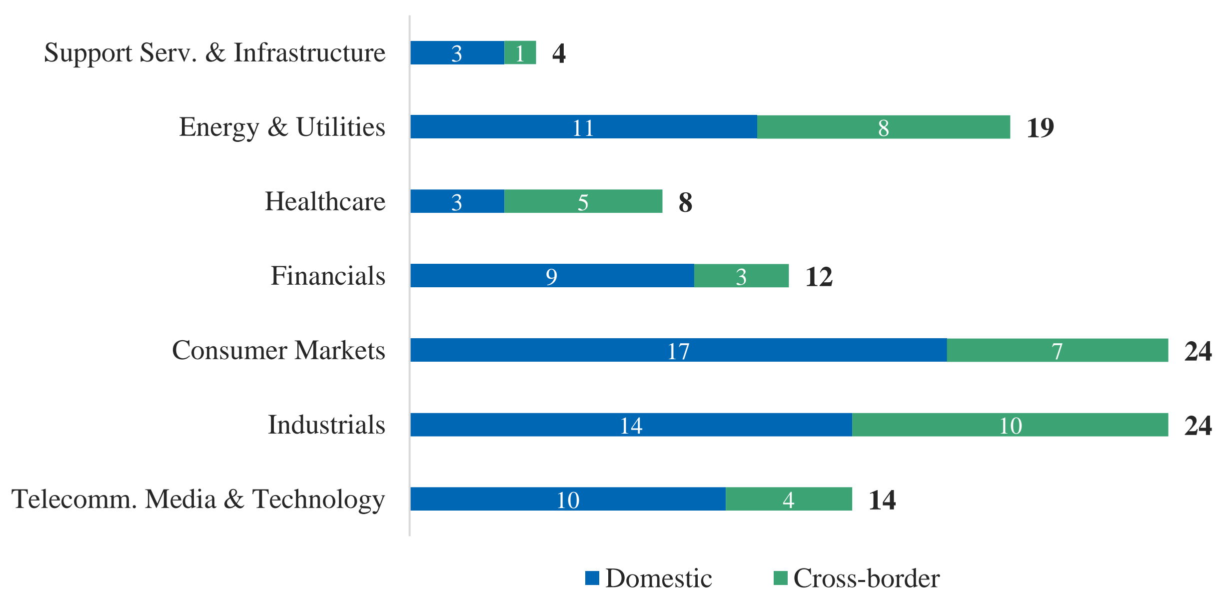
Chart 4.1: Sample Statistics - Country of the target company in cross-border deals



*GDP < $500 bl

Source: Author's elaboration

Chart 4.2: Sample Statistics – Industry of the target company



Source: Author's elaboration

4.4 Results

In the empirical analysis of the thesis, it is employed the event study methodology proposed above and applied at different event windows. The parameter representing the surprise effect of the event is the Cumulative Average Abnormal Return (CAAR), which is then tested employing the t-test proposed by MacKinlay under the assumption of normality of residuals.

Table 4.2: Bidder CAAR - Overall Sample

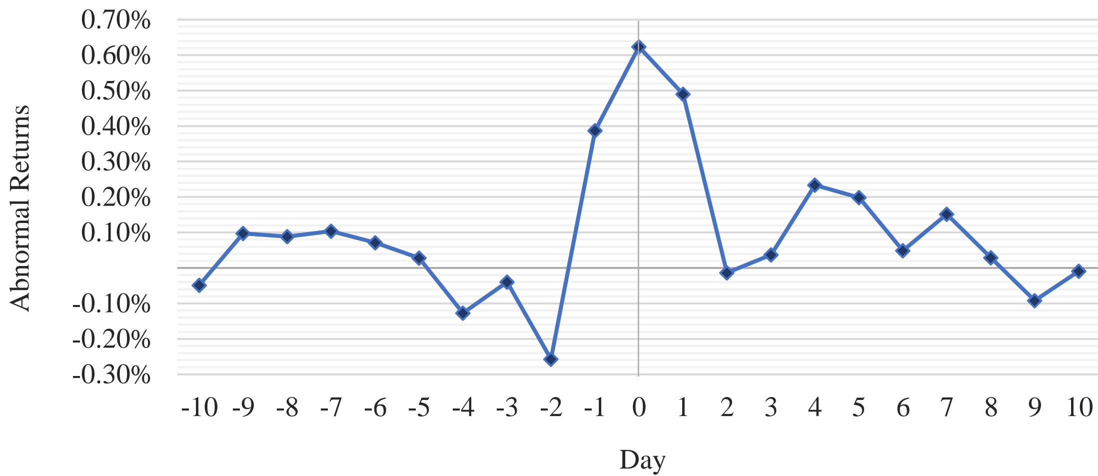
	Pos./Neg.	*CAAR*	*t-stat*
[-5, +5]	62/43	0.01560	2.67135***
[-2, +2]	68/37	0.01230	3.12309***
[-1, +1]	**69/36**	**0.01500**	**4.91933*** **
[0]	**75/30**	**0.00623**	**3.53941*** **
[0, +1]	68/37	0.01113	4.46939***
[0, +2]	66/39	0.01099	3.60387***
[0, +5]	62/43	0.01568	3.63549***
[-5, -1]	45/60	-0.00008	-0.02022

*** significant at the 1% level
** significant at the 5% level
* significant at the 10% level

Source: Author's elaboration

The first analysis is done on the overall sample. Here, acquisition announcements already show a positive abnormal return for the stock price of the bidding company. The average abnormal return of the sample in the event date is 0.62%, while the CAAR in the event window [-1, +1] is 1.50%. Both values are statistically significant at the 1% level. This result suggests that, in general, Italian public companies acquiring other firms provide positive abnormal returns to their investors in the short term, and that these returns are consistent also considering the days after the announcement. The following graph shows more in details the evolution of the sample average of abnormal returns (AAR) over the single days of the event window. As it is expected by the assumptions, abnormal returns appear to be distributed around 0 except for the day before and after the announcement of the acquisition. The abnormal returns on the day 0 and +1 are both significant at the 1% level, while the AR on the day -1 is significant at the 5% level, suggesting the presence of information leakages.

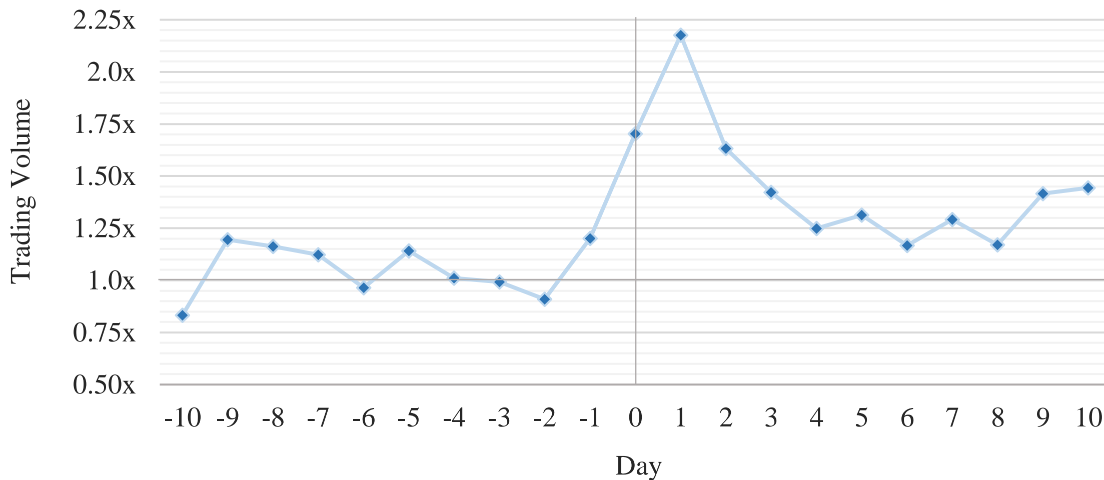
Chart 4.3: Overall Sample - Daily Average Abnormal Returns



Source: Author's elaboration

Alongside the daily abnormal returns, also trading volumes can be studied applying the same methodology. Considering an estimation window going from 60 days to 20 days before the acquisition announcement date, it is possible to see how much the acquisition announcement affects the number of trades on the involved stock by dividing the trading volume on a day in the event window by the average volume in the estimation window. Taking the average of these ratios across all the transaction, it is possible to estimate the average abnormal volume. The results are again as expected: the trading volume for the acquiring company starts growing the day before the announcement and peaks the day after the event. Then, the average trading volume remains slightly higher than the average during the estimation window, confirming that the announcement of an acquisition brings attention to the involved stock.

Chart 4.4: Overall Sample - Trading Volume



Source: Author's elaboration

Table 4.3: Bidder CAAR - Domestic Deals			
	Pos./Neg.	*CAAR*	*t-stat*
[-5, +5]	39/28	0.01267	1.70597*
[-2, +2]	41/26	0.00607	1.21272
[-1, +1]	45/22	**0.01152**	**2.97173****
[0]	48/19	**0.00582**	**2.59923****
[0, +1]	43/24	0.00718	2.26648*
[0, +2]	40/27	0.00572	1.47412
[0, +5]	37/30	0.01323	2.41273*
[-5, -1]	29/38	-0.00056	-0.11264

*** significant at the 1% level
** significant at the 5% level
* significant at the 10% level

Source: Author's elaboration

In the Table 4.3, only domestic acquisitions are considered for the computations of the CAAR. In the sample, the deal value of these transactions is smaller than the one of the cross-border deals on average. Still, these acquisitions provide positive abnormal returns to investors as the market reacts positively to the announcements of an acquisition also when the target is an Italian company or subsidiary: 67.2% of these transactions presents a positive CAAR for the bidder during the main event window. More precisely, the news announcement causes positive abnormal returns in the event day equal, on average, to 0.58% and a CAAR of 1.15% in the event window [-1, +1]. In this case as well, both these results are statistically significant at the 1% level.

By taking the average AR for the single days in the event window, only the day 0 presents a statistically significant value while, differently from the overall sample, the day +1 does not provide significant average AR. The low average daily ARs in the days surrounding the announcement date also reduce the statistical significance of the CAAR over longer horizons: over the six days window [0, +5] the CAAR is equal to 1.32% and it is significant at a 5% level. However, the same does not apply to the event windows [-5, +5], [-2, +2] and [0, +5] where the value of the CAAR cannot be considered statistically significant. The CAAR in the window that does not include the event day [-5, -1] is almost equal to 0 and not significant as well.

Table 4.3: Bidder CAAR – Cross-Border Deals			
	Pos./Neg.	*CAAR*	*t-stat*
[-5, +5]	23/15	0.02078	2.20165**
[-2, +2]	27/11	0.02328	3.65837***
[-1, +1]	**24/14**	**0.02114**	**4.28996*****
[0]	**27/11**	**0.00696**	**2.44697****
[0, +1]	25/13	0.01810	4.49884***
[0, +2]	26/12	0.02029	4.11792***
[0, +5]	25/13	0.02000	2.86997***
[-5, -1]	16/22	0.00077	0.12168

*** significant at the 1% level
** significant at the 5% level
* significant at the 10% level

Source: Author's elaboration

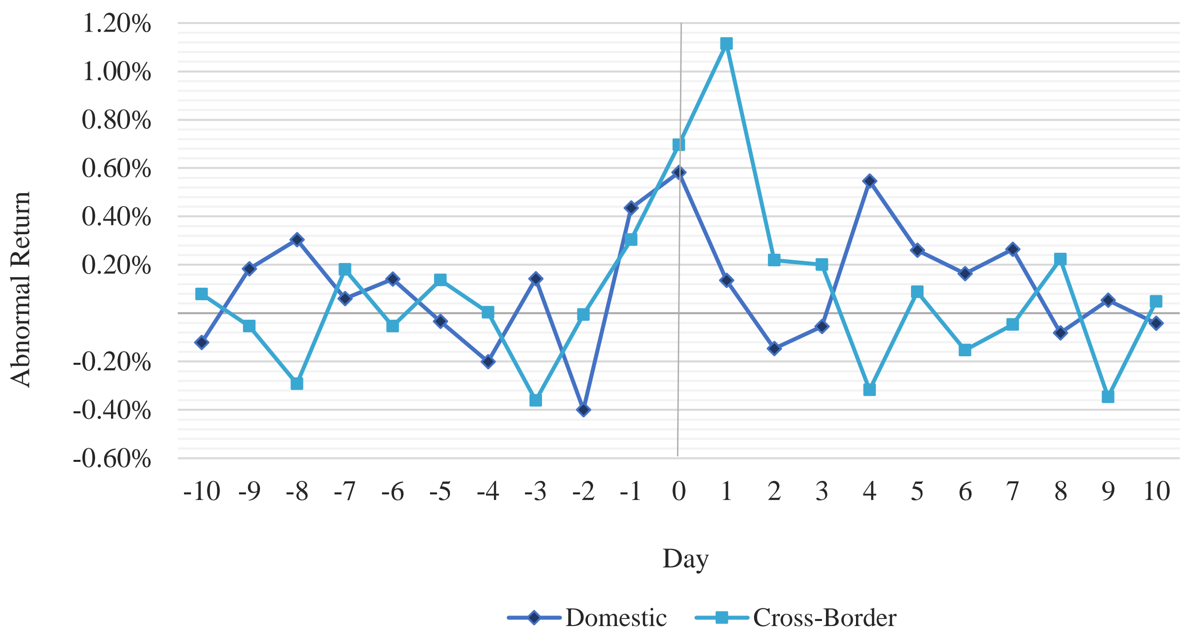
In the Table 4.4, there are considered the CAAR of bidding companies in the case of cross-border acquisitions. These deals present an average deal value of $184.6 million.

While only the 63% of the cross-border acquisitions provide a positive CAAR in the time frame [-1, +1], their values are higher than in domestic deals for all the event windows. In particular, the AAR on the event day is 0.70%, significant at the 5% level, while the CAAR in the window [-1, +1] is 2.11%, significant at the 1% level. Overall, the CAAR in the windows that include the event day are all significant at the 1% or 5% level thanks to the high CAAR in the interval [0, +1].

By observing the average abnormal returns during the event window, they are statistically significant not only on the day 0, but also on the day +1, when daily average abnormal returns have their peak. This result is interesting as it looks like that the market reacts more slowly in the case of cross-border transactions, but then it tends to evaluate them more positively than domestic acquisitions for the acquiring firm.

Moreover, considering the larger event windows, they are all significant at a 1% or 5% confidence level thanks to the high CAAR of the interval [0, +1]. Indeed, even though the average abnormal returns spread around zero on the other days, these CAAR still look consistent and bring positive unexpected increases of wealth to the investors of bidding companies.

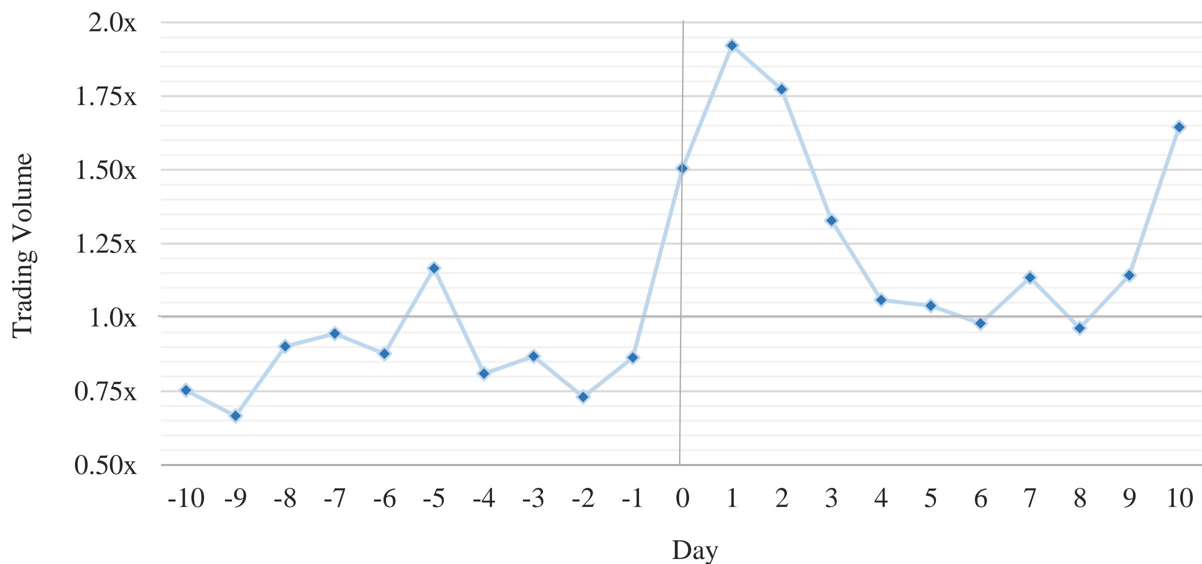
Chart 4.5: Domestic and Cross-Border Deals – Daily Average Abnormal Returns



Source: Author's elaboration

By checking for abnormal trading volumes, it is not surprising to see that the stock of the bidding company starts to be traded more from the day of the announcement. Then, the largest number of trades take place on average on the day +1, when the stock also provides the largest abnormal return among the days of the event window. As the overall sample, the trading volume decays until the fourth day following the acquisition announcement, when it is traded again at a volume in line with the average of the estimation period.

Chat 4.6: Crosss-Border Deals -Trading Volume



Source: Author's elaboration

Table 4.5: Bidder CAAR - Cross-Border deals with target in the EU			
	Pos./Neg.	*CAAR*	*t-stat*
[-5, +5]	10/8	0.04169	3.25183***
[-2, +2]	13/5	0.03787	4.38081***
[-1, +1]	**14/4**	**0.03819**	**5.70423*****
[0]	**14/4**	**0.01289**	**3.33487*****
[0, +1]	14/4	0.03230	5.90795***
[0, +2]	13/5	0.03160	4.71910***
[0, +5]	11/7	0.03713	3.92178***
[-5, -1]	11/7	0.00456	0.52715

*** significant at the 1% level
** significant at the 5% level
* significant at the 10% level

Source: Author's elaboration

Table 4.6: Bidder CAAR - Cross-Border deals with target outside the EU			
	Pos./Neg.	*CAAR*	*t-stat*
[-5, +5]	13/7	0.00195	0.14236
[-2, +2]	14/6	0.01014	1.09633
[-1, +1]	**10/10**	**0.00580**	**0.80879**
[0]	**13/7**	**0.00163**	**0.39304**
[0, +1]	11/9	0.00533	0.91041
[0, +2]	13/7	0.01012	1.41229
[0, +5]	14/6	0.00458	0.45223
[-5, -1]	5/15	-0.00263	-0.28424

*** significant at the 1% level
** significant at the 5% level
* significant at the 10% level

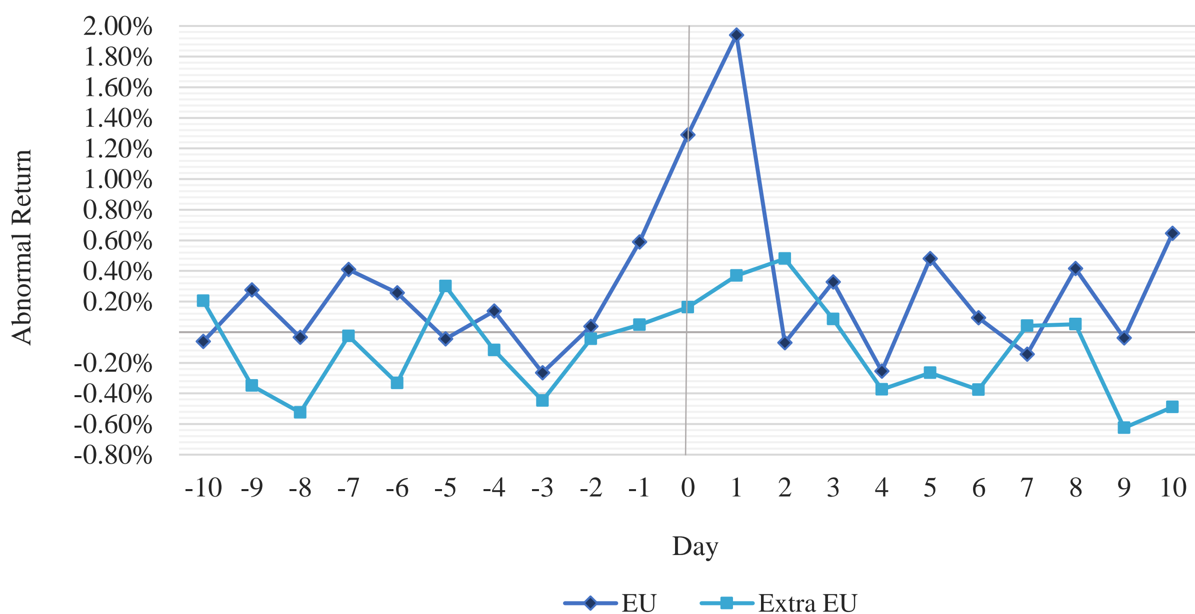
Source: Author's elaboration

In the tables 4.5 and 4.6, cross-border acquisitions are split among those targeting companies based inside and outside the European Union. Even though there are considered a similar number of transactions, and the average deal value is almost identical, the results are very different. In the event window [-1, +1], 77.8% of the 18 considered acquisitions targeting companies in the EU provide positive CAAR to the investors of the bidding firm. Meanwhile, only 50% of the 20 acquisition with the target outside the EU present a positive CAAR over the same event window. These results are reflected also in the values of the CAAR during the different event windows.

Starting with the acquisitions of EU companies, these deals provide the greatest CAAR among all the transactions included in the sample. The average AR on the event day is 1.29%, while the CAAR during the event window [-1, +1] is 3.82%. Both values are statistically significant at the 1% level. Even though the CAAR of all the event window are significant at the 1% level, the daily average abnormal returns are significant only for the day 0 and +1, with the peak is in the day +1.

On the other hand, considering acquisitions outside the EU, results are different. Announcements of acquisitions still seem to cause positive CAAR over the event windows, but they are the lowest among the subsamples and no one of them is statistically significant, even at a 5% level. In particular, the average AR on the event day is only 0.16%, while the CAAR of the event window [-1, +1] is 0.58%. Therefore, it is not possible to conclude that cross-border acquisitions of targets outside the EU provide statistically significant CAAR.

Chart 4.7: EU and Extra EU Deals - Daily Average Abnormal Returns



Source: Author’s elaboration

Table 4.7: Bidder CAAR – Cross-Border deals with target country GDP > $500 bl			
	Pos./Neg.	*CAAR*	*t-stat*
[-5, +5]	15/13	0.01670	1.51327
[-2, +2]	20/8	0.01718	2.30905**
[-1, +1]	**18/10**	**0.01492**	**2.58899****
[0]	**20/8**	**0.00453**	**1.36223**
[0, +1]	19/9	0.01392	2.95713***
[0, +2]	19/9	0.01520	2.63622**
[0, +5]	17/11	0.01738	2.13190**
[-5, -1]	11/17	-0.00068	-0.09083

*** significant at the 1% level
** significant at the 5% level
* significant at the 10% level

Source: Author's elaboration

Table 4.8: Bidder CAAR – Cross-Border deals with target country GDP < $500 bl			
	Pos./Neg.	*CAAR*	*t-stat*
[-5, +5]	8/2	0.03218	1.76945
[-2, +2]	7/3	0.04034	3.28934***
[-1, +1]	**6/4**	**0.03855**	**4.05890*****
[0]	**7/3**	**0.01376**	**2.50975****
[0, +1]	6/4	0.02982	3.84521***
[0, +2]	7/3	0.03457	3.63946***
[0, +5]	8/2	0.02735	2.03596*
[-5, -1]	5/5	0.00483	0.39424

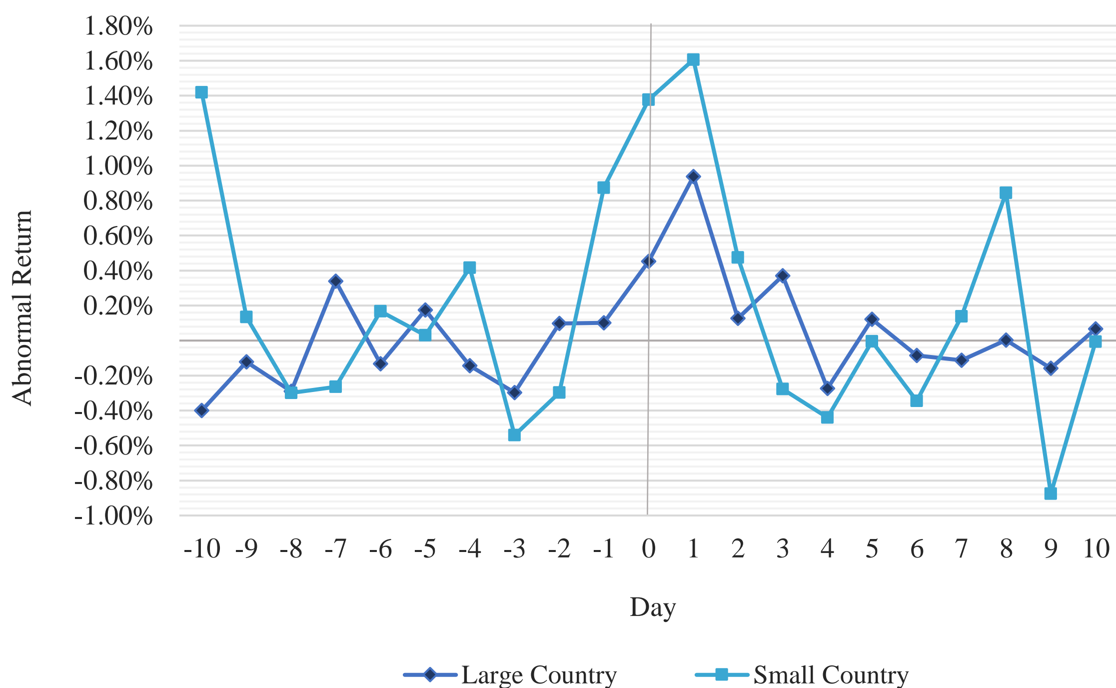
*** significant at the 1% level
** significant at the 5% level
* significant at the 10% level

Source: Author's elaboration

In the last two tables, cross-border acquisitions are again split based on the country they are located. This time the criterion is the target's country GDP: if in 2019 it was larger than US$ 500 billion, then the country is considered large, otherwise it is in the small category. The two subsamples are more different that the EU and extra-EU ones. Indeed, 28 acquisitions target companies in large countries, while only 10 in small nations. Acquisitions in large countries are also more costly as the average deal value is US$ 202.6 million, against the average of small countries equal to US$ 134.3 million.

CAAR for bidders in the case of acquisition of companies in large countries are lower than the values of the overall cross-border sample. On the event date, the average AR of the transactions is 0.45%, which is not statistically significant. However, the CAAR in the event window [-1, +1] is 1.49%, and it is significant at the 5% level. This increase is mainly due to the abnormal returns registered in the day +1, which make the CAAR statistically significant in all the event windows following the day 0. Instead, when the target is in a small country, the observed CAAR for the bidder is higher: 1.38% in the event day, significant at the 5% level, and 3.86% in the event window [-1, +1], significant at the 1% level. The spike on the day -10 is due to an outlier and, once removed, the average abnormal return for that day drops to -0.49%.

Chart 4.8: Large and Small Country Deals - Average Abnormal Returns



Source: Author's elaboration

4.5 Comments

In the considered sample, that encompasses the acquisitions announced from January 2010 to February 2020, the results of the empirical analysis show an overall small but positive reaction of the market to the announcements of acquisitions done by Italian public companies. Considering the event window going from the day before the deal announcement to the day after it, i.e. [-1, +1], the cumulative average abnormal return (CAAR) for the bidder firm is 1.50%, with an AAR of 0.62% generated on the event day. Both these values are statistically significant and similar to those estimated by Martynova and Renneboog (2006)[132].

For cross-border acquisitions, all the deals of the sample can be deemed as vertical or horizontal consolidations since they always target companies active in an industry related to the one of the bidding firms. In the event window [-1, +1], the CAAR for a company acquiring a foreign target is 2.11%, with 63% of the deals that have a positive effect. In the same event window, the CAAR for domestic deals is 1.15%.

The CAAR on the event day for cross-border M&A is 0.70%. Over a window of 10 trading days before and after the announcement, the average abnormal returns are significant only on the day 0 and +1, respectively at the 5% and at the 1% level. Instead, on the day precedent to the announcement, no abnormal return is registered, suggesting the absence of information leakages for these deals.

The CAAR nearby the announcement date is also positive for all the subsamples in which the cross-border transactions are split in, although their values change considerably. On the one hand, cross-border acquisitions targeting companies in the EU provides a high CAAR (3.82%) to the bidder company in the event window [-1, +1]. Conversely, companies acquiring firms based outside the EU granted to their investors positive but small CAAR over the same event window (0.58%). Between the two subsamples, only the CAAR for the acquisitions inside the EU is significant. The high CAAR of EU acquisitions is partly caused by the presence of three outliers that skew upward the abnormal returns[133]. However, analysing returns after removing these deals, the result remain positive and significant over the event window [-1, +1], with the CAAR equals to 1.86%. These results show that the market rewards more acquisitions targeting firms based in countries that have smaller cultural differences with Italy.

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[132] Martynova M., Renneboog L., *Mergers and Acquisitions in Europe*, ECGI - Finance Working Paper No. 114/2006, CentER Discussion Paper Series No. 2006-06, 2006.
For intra-european deals completed by Italian acquirers, they estimate a CAAR on the window [-1, +1] of 1.70% and on the event date of 0.70%.

[133] The three deals and their CAAR over the window [-1, +1] are:
doValue acquisiton of Eurobank Financial Planning Services SA (12/2019, based in Greece, deal value $ 239 M, +14.9%)
doBank acquisiton of Altarima Asset Management (12/2018, based in Spain, deal value $ 526 M, +11.4%)
Erg acquistition of IP Maestrale Investments Ltd (12/2012, based in Ireland, deal value $ 1,122 M, +14.6%)

When the transactions are divided by the GDP of the country where the target is based, the analysis shows again positive CAAR for the bidder company. The acquisition of a company located in a smaller country, i.e., with a GDP lower than US$ 500 billion, provides the highest CAAR in the event windows among all subsamples (3.86% from the day before to the day after the announcement). Meanwhile, transactions targeting company based in large countries still provide positive CAAR, but smaller and less significant (1.49% over the same window). Without the three outliers considered above, the CAAR in the event window [-1, +1] are respectively 2.63% (significant at the 5%) and 0.61% (not significant), respectively for the small and large countries.

Finally, in all the subsamples, no significant CAAR is found during the event window constructed excluding the event day but considering the 5 trading days prior to the deal announcement. This result suggest that information leakages are not determinant in the formation of consistent abnormal returns on the event day. Even though there are some transactions which present positive abnormal returns the day before the announcement, and the analysis of trading volume itself shows that, on average, the stock of the bidding company is traded more than its average on that day, these results are not significant enough. Consequently, it seems that the only shareholders able to take advantage of the short-term abnormal returns caused by the acquisition are the long-term investors of the company, who were already invested in the firm, and those who manage to invest on the same day of the transaction announcement.

Despite these results, the work presents some limitations that may have affected the output of the analysis. Some of them are embedded in the event study methodology itself. For instance, the parameters estimated through the market model depend on the estimation window chosen. Therefore, even when they explain a good part of the stock returns' variability, they may still be different if estimated over another horizon, and consequently the observed abnormal returns may differ. Moreover, a study on abnormal returns reports only the short-term reaction of the market to the deal but does not provide information about the operative performance of the acquirers after the competition of the deal.

The last limitation is the reduced size of the sample: even though 38 transactions are a good starting point for an analysis, when this sample is split in subsamples, the number of transactions considered in a single analysis drops, potentially biasing the results in presence of acquisitions with large CAAR in the event windows. For instance, even though the CAAR in cross-border transactions targeting small countries is statistically significant, the sample is composed only by 10 transactions, so its consistency cannot be given as granted with a larger number of observations.

Conclusions

The thesis is written with the scope of providing a detailed description of the phenomenon of cross-border M&A and studying the wealth effect of the announcement of a cross-border acquisition on the shareholders of Italian bidding companies.

There are identified numerous specificities and determinants that increase the likelihood of cross-border deals between two countries. In general, it is noticed that acquirers are based in nations with developed debt and equity markets, as their presence facilitates the access to the capital required for the deal. Indeed, the majority of cross-border acquisitions are completed by companies from advanced economies. They usually pursue horizontal acquisitions of firms located in other developed countries, hence with the goal of expanding their market, while investments in emerging economies to reduce production costs are less common. Further determinants of cross-border M&A are the gaps between the acquirer and target countries in four dimensions: financial, regulatory, sociopolitical, and cultural. Relative better performances of the stock market or the currency of the acquirer country over those of the target increase the likelihood of a deal in this direction. In contrast, a forecast of a large GDP growth of the target country makes local companies more attractive to inbound investments. Then, differences in corporate governance are more favourable to the company, either the bidder or the target, based in the country with the worst standard. Indeed, it is identified a convergence toward the better structure of governance among the two, that it is found as well to create additional value to the consolidated company. The sociopolitical aspect mainly regards the quality of institutions as research identifies a positive relation between their quality and the number of foreign investments in local companies. Finally, the cultural dimension is the last core aspect of cross-border M&A. In terms of probability of completing deals, studies agree that a closer distance and more similarities between two countries are associated with more cross-border deals between them. In contrast, the analyses of the transactions' outcomes are still debated when there are considered the post-deal performance and wealth effect. While some studies find that cross-border M&A between companies with wide cultural differences are more likely to fail because of integration issues, others observe that the cultural distance can facilitate synergies as acquisitions become an instrument to access and exchange complementary capabilities.

Considering the abnormal stock returns generated by the announcement of a cross-border acquisition, financial literature is more uncertain about the sign and the magnitude of the effect. Results vary a lot depending on the sample considered. For US bidders, the effect is often not significant, and either negative or positive but smaller than for domestic acquisitions. In contrast,

papers on European public companies showed a positive and significant relation between abnormal returns and cross-border acquisitions, although only the studies on deals completed after the dot-com bubble show that cross-border M&A generate a wealth effect larger than that of domestic acquisitions.

Precedent studies on Italian acquirers that completed cross-border M&A show that they are usually able to improve their profitability and operative performance after the completion of the deal. The empirical analysis completed for this thesis supports these findings. In the considered sample, that consists of domestic and cross-border acquisitions from Italian companies announced from January 2010 to February 2020, the results show an overall small but positive reaction of the market to the announcements of acquisitions done by Italian public companies. This wealth effect is larger when the bidder acquirers a foreign company. The measure used to quantify the wealth effect on shareholders is the cumulative average abnormal return (CAAR) of the stock price in the days around to the deal announcement. For cross-border acquisitions, in the event window centred around the announcement day [-1, +1], the CAAR for a company acquiring a foreign target is 2.11%, with 63% of the deals that have a positive effect. In the same event window, the CAAR for domestic deals is 1.15%. Moreover, the CAAR on the event day for cross-border M&A is 0.70%. Over a window of 10 days before and after the announcement, the average abnormal returns are significant only on the day 0 and +1, respectively at the 5% and at the 1% level. Instead, during the days preceding the announcement, no abnormal return is registered, suggesting the absence of information leakages.

The CAAR nearby the announcement date is also positive in all the subsamples in which the cross-border transactions are split in, although their values change considerably. On the one hand, cross-border acquisitions targeting companies in the EU provides a high CAAR (3.82%) to the bidder company in the event window [-1, +1]. Conversely, companies acquiring firms based outside the EU granted to their investors positive but small CAAR over the same event window (0.58%). Between the two subsamples, only the CAAR for the acquisitions inside the EU are significant. Even removing positive outliers, the result for acquisitions of EU targets remains positive and significant over the event window [-1, +1], with the CAAR equal to 1.86%. These results show that the market rewards more acquisitions targeting firms based in countries that have smaller cultural differences with Italy.

When the transactions are divided by the GDP of the country where the target is based, the analysis shows again positive CAAR for the bidder company. The acquisition of a company located in a smaller country, i.e., with a GDP lower than US$ 500 billion, provides the highest CAAR in the event windows among all subsamples (3.86% from the day before to the day after the announcement). Meanwhile, transactions targeting company based in large countries still provide positive CAAR, but smaller and less significant (1.49% over the same window). Without the outliers, the CAAR in the

event window [-1, +1] are respectively 2.63% (significant at the 5%) and 0.61% (not significant), respectively for the small and large countries.

Finally, in all the subsamples, no significant CAAR is found during the event window constructed excluding the event day but considering the 5 trading days prior to the deal announcement. This result suggest that information leakages are not determinant in the formation of consistent abnormal returns on the event day. Even though there are some transactions which present positive abnormal returns the day before the announcement, and the analysis of trading volume itself shows that, on average, the stock of the bidding company is traded more than its average on that day, these results are not significant enough. Consequently, it seems that the only shareholders able to take advantage of the short-term abnormal returns caused by the acquisition are the long-term investors of the company, who were already invested in the firm, and those who manage to invest on the same day of the transaction announcement.

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Summary

Introduction

Mergers and acquisitions (M&A) are the most common mean that companies employ to expand their activities, reacting or anticipating the evolution of the business environment. The term M&A broadly refers to any transaction that determines the consolidation of a company with another business. The rationale behind these deals is that one combined company can created more value than two separated firms. Nowadays, there exists plenty of research focussed on understanding the determinants of consolidations and their effects on companies and stakeholders. Among the most recurrent studies, there are the works about the effects of an acquisition announcement on the wealth of the companies' shareholders. These analyses employ the so-called "event study" methodology. It assumes that stock prices reflect the discounted value of companies' future flows of profits so that the abnormal changes in the equity value of firms, observed around the date of announcement, can be considered as a measure of the additional profits that the deal is expected to generate. Moreover, acknowledging the typical effects of M&A also provides useful insights to investors and managers on the expected results of the operations.

The scope of the thesis is to provide a detailed description of the phenomenon of cross-border M&A, i.e., deals that involve the takeover of companies or assets based in different countries, and to study the wealth effect of the announcement of a cross-border acquisition on the shareholders of Italian bidding companies. Indeed, since the second half of the 1990s, cross-border M&A have become a core component of both the global and the Italian M&A market. In the last decade, inbound and outbound cross-border M&A accounted for about a half of deals in terms of volume and about three-quarters in terms of value of the Italian M&A market.

1. Mergers and Acquisitions

The term Mergers and Acquisitions (M&A) refers to any transaction that determines the consolidation of a company with another business. Even though they are often used together, there is a subtle difference among these two kinds of deal. A merger occurs when two or more companies agree to consolidate and form a new joint enterprise, with a common management usually composed by former employees from both firms. In contrast, an acquisition takes place when there is a single company that acquires the assets, a subsidiary, or the equity shares of another firm to get its control.

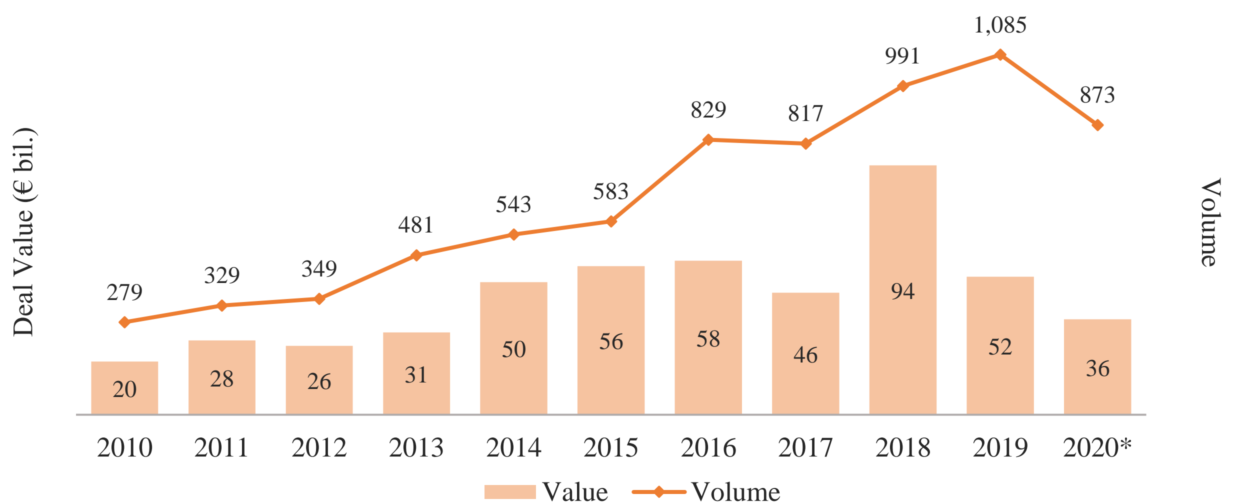
The most widespread classification for M&A consists of three categories: horizontal, when the acquiring and the target company operate in the same industry and their output is sold at the same stage of the production; vertical, that are consolidations between two companies operating in the same

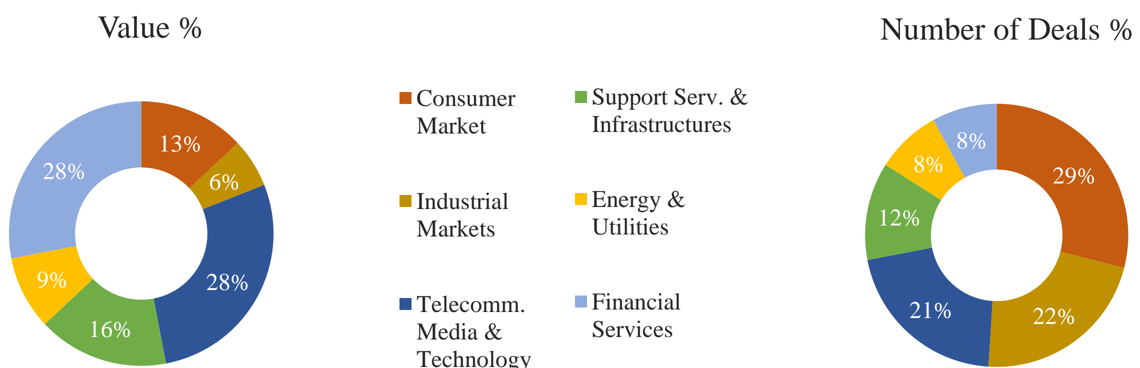
value chain, but at a different stage of the production; conglomerate, that occurs when the business lines of the acquiring and the target are not related. Even though the various types of merger already denote a first difference that can be highlighted between deals, M&A are driven by further determinants: behind the choice of a target, there are strategic motives that are drafted well before the acquisition, and these motives are themselves crucial factors leading to the operation. The most common motive is growth, but there are also market expansion mergers, diversification, internationalization, improved management, and managerial hubris. The latter is not a positive rationale as the previous ones as, under this view, CEOs push for acquiring other firms not only under strategic goals and to create value for their company, but also for their own personal interests. In addition to the strategic or personal motives driving mergers and acquisitions, M&A are also expected to be effective methods for maximizing the wealth of the company's shareholders. Value creation is a fundamental aspect of these deals: in order to consider a deal successful, the management of the acquiring company must evaluate the capability of the transaction in increasing the value of its company while also maintaining it financially healthy. Failing in doing so may result in useless destructions of company value, loss of trust in the management and eventually financial distress.

When it is not possible to acquire assets or companies underpriced or underperforming, the alternative to create value through M&A is represented by the synergies obtained from the consolidation. The term synergy refers to the ability of a corporate combination to be more profitable than the individual parts of the firms that are combined. They are often associated with horizontal and vertical mergers and there are identified three types. Cost synergies emerge when the acquisition either reduces the operations' cost base of the combined organization, or when it allows one of the two company to cut the cost base to a level which was not achievable before the combination. Revenue synergies usually come from the pricing power acquired, the combination of functional strengths of the two companies and an enhanced growth coming from new commercial strategies or the entrance in new markets. Capital synergies are either related to post-acquisitions tax benefits or to a lower cost of capital of the new larger company.

The Italian M&A market was already dynamic in terms of volumes at the end of the 1980s, when it was taking place the first European merger wave. However, at that time, the total value was extremely low: at its peak in 1990, 920 deals were completed, but their overall value was only €25 billion. After a drop caused by the economic turmoil of the early 1990s, the M&A activity grew up again for the whole decade since 1993, pushed by the development of the domestic middle market, and the privatizations of some of the largest Italian companies of the time. Then, when the Euro became the official currency in 1999 and the Italian economic policies had to comply to the parameters of the Maastricht treaty, foreign investors were even more attracted by the Italian

opportunities and the value of the M&A market reached new all times high (respectively €145 and €129 billion in 1999 and 2000). During the 2000s, the Italian M&A industry continued its development as a global market, with good volumes and values compared the previous decade and a growing share of cross-border deals. However, this expansion stopped in 2008: because of the crisis that stormed the country from that year until 2013, the trust of investors toward Italy dropped, and so it did the number of deals. Since 2014, the total deal value has recovered at the levels of the early 2000s, but it is still dependent on the few megadeals that take place every year. Conversely, volumes constantly grew during the decade, and achieved a historical record in 2019. Unfortunately, as for the global market, also the Italian M&A activities suffered because of the coronacrisis. The number of deals dropped by 24% and their value by 34% compared to 2019. Nevertheless, these results are better than initially thought, and the current pipeline is estimated at €75 billion, giving hopes for a recovery in 2021.





2. Cross-Border M&A

Cross-border M&A are deals that involve the merger or the takeover of companies or assets based in different countries. The reason is that firms presenting a successful business in the domestic market may improve their sales and profits through the consolidation with a foreign organization rather than seeking potentially diminishing returns by pursuing further growth within their own country. For the acquirer company, cross-border M&A are the best alternative for expanding its business abroad in terms of time required when the goal is to achieve a total control on activities and commit profoundly in the market of the target. Internationalization represents the main strategical motive supporting the decision of a company to expand its activities abroad. It can be considered as an extension of the growth motive that drives companies into M&A. The internationalizations process is a common topic in financial literature and different theories have been advanced to explain it, even though the applicability of models is debated due to the radical evolutions that have taken place in businesses worldwide over the decades. The theories on the internationalization process approach to the topic in two broad ways: the economic approach, that focuses on the company and the business environment, and the behavioural approach, that emphasises on the figure of the entrepreneur and the influence of perception, knowledge, and experience of foreign market on the pace and direction of internationalizations.

Since the end of the 1980s, corresponding to the final years of the fourth merger wave, companies started internationalization processes that caused an increasing percentage of M&A deals to be cross-border. However, it was only from the middle of the 1990s that their volume and value achieved an exponential growth and then peaked between 1999-2000. These record values were reached and surpassed only on the verge of the great recession and have not been achieved again yet. Although the last decade was positive for cross-border deals, in 2019 and 2020 both deal volume and value dropped because of the international tensions and the coronavirus outbreak. This also caused a drop in the overall value of M&A deals worldwide. Indeed, even though the number of cross-border transactions is usually between 25%-30% of the total worldwide, in the last fifteen their weight in terms of value was larger and accounted for more than 45% during peaks. This also implies that the M&A market heavily relies on foreign companies to takeover large assets or enterprises that cannot be acquired by domestic firms. Moreover, an increased number of inbound cross-border investments often provides virtuous consequences on the country. The growth of the local M&A market leads to a better access to competencies, incentives to improve the regulatory frameworks, increased informational flows and market scrutiny by financial operators or the press, and a rising acceptance of M&A deals as business opportunities. These components support investment interests and forecasts, multiplying potential inward deals and potentially valorising local businesses.

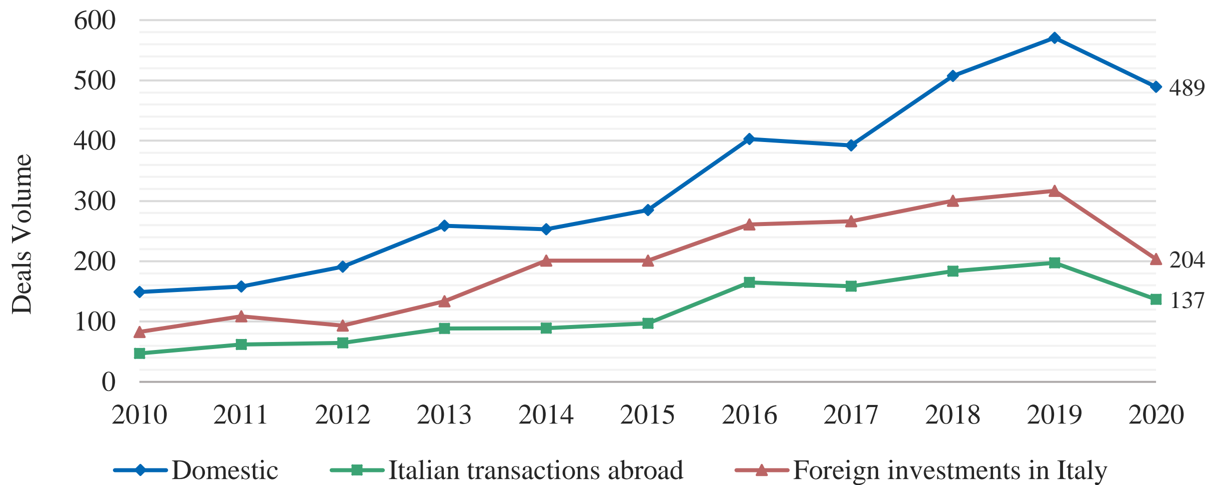
It is a fact that cross-border M&A are embedded with a structural complexity that is absent in domestic transactions. During the configuration of any deal, the acquirer must always consider several aspects such as economy, regulation, markets, competition, assets, people, technologies, and so on. While these elements are usually known at the domestic level, they are less understood at an international level. Therefore, they become topics to study in deep before preparing any strategy of international expansion. An effective line of action is to assume that most of the parameters change between countries and, therefore, check them all. Some of the most analysed are the recent economic performance, the forecasted growth, the local M&A market, how national infrastructures are spread over the country, how they optimize raw materials, how employees and clients consider the concept of proper social relations, and all the cultural approaches that may influence operations. It is important to underline that the comprehension of the foreign context should not be limited to an isolated interpretation but should also consider the business base already existing. This means that the acquirer company should build its strategy on exploiting the competitive gaps that identifies when it compares the foreign contest with the one where is already operating. These potential gaps can be found in the same aspects mentioned above: greater GDP growth, higher customer demands, tax advantages, manufacturing or supply costs, and many others. Other major specificities of cross-border M&A are related to the funding of the deal. Indeed, the financial markets of different countries always present some gaps that the bidding company can exploit considering three factors related to the financial aspect of the deal: the structural ability of the firm in generating cash, the accessibility and the cost of debt, and equity. A final specificity embedded in cross-border M&A is the geopolitical risk. Since the world has become so globalized and interconnected, any substantial change in international policies or relationships may fuel or hamper cross-border transactions.

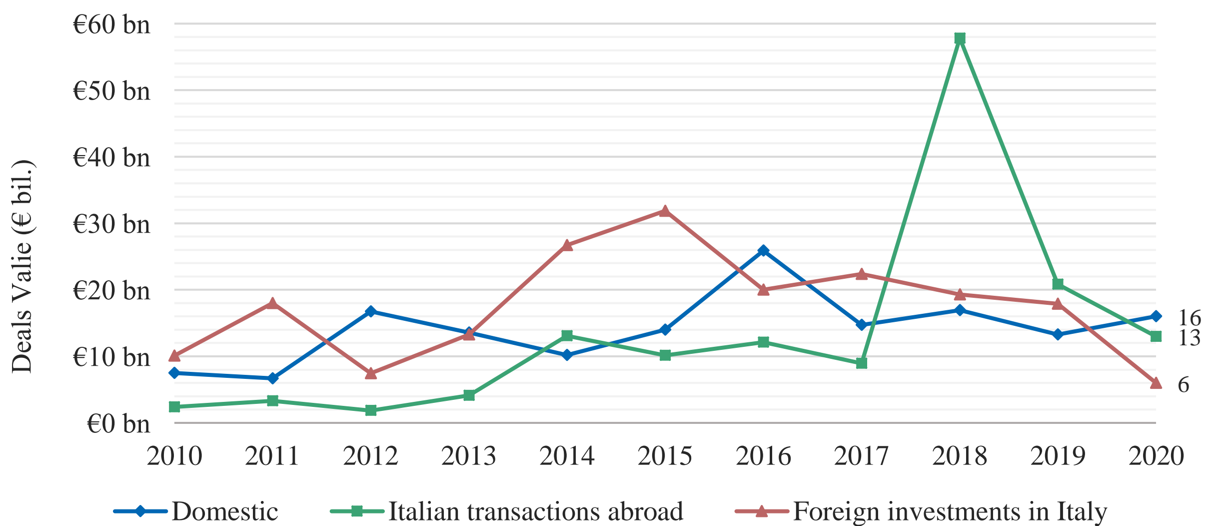
In addition to the firm- and deal-specific elements, numerous external factors have been identified as aspect that influence the likelihood of engaging in cross-border deals and the returns to investors. They can be arranged in broad groups that cover four different dimensions: financial, regulatory, sociopolitical, and cultural. The financial dimension considers the development and the liquidity of the local stock exchange, valuation and recent stock performance, and economics factors such as GDP growth and interest, inflation, and forex rates. The regulatory and governance parts group all the factors related to the corporate governance of the acquirer and the target, and the local jurisdiction in terms of limitations to M&A, accounting methods, and taxation. The two main sociopolitical factors are the strength and influence of unions in the target country, and the quality of the institutions. Finally, the cultural cluster goes from all the set of behaviours, aptitudes, skills, and beliefs that are connected to a community, to factors such as the appetite for innovation and resistance to change. Cross-border deals also present legal implications. While economic and cultural factors of

the target mainly affect the decisions of pursuing the acquisition, the structure of the operation, the market reaction, and the performance of the consolidated organization, overlooking these jurisdictional elements could even abruptly block the completion of a deal. In large M&A, specifically in cross-border ones, the local competition authority plays a major role in the execution of the deal. In theory, the function of these government agencies is to defend the interests of customers by identifying the operations that could negatively impact on the local competition and enforcing the policies aimed to prevent these situations. Nonetheless, in practice, the behaviours and the verdicts of competition authorities are often politicized. In centralized countries, for instance China, the anti-trust regulation has become a cover for protectionism, and foreign companies need to comply to several practices before receiving the authorization for investing there. Western authorities are considered more independent in their decisions, even though protectionists motive were advocated to stop foreign acquisitions on assets of national interests.

As the global M&A market, also the Italian one profoundly relies on cross-border deals. Until 2019, the number of cross-border operations usually accounted for almost half of the total M&A completed. Considering the deal value, their importance is even higher, as cross-border transactions accounted, on average, for approximately three-quarters of the market. The relative higher value of cross-border deals compared to that of domestic transactions is mainly connected to the phenomenon of megadeals. Indeed, in the last years, more than a half of the largest 10 deals were cross-border. Countries of the European Unions are the main fuel for both inbound and outbound investments, followed by North American companies. Asian firms remain a relevant component for foreign investments in Italy, while the number of Italian investments there remains low. Overall, Italy has been able to successfully attract foreign investments in the recent years. The number of foreign acquisitions of Italian company constantly grew until the COVID-19 outbreak, and in terms of deal value, these investments were consistent as well. The country presents different strength that can be appealing for foreign companies interested in expanding in a new market, such as the third largest European economy, and established industrial sector, competitive SMEs, a skilled workforce, and a strategic geographic position. Nevertheless, the numbers of foreign investments could be better. The country is well known for its structural issues that cause it to fail attracting amounts of investments relatively similar to those which neighbour economies like France and Germany receive. In contrast, Italian investments abroad have been less consistent than those inbound, although more variable in terms of value. Indeed, the cross-border acquisitions of Italian companies are often lower in both volumes and value than the those domestic unless megadeals drive the value up. The limited expansion abroad of Italian companies is often addressed as a structural problem of the country economy. The motives that are usually mentioned are similar to those that cause the Italian M&A

market to have a low average deal value: dominance of SMEs, no separation between ownership and management, and scarce use of equity as a funding instrument. However, while the small Italian firms hesitate in pursuing deals abroad, large companies are aware of the advantages of international expansion.





3. Literature Review

The importance and the complexity of mergers and acquisitions makes them a recurrent topic in financial literature. They are broadly considered as an effective and fast way to expand or innovate a business, consequently becoming a core tool for corporate development. Nonetheless, they also present several complications, such as the large amount of money they absorb, or the difficulties in integrating two different organizations, that could cause a deal to produce more damages than

benefits. Therefore, not only scholars, but also professionals are interested in understanding more this phenomenon and the repercussions it carries as they may be relevant not only for the firms involved, but also for a whole industry or even the county economy. The approach of the studies on this subject is not unique. Ultimately, a company completes M&A to increase the firm value and enrich its shareholders. However, the concept of value created by the transaction can be considered under different forms, as it is shown by the existence of different methodologies applicable to compute it. The main ones are: the study of abnormal returns through the event study methodology to check the additional wealth created (or destroyed) by the transaction to shareholders; the analysis of financial ratios and operative performance in the years after the competition of the deal. Furthermore, the creation of value can derive by countless different motives as every deal is different from the others. Given that the outcome of every analysis is influenced by the sample considered, it is impossible to present a single framework universally valid. Indeed, studies tend to group a certain number of deals with common characteristics and consider the average effects caused by the transactions under these conditions. These features are variegated: from the geography of the deal to a specific industry, or from the structure of the bidder company to the characteristics of the target. Alternatively, a peculiar deal may be considered on its own and be presented as a case study for a specific topic, such as a valuation method, the analysis of a regulatory framework, or a phenomenon such as internationalization.

Considering the abnormal stock returns generated by the announcement of an acquisition, financial literature is more uncertain about the sign and the magnitude of the effect. Results vary a lot depending on the sample considered. For the US M&A activity, Jensen and Ruback (1983), review 13 empirical studies focuses on the deals completed between 1956-1981 and report that corporate takeovers generate positive gains, that target firm shareholders benefit, and that bidding firm shareholders do not lose. Jarrel, Brickley and Netter (1988) consider the studies on the M&A activity in the 1980s and notice that acquisitions generate large returns for target shareholders and, at best, modest returns for the bidders' shareholders. Moeller (2006) argue that, while before the dot-com bubble large deals were unprofitable for acquirers, since the 2000s they generate positive returns for bidders worldwide in the short and medium term. He also says that the returns are higher for domestic M&A. Finally, Alexandridis, Antypas, Travlos (2017) compare US deals from 1990 to 2015. They report that the average abnormal return around the announcement for post-2009 acquisitions is positive (1.05%) and improved from the loss of -1.08% associated to deals between 1990-2009. Post-2009, the wealth effect for acquirers is larger for megadeals. In contrast, papers on European public companies showed a positive and significant relation between abnormal returns and cross-border acquisitions, although only the studies on deals completed after the dot-com bubble show that cross-

border M&A generate a wealth effect larger than that of domestic acquisitions. Martynova and Renneboog (2006) study a sample of intra-European deals (domestic and cross-border) and, considering the event window that goes from the day before the announcement day to that after it, notice that the shares of the target firms generate on average 12.47% abnormal returns, while those of bidders obtain a significant 0.72%. These results vary a lot under different attributes of the bids. On the announcement day, friendly M&As are less advantageous than average for targets (3%) and more advantageous for bidders (0.8%), while in hostile takeovers it is the opposite (15.5% for targets and -0.4% for bidders). The takeovers of private targets are associated with a significant positive average abnormal return on the announcement day (0.8%) to the bidders. In contrast, those of public companies generate negative average abnormal returns, although not significantly different from zero. Mateev (2017) also study European domestic and cross-border acquisitions. His findings are that UK bidders obtain a CAAR of 0.77% for domestic acquisitions and 1.26% for cross-border acquisitions in the days around the announcement. Continental European firms experience abnormal returns of 0.90% for domestic acquisitions and 1.15% for those cross-border in the same event window.

Italian literature on M&A is less developed than that of US or UK. The process of consolidations began only in the 1980s, during the first European merger wave. Moreover, at that time, it was difficult to collect from Italian companies the data necessary to analyse the effect of takeovers. Studies are usually focussed on financial performances of the acquirer post-acquisition, without considering the market reaction. Guelpa (1992) is the first empirical work on Italian M&A activity. He employs a sample of 152 bidding companies and 117 targets between 1983-1987 to study the trends of the Italian M&A market and the performances of companies after the acquisitions. About trends, he notices that most of the deals considered were in the same industry, so horizontal or vertical consolidations that acquirers complete to increase their market power, and that the number of inbound cross-border acquisitions was already higher that those outbound. He also addresses the fact that there were lower number of M&A deals that involve Italian companies compared to other major European countries. For Guelpa, the reason behind this data is the lack of ambition of Italian companies, not used to pursue external growth to improve their business. He does an analysis ex-ante and ex-post of the companies included in the sample with respect to a control group in order to check how they perform before the deal and whether the external expansion benefits them. He considers four classes of indicators: profitability (ROE, ROI, ROS), efficiency (added value per employee), financial (leverage, interests/sales, assets/debt) and growth (sales growth, assets growth). Most of his findings are in line with those of the international literature of his time. In the pre-deal analysis, he notices that acquirers are growing companies and they are slightly more profitable than those of the control sample. Meanwhile, targets present better growth ratios than their peers, but their efficiency and

profitability are slightly worse. In the post-deal, the study reports that there is no significant effect for the operativity of acquirers, although their growth worsens following the acquisition. On the other hand, the only significant improvement for targets is on operativity ratios, in in particular their ROE becomes higher in the years after the competition of the deal. Benfratello (2001) employs data from the Italian and EU antitrust authorities to study the effect of acquisitions and ownership chances in Italy between 1991-1994. The paper reports that, before the acquisition, targets have worse financial and profitability characteristics than their peers. However, acquired companies do not present significant improved performance both in the short run and two years after the competition of the deals. Cioli, Giannozzi, Ippoliti and Roggi (2020) complete a wide study on the post-deal performance of Italian companies involved in cross-border M&A. They collect a sample of 415 Italian bidders and 370 Italian targets from deals between 2006-2013. The performance is measured in terms of profitability, leverage, and growth in sales or invested capital. Overall, for Italian companies, the effects of cross-border M&A are more positive when they are bidders than when they are targets. In the considered sample, the acquirers present improved profitability and operative performance after the completion of cross-border deals. Not only the growth of profits and revenue improve, but also margins benefit from the deal. The financial structure, in particular leverage, is not damaged by the transaction, although the increase of assets has a negative impact on the ROA and a positive one on ROIC. In converse, Italian companies acquired by foreign institutions do not receive the same benefits of acquirers. Their performance remains more or less stable, although there is a significant growth in profits and invested capital during the first two years. The only significant variation on margins is the decrease of the EBIT/Sales. Finally targets show an increased leverage and capital turnover compared to that pre-acquisition. For the wealth effects at the announcement of a cross-border deal, it is possible to obtain an indication of their magnitude through the study of Martynova and Renneboog (2006) on intra-European deals. On the announcement date, for the 49 Italian bidding companies that acquired a European target (both domestic and cross-border), the average wealth effect is 0.70%. (not statistically different from zero). Moreover, only 47% of the acquirers presented positive returns at the announcement. During the 3-days window [-1, +1], centred around the announcement date, the value of the cumulative average abnormal returns is 1.38%, that is also statistically significant. In the same window, the wealth effect is positive for 55% of the acquirers.

4. Empirical Analysis

The empirical analysis that was employed for studying returns after the announcement of a cross-border M&A transaction is the event study: it is a methodology that allows the evaluation of the impact of a significant catalyst occurrence or contingent event on the value of a security, such as

company stock. In financial literature, it finds numerous applications thanks to the uncertain effect of firm related events such as: mergers and acquisitions, stock splits or reverse splits, earnings announcement, inclusion in stock index, and many others. The pillars of the methodology required for identifying abnormal returns are the assumptions of market efficiency, the fact that the event is unanticipated, and the absence of confounding effects. The model chosen to provide the "normal" returns in the periods of interest and under the null hypothesis of no effect from the event is the market model, which consists in a panel regression model where returns are computed with respect to market returns. Unlike the CAPM, it imposes no restrictions on the intercept, while returns are computed from daily prices:

$$E(R_{i\tau}) = \alpha_i + \beta_i R_{M\tau}$$

With $R_{i\tau}$ and $R_{M\tau}$ being the return of the i-th asset and the market on the day τ. Under the null hypothesis, returns follow the market model and residuals are distributed as $N\left(0, \sigma_{\epsilon_i}^2\right)$ during both the estimation and the event window. Under the alternative, the average value of returns changes during the event window, i.e., the mean $\mu_{i\tau} = E(\epsilon_{i\tau})$ of the residuals is different from zero in the event window. Indeed, the object of interest of the event study are the abnormal returns AR, corresponding to the residuals of the regression and obtained from:

$$AR_i = R_{i\tau} - \widehat{\alpha}_i - \widehat{\beta}_i R_{M\tau} = \epsilon_{i\tau}$$

However, as the event window spreads over a time frame longer than a single day, the abnormal returns of a security are summed together to get the cumulative abnormal returns CAR from τ_1 to τ_2 ($T_1 < \tau_1 \leq \tau_2 \leq T_2$):

$$CAR_i(\tau_1, \tau_2) = \sum_{\tau=\tau_1}^{\tau_2} AR_{i\tau}$$

In order to get information about the magnitude of the studied effect, it is taken the average of the cumulative abnormal returns for all the N assets to obtain the sample aggregated cumulative average abnormal returns $CAAR$ for each event window τ:

$$CAAR(\tau_1, \tau_2) = \frac{1}{N} \sum_{i=1}^{N} CAR_i(\tau_1, \tau_2)$$

$$var\big(CAAR(\tau_1, \tau_2)\big) = \frac{1}{N^2} \sum_{i=1}^{N} \sigma_i^2(\tau_1, \tau_2)$$

Because the true σ_i^2 is unknown, an estimator must be used to calculate the variance of abnormal returns. It is obtained from the variance of residuals $\sigma_{\epsilon_i}^2$, computed over the estimation window:

$$\sigma^2(AR_{i\tau}) = \sigma_{\epsilon_i}^2 + \frac{1}{L_1}\left[1 + \frac{(R_{M\tau} - \hat{\mu}_M)^2}{\hat{\sigma}_M^2}\right] \approx \sigma_{\epsilon_i}^2 \text{ for large estimation windows}$$

$$\sigma_{\epsilon_i}^2 = \frac{1}{L_1 - 1} \sum_{\tau=T_0+1}^{T_1} \hat{\epsilon}_{i\tau}^2$$

$$\sigma_i^2(\tau_1, \tau_2) = (\tau_2 - \tau_1 + 1)\sigma_{\epsilon_i}^2$$

Under the null hypothesis, the abnormal returns are jointly normally distributed with zero conditional mean and conditional variance $\sigma^2(AR_{i\tau})$. With enough observed events, it is possible to employ a two-tails t-type test to verify if the cumulative average abnormal returns are statistically different from zero. The test holds under the assumptions of independence of the abnormal returns across securities, normality of abnormal returns and absence of clustering. It takes the following form:

$$\theta = \frac{CAAR(\tau_1, \tau_2)}{\sqrt{var(CAAR(\tau_1, \tau_2))}} \sim N(0,1)$$

In the considered sample, that encompasses the acquisitions announced from January 2010 to February 2020, the results of the empirical analysis show an overall small but positive reaction of the market to the announcements of acquisitions done by Italian public companies. Considering the event window going from the day before the deal announcement to the day after it, i.e. [-1, +1], the cumulative average abnormal return (CAAR) for the bidder firm is 1.50%, with an AAR of 0.62% generated on the event day. Both these values are statistically significant and similar to those estimated by Martynova and Renneboog (2006).

For cross-border acquisitions, all the deals of the sample can be deemed as vertical or horizontal consolidations since they always target companies active in an industry related to the one of the bidding firms. In the event window [-1, +1], the CAAR for a company acquiring a foreign target is 2.11%, with 63% of the deals that have a positive effect. In the same event window, the CAAR for domestic deals is 1.15%. The CAAR on the event day for cross-border M&A is 0.70%. Over a window of 10 days before and after the announcement, the average abnormal returns are significant only on the days 0 and +1, respectively at the 5% and at the 1% level. On the day precedent to the announcement, no abnormal return is registered, suggesting the absence of information leakages.

The CAAR nearby the announcement date is also positive for all the subsamples in which the cross-border transactions are split in, although their values change considerably. On the one hand, cross-border acquisitions targeting companies in the EU provides a high CAAR (3.82%) to the bidder company in the event window [-1, +1]. Conversely, companies acquiring firms based outside the EU granted to their investors positive but small CAAR over the same event window (0.58%). Between the two subsamples, only the CAAR for the acquisitions inside the EU is significant. The high CAAR of EU acquisitions is partly caused by the presence of three outliers that skew upward the abnormal return. However, analysing returns after removing these deals, the result remain positive and significant over the event window [-1, +1], with the CAAR equals to 1.86%. These results show that

the market rewards more acquisitions targeting firms based in countries that have smaller cultural differences with Italy. When the transactions are divided by the GDP of the country where the target is based, the analysis shows again positive CAAR for the bidder company. The acquisition of a company located in a smaller country, i.e., with a GDP lower than US$ 500 billion, provides the highest CAAR in the event windows among all subsamples (3.86% from the day before to the day after the announcement). Meanwhile, transactions targeting company based in large countries still provide positive CAAR, but smaller and less significant (1.49% over the same window). Without the three outliers considered above, the CAAR in the event window [-1, +1] are respectively 2.63% (significant at the 5%) and 0.61% (not significant), respectively for the small and large countries.

Finally, in all the subsamples, no significant CAAR is found during the event window constructed excluding the event day but considering the 5 days prior to the deal announcement. This result suggest that information leakages are not determinant in the formation of consistent abnormal returns on the event day. Even though there are some transactions which present positive abnormal returns the day before the announcement, and the analysis of trading volume itself shows that, on average, the stock of the bidding company is traded more than its average on that day, these results are not significant enough. Consequently, it seems that the only shareholders able to take advantage of the short-term abnormal returns caused by the acquisition are the long-term investors of the company, who were already invested in the firm, and those who manage to invest on the same day of the transaction announcement.

Despite these results, the work presents some limitations that may have affected the output of the analysis. Some of them are embedded in the event study methodology itself. For instance, the parameters estimated through the market model depend on the estimation window chosen. Therefore, also when they explain a good part of the stock returns' variability, they may still be different if estimated over another horizon, and consequently the observed abnormal returns may differ as well. Moreover, a study on abnormal returns reports only the short-term reaction of the market to the deal but does not provide information about the operative performance of the acquirers after the competition of the deal. The last limitation is the reduced size of the sample: even though 38 transactions are a good starting point for an analysis, when this sample is split in subsamples, the number of transactions considered in a single analysis drops, potentially biasing the results in presence of acquisitions with large CAAR in the event windows. For instance, even though the CAAR in cross-border transactions targeting small countries is statistically significant, the sample is composed only by 10 transactions, so its consistency cannot be given as granted with a larger number of observations.

Sample Statistics

Deal Type	Number of Deals	Average Deal Size (M US$)	Share of deals with positive CAAR in the event window [-1, +1]
Domestic	67	69.8	67.2%
Cross-Border	38	184.6	63.2%
CB Deals: EU	18	185.2	77.8%
CB Deals: Non-EU	20	184.0	50.0%
CB Deals: GDP > $500 bl	28	202.6	64.3%
CB Deals: GDP < $500 bl	10	134.3	60.0%

Bidder CAAR and t-stat

Window	*Overall*	*Domestic*	*Cross-border*	*EU*	*Non-EU*	*GDP>$500*	*GDP <$500*
[-5, +5]	0.01560	0.01267	0.02078	0.04169	0.00195	0.01670	0.03218
	2.67135***	1.70597*	2.20165**	3.25183***	0.14236	1.51327	1.76945
[-2, +2]	0.01230	0.00607	0.02328	0.03787	0.01014	0.01718	0.04034
	3.12309***	1.21272	3.65837***	4.38081***	1.09633	2.30905**	3.28934***
[-1, +1]	**0.01500**	**0.01152**	**0.02114**	**0.03819**	**0.00580**	**0.01492**	**0.03855**
	4.91933* **	**2.97173** **	**4.28996*** **	**5.70423*** **	**0.80879**	**2.58899** **	**4.05890*** **
[0]	**0.00623**	**0.00582**	**0.00696**	**0.01289**	**0.00163**	**0.00453**	**0.01376**
	3.53941* **	**2.59923** **	**2.44697** **	**3.33487*** **	**0.39304**	**1.36223**	**2.50975** **
[0, +1]	0.01113	0.00718	0.01810	0.03230	0.00533	0.01392	0.02982
	4.46939***	2.26648*	4.49884***	5.90795***	0.91041	2.95713***	3.84521***
[0, +2]	0.01099	0.00572	0.02029	0.03160	0.01012	0.01520	0.03457
	3.60387***	1.47412	4.11792***	4.71910***	1.41229	2.63622**	3.63946***
[0, +5]	0.01568	0.01323	0.02000	0.03713	0.00458	0.01738	0.02735
	3.63549***	2.41273*	2.86997***	3.92178***	0.45223	2.13190**	2.03596*
[-5, -1]	-0.00008	-0.00056	0.00077	0.00456	-0.00263	-0.00068	0.00483
	-0.02022	-0.11264	0.12168	0.52715	-0.28424	-0.09083	0.39424

*** significant at the 1% level
** significant at the 5% level
* significant at the 10% level