TAKEOVER PREMIUMS, DISCLOSURE REGULATIONS, AND THE MARKET FOR CORPORATE CONTROL.
A comparative analysis of public tender offers, controlling-block trades and minority buyouts in France*

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Abstract

This paper presents a comprehensive analysis of transactions in the French market for corporate control. We document large positive abnormal returns to target firms in tender offers, controlling-block trades and minority buyouts. Targets in cash tender offers perform significantly better than targets in exchange tender offers. Bidder firms earn significantly positive abnormal returns from (cash or exchange) tender offers and controlling-block trades, and significantly negative abnormal returns from minority buyouts. Regulations introduced in January 1970, which imposed mandatory disclosure of information but left the minimum tender offer period unchanged, appear to have significantly increased takeover premiums and abnormal returns to targets in tender offers with no apparent negative impact on the abnormal returns to successful bidder firms. This conclusion is based on a time series analysis comparing the wealth effects of tender offers before and after January 1970, as well as on a cross-sectional analysis comparing tender offers after 1970 to controlling-block trades and certain minority buyouts, both of which are legally exempted from the disclosure regulations.

1. Introduction and Summary

In 1965, Henry Manne suggested that the existence of a well-functioning market for corporate control may well explain why the separation of ownership and control observed in publicly held corporations in fact has survived as a competitive organizational form. While non-colluding shareholders in dispersely held corporations individually may decide not to incur the costs of monitoring incumbent management, competition among managerial teams for the right to control the corporation can effectively "discipline" self-interested managers into acting in their shareholders' interest. [1] The managerial labor market in general plays a monitoring role (through the wage revision process), [2] however, the low transaction costs and rapid flow of information characterizing capital markets make a "hostile" takeover (i.e., one that will replace the incumbent management) the most imminent threat to inefficient managers. [3]

Over the past decade, few economic phenomena have attracted as much empirical research as the various forms of transactions in the corporate control market. Studies of mergers, tender offers, proxy fights, and various managerial actions taken in response to takeover bids show a remarkable consistency with the proposition that these transactions on average enhance shareholder wealth. [4] Furthermore, corporate mergers and takeovers provide an interesting "laboratory" for studying the economic effects of government regulations. Recent studies have used U.S. mergers and tender offers to test theories of monopoly and antitrust, rejecting the proposition that gains from horizontal acquisitions come from the creation of market power. [5] Also, several studies have examined the impact of U.S.

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[1] Manne (1965). See also Alchian and Kessel (1962), Fama and Jensen (1983), and Jensen and Ruback (1983).

[2] See Fama (1980)

[3] "[T]ake-overs, like bankruptcy, represent one of Nature's methods of eliminating deadwood in the struggle for survival. A more open and more efficiently responsive corporate society can result", Samuelson (1970, p. 505).

[4] See Jensen and Ruback (1983) for a comprehensive review of the (predominantly U.S.) evidence.

[5] See Eckbo (1983), Stillman (1983), Eckbo(1985a) and Eckbo and Wier (1985).

federal and state regulations of the tender offer *process*, indicating that the introduction of mandatory disclosure requirements and a minimum tender offer period have significantly reduced the the bidder's incentive to pursue a target firm, potentially undermining the basic functioning of the takeover market. [6] For example, Jarrell and Bradley (1980) document that the average tender offer premium relative to the pre-offer target share price has increased from 32 percent to nearly 53 percent after the introduction of the 1968 Williams Amendment to the Securities and Exchange Act of 1934. The Amendement's disclosure requirements and minimum offer period provides, in the view of Jarrell and Bradley, rival bidders with both time and information to compete with the initial bidding firm. Although an increase in the offer premium is not *per se* evidence of a redistribution of rents between (successful) bidder and target shareholders, [7] the evidence in Schipper and Thompson (1983) further corroborates the view that the Williams Amendments have been costly to bidder firms: They find that a sample of frequent acquirors earn significantly negative abnormal returns over the months surrounding the announcement of the introduction of the Williams Act. [8]

The French market for corporate control provides a particularly interesting and relatively unexplored basis for examining the profitability of alternative takeover procedures as well as the economic impact of disclosure regulations. Prior to 1966, a rule requiring all trades in listed securities to take place at the price prevailing on the exchange floor essen-

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[6] Smiley (1975), Jarrell and Bradley (1980), Asquith, Bruner and Mullins (1983), Schipper and Thompson (1983) and Eckbo (1985b).

[7] If the Williams Act changes the distribution of tender offers by eliminating marginally profitable bids, the average offer premium in the population of successful tender offers after 1968 will exceed the average premium observed before the introduction of the law. This is true whether or not the post-68 bids which actually succeed are affected by the regulations.

[8] Smiley (1975) finds that the Williams Act has significantly increased the transaction costs of making a tender offer. Eckbo (1985b) documents that the Act has increased the average offer premium relative to the *post*-offer target share price, which is necessary to argue that the per-share cost of the takeover has increased. Eckbo also documents a significant *decrease* in the variance of the ratio of number of shares tendered to shares sought, which is one measure of the failure-rate of attempted takeover bids.

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tially eliminated the incentive to initiate a public tender offer for less than 100 percent of the target shares and, indeed, only a couple of public tender offers took place. In 1966 a public tender offer procedure was introduced allowing cash offers for a controlling interest in the target firm to be executed off the exchange floor. Subsequent regulatory reforms brought exchange offers under the perview of the law and established separate procedures for controlling-block trades (i.e., a private purchase of a controlling-block of shares) and certain minority buyouts. We provide a comprehensive analysis of the wealth effects of all three takeover procedures, using 293 of the entire population of 306 such offers which took place before 1983. [9]

The second part of this paper examines the effects on takeover premiums and offer-induced abnormal returns of the French regulatory reform of January 1970. This reform established significant disclosure requirements for bidder and target firms involved in public tender offers. A time series analysis of tender offers that took place before and after January 1970 provides evidence on the effect of the disclosure requirements. In contrast to studies of the U.S. Williams Act, our inferences are not affected by a simultaneous change in the minimum required tender offer period since this period remained unchanged (at one month) throughout the entire sample period. Furthermore, takeover bids following the controlling-block trade procedure or a particular "simplified" minority buyout procedure are essentially *exempted* from the the disclosure requirements governing regular tender offers. A comparison of post-1970 tender offers to controlling-block trades and simplified minority buyouts therefore allows a *cross-sectional* test of the impact of the disclosure regulations as well.

Our results show large positive abnormal returns to target firms in all categories of bids (tender offers, controlling-block trades and minority buyouts). The premium paid to target

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[9] This part of our paper is similar to Husson (1984) in its basic motivation, although we are able to make stronger conclusions with our substantially larger and more diverse sample.

shareholders in minority buyouts is of the same magnitude as in regular tender offers. This results, which is similar to the evidence based on the sample of "clean-up" offers in Dodd and Ruback (1977), indicates that acquisition of control is not a necessary condition for payment of a significant takeover premium. Furthermore, we find that target firms in cash tender offers perform significantly better than targets in exchange offers. This is consistent with a tax argument (only cash offers imply the realization of a potential capital gains tax liability) as well as an asymmetric information argument (target shareholders realize the acquisition is particularly valuable to the bidder when they are offered cash rather than securities). Similar results have been documented by Wansley, Lane and Yang (1983) based on a sample of U.S. merger bids. Furthermore, *bidder* firms earn significantly positive abnormal returns from both cash and exchange tender offers as well as from controlling-block trades, and significantly negative abnormal returns from minority buyouts.

Our examination of successful cash tender offers for 100 percent of the target shares, where the bidder owns less than a controlling interest in the target prior to the offer, reveals a significant increase in the abnormal returns to target *and* bidder firms after the 1970 disclosure regulations. A similar conclusion emerges when comparing this category of tender offers to controlling-block trades in the period after the 1970 regulations. Controlling-block trades are also cash offers for a maximum of 100 percent of the target shares where the bidder does not own a controlling interest prior to the trade. Since, of the two categories of offers, only controlling-block trades are exempted from the disclosure regulations, the finding that targets in tender offers significantly outperform targets in controlling-block trades is particularly interesting. Finally, we find that target shareholders in minority buyouts are significantly better off when the bidder uses the regular tender offer procedure (subject to disclosure regulations) rather than the "simplified" procedure (exempted from disclosure regulations). Our results are broadly consistent with the evidence in Jarrell and Bradley (1980) based on U.S. tender offers prior to and after the 1968 Williams Act. Since

the French dis closure regulations of 1970 did not change the minimum required tender offer period (as did the Williams Act), our evidence shows that disclosure regulations *per se* can in fact cause an increase in the average tender offer premium of the magnitude documented by Jarrell and Bradley.

The rest of the paper is organized as follows. Section 2 summarizes the major regulatory reforms over the 1963-1982 period. Section 3 describes various characteristics of the data base and explains the estimation and test procedures. The empirical results are presented in section 4, while section 5 concludes the paper.

2. Regulations of Tender Offers and Controlling-Block Trades in France

The French stock markets operate under an auction system and require that all trades in listed securities be effected through a broker. The broker may not trade on his own account and he cannot execute a trade at a price different from the floor price. [10] Prior to 1966 all trades in listed securities were required to take place under this auction system which implies that for a public tender offer to be executable, the post-announcement but pre-expiration market (floor) price of a target share, P_I, must equal the per share offer price, P_O. This condition discourages tender offers for less than 100 percent of the target shares. To see why, suppose that (1) target shareholders are rational, wealth maximizing individuals with homogeneous expectations, acting as price takers in the public auction for their shares, (2) there are no capital gains taxes, and (3) the bidder will purchase all tendered shares if the offer is undersubscribed and will prorate his purchase if the offer is oversubscribed. In this case either all or none of the target shares will be tendered, depending on whether or not the offer price exceeds the expected post-offer value of a target share conditional on the offer being successful, $E(P_E^S)$. Furthermore, the interim market price per target share is given by the following expression: [11]

$$P_I = FP_O + (1 - F)E(P_E^S), \tag{1}$$

where F is the fraction of the outstanding target shares sought by the bidder. Clearly, combining equation (1) with the requirement that P_I must equal P_O (for the offer to be

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[10] The auction market operates as follows: From the opening of the Exchange until twelve noon, brokers collect buy and sell orders. At noon, the specialists, which are responsible for clearing the markets for their respective securities, determine the price at which the maximum number of transactions can be executed. Any excess demand or supply is then cleared in an auction which lasts until the exchange closes at 2:00 p.m. Each specialist auctions out one share at a time, thus the number of simultaneous auctions equals the number of specialists in the market. Brokers participate in the auction exclusively on behalf of their clients and are not allowed to trade on their own accounts. The auction system prevents the broker from executing an order at a price different from the floor price.

[11] See Bradley (1980). Eckbo (1985b) discusses the rational target shareholder response under the more general assumptions of positive capital gains taxes and heterogeneous expectations across target shareholders.

executable), implies that either the bidder must purchase all of the target shares ($F = 1$, i.e., a merger) or he must set $P_O = E(P_E^S)$ for the offer to be successful. In the latter case, the target shareholder is at best indifferent between keeping or tendering, making it unlikely that the offer will succeed. [12] Indeed, prior to 1966 there were almost no public tender offers in France.

In 1966, a series of letters between the French Minister of Economics and Finance and the French Stock Brokers Association ("La Compagine des Agents de Change", henceforth C.A.C.) established a procedure allowing a public tender offer to be executed off the exchange floor. [13] Essentially, the C.A.C. would henceforth act as auctioneer in the public tender offer process. The C.A.C. would allow the new public tender offer procedure to be used only for offers where the bidder sought to acquire effective "control" over the target firm, where the definition of "control" was left to the C.A.C. unless otherwise explicitly defined under French law. [14] Under the new procedures, any bidder intending to launch a control-oriented public tender offer for the target firm must recieve prior authorization by the C.A.C. and the French Department of Commerce and Treasury. Once authorized, the C.A.C. makes a public announcement of the offer (prior to which all parties must keep the offer secret). The announcement states the terms of the offer, such as the number of shares demanded, the offer price and the expriation date, where the latter is a minimum of one month after the offer date. During the offer period, the C.A.C recieves all sell orders. The bidder cannot close the tender offer prior the the expiration date. The C.A.C. declares the outcome of the offer as successful or unsuccessful based on the number of sell orders, and

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[12] If the target shareholders realize a capital gains tax liability when they tender at P_O, they will, in the above situation, prefer to keep their shares and the offer will fail. Note that the parties in a *private* transaction can get around the restriction of $P_I = P_0$ by having the bidder place his order at the market and letting the seller offer the same amount at a minimum price equal to the (pre-negotiated) offer price.

[13] Letters of April 4, July 6, and November 29, 1966.

[14] C.A.C., Annual Report, page 188. French law determines the number of corporate voting rights needed to implement certain changes in a firm's organization, including replacing members of the board of directors and merging with another firm.

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if supply exceeds demand pro-rates the sale across all tendering shareholders. The offer is unsuccessful if supply is less than the minimum number of shares sought by the bidder, in which case the C.A.C cancels all sell orders and returns the shares to their holders. The offer outcome is publicly announced.

In 1970, formal regulations were introduced reinforcing the legal basis for the above procedures, broadening the jurisdicion of the C.A.C. over public tender offers, and giving the Stock Exhchange Commission ("Commission des Opérations de Bourse", henceforth C.O.B.) a surveillance role. [15] As of 1970, the bidder and target firms must disclose "all important facts" necessary for target shareholders to make "informed decisions". This includes the bidder firm's prior ownership in the target, the rationale behind and financing of the offer, the shareholdings of members of the target firm's board of directors, as well as the target board's evaluation of the offer. [16] Furthermore, exchange offers were brought under the perview of the law, and the public tender offer procedure was opened up for

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[15] C.O.B., General Ruling on Public Tender Offers *Journal Officiel*, January 23, 1970; C.A.C., Addendum to C.A.C. General Regulation, *Journal Officiel*, January 23, 1970.

[16] Further disclosure requirements were imposed on bidder and target firms in 1973 and 1978. In 1973, the bidder were required to disclose a detailed justfication for the offer price or exchange ratio. The ownership structure, research policy, business policy orientation, production/investment strategy, and a forecast of the end-of-year sales and earnings must, as of 1973, be disclosed for every firm represented by a security given to the target firm in an exchange offer. The target firm must publish similar type of information about itself. (C.A.C., Addendum to C.A.C. General Regulation, *Journal Officiel*, March 15, 1973; C.O.B., Note on the Interpretaion and Application of the C.O.B. General Ruling on Public Tender Offers, C.O.B. Monthly Bulletin no. 46, February 1973; C.O.B., General Ruling on Controlling-Block Trades, *Journal Officiel*, March 17, 1973; C.A.C., C.A.C. General Regulation, *Journal Officiel*, August 24, 1973; C.O.B., General Instruction on Information Schedule, October 1973.) As of 1978, the bidder firm must also disclose the identity of any shareholder who owns more than five percent of its common stock, and a detailed description of the business activity of its subsidiaries. The target board must disclose its vote structure concerning the tender offer, and target board members who are also shareholders must disclose their intended response to the offer. (C.O.B., General Ruling on Public Tender Offers, *Journal Officiel* May 2, 1975). In 1978, the 90 percent rule was changed to 2/3 of all target shares, and the required disclosure of information was further reduced. (C.O.B., General Ruling on Public Cash and Exchange Offers, *Journal Officiel*, August 13, 1978; C.A.C., Addendum to C.A.C. General Regulation, *Journal Officiel*, August 13, 1978; C.O.B., Instruction Concerning the Application of Rule D5 of C.O.B. General Ruling on Public Tender Offers, October 3, 1978.)

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transactions aimed at reinforcing a controlling position in the target (not just to acquire control), as well as for complete minority buyouts in cases where the bidder already owns at least 50 percent of the target shares. [17]

The 1970 regulations also imposed for the first time a series of specific fiduciary responsibilites on bidder and target management vis-a-vis their shareholders. For example, an offer must be made in "good faith", the management must act in the "collective shareholder interest" and "respect shareholder sovereignity in responding to the offer". [18] During the offer period, the C.O.B. must be informed daily of insider or principle shareholder trades in the bidder and target securities, target share margin requirements are lifted to 100 percent, target share forward and options quotations are suspended, and target shares off-the-floor trading is prohibited. [19] Furthermore, as of 1970, the bidder has the option to increase the offer price *once* by at least five percent, an option which expires 10 days prior to the offer expiration date. The offer expiration date may not be extended, and target shareholders cannot withdraw already tendered shares. [20] Rival bids exceeding the initial offer price by at least five percent are allowed until the expriation date of the initial offer, and, if such a

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[17] Additional regulations of minority buyouts were introduced in 1972, 1975, and 1978. In 1972 (C.A.C., Addendum to C.A.C. General Regulation, *Journal Officiel*, February 22, 1972) a simplified procedure ("offre simplifée") for buying out small remaining minority shareholdings was introduced. The simplified procedure has fewer disclosure requirements than do the regular tender offer procedure. Furthermore, under the simplified procedure the C.A.C. does not centralize the sell orders, nor does it declare the outcome of the month). The minimum offer period is 20 market days (instead of one days, and no competing bids or changes in the initial bid are allowed while the offer is outstanding. The bidder may use the simplified procedure if at least two of the following three conditions hold: (1) the bidder holds at least 90 percent of the target shares; (2) the number of target shares not held by the bidder is 15,000 or less; (3) the market value of the target shares not held by the bidder is 2,000,000 F or less. In 1975 the 15,000 share rule was changed to 20,000; the 2 million F maximum value changed to 5 million F; and dealer transactions in target shares were prohibited during the offer preiod (see references in note 16, above).

[18] Additional fiduciary responsibilities were placed on management also in 1975 and in 1978 (see references in note 16 and 17, above).

[19] The French stock exchanges organize forward markets for certain listed stocks. The forward contracts are settled at the end of each month.

[20] However, all tendered shares automatically participate in any increase in the offer price during the offer period.

competing bid materializes, all prior sell orders are automatically cancelled.

A series of decisions, notes and instructions published from February through October 1973 organized another major reform in the French regulation of tender offers. [21] Most importantly, the reform extended the regulation to include *private* offers for a controlling interest in the target. As of 1973, a privately negotiated controlling-block trade must follow a particular procedure designed to give additional protection to relatively small shareholders: On the day the controlling-block trade is executed, the block price, block size and identity of buyer and seller must be publicly disclosed, and the buyer must be prepared to purchase *all* additional shares tendered at the block price within the next 15 days. Thus, the regulations convert private controlling-block trades into a public tender offers for 100 percent of the target shares, where the offer price equals the negotiated block price. As a mitigating factor, the regulations exempts controlling-block trades from the disclosure requirements governing the public tender offer procedure. The regulations grant the C.A.C. general authority to evaluate whether or not a stock market transaction involves a controlling-block of shares. [22]

In sum, prior to 1966 there were no regulations of public tender offers *per se*. However, the French auction market system discouraged the use of tender offers. In 1966 a procedure was established allowing a public *cash* tender offer for a controlling interest in the target to take place off the exchange floor, with the C.A.C. acting as the auctioneer and with a minimum offer period of one month. Significant dicslosure requirements were introduced in 1970, which also saw the regulations extended to cover *exchange* offers for control, and to allow the public tender offer procedure to be used for complete buyouts of minority

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[21] See the references in note 16, above.

[22] The 1973 reform also introduced the possibiltiy of using the public tender offer procedure to acquire a minority holding of 15 percent or more. In 1975, the public tender offer procedure was made available for majority shareholders seeking to acquire an additional 15 percent (but less than 100 percent) or more of the target firm as well (see references in note 16 and 17, above).

shareholdings given the bidder already owns a minimum of 50 percent of the target. In 1972, a simplified tender offer procedure for minority buyouts was introduced covering cases where the bidder owns close to 90 percent of the target. In 1973, *private* offers for a controlling-block of shares were brought under the regulations through the establishment of a separate procedure which essentially converts such block trades into public offers. Thus, as of 1973, *all* purchases of a controlling interest in a publicly listed French company are regulated and must follow either the public tender offer procedure or the public controlling-block trade procedure. The 1973 reform also introduced additional disclosure requirements as well as the possibility of using the public tender offer procedure to acquire a *minority* interest in the target of 15 percent or more. In 1975 the public tender offer procedure was made available for partial minority buyouts as well, given that the bidder owns at least 50 percent of the target firm. Further minor additions to these regulations were introduced in 1978. [23]

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[23] The regulations summarized in this section concern the tender offer *process*. Prior to October 1977, no French institution had the authority to prevent an acquisition on the basis of the possible impact of the takeover on product market competition. As of this date, however, the bidder must be prepared to submit proof that the acquisition does not "harm competition". The economic effects of this antitrust legislation is examined in a separate paper.

Data and Empirical Methodology

3.1 Sample Description

Table 1 lists the total *population* of tender offers and controlling-block trades in France in the 1966-1982 period, classified by the type of procedure used and the regulatory regime in effect at the time of the offer. [24] Of the 306 offers in the population, 14 were declared unsuccessful by the C.A.C. Furthermore, there were a total of 23 simplified tender offers (i.e., minority buyouts where the bidder owns approximately 90 percent of the target shares prior to the offer). In the subsequent empirical analysis we operate with a more restrictive definition of "success" than the one used by the C.A.C, and we include in the group of minority buyouts all public tender offers where the bidder owns at least 67 percent of the target firm and is seeking to purchase 100 percent. The 67 percent threshold is motivated by the fact that, under French law, two-thirds (plus one) of the voting rights is sufficient to impose a merger or acquisition on minority shareholders. [25]

Of the 306 public tender offers and controlling-block trades listed in table 1, 293 cases qualified for inclusion in our data base. Seven offers were excluded due to missing information on one or more offer parameter, which include the offer price, and the number of target shares held, sought, tendered and purchased. [26] Furthermore, an additional six cases were excluded due to our minimum restriction on the availability of stock prices necessary to estimate abnormal stock returns (details in section 3.2, below).

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[24] Data sources are listed in the table. Note that we count an offer where the target receives successive increases in the offer price by the initial bidder as *one* offer only. Note also that cases with multiple bidders for the same target are relatively rare in France: in our data base there are less than 10 such tender offer contests.

[25] See, e.g., M. Fleuriet (1977, pp. 142-174).

[26] Data sources for the various offer parameters are the annual C.A.C., *Année Boursière Exercises* 1965-1982 (C.A.C., Paris), Vols. 5-20; the periodical C.A.C., *Décisions et Avis de la Chambre Syndicale* (C.A.C., Paris), 1965-1982; C.O.B., 1er-15ème Rapport au Prèsident de la Republique Exercises 1968-1982 (*Journal Officiel de la Republique Française, Paris*); C.A.C. *Service Statistique*, 1984 (Fiches individuelles d'entreprise); D.A.F.S.A., Les Microfiches sur les Actionnaires et les Participations (D.A.F.S.A., Paris), 1976-1982; and the annual D.A.F.S.A., *Les Liasions Financières*, Tome 1 et 2 (D.A.F.S.A., Paris), 1966-1977.

Table 2 through 5 present a detailed description of the data base. According to table 2, the target firm is listed on the Paris Stock Exchange in 212 of the 293 cases. Another 20 targets are listed on the Lyon Exchange, 19 targets are listed on the Marseille Exchange and 18 on the Lille Exchange. Of the 167 listed bidders 144 are listed on the Paris Stock Exchange and another 15 represent foreign companies quoted in Paris. Table 3 gives the corresponding annual distribution of the listed bidder and target firms, classified by the type of the offer. Of the 293 offers, 216 are cash offers while in the remaining 77 cases the bidder offered to exchange one or several types of securities for the target shares. [27] Note that the relative number of exchange offers is much larger when we exclude the controlling-block trades from the group of cash offers: Among the tender offers, 74 are cash and 59 are exchange offers, while the corresponding distribution in the sample of minority buyouts is 37 and 18. Thus, 44 percent of the tender offers and 33 percent of the minority buyouts are exchange offers.

Table 4 classifies the offers by their outcome. We define a "successful" offer as one where the bidder (i) succeeds in purchasing at least the minimum number of target shares sought, given a non-zero minimum is specified in the offer, or (ii) if no minimum limit is specified, succeeds in purchasing at least 50 percent of the maximum number of target shares sought. This contrasts with the C.A.C. definition of success, which only requires that the number of shares tendered exceeds the minimum number of shares sought. [28] While condition (ii) is somewhat arbitrary, it is not particularly restrictive since, as shown in table 5, the percent of the target shares actually purchased in unsuccessful offers is small relative

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[27] Of the 77 exchange offers, the bidder offered to exchange his own shares in 50 cases, while the exchange offer involved a single type of bond in another 14 cases. See the footnote to table 3 for further details.

[28] When this minimum is zero, the C.A.C. will declare the offer successful as long as at least *one* share is tendered. Note that under both the C.A.C. and our definitions, all the controlling-block trades in our sample are successful. This follows since (i) the block was actually traded (prior to the mandatory 15 day price-support period), and (ii) the block itself represents the minimum number of target shares sought by the bidder.

to the percent purchased in successful offers. Relative to the C.A.C. definition, however, our definition of success increases the number of unsuccessful offers from 14 (in the total population of 306) to 40 (in the sample of 293). Of the 40 unsuccessful offers, 33 (23 cash and 10 exchange) bids were in the group of tender offers and 7 in the group of minority buyouts. Since our sample contains practically the entire population, a reasonable estimate of the *ex post* success rate is 75 percent for tender offers and 87 percent for minority buyouts over the 1966-1982 period. [29]

According to table 5, the bidder firms held on average less than 20 percent of the target shares prior to a tender offer or a controlling-block trade (21.7 and 13.0 percent for successful bids, respectively, with median values of 9.9 and 0.0 percent.) For a minority buyout, the mean (median) percent held is 78.3 (75.1) for successful offers. There does not seem to be any great difference between successful and unsuccessful offers with respect to the fraction of the target held by the bidder prior to the offer, nor with respect to the maxmimum number of target shares sought by the bidder. [30] In tender offers, the average successful (unsuccessful) bidder is seeking a minimum of 70.3 (79.2) percent of the target shares. Acquisition of this minimum percentage would give the average bidder in both categories a 92 percent interest in the target. Furthermore, while there is typically no *lower* limit on the number of target shares the bidder will accept in a minority buyout (or in an unsuccessful tender offer), there is an average limit of 23.4 percent (median 19.5

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[29] These success rates are quite close to the success rate of tender offers on the New York and American Stock Exchanges over (roughly) the same period, which Eckbo (1985a) estimates to be approximately 80 percent. Eckbo defines an offer as being successful if at least 15 percent of the target shares were purchased by the bidder. As is evident from table 5, this particular definition of success does not substantially change the success rates computed above, as the mean and median percent of the target shares purchased in our unsuccessful tender offers are 11.45 and 6.08, respectively. In the group of minority buyouts the corresponding mean and median values are 4.47 and 6.20 percent.

[30] By definition, the maximum number of shares sought in a minority buyout is 100 percent of the target shares less the bidder's prior holding in the target. This is the case for controlling-block trades as well since, as was explained in section 2, under the controlling-block trade procedure the bidder must be prepared to purchase all target shares tendered at the block price over the 15 days following the block trade itself.

percent) for successful tender offers. [31] Also, the percent of the target shares purchased by the bidder is approximately equal to the percent tendered (with the largest discrepancy of 7 percent for the average bidder in a successful tender offer). The average (median) percent purchased is 59.2 (53.5) for successful tender offers, 11.4 (6.08) for unsuccessful tender offers, 58.8 (60.9) for successful controlling-block trades, and 18.4 (18.6) and 4.5 (6.2) for the successful and unsuccessful minority buyouts, respectively.

3.2 Estimation of Abnormal Returns

Offer-induced abnormal returns are estimated based on the assumption that the following market model is an appropriate representation of the equilibrium return generating process:

$$r_{jt} = \alpha_j + \beta_j r_{mt} + \beta'_j d_t r_{mt} + \epsilon_{jt}, \tag{2}$$

where r_{jt} is the realized rate of return on security j over week t, r_{mt} is the weekly return on the C.A.C. stock price index, d_t is a dummy variable which takes on a value of one if week t is after the expiration of the offer and zero otherwise, and ϵ_{jt} is a normally, identically distributed, serially uncorrelated zero mean disturbance term. [32] The OLS

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[31] The minimum percent of target shares sought in a controlling-block trade is represented by the block actually traded before the mandatory price support period.

[32] The information on stock prices, dividends and other distributions used to generate the security returns in equation (2) were collected from a number of sources: First, we used the 1982 and 1984 versions of the data tape issued by the C.A.C. covering weekly stock returns to firms listed simultaneously on the Paris forward and spot markets between 1967 and 1982. (This tape, which also contains a small sample of firms listed exclusively on the spot market, covers only a small number of the firms in our sample. The tape does not maintain a record of delisted securities). Second, we obtained data from a tape maintained by the C.A.C. since 1977 and which covers all officially listed securites and preserves the historical record of delisted securites (the tape is not normally available to external users). Third, information was collected manually from various issues of the C.A.C., *Cote Officielle*, Cours Officiels et Authentique (C.A.C., Paris) 1965-1982; and C.A.C., *Année Boursière Exercises* (C.A.C., Paris) 1966-1982 (annual). For every offer in the sample, we recorded weekly (Friday to Friday) prices from week -53 relative to the week of the offer through week 52 relative to the week of the expiration of the offer, i.e., roughly one year of weekly data on each side of the total offer period. Cash dividends as of the ex-dividend week, and a stock price adjustment coefficient covering splits and rights issues as of the ex-cupon week, were also collected.

estimate of equation (2) is used to create an unbiased forecast of the expected return to firm j over event week r, where r is defined relative to the week of the offer announcement and is outside of the estimation period. The coefficient β'_j captures any change in the firm's systematic risk after expiration of the offer. Returns in the estimation period are drawn from week -53 through week -9 relative to the offer date and week 9 through 52 relative to the expiration date of the offer, using actual price observations only. For all cases in our data base, the bidder or the target firm has at least 20 return observations in the estimation period. observations available in the event period. The coefficient β'_j is estimated only if the firm has at least ten return observations in the estimation period after the event period (where the latter period extends from week -8 relative to the offer date through week 8 relative to the expiration date). [33]

The abnormal return over event week r is then computed as

$$
AR_{jr} \equiv \begin{cases} r_{jr} - (\hat{\alpha}_j + \hat{\beta}_j r_{mr}) & \text{for -8} \leq r \leq \text{E} \\ r_{jr} - (\hat{\alpha}_j + \hat{\beta}_j r_{mr} + \hat{\beta}'_j r_{mr}) & \text{for E} < r \leq \text{E+8,} \end{cases} \tag{3}
$$

[33] Note that the C.A.C. sometimes suspends trading in the target shares just prior to and during the week of the offer. In order to capture the full price impact of the offer also in these cases, we substitute the following predicted prices for the missing price observations:

$$
\hat{p}_{j,r} = p_{j,r-1}[1 + (\hat{\alpha}_j + \hat{\beta}_j r_{mr})],
$$

where $\hat{p}_{jr}$ is the estimated price of security j for event week r (in which the actual price observation is missing), and $p_{j,r-1}$ is the previous period's (observed or estimated) price. This substitution, which is performed on missing prices in the period -8 through E only, does not affect the estimates of α_j and β_j since equation (2) is estimated using *actual* price observations only, exluding the -8 through E+8 event period. The purpose of the substitution is to allow estimation of the *total* abnormal return over the offer period since all actual price observations can now be included in the analysis. Note that since we use an unbiased estimate of the expected return in the replacement routine, the estimated standard error of the weekly abnormal return is not affected by the replacement. However, if the implicit assumption of no abnormal price behaviour during a week of price replacement is wrong, the estimated average abnormal return in this week can be somewhat understated and, consequently, the average abnormal return in the week following price replacement somewhat overstated. In light of this, we make statistical inferences based on a combination of weekly abnormal returns and abnormal returns measured over event periods which are long enough to cover the periods of price suspension, and which are therefore not biased in any direction.

where superscript "hat" denotes OLS-estimate and E is the number of weeks between the offer date and expiration date (which, for all French public tender offers is at least four weeks).

Sample-wide statistical inferences are made on the basis of the average abnormal returns (AAR) and cumulative average abnormal returns ($CAAR$). The AAR for week τ is computed as

$$AAR_\tau \equiv \frac{1}{N_\tau} \sum_{j=1}^{N_\tau} AR_{j\tau}, \qquad (4)$$

where N_τ is the number of firms in the sample having valid AR's in week τ. Furthermore, AAR cumulated over L weeks is defined as

$$CAAR_L \equiv \sum_{\tau=-l}^{L-l-1} AAR_\tau, \qquad (5)$$

where l is the first week in the cumulation, relative to the offer week 0. To infer the statistical significance of $CAAR_L$, we first standardize AAR_τ by dividing each individual $AR_{j\tau}$ by an unbiased estimate of its standard deviation. [34] If the tender offers in the sample represent independent events, this avarage standardized abnormal return ($ASAR_\tau$) is distributed approximately normal with variance 1/N. [35] Consequently,

$$Z(AAR_\tau) \equiv ASAR_\tau \sqrt{N} \qquad (6)$$

is approximately a standard normal variate under the null hypothesis of $AAR_\tau = 0$. Fur-

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[34] Let $R_{m\tau}$ be the vector of independent variables in event period τ, R_m the matrix of observations on the independent variables used in the estimation period, and $\hat{\sigma}(\epsilon_j)$ the unbiased estimate of the standard error of the regression disturbances over the estimation period. Then the standard deviation of $AR_{j\tau}$ is given by [see, e.g., Theil (42, pp.122-123)]

$$\hat{\sigma}(AR_{j\tau}) \equiv \hat{\sigma}(\epsilon_j)[R_{m\tau}(R_m' R_m)^{-1} R_{m\tau}' + 1]^{\frac{1}{2}}.$$

[35] This assumes that any cross-sectional dependence which arises whenever the AR 's are derived from regressions based on (partially) overlapping estimation periods, is negligible.

thermore, assuming serial independence in the $Z(AAR_\tau)$'s, it follows that

$$Z(CAAR_L) \equiv \frac{1}{\sqrt{L}} \sum_{\tau=-l}^{L-l-1} Z(AAR_\tau) \tag{7}$$

is also approximately unit normal under the same null hypothesis.

4. Empirical Results

4.1 Total Sample: Offer Premiums

Table 6 shows the offer premium across the various categories of bids, computed relative to the target share price in 5 different weeks relative to the offer and expiration dates. Although the time series of these offer premiums mirrors closely the abnormal returns to target firms reported below, it presents a view of the offer-induced price changes which is not conditioned on contemporaneous changes in the market index nor on estimates of the expected return model (2). The level of the various offer premiums is also interesting in comparison with some of the evidence reported for tender offers in the U.S. [36]

Notice first that there is a sharp decrease in the offer premium from week -8 through weeks 0 *and* 1. This evidence of a share price increase which on average continues over the week after the offer announcement in part reflects the relatively large number of trade suspensions in weeks -1 and 0. Our price substitution procedure, which substitutes the missing prices in weeks of price suspension during the event period before the expiration of the offer, [37] leaves a significant part of the offer-induced price effect to appear in week 1 or later when trading suspension is lifted. Thus, the lagged price effect is not necessarily evidence of a slow market response to the offer.

For cash offers, the average offer premium relative to week -8 is 61.79 percent (median 43.33 percent) in successful tender offers, 36.74 percent (median 26.18) in unsuccessful tender offers, 38.30 percent (median 30.89) in successful minority buyouts, and 26.16 percent (median 13.64) in controlling-block trades. Relative to week 1, the corresponding average offer premiums are 20.05 percent (successful tender offers), 4.84 percent (unsuccessful tender offers), 3.54 percent (successful minority buyouts), and -1.67 percent (controlling-block trades). [38] Thus, by week 1, the target share market price is quite close to (although

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[36] See, e.g., Bradley (1980), Jarrell and Bradley (1980), and Eckbo (1985b).

[37] See note 33, above.

[38] Note that the negative offer premium in the sample of controlling block trades in week

somewhat below) the offer price. [39] Furthermore, as of the week prior to the expiration of the offer, the premium is positive for all categories of cash offers, except for unsuccessful tender offers where the average premium is -3.59 percent (median 0.00). A negative offer premium just prior to expiration of the tender offer should cause the offer to fail, unless a sufficient number of target shares were tendered earlier in the offer period (under a positive offer premium). [40] Also, there is evidence that the target share price after expiration of the offer on average exceeds the price prior to the offer whether the offer is successful or not. In all categories, the offer premium relative to the target share price eight weeks after the expiration date is substantially smaller than the offer premium relative to week -8. Thus, table 6 gives an indication that cash tender offers produce a permanent price increase in the target shares whether or not the bidder is successful in acquiring the sought-after target shares.

A somewhat different picture emerges from the offer premiums in exchange offers. [41] First, notice that the offer premium relative to week -8 is substantially smaller in exchange

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1 affects only the number of shares tendered to the bidder *in addition* to the shares already purchased in the block trade in week 0. Thus, the negative premium cannot cause the block trade itself to fail.

[39] Under the assumptions behind equation (1) in section 2, the interim target share price, P_I, will remain below the offer price if the bidder is seeking less than 100 percent of the target shares ($F < 1$), or if the expected post-offer target share price conditional on the bidder successfully acquiring the sought-after target shares, $E(P_E^S)$, is less than the offer price.

[40] Recall from section 2 that before 1978 a target shareholder did not have the right to withdraw already tendered shares. Note also that even a small but *positive* offer premium is not necessarily sufficient to induce target shareholders to tender if the shareholder realizes potential capital gains tax liabiltiy exceeding the value of the offer premium, or if the shareholder has substantially different expectations concerning the post-offer value of his shares than what is already reflected in the market price.

[41] The price per share offered by the bidder in an exchange offer is calculated as the sum of any cash price plus the market value (QUOTE) of the package of securites offered per target share.QUOTE is calculated using the following procedure which covers all exchange offers in our data base:
(1) If the bidder uses its own company shares then QUOTE is the price of the bidder shares at t =LDAY, where LDAY is the last day the offer is outstanding.
(2) If the bidder uses shares of a third party then QUOTE is the price of the third party shares at t =LDAY.

offers than in cash offers. Furthermore, this offer premium is of approximately the same magnitude as the offer premium relative to the 8th week after expiration of the offer. Thus, there is no indication in table 6 of a permanent revaluation of the target shares in exchange offers, a conclusion which will be reinforced by the analysis in section 4. Finally, notice the average offer premium of -7 percent relative to both week 1 and the week prior to expiration in *successful* minority buyouts. Since a negative offer premium normally should cause the offer to fail, this result most likely reflects a slight underestimation on our part of the market value of the securities exchanged for the target shares.

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(3) If the bidder uses one type of bond (convertible or ordinary) then

$$QUOTE = [COURS + C(\frac{JC2}{365})]e^{-r(JC2/365)} + C(\frac{JC1}{365})$$

where $COURS$ is the first market price of the bond after LDAY; C is bond coupon; $JC1$ is days of coupon accrued at t =LDAY; $JC2$ is days of coupon accrued from t =LDAY through t at which $COURS$ is observed; r is $\sum_{i=1}^{2}(J_i/JC2)r_i$; r_i is the average for month i of the daily average overnight interbank interest rate; and $JC2 = J_1 + J_2$. For $i = 1, J_i$ is the number of days remaining in the month of LDAY given $COURS$ is observed in the subsequent month, or the number of days bewteen LDAY and the day $COURS$ is observed if the latter is within the month of LDAY. For $i = 2$ (which is the case only if $COURS$ is observed in the month following the month of LDAY), J_i is the number of days from the beginning of the month of $COURS$ to the day $COURS$ is observed. In the total data base, $COURS$ is observed within the month of LDAY and the subsequent month.

(4) If the bidder uses p different types of bonds then

$$QUOTE = \sum_{i=1}^{p} n_i Q_i / N$$

where n_i is the quantity of bond of type i; Q_i is the value of QUOTE corresponding to the bond type i (defined above); and N is the number of target firm shares exchangeable for $n_1, n_2, ..., n_p$ bonds.

(5) If the bidder uses multiple types of shares then

$$QUOTE = \sum_{i=1}^{p} n_i C_i / N$$

where n_i is the number of shares type i; C_i is the price at t =LDAY of shares type i; and N is the number of target firm shares exchangeable for $n_1, n_2, ..., n_p$ shares (of bidder firms or another listed firm).

4.2 Total Sample: Abnormal Returns

Table 7 through 9 list the cumulative average abnormal returns (CAAR) over eleven subperiods relative to the week of the offer (week 0). Table 7 contrasts successful with unsuccessful offers, while table 8 and 9 examines the various categories of successful bids. The figures give the CAAR over the entire event period from week -8 through 8 weeks after the expiration of the offer. [42]

4.2.1 Successful vs. Unsuccessful Tender Offers

It appears from table 7 and figure 1 that the 63 successful bidder firms on average earn significantly positive abnormal returns around the week of the offer. The abnormal return is 2.98 percent over week 0, which is more than six standard deviations from zero ($Z = 6.63$). [43] Cumulated over weeks -1 and 0, the abnormal return is 3.64 percent with a Z-value of 5.72. The CAAR over the weeks after week 0, prior to week -2, are all insignificantly different from zero at the 10 percent level.

Furthermore, the 99 successful target firms earn strongly significant abnormal returns of 5.41 percent over week 0 (Z-value of 12.67; 84 percent positive), and an additional 16.33 percent over week 1 (Z-value of 35.12). [44] From week -8 through the the minimum offer

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[42] As discussed in section 2, the minimum offer period is four weeks for public tender offers, 20 days for minority buyouts and 15 days for controlling-block trades. Of the 293 targets in the total data base, 291 have a total offer period of eleven weeks or less: 9 offers were outstanding for two weeks, 61 offers for three weeks, 77 offers for four weeks, 83 offers for five weeks, 58 offers for six to nine weeks, and 3 offers for eleven weeks. Thus the CAAR up through week 12, which is the longest cumulation reported in the tables, cover the expiration week for 291 of the 293 cases. The remaining two cases expired after thirteen weeks. The price effect of the expiration of these two cases is accounted for in the computation of the offer premiums in table 6, and are included in the figures which generally extend beyond week 12.

[43] 59 percent of the 63 bidders show positive abnormal returns over week 0.

[44] Note that given our replacement of missing returns in the event period (discussed in section 3) and the frequent suspension of trading in the target shares during week 0, the magnitude and significance of the abnormal returns are somewhat understated for week zero and overstated for week 1. Essentially, with trading suspension in week 0 our estimated abnormal return is zero for that week and reflects a two-week price change in week 1. While the *sum* of the abnormal returns over week 0 and one is unbiased under this problem, the z-value of the sum is not. Since this bias occurs at most for some of the target firms in the

period of four weeks, the CAAR rises to approximately 29 percent for subsequently to drop back to 9.98 percent (Z-value of 9.96) by week 12. Thus, the permanent increase in the share price of the average target firm documented earlier in table 6 is confirmed here.

Target firms in the 35 unsuccessful tender offers in the data base on average earn 16.71 percent abnormal returns over week 0 and 1, and 21.12 percent (Z-value of 8.00) - or 63 million Francs - as of week 12. Thus, there is a strong permanent revaluation of the target shares also in unsuccessful offers. [45] Unsuccessful bidder firms earn on average 1.20 percent abnormal returns over week 0, which is significantly different from zero on a 5 percent level, and zero abnormal returns in all other subperiods in table 7. [46] In sum, the combined message from successful and unsuccessful bids is that *both* target and bidder firms on average gain from takeover activity in France.

This result is comparable to, and largely consistent with, results reported for tender offers in the U.S. As summarized by Jensen and Ruback (1983, table 3), the U.S. evidence indicates that targets of successful tender offers earn abnormal returns ranging from 16.9 percent over the month of the offer announcement [Kummer and Hoffmeister (1978), t-value of 10.9, sample size of N=50] to 34.1 percent over the forty days before through twenty days after the offer announcement [Jarrell and Bradley (1980), t=25.5, N=147]. [47] Successful bidder firms earn statistically significant abnormal returns ranging from 2.4 percent over the ten days before through ten days after the offer annnouncement [Bradley, Desai and Kim (1983), t=3.0, N=161] to 6.7 percent [Jarrell and Bradley (1980), t=3.4, N=88]. In

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data base, and given the strong significance levels in general for this category of firms, this particular bias is unlikely to substantially affect our conclusions.

[45] Note that although the CAAR for successful and unsuccessful offers is approximately the same as of week 4, recall from table 6 that the *offer premiums* differ substantially across the two categories.

[46] Note that if the market to some extent is able to predict the outcome of the offer, the abnormal returns to bidder and target firms in *ex post* unsuccessful offers understates the expected gains from a successful takeover.

[47] The sample used by Jarrell and Bradley (1980) is a subsample of the data base compiled by Bradley (1980).

unsuccessful tender offers, target firms earn significantly positive abnormal returns in the period immediately prior to the offer announcement and through the expiration/execution date, ranging from 16.3 percent over the month of and month after the offer announcement [Dodd and Ruback (1977), t=6.3, N=36] to 47.3 percent over twenty days before through twenty days after the offer announcement [Bradley (1980), t=30.4, N=97]. Bradley, Desai and Kim (1983) shows that targets in unsuccessful offers that do not recieve additional offers over the next two years lose all previous announcement gains. [48] The abnormal returns to unsuccessful bidder firms range from -3.0 [Bradley (1980), t=-1.3, N=46] to 0.6 [Dodd and Ruback (1977), t=1.19, N=58], i.e., essentially zero abnormal performance. [49]

The evidence in general, and the results in table 7 in particular, is broadly consistent with the hypothesis that managers act in the interest of their shareholders. Furthermore, following the discussion in Bradley (1980), the evidence rejects theories predicting that the gain to bidder firms from takeovers originate in a wealth transfer from *ex post* minority target shareholders. That is, there is no evidence indicating that tendering or non-tendering shareholders are made worse off, relative to the pre-offer target share price, from the takeover bid whether the bid is successful or not. Thus, "corporate raiding", (i.e., the

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[48] The evidence in Bradley, Desai and Kim (1983) suggests the possibility that the revaluation of target shares in unsuccessful offers observed in our French data base is conditioned on a future takeover bid which is expected to materialize *after* week 12 relative to the initial (unsuccessful) offer. This particular proposition is not tested here.

[49] The U.S. evidence on target firm performance in *mergers* is similar to the evidence on tender offers, except that targets in unsuccessful mergers "appear to lose all positive returns earned in the offer announcement period by the time the failure of the offer becomes known" [Jensen and Ruback (1983, p. 16)]. Bidder firms in successful mergers appear to earn zero average abnormal returns, and negative abnormal returns in unsuccessful merger attempts. See, *e.g.*, Mandelker (1974), Langetieg (1978), Dodd (1980), Asquith (1983), Eckbo (1983), and Malatesta (1983). In contrast, Eckbo (1985c) documents statistically significant, positive average abnormal returns to successful bidder firms in a large sample of mergers between Canadian companies. Note that the measured gains to bidder firms in merges and acquisitions may reflect an attenuation bias due to prior anticipation of takeover activity (some firms are frequent acquirors [Schipper and Thompson (1983)]), and due to the problem of measuring bidder returns when the bidder is several times the size of the target. As shown in table 7, the equity size of the average bidder firm is nearly ten times the equity size of the average target.

theory that the bidder firm expect to finance the takeover premium by expropriating the wealth of *ex post* minority target shareholders) cannot be an important consideration. This is interesting since much of the regulation of tender offers has been explicitly motivated by this type of argument. [50] Also, the evidence is inconsistent with the hypothesis that the bidder firm on average expects to finance the takeover premium by a post-offer increase in the value of the target shares purchased. This hypothesis is frequently used to motivate disclosure regulations, which purport to protect target shareholders from tendering their shares at an offer price below the expected post-offer price implied by the bidder's own private information. However, since the bidder firm is paying a premium over the *post*-offer target share price, the gains from the takeover more likely originate in economies from combining the production/investment policies of the bidder and target firms (frequently referred to as "synergies") and/or through new and favorable information about the value of the bidder firm itself signalled to the market by means of the costly takeover attempt. [51]

4.2.2 Cash vs. Exchange Offers

Table 8 and figure 2 reveal a significant difference between the performance of target firms in successful cash and exchange offers. Target firms in the 50 successful cash tender offers earn cumulative abnormal returns of 39.78 percent (Z-value of 21.30) over the twelve week period -8 through 3, while the corresponding performance by targets in the 49 successful exchange offers is 14.29 percent (Z=7.71). The hypothesis that these two abnormal returns are of equal magnitudes is rejected on a 1 percent level with a t-value greater than six. As indicated earlier in table 6, there is no permanent increase in the value of the target shares in exchange offers. The CAAR over the period -8 through 12 is -2.78 percent for

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[50] See Jarrell and Bradley (1980) in the context of the introduction of the Williams Act in the U.S.

[51] For a discusion of the information hypothesis, see Grossman and Hart (1980), Bradley (1980), Bradley, Desai and Kim (1983), Roll (1983), and Eckbo (1985a).

exchange offers and 22.43 for cash offers. On the other hand, the the performance of bidder firms in cash offers is not statistically different from the performance of bidders in exchange offers. Both categories of firms earn significantly positive abnormal returns over the week of the offer announcement: 4.17 percent (Z-value of 3.92) for cash offers and 2.38 (Z=5.38) in exchange offers. Over the period -8 through 12, the CAAR to bidders in cash offers is 4.99 percent (Z=0.92) and -2.13 (Z=-0.10) in exchange offers.

These results are comparable to the evidence in Husson (1984) and Wansley, Lane and Yang (1983). Husson (1984) finds that over the 36-day period -10 through 25 relative to the day of the offer announcement, the cumulative average abnormal return is 23.03 percent to 5 targets involved in cash offers (t-value of 7.5) and 5.31 percent (t=1.33) to 9 targets in exchange offers. The t-value testing for the difference between these two abnormal returns is 2.51, i.e., significant on a 1 percent level. In contrast to our results, however, Husson cannot reject the hypothesis that bidder firms in both cash and exchange offers earn zero abnormal returns: over the -10,25 interval his 10 bidders involved in cash offers earn CAAR of 0.16 percent (t=0.05), while his 12 bidders involved in exchange offers earn CAAR of 0.81 (t=0.27) over the same period. Wansley, Lane and Yang (1983) find that target shareholders in 102 U.S. cash *merger* offers earn abnormal returns of 33.5 percent from 40 days prior to the first merger announcement through the announcement day, while the corresponding performance by targets in 87 exchange offers is 17.47 percent. The t-statistic for the difference between these to abnormal returns is 2.49. Thus, their evidence is remarkably similar to the evidence in table 8 (Wansley, Lane and Yang do not report evidence on the performance of bidder firms).

The generally larger offer premium and target firm abnormal performance in cash offers is consistent with both a tax argument and an information signalling argument. In France and the U.S., a cash offer generally implies the realization of a potential capital gains tax liability by tendereing shareholders while an exchange offer has no such tax implication.

Thus, the offer premium in a cash offer must exceed the offer premium in an exchange offer to compensate for the additional tax penalty in a cash offer. [52] Furthermore, the use of cash as a medium of exchange may rationally be interpreted by the market as an indication that the bidder believes the takeover is particularly valuable. In a cash offer, as opposed to an exchange offer, target shareholders do not participate in the post-offer revaluation of the bidder firm's shares. If the bidder has private information that this revaluation will be large, he might want to offer cash in an attempt to completely buy out the target shareholders. In a rational expectations framework, target shareholders facing a cash offer may realize that the takeover is particularly valuable to the bidder and demand a relatively high offer premium. [53] This type of argument can predict the large offer premium in cash offers relative to exchange offers documented earlier in table 6 and reflected in table 8 and figure 2. Note, however, that the evidence in table 8 rejects the proposition that *bidder* firms earn larger abnormal returns in cash offers than in exchange offers. Thus, the evidence is consistent with the proposition that the average bidder firms is indifferent between offering cash or securities for the target shares.

Wansley, Lane and Yang (1983) point to the fact that the U.S Securities Act of 1933 requires prior registration with the Securities and Exchange Commission of securities to be offered in exchange for the target shares. Since the approval process may take several

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[52] In France, if the tendering shareholder is a *corporation* and if the corporation purchased the target shares within two years prior to the offer, the realized capital gain is treated as general business revenue and taxed at the 50 percent corporate tax rate. If the shares have been held for more than 2 years, the realized capital gain is considered "long-term" and taxed according to a flat rate of 15 percent. If the tendering shareholder is an *individual*, any capital gains realized prior to December 31, 1978, is fully tax exempt. After this date (and throughout the rest of our sample period), the taxation of realized capital gains depends on the total value of the securities sold. If the total value is less than 150,000 Francs, any capital gain is tax free. If the value exceeds this limit, the tax rate is a flat 15 percent. There is an exception to this rule if the individual realizes gain from what is considered "speculative selling" (a term referring in particular to short selling). In this case, if the individual's portfolio turnover ratio (i.e., the ratio of the value of the shares sold to the total value of the individual's portfolio) exceeds 1.6, the individual must choose between a 30 percent flat tax rate and the individual's marginal tax rate on ordinary income.

[53] See, e.g., Heinkel (1984) and Fishman (1984).

months, news of the potential offer may reach the market prior to the month of the offer. If so, the resulting prior anticipation of the bid will attenuate the abnormal returns measured in response to the actual offer announcement. Since there is no similar registration requirement for cash offers, this could potentially explain the larger announcement-induced abnormal returns to target firms in U.S. cash merger offers. As in the U.S., a French bidder must receive approval by the C.O.B. of the securities intended to be used in an exchange offer. However, as discussed in section 2, *cash* offers in France must also receive prior approval by the C.O.B., and we have no reason to believe that the approval process is materially longer for exchange offers than for cash offers. [54] Since we find that firms in cash offers outperform firms in exchange offers also in France, this may indicate that the U.S. regulatory environment is not the main explanation for the superior performance of cash offers in the sample of Wansley, Lane and Yang.

4.2.3 Successful Block Trades and Minority Buyouts

Table 9 and figure 3 list the abnormal performance of bidder and target firms involved in successful controlling-block trades and minority buyouts. The controlling-block trade procedure is a substitute for the tender offer procedure when the purpose is to acquire control over the target firm. In both the tender offer sample and the block trade sample the bidder firm owns less than 67 percent of the target shares prior to the offer/trade. In the minority buyout sample the bidder's prior holding in the target is at least 67 percent

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[54] As mentioned in section 2, the C.O.B. and all other parties involved are legally constrained to keep the forthcoming offer secret until it has been formally approved -and announced- by the C.O.B. Note also that the issuance of new shares by the bidder firm for the purpose of an exchange tender offer must be authorized by the bidder firm's general assembly before the stock issuance is possible. Rather than obtaining this authorization prior to making the bid (which would leak information about the forthcoming offer to the market), the C.O.B. allows bidder firms to make the exchange offer conditional on subsequent authorization of the stock issue by the bidder firm's shareholders. Interestingly, this in effect means that the bidder firm's shareholder can decide *after* the target shareholders have responded to the bid whether or not they will go ahead with the exchange offer. As far as we know, no exchange offer has yet failed due to a post-offer refusal by bidder shareholders to authorize issuance of the new shares.

of the outstanding shares. [55] A comparison of the two samples provides some information on the hypothesis that the tender offer premium is indeed a *control* premium, as predicted under the synergy hypothesis. In a minority buyout the bidder fully controls the production/investment policy of the firm prior to the offer, and any premium paid to the minority shareholders must reflect factors other than the acquisition of control *per se*.

Table 9 and figure 3 reveal that the abnormal returns to target firms are of similar magnitudes in controlling-block trades and minority buyouts. The CAAR to the 103 target firms in the sample of successful controlling-block trades is 22.87 percent over the period -8 through 1, with a Z-value of 17.54. The abnormal return over the week of the offer announcement is 6.16 percent (Z-value of 14.81) and 10.58 percent (Z=23.70) over week 1. [56] There is a 8.66 percent revaluation of the target shares from week -8 through 12, which is more than 6 standard deviation from zero. The corresponding abnormal performance 4f targets in the 47 successful minority buyouts is 25.97 percent (Z=14.13) over the period -8 through 1, 13.71 percent (Z=21.28) over the week of the offer announcement, and an additional 12.72 percent (Z=18.39) over week 1. The hypothesis that the abnormal returns over the ten-week period -8 through 1 is the same in controlling-block trades and in minority buyouts cannot be rejected on a 10 percent level. Furthermore, based on the 99 target firms in table 7, we cannot reject the hypothesis that the abnormal return over this interval is the same for targets in successful tender offers and minority buyouts. Note that his comparison does not distinguish between cash and exchange offers. The hypothesis that the abnormal return to targets in successful *cash* tender offers (table 8) equals the abnormal returns to targets in either minority buyouts or controlling-block trades is rejected on a 1 percent

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[55] A distinction between minority buyouts using the regular tender offer procedure and the simplified procedure is made in section 4.3, below.

[56] Husson (1984), in a sample of 21 controlling-block trades, also find significantly positive abnormal returns to target firms. The abnormal performance is 12.7 percent over the seven-day period -3 through 3 relative to the day of the offer announcement, with a t-value of 5.9., and 3.4 percent over day 0 (t-value of 4.25).

level of significance. Target firms in successful cash offers outperform targets in both these two alternative offer categories over the -8 through 1 period. [57]

Table 9 also indicates that bidder firms in controlling-block trades on average earn positive abnormal returns from the block trade. The abnormal performance over the week of the trade (week 0) is 1.05 percent (t-value of 1.93), and 3.15 percent over the subsequent three weeks (t=3.23). [58] This contrasts with the performance of bidders in successful minority buyouts, who appear to systematically lose from the transaction. The abnormal return to the 29 bidder firms in this category is -1.77 percent over the two weeks preceding and including the announcement of the offer, with a t-value of -2.12. Over week 1 there is an additional significant loss of -1.40 percent (t=2.29). The hypothesis that the abnormal returns to bidder firms over the two-week period -1,0 is identical in controlling-block trades and minority buyouts is rejected on a 10 percent level (t-value of 1.78). Furthermore, the hypothesis that bidder firms in controlling-block trades perform as well as bidders in successful tender offers (cash or not) is rejected on a 5 percent level of significance. Thus, bidders in successful tender offers generally outperform bidders in either controlling-block trades or minority buyouts.

These results are directly comparable to the evidence in Dodd and Ruback (1977). In their sample of 19 successful "clean-up" offers, (i.e., offers where the bidder owns at least 50 percent of the target prior to the offer), the abnormal returns to target (bidder) firms over the month of the offer announcement is 17.4 (2.7) percent, with a t-value of 6.7 (1.9). The corresponding performance of bidder and target firms in their sample of 136 ordinary successful tender offers is 20.8 and 2.83 percent. with t-values of 25.8 and 2.16, respectively. Thus, Dodd and Ruback cannot reject the hypothesis that the abnormal returns to bidder or target firms is the same in ordinary and in "clean-up" offers.

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[57] A further analysis of cash offers is given below.

[58] Husson (1984) fails to reject the hypothesis that bidder firms in his sample of 21 controlling-block trades earn zero abnormal returns.

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Dodd and Ruback view the premium paid in their minority buyouts as "out-of-court settlements". That is, the majority shareholder chooses to pay a premium to avoid even larger expected litigation costs in the event that minority shareholders elect to legally challenge the firm's policies. An alternative hypothesis is that the premium reflects new information about the value of the target firm, which is not related to litigation costs. Since the bidder already has control, this information does not concern the value of changing the production/investment strategy of the target firm. Thus, while this evidence does not invalidate a synergy explanation for the premium in control-oriented tender offers, it certainly raises the possibility that the premiums paid in control-oriented offers reflect a substantial information effect. [59]

4.3 Successful Cash offers and the 1970 Disclosure Regulations

As discussed in section 2, January 1970 brought French regulations requiring for the first time bidder firms in public tender offers to disclose their prior ownership in the target and the economic rationale behind (including the financing of) the offer. The target firm was required to disclose the shareholdings of it's board of directors, as well as the board's evaluation of the tender offer. Further disclosure requirements were subsequently introduced in 1973 and 1978, [60] however, the 1970 reform represents the basic step towards disclosure regulations. Given the relatively small sample of unsuccessful offers in our data

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[59] Somewhat related evidence is found in DeAngelo, DeAngelo and Rice (1984) who examine 72 "going private" transactions on the New York Stock Exchange. In a going private transaction the public stock ownership is replaced by full equity ownership by the incumbent management and the security is delisted from the exchange. They document that the public stockholders earn on average 30.4 percent abnormal returns over the 41-day period from -40 through the day of the announcement of the going private proposal (t-value of 12.4). Again, this performance is similar to the average performance of target firms in tender offers in general. The authors argue that these premium transactions can be profitable for the incumbent management due, in particular, to "the improved incentives for corporate decision makers under private ownership". Thus, their evidence can be explained by a synergy-type of argument. Note that in our minority buyouts the bidder is never the incumbent management team, thus one cannot use the "improved incentive" argument to explain the large premiums paid in these buyouts.

[60] See note 16 above

base, as well as the basic difficulty of drawing meaningful inferences concerning the likely effect of disclosure regulations on *ex post* unsuccessful bids, we restrict the subsequent analysis to successful offers. Furthermore, in order to allow a direct comparison between tender offers, controlling-block trades and minority buyouts, we restrict the analysis to *cash* offers for 100 percent of the target shares. Thus, apart from differences in the takeover procedures and their regulations, these three categories of offers differ, for the purpose of the subsequent tests, at most in the bidder's prior ownership in the target firm. In tender offers and controlling-block trades, the prior ownership is less than 67 percent, while in minority buyouts it is greater than 66 percent.

The basic hypothesis to be tested is that the disclosure requirements have effectively increased the amount of information about the target firm available to the market during the offer period. Apart from capturing one of the major motives behind the disclosure regulations, this hypothesis also has some intuitive support. First, note that it is generally in the bidder firm's interest to disclose information which will deter potential rival bidders to enter the auction for the target. For example, the bidder might attempt to convince potential rival bidders, as well as the target firm, that the expected gains from the acquisition can only be realized if the bidder's own (specialized) resources are combined with the target. Without mandatory disclosure backed up with antifraud provisions penalizing attempts to release false information, *any* bidder would attempt this strategy and the voluntarily disclosed information would *lose* credibility. Thus, the imposition of mandatory disclosure requirements can increase the credibility of information already being disclosed by bidder firms. Second, the disclosure requirements can force *additional* information to be released, i.e., information which the bidder would not voluntarily release in fear of jeopardizing his chance of acquiring the target shares. In both cases, the *effective* amount of information is increased. In the following, we examine whether there is any evidence that target firms' share prices reflect this predicted increase in information dissemination during the offer

period.

Note that since the minimum required tender offer period of one month did not change over the sample period, a time-series analysis of the offer premiums and abnormal returns before and after January 1970 allows us to make inferences concerning the effect of the disclosure regulations *per se.* [61] Furthermore, the introduction of the controlling-block trade and simplified minority buyout procedures in France subsequent to 1970 allows a *cross-sectional* analysis of the effect of the disclosure requirements. Both of these two procedures are essentially exempted from the disclosure requirements governing the regular tender offer procedure.

4.3.1 Disclosure Regulations and Offer Premiums

Table 10 lists the offer premiums for four of the five relevant categories of successful offers. [62] Note that only tender offers following the regular tender offer procedure after January 1970 are subject to significant disclosure requirements. In table 10, these offers are contained in column 2 ("After 1970") and 4 ("Regular Procedure"). A comparison of column 1 and 2 reveals a significant increase in the average and median offer premiums in regular cash tender offers (where the bidder holds less than 67 percent of the target and attempts to acquire 100 percent) after the January 1970 disclosure regulations. Relative to week -8, the average (median) offer premium is 33.84 (30.72) percent before January 1970 and 70.80 (47.54) percent after January 1970. Relative to week 8 after expiration of the offer, the average offer premium is 14 percent in both subsamples, indicating a much larger *permanent* target share price increase as well after the 1970 regulations were introduced.

Second, a comparison of column 2 in table 10, to the controlling-block trades in table 6 yields a similar conclusion. In both samples the maximum percent of the target shares

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[61] This is in contrast to studies of the Williams Amendment in the U.S., which cannot separate the partial effects of the simultaneous changes in the minimum offer period and the required amount of information disclosure. See Jarrell and Bradley (1980).

[62] The offer premiums for controlling-block trades are contained in table 6.

sought is 100 and the percent of the target held prior to the offer is less than 67. Furthermore, only the tender offers are subject to disclosure regulations. The premiums in tender offers are clearly larger than in controlling-block trades, as is the permanent revaluation of the target shares.

Third, a comparison of minority buyouts using the regular and simplified procedure (columns 3 and 4 in table 10) reveals a larger offer premium and permanent target share revaluation in buyouts using the former procedure. Relative to week -8 the average offer premium is 44.77 percent (median 35.37) in regular buyouts and 28.23 (median 19.59) in simplified buyouts. Since only minority buyouts using the regular tender offer procedure are subject to significant disclosure requirements, this is further evidence in favor of the joint hypothesis that the offer premium and post-offer target share revaluation reflect an (anticipated) information effect and that offers under disclosure regulations on average disseminate more information than do offers which are exempted from mandatory disclosure.

4.3.2 Disclosure Regulations and Abnormal Returns

Table 11 and 12, and figure 4 and 5, detail the abnormal returns to the four offer categories in table 10. For convenience, figure 4 also repeats the cumulative abnormal returns to controlling-block trades shown earlier in figure 3. In table 11 and figure 4, successful cash tender offers after the introduction of the 1970 disclosure regulations are clearly associated with larger abnormal returns to target firms than are cash offers before 1970 or controlling-block trades. Over week prior to and including the offer week, the CAAR to targets in tender offers after January 1970 is 14.07 percent (Z=13.38) compared to 6.01 percent (Z=2.31) for tender offers prior to 1970 and (as shown in table 9) 7.83 percent (Z=13.06) for controlling-block trades. A standard t-test rejects on a five percent level the hypothesis that the two-week (-1,0) abnormal returns to target firms in tender offers after January 1970 is equal to either targets in tender offers before 1970 or to targets in controlling-block trades. Furthermore, we cannot reject the hypothesis that the abnormal

return to target firms in controlling-block trades is equal to the abnormal return in tender offers before 1970.

Over the same two-week event period, the CAAR to *bidder* firms is -0.65 percent (Z=-0.45) in tender offers before 1970, 6.96 percent (Z=3.87) in tender offers after January 1970, and 0.55 percent (Z=0.71) in controlling-block trades. A standard t-test rejects on a five percent level the hypothesis that the two-week (-1,0) abnormal returns to bidder firms in tender offers after January 1970 is equal to either bidders in tender offers before 1970 or to bidders in controlling-block trades. Furthermore, we cannot reject the hypothesis that the abnormal return to bidder firms in controlling-block trades is equal to the abnormal return in tender offers before 1970. Thus, the evidence is consistent with the proposition that *both* bidder and target firms are better off in the sample of tender offers subject to disclosure requirements as compared to tender offers before 1970 and controlling-block trades.

Our results for the target firms is consistent with the evidence in Jarrell and Bradley (1980) who document significantly larger offer premiums and abnormal returns to targets after the introduction of the 1968 Williams Amendments. Since the minimum required tender offer period remained four weeks throughout our entire sample period, our evidence is consistent with the hypothesis that disclosure requirements alone drive up the gains to *ex post* successful target firms. This raises the possibility that the comparable evidence reported by Jarrell and Bradley is primarely driven by the disclosure requirements in the Williams Amendments, and not by the extension of the minimum offer period also introduced by the Williams Act.

Furthermore, our evidence supports the hypothesis that the disclosure regulations have eliminated marginally profitable tender offers. In contrast to Jarrell and Bradley, who report a slight decrease in the abnormal returns to successful bidder firms after the Williams Amendments, we find that successful bidder firms in tender offers after January 1970 earn significantly larger abnormal returns than do bidders before 1970 or bidders in controlling-

block trades. Thus, while the disclosure regulations may have hurt bidders in marginally profitable tender offers (perhaps because bidder firms in such offers do not particularly rely on ownership of unique, specialized resources to create takeover gains and therefore are particularly vulnerable to information disclosure), we cannot conclude from the data that bidder firms in successful tender offers which took place after January 1970 are worse off as a result of the regulations. The significant increase in the performance of successful bidder firms after 1970 may simply reflect a truncation of marginally profitable takeover bids as a result of the law. Alternatively, and perhaps for the reason suggested above, the evidence is also consistent with the proposition that the disclosure regulations have actually *benefitted* some bidder firms. Clearly, this is a potent area for future research.

Finally, table 12 and figure 5 show the abnormal performance to bidder and target firms involved in successful, cash minority buyouts. Over the two-week period -1,0, the CAAR to targets in regular minority buyouts is 21.87 percent (Z=14.10) compared to 16.83 percent (Z=10.94) for targets in simplified minority buyouts. A standard t-test rejects on a ten percent level the hypothesis that these two two-week abnormal returns are different. Thus, there is some weak evidence that target firms in minority buyouts using the regular tender offer procedure (which is subject to disclosure requirements) perform better than targets in minority buyouts using the simplified tender offer procedure (which is essentially exempted from disclosure requirements).

Over the same two-week event period, the CAAR to bidder firms is -1.26 percent (Z=-1.24) in regular minority buyouts and -2.06 percent (Z=-0.92) in simplified minority buyouts. The hypothesis that these two abnormal returns are different from each other (or different from zero) cannot be rejected on a ten percent level of significance. Thus, although the sample sizes in these two categories are relatively small, there is some evidence that forced disclosure releases information which leads to a larger permanent revaluation of target shares in regular minority buyouts than in simplified buyouts, with no detectable

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difference between the performance of bidder firms involved in these two alternative tender

offer procedures.

5. Conclusions

This paper presents a comprehensive analysis of public tender offers, controlling-block trades and minority buyouts in France before 1983. We document large positive abnormal returns to target firms involved in all three categories of offers. Target firms in successful cash tender offers perform significantly better than targets in successful exchange offers, which is consistent with both a tax argument and an information signalling argument. Furthermore, offer premiums in minority buyouts are of the same magnitude as offer premiums in tender offers and controlling-block trades in general, indicating that the bidder must pay a sizable premium even when he does not acquire "control". Bidder firms earn significantly positive average abnormal returns in public tender offers and controlling-block trades, and significantly negative abnormal returns from minority buyouts.

Significant disclosure regulations were introduced in January 1970, requiring bidder and target firms in public tender offers to reveal the rationale behind and financing of the bid. An examination of successful cash tender offers for 100 percent of the target, where the bidder owns less than 67 percent of the target firm prior to the bid, reveals a significant increase in target *and* bidder firm performance after January 1970. This is true also when comparing these tender offers to controlling-block trades after 1970. Controlling-block trades, which are also cash offers for 100 percent of the target where the bidder owns less than 67 percent prior to the bid, are essentially exempt from the disclosure requirements governing regular tender offers. Thus, there is both time-series and cross-sectional evidence that the 1970 disclosure regulations have increased offer premiums and target firm abnormal performance in regular tender offers. This is similar to the evidence reported in the literature on the impact of the U.S. Williams Act of 1968, which introduced disclosure requirements and increased the minimum required offer period in tender offers. Since the minimum tender offer period remained at 30 days in France over the entire sample period (1966-1982), and to the extent that it is reasonable to make comparisons between

U.S. and French tender offers, our evidence suggests that the increased offer premiums post-68 in U.S. tender offers are primarily driven by the disclosure provisions of the Williams Act. We also document that the abnormal returns to target firms involved in cash minority buyouts using the regular tender offer procedure subject to disclosure regulations are larger than the abnormal returns to targets involved in minority buyouts using a "simplified" procedure exempted from disclosure requirements.

Finally, *bidder* firms in cash tender offers after January 1970 perform significantly better than bidder firms in cash tender offers before 1970. This is consistent with the proposition that the disclosure regulations have eliminated marginal takeover bids. However, it is also consistent with the proposition that the disclosure regulations in fact have *benefitted* some successful bidders in the post-1970 period. The latter piece of evidence indicates that the economic effects of disclosure regulations can be quite complex, and further research in this area is clearly warranted.

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Figure 1

Percent Weekly Cumulative Average Abnormal Returns (CAAR) to Bidder and Target Firms in **Successful and Unsuccessful Tender Offers,** from Week -8 relative to the Offer Date through 8 Weeks after the Expiration of the Offer, 1966-1982.
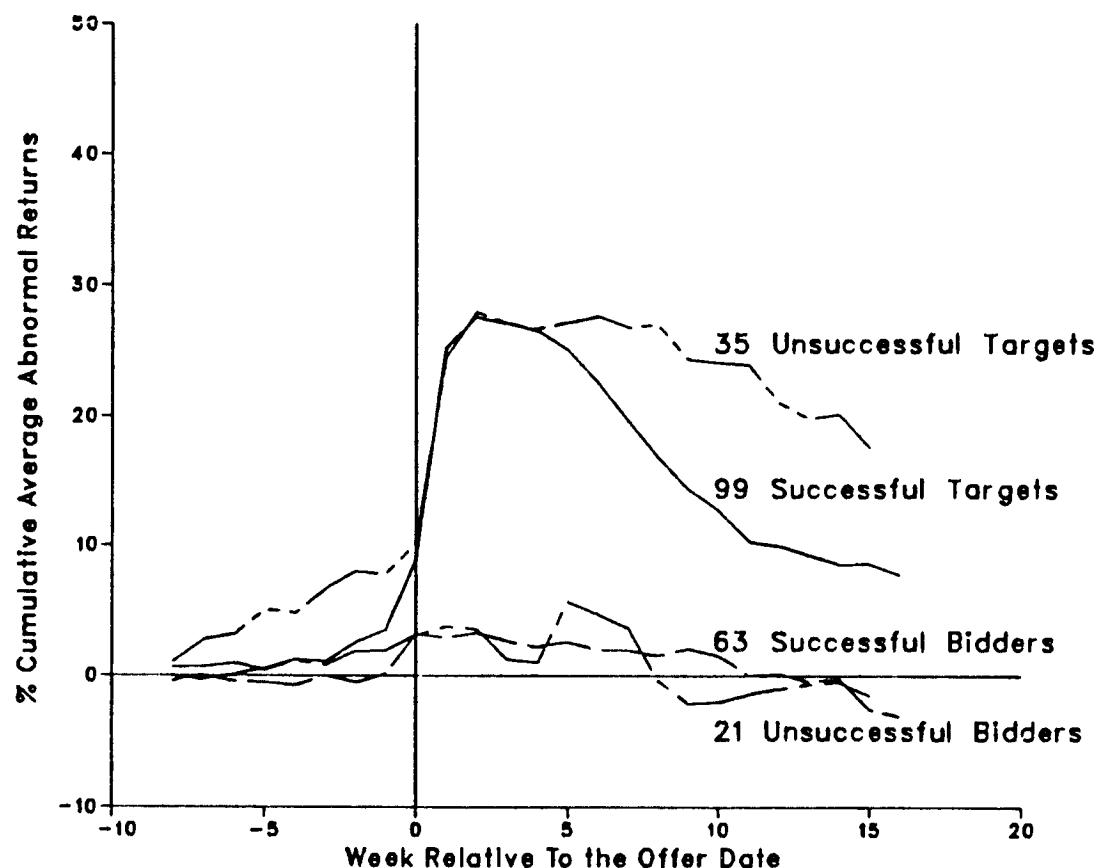
Figure 2

Percent Weekly Cumulative Average Abnormal Returns (CAAR) to Bidder and Target Firms in **Successful Cash and Exchange Tender Offers,** from Week -8 relative to the Offer Date through 8 Weeks after the Expiration of the Offer, 1966-1982.
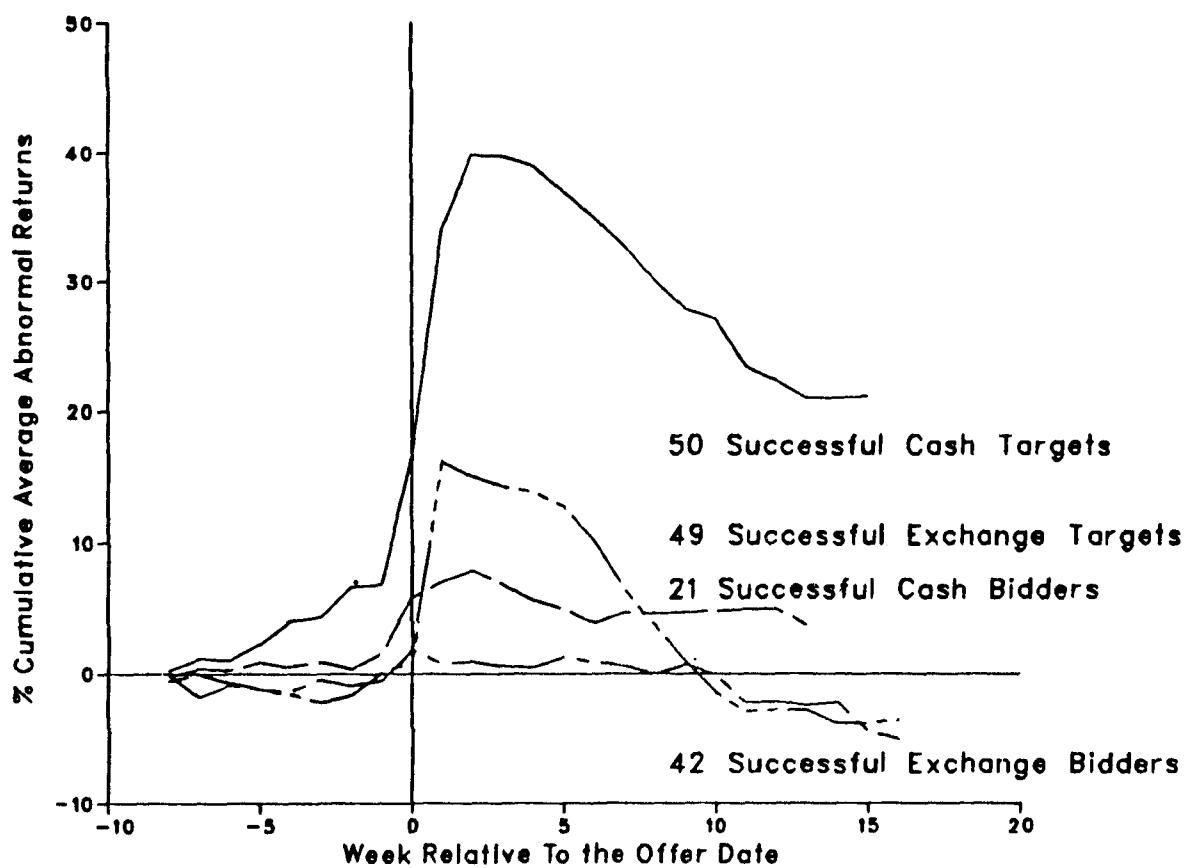
Figure 3

Percent Weekly Cumulative Average Abnormal Returns (CAAR) to Bidder and Target Firms in **Successful Minority Buyouts** and **Successful Controlling Block Trades,** from Week -8 relative to the Offer Date through 8 Weeks after the Expiration of the Offer, 1966-1982.
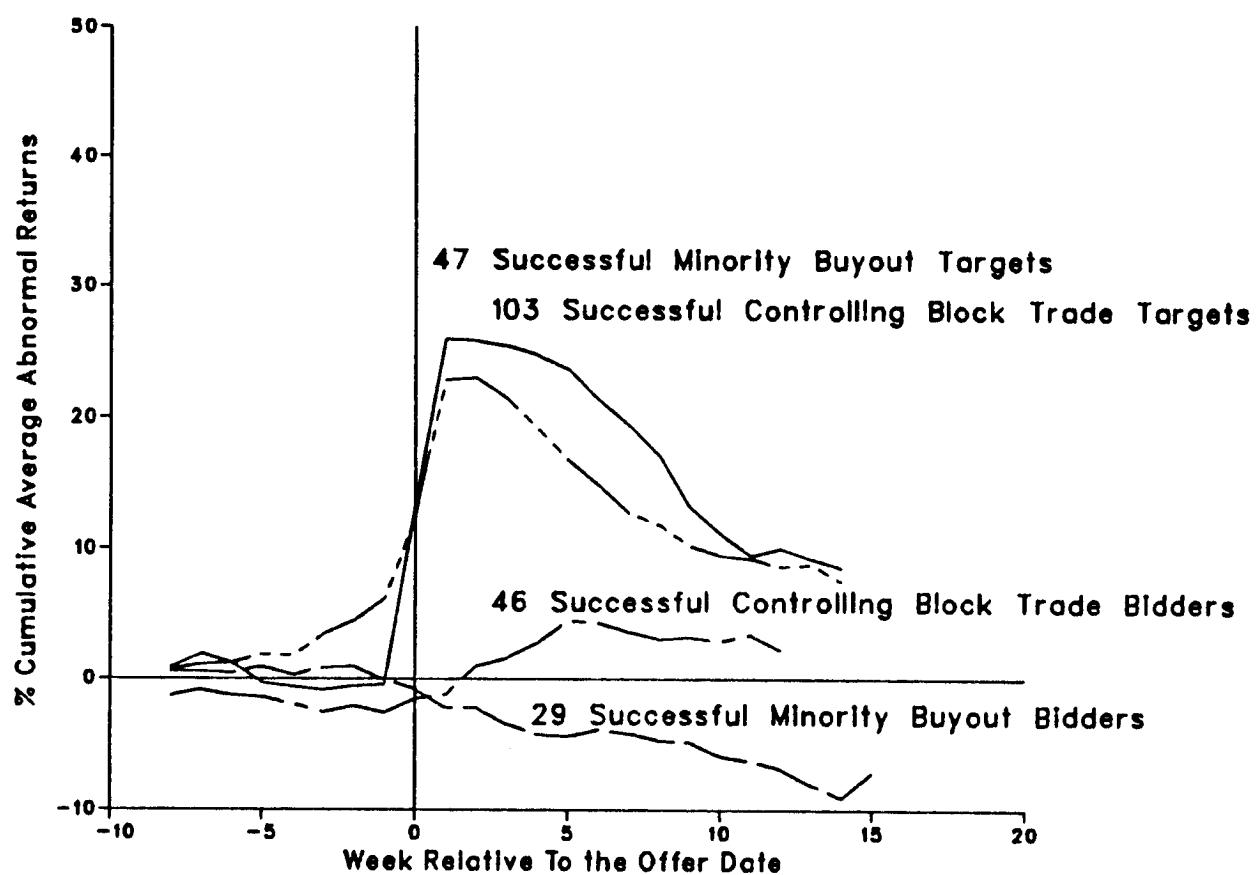
Figure 4

Percent Weekly Cumulative Average Abnormal Returns (CAAR) to Target Firms in **Controlling Block Trades** and **Successful, Cash Tender Offers** where the Bidder seeks a Maximum of 100 percent of the Target, from Week -8 relative to the Offer Date through 8 Weeks after the Expiration of the Offer. Total sample before and after the January 1970 Disclosure Regulations.
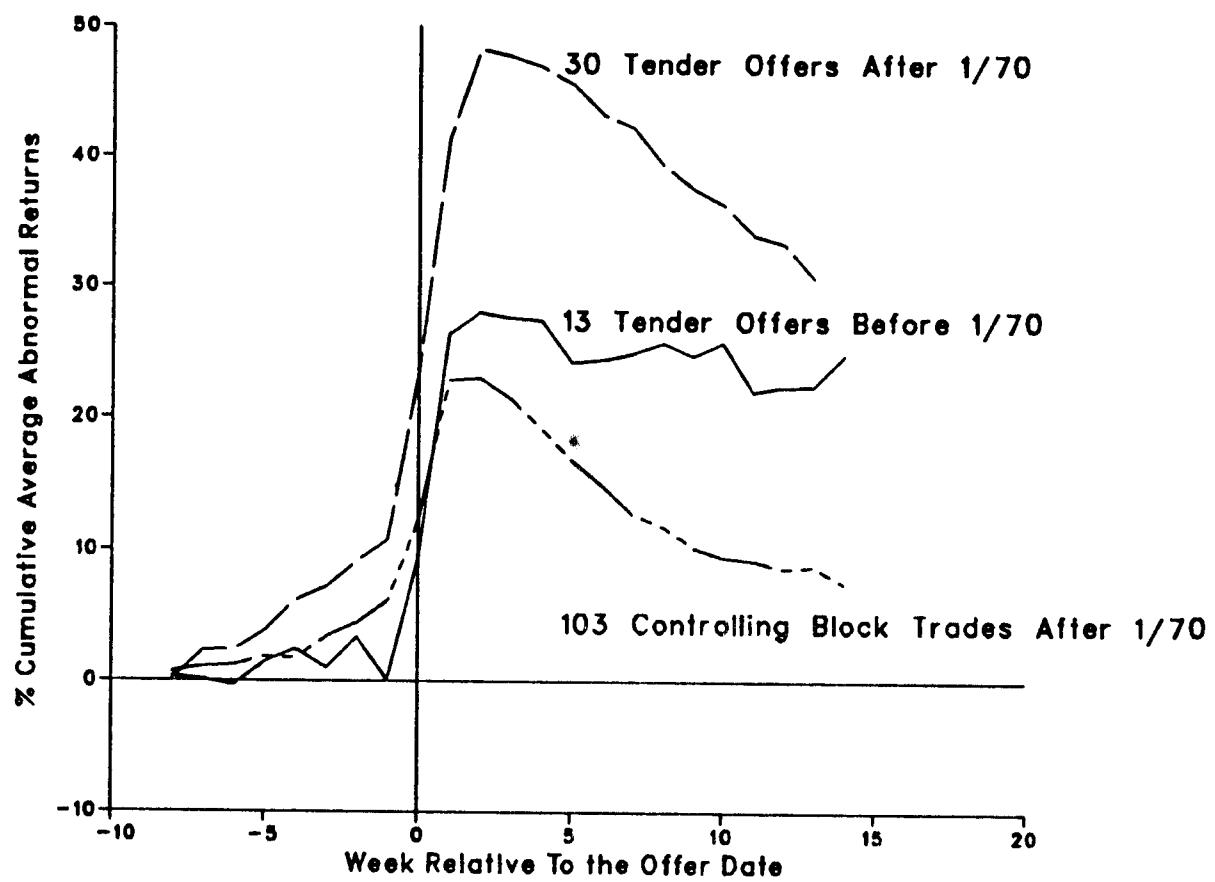
Figure 5

Percent Weekly Cumulative Average Abnormal Returns (CAAR) to Target Firms in **Successful, Cash Minority Buyouts,** from Week -8 relative to the Offer Date through 8 Weeks after the Expiration of the Offer. Total sample after the January 1970 Disclosure Regulations, classified by the Tender Offer Procedure.
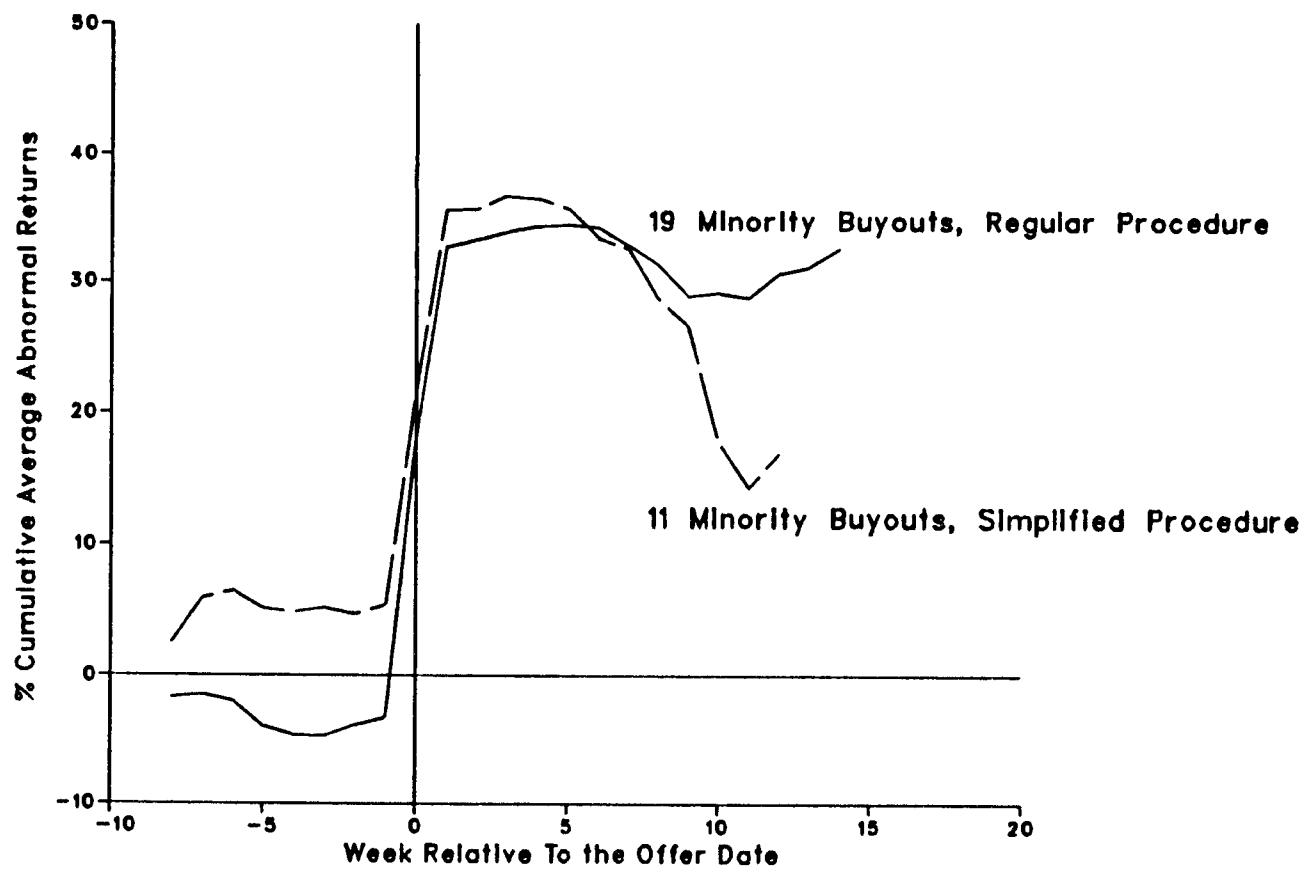
Table 1

The Total Population of Public Tender Offers and Negotiated Block Trades for Publicly Listed Shares in France over the Period 1966-1982, classified by the type of tender offer procedure and the regulatory reform period in which the offers took place.

(Unsuccessful offers in parentheses)[1]

Year of the Regulatory Reform	Months in between Regulatory Reforms[2]	Offers following the Public Tender Offer Procedure				Trades following the Controlling Block Trade Procedure	Total
		Regular Tender Offers		Simplified Tender Offers			
		Cash Offers	Exchange Offers	Cash Offers	Exchange Offers		
1966	37	26(3)	2	0	0	0	28(3)
1970	25	10	11	0	0	0	21(0)
1972	13	13(1)	7	1	0	6	27(1)
1973	26	10	17(3)	1	0	22	50(3)
1975	39	22(2)	27	8	0	33	90(2)
1978	52	19(5)	11	7	6	47	90(5)
1966-1982	191	100(11)	75(3)	17	6	108	306(14)

[1] The total population of 306 tender offers and controlling block trades for officially listed target firms is found in the annual Compagnie des Agents de Change (C.A.C.), Annee Boursiere Exercises (C.A.C., Paris), Vol. 5-20 (1965-1982), and in Commission des Operations en Bourse (C.O.B.), ler-15eme Rapport au President de la Republique Exercises 1968-1982 (Journal Officiel de la Republique Francaise, Paris). Note that we count an offer which has successive price increases by the bidder, or which receives competing bids, as one offer. The number of unsuccessful offers (which are listed in parentheses and are also included in the totals) is determined by the C.A.C. who judges the outcome of the offer and declares it successful or unsuccessful. Before 1973, a controlling block could be transferred through a private agreement, in which case it will not appear in table 1. Exchange offers were brought under the tender offer regulations in 1970.

[2] There is one overlapping month in the count of the 37 months between the 1966 and 1970 reforms and the 25 months between the 1970 and 1972 reforms.

Table 2

The Distribution of the Sample Tender Offers, Controlling Block Trades and Minority
Buyouts according to the Stock Exchange Listing of the Bidder and Target Firms.

Stock Exchange	Tender Offers		Controlling Block Trades		Minority Buyouts		Total	
	Target Firms	Bidder Firms	Target Firms	Bidder Firms	Target Firms	Bidder Firms	Target Firms	Bidder Firms
Bordeaux	2	0	2	0	1	0	5	0
Lille	9	1	7	0	2	0	18	1
Lyon	7	2	8	0	5	0	20	2
Marseille	2	0	14	1	3	0	19	1
Nancy	8	2	4	0	2	1	14	3
Nantes	2	0	1	1	2	0	5	1
Paris	103	79	71	43	38	22	212	144
Valeur Etrangère Cotée à Paris[2]	0	3	0	3	0	9	0	15
Total	133	87	107	48	53	32	293	167

[1] The source of the stock exchange listing at the time of the offer is the quarterly
C.A.C., Cote Officielle, Cours Officiels et Authentique (C.A.C., Paris), 1966-1983. The
target firms in the data base are all listed on one of the stock exchanges. The number
of bidder firms equals the number of target firms, however, the bidder is not always an
exchange listed company. The number of tender offers represents all cash offers ("offre
publique d'achat") and exchange offers ("offre publique d'exchange") where the bidder
firm owned less than 67% of the target prior to the offer. The total number of minority
buyouts represent 35 cash and exchange offers where the bidder held 67% or more of the
target shares prior to the offer, plus twenty cases defined by the C.A.C. as
"simplified" minority buyouts [15 cash offers ("offre publique d'achat simplifiée") and
5 exchange offers ("offre publique d'exchange simplifiée")]. The total number of
controlling block trades represents offers defined by the C.A.C. as "negotiation de bloc
de controle" and are singled out in our study due to their particular legal status (see
text). Of the 306-293=13 cases not in our sample (See Table 1), seven were excluded due
to missing information on various offer parameters while the remaining 6 did not pass
our minimum data requirement for estimation of abnormal returns (defined in section 4).

[2] Foreign companies listed on the Paris Stock Exchange.

Table 3

The Annual Distribution of the Number of Listed Bidder and Target Firms in the Sample Tender Offers, Controlling Block Trades and Minority Buyouts, 1966-1982[1]

Year	Tender Offers — Target Firms — Cash Offers	Exchange Offers	Tender Offers — Bidder Firms — Cash Offers	Exchange Offers	Controlling Block Trades — Target Firms	Bidder Firms	Minority Buyouts — Target Firms — Cash Offers	Exchange Offers	Minority Buyouts — Bidder Firms — Cash Offers	Exchange Offers	Total — Target Firms	Total — Bidder Firms
1966	2	0	1	0	0	0	0	0	0	0	2	1
1967	7	0	4	0	0	0	0	0	0	0	7	4
1968	8	0	5	0	0	0	0	0	0	0	8	5
1969	6	2	2	1	0	0	0	0	0	0	8	3
1970	3	5	0	5	0	0	3	0	0	0	11	5
1971	2	3	2	2	0	0	2	3	2	3	10	9
1972	7	5	3	5	3	2	6	0	2	0	21	12
1973	3	10	1	10	10	4	1	0	0	0	24	15
1974	4	5	0	4	8	4	3	2	1	2	22	11
1975	5	7	2	7	9	3	4	1	3	1	26	16
1976	4	5	3	3	12	8	1	2	0	2	24	16
1977	6	8	4	8	10	3	5	2	4	1	31	20
1978	3	2	1	2	9	4	3	5	1	4	22	12
1979	7	0	3	0	10	5	2	0	1	0	19	9
1980	5	4	3	4	13	10	3	2	1	2	27	20
1981	2	0	1	0	10	2	3	1	1	1	16	5
1982	0	3	0	1	11	2	1	0	1	0	15	4
1966-82	74	59	35	52	105	47	37	18	17	16	293	167

[1] The controlling block trades are all cash offers. Of the 59+18 = 77 exchange offers 50 involve exchanging bidder shares for the target shares; in 11 cases the bidder offered to exchange the shares of a third party; in 14 cases the bidder offered to exchange one type of bond (straight or convertible); in one case the bidder offered multiple types of bonds, and in one case multiple types of shares.

Table 5

The Percent of the Outstanding Target Shares Held by the Bidder prior to the Offer, the Maximum and
Minimum Additional Percent of the Target Shares Sought through the Offer, and the Percent of the Target
Shares Tendered and Purchased across Successful and Unsuccessful Tender Offers, Controlling Block Trades
and Minority Buyouts. Total sample averages 1966-1982.
(Median and Standard Deviation in Parenthesis)[1]

Offer Characteristic	Tender Offers		Controlling Block Trades	Minority Buyouts	
	100 Successful Offers	33 Unsuccessful Offers	105 Successful Offers	48 Successful Offers	7 Unsuccessful Offers
Percent of Target Shares Held by Bidder	21.73 (9.94, 23.66)	13.59 (0.0, 21.72)	12.92 (0.0, 19.02)	78.32 (75.05, 9.32)	86.11 (85.18, 9.81)
Maximum Percent of Target Shares Sought by Bidder	70.34 (70.00, 27.76)	79.24 (100.00, 27.53)	87.08 (100.00, 19.02)	21.67 (23.46, 9.32)	13.89 (14.82, 9.81)
Minimum Percent of Target Shares Sought by Bidder	23.41 (19.52, 21.71)	13.25 (0.0, 18.20)	41.16 (40.18, 21.65)	2.20 (0.0, 6.90)	0.0 (0.0, 0.0)
Percent of Target Shares Tendered to Bidder	66.12 (66.00, 23.97)	13.45 (9.02, 12.74)	58.80 (60.95, 23.49)	19.37 (18.62, 11.55)	4.47 (6.20, 3.76)
Percent of Target Shares Purchased by Bidder	59.27 (53.52, 25.28)	11.45 (6.08, 13.35)	58.80 (60.95, 23.49)	18.47 (18.62, 9.74)	4.47 (6.20, 3.76)

[1] The maximum and minimum percent of the target shares sought by the bidder firm does not include the percent of the
target shares held by the bidder prior to the offer. The "median" values are such that 50% of the cases have a value
less than or equal to the median value. For controlling block trades the "minimum percent of target shares sought by
bidder" is the percent actually acquired through the block trade, while the "percent of target shares purchased by
bidder" includes any additional shares tendered to the bidder in the mandatory price support period immediately
following the block trade. Of the 55 minority buyouts, 20 are "simplified" tender offers ("offre publique
simplifiée"), and for these 20 offers the number of target shares purchased equals the number of shares tendered.

Table 6

The Percent Average Offer Premium computed relative to the Target Share Price at different points in time before, during and after the week of the Offer. Total Sample of Tender Offers and Minority Buyouts, 1966-82. (Number of Cases, Median, and Standard Derivation in Parenthesis)[1]

Offer Premium Relative to the Target Share Price	Cash/ Exchange Offer	Tender Offers		Minority Buyouts	Controlling Block Trades
		Successful Offers	Unsuccessful Offers	Successful Offers	Successful Offers
8 Weeks Prior to Week of Offer	Cash Offer	61.79 (46, 43.33, 48.37)	36.74 (22, 26.18, 40.40)	38.30 (30, 30.89, 31.92)	26.16 (95, 13.64, 50.98)
	Exchange Offer	19.89 (48, 18.09, 29.50)	15.02 (10, 5.56, 19.60)	15.93 (16, 17.14, 50.59)	--
Week of Offer	Cash Offer	47.98 (46, 33.48, 37.48)	22.52 (22, 15.67, 27.02)	36.72 (28, 31.00, 26.40)	9.93 (94, 0.46, 34.21)
	Exchange Offer	24.81 (49, 15.12, 44.34)	13.28 (10, 6.28, 19.52)	8.86 (16, 11.36, 48.16)	--
Week after the week of Offer	Cash Offer	20.05 (47, 4.48, 35.06)	4.84 (22, 2.04, 18.42)	3.54 (30, 2.27, 8.43)	-1.67 (101, 0.0, 13.33)
	Exchange Offer	7.11 (49, 4.58, 16.54)	2.57 (10, 1.17, 7.49)	-7.48 (16, 1.37, 36.29)	--
Week Prior to Expiration of Offer	Cash Offer	9.20 (47, 3.63, 22.03)	-3.59 (22, 0.00, 14.79)	2.59 (30, 1.35, 8.60)	-1.61 (100, 0.0, 13.29)
	Exchange Offer	9.00 (49, 7.67, 13.39)	0.39 (10, 2.06, 8.64)	-7.30 (16, 2.11, 36.08)	--
8 Weeks After Expiration of Offer	Cash Offer	23.41 (46, 13.55, 31.84)	9.30 (21, 8.85, 30.78)	10.74 (27, 6.25, 14.78)	10.40 (99, 6.56, 33.09)
	Exchange Offer	29.38 (47, 25.70, 28.14)	16.50 (10, 10.26, 18.13)	12.12 (15, 21.99, 48.77)	--

[1] The offer premium is computed as $[(P_0/P_t)-1] \cdot 100$, where P_0 is the offer price and P_t is the target share price as of week t relative to the offer week. In exchange offers P_0 is computed using an estimate of the value of the securities exchanged. The "median" is such that 50% of the cases have a value less than or equal to the median value. Note that in the period from the 8th week prior to the offer through the week of the expiration of the offer, missing prices are replaced by the last observed prices compounded using a market model estimate of the security's expected return. This replacement assumes that there is no abnormal price behavior in periods with missing price information. See text for details.

Table 7

Percent Cumulative Average Abnormal Returns (CAAR) to Bidder and Target Firms in Successful and Unsuccessful Tender Offers, 1966 - 1982.
(Z-values in parentheses)

Classification of Offer[1]	Sample Size	Weeks relative to the week of the Offer (Week 0).										
		[-8,-1]	[-8,-3]	[-2,-1]	[-2,0]	[-1,0]	[0,0]	[1,1]	[1,3]	[1,6]	[1,12]	[-8,12]
I Successful Tender Offers												
Target Firms	99	3.50	1.09	2.41	7.82	6.37	5.41	16.33	18.26	13.71	1.08	9.98
		(3.69)	(1.79)	(4.26)	(10.80)	(10.63)	(12.67)	(35.12)	(23.68)	(13.81)	(5.45)	(9.16)
Bidder Firms	63	0.16	0.00	0.16	3.14	3.64	2.98	-0.24	-0.48	-1.17	-3.01	0.13
		(0.45)	(0.43)	(0.15)	(3.95)	(5.72)	(6.63)	(-0.42)	(-0.83)	(-1.17)	(-1.72)	(0.42)
II Unsuccessful Tender Offers												
Target Firms	35	7.81	6.66	1.15	3.52	2.20	2.37	14.34	16.92	17.52	10.93	21.12
		(4.24)	(4.21)	(1.19)	(2.54)	(1.92)	(2.72)	(22.76)	(15.29)	(11.69)	(6.33)	(8.00)
Bidder Firms	21	1.89	0.80	1.09	2.29	1.21	1.20	0.66	-1.84	1.63	-4.08	-0.99
		(1.11)	(0.71)	(0.97)	(1.93)	(1.37)	(1.96)	(0.98)	(-0.73)	(1.60)	(-0.58)	(0.67)

- A "successful" offer is one where the bidder succeeds in purchasing at least the minimum number of target shares sought. If the bid is not conditioned on a minimum number of target shares being tendered, "success" means the bidder purchases at least 50 percent of the maximum number of shares sought. In all the offers, the bidder firm owns less than 67 percent of the target prior to the tender offer. The average market value of equity in week -8 is 235 million Francs for the targets and 2001 million Francs for the bidders in this table.

Table 8

Percent Cumulative Average Abnormal Returns (CAAR) to Bidder and Target Firms in Successful Cash and Exchange
Tender Offers, 1966 - 1982.
(Z-values in parentheses)

Classification of Offer[1]	Sample Size	Weeks relative to the week of the Offer (Week 0).										
		[-8,-1]	[-8,-3]	[-2,-1]	[-2,0]	[-1,0]	[0,0]	[1,1]	[1,3]	[1,6]	[1,12]	[-8,12]
I Successful Cash Tender Offers												
Target Firms	50	6.85 (4.47)	4.43 (3.21)	2.51 (3.38)	12.34 (11.77)	10.01 (11.58)	9.83 (15.60)	17.41 (27.20)	23.10 (20.56)	18.31 (12.36)	5.76 (5.76)	22.43 (10.52)
Bidder Firms	21	1.62 (0.81)	0.89 (0.70)	0.73 (0.42)	4.90 (2.61)	5.44 (3.40)	4.17 (3.92)	1.28 (1.63)	1.06 (0.17)	-1.87 (-1.40)	-0.80 (-0.58)	4.99 (0.92)
II Successful Exchange Offers												
Target Firms	49	0.10 (0.73)	-2.20 (-0.68)	2.30 (2.65)	3.11 (3.42)	2.57 (3.37)	0.81 (2.18)	15.29 (22.51)	13.38 (12.95)	9.12 (7.21)	-3.68 (1.93)	-2.78 (2.39)
Bidder Firms	42	-0.55 (-0.02)	-0.43 (0.04)	-0.12 (-0.11)	2.26 (2.99)	2.74 (4.60)	2.38 (5.34)	-1.01 (-1.66)	-1.26 (-1.14)	-0.89 (-0.46)	-3.96 (-1.66)	-2.13 (-0.10)

1. See note 1 of table 7 for definition of "success". The average market value of equity in week -8 is 155 million Francs for the target firms and 863 million Francs for the bidder firms in this table.

Table 9

Percent Cumulative Average Abnormal Returns (CAAR) to Bidder and Target Firms in Successful Controlling Block
Trades and Minority Buyouts, 1966 - 1982.
(Z-value in parentheses)

Classification of Offer[1]	Sample Size	Weeks relative to the week of the Offer (Week 0).										
		[-8,-1]	[-8,-3]	[-2,-1]	[-2,0]	[-1,0]	[0,0]	[1,1]	[1,3]	[1,6]	[1,12]	[-8,12]
I Successful Controlling Block Trades												
Target Firms	103	6.13	3.40	2.72	8.89	7.83	6.16	10.58	9.15	2.60	-3.63	8.66
		(4.88)	(3.21)	(4.18)	(11.97)	(13.06)	(14.81)	(23.70)	(11.83)	(4.00)	(0.41)	(6.55)
Bidder Firms	46	-2.59	-2.53	-0.05	1.00	0.55	1.05	0.35	3.15	5.85	3.79	2.25
		(-1.36)	(-1.48)	(-0.16)	(0.98)	(0.71)	(1.93)	(0.87)	(3.23)	(3.69)	(1.89)	(1.01)
II Successful Minority Buyouts												
Target Firms	47	-0.46	-0.85	0.38	14.10	13.80	13.71	12.72	12.22	8.17	-3.22	10.03
		(0.37)	(0.08)	(0.61)	(12.80)	(15.29)	(21.28)	(18.39)	(11.21)	(6.32)	(2.05)	(6.42)
Bidder Firms	29	-0.07	0.86	-0.93	-1.69	-1.77	-0.75	-1.40	-2.64	-3.03	-6.01	-6.84
		(-0.06)	(0.75)	(-1.18)	(-1.63)	(-2.12)	(-1.16)	(-2.29)	(-2.65)	(-1.70)	(-2.91)	(-2.42)

. See note 1 of table 7 for definition of "success". The minority buyouts follow either the simplified procedure (in which case the bidder owns approximately 90 percent of the target shares prior to the offer) or the regular tender offer procedure (in which case the bidder , in our definition, owns at least 67 percent of the target shares). The average market value of equity as of week -8 is 156 million Francs for the target firms and 2807 million Francs for the bidder firms in this table.

Table 10

The Percent Average Offer Premium computed relative to the Target Share Price at different points in time before, during and after the week of the Offer. Sample of Successful, Cash Minority Buyouts, and Successful, Cash Tender Offers where the Bidder is Seeking 100 Percent of Target Firm.

Offer Premium Relative to the Target Share Price	Successful Cash Tender Offers for 100 %		Successful Cash Minority Buyouts after January 1970	
	Before January 1970	After January 1970	Regular Procedure	Simplified Procedure
8 Weeks Prior to Week of Offer	33.84 (13, 30.72, 26.36)	70.80 (28, 47.54, 51.56)	44.77 (19, 38.89, 35.37)	28.23 (10, 19.59, 21.18)
Week of Offer	32.72 (13, 28.21, 24.55)	51.13 (28, 33.48, 38.47)	42.07 (18, 36.58, 20.49)	28.66 (9, 2.21, 33.81)
Week after the week of Offer	8.11 (13, 4.00, 11.78)	19.14 (39, 3.33, 33.10)	5.49 (19, 2.88, 10.08)	0.00 (10, 0.00, 0.00)
Week Prior to Expiration of Offer	6.13 (13, 5.31, 3.53)	7.18 (29, 2.15, 22.91)	4.67 (19, 2.27, 10.02)	-0.12 (10, 0.00, 0.35)
8 Weeks After Expiration of Offer	14.63 (13, 13.40, 14.34)	14.99 (28, 11.11, 17.47)	10.11 (18, 7.14, 12.45)	11.98 (9, 0.87, 18.53)

[1] The offer premium is computed as $[(P_0/P_t)-1] \cdot 100$, where P_0 is the offer price and P_t is the target share price as of week t relative to the offer week. The "median" is such that 50% of the cases have a value less than or equal to the median value. Note that in the period from the 8th week prior to the offer through the week of the expiration of the offer, missing prices are replaced by the last observed prices compounded using a market model estimate of the security's expected return. This replacement assumes that there is no abnormal price behavior in periods with missing price information. Note also that in the tender offers, the bidder firms hold less than 67 percent of the targets prior to the offer, while in minority buyouts they hold at least 67 percent. In all categories of offers in this table, the bidder is seeking 100 percent of the target.

Table 11

Percent Cumulative Average Abnormal Returns (CAAR) to Bidder and Target Firms in Successful Cash Tender Offers Before and After the January 1970 Regulatory Amendments. Sample of Offers Where the Bidder Owns Less than 67 Percent of the Target Firm Prior to the Bid and is Seeking 100 Percent.
(Z-values in parentheses)

Sample Period	Sample Size	Weeks relative to the week of the Offer (Week 0)										
		[-8,-1]	[-8,-3]	[-2,-1]	[-2,0]	[-1,0]	[0,0]	[1,1]	[1,3]	[1,6]	[1,12]	[-8,12]
I Before January 1970												
Target Firms	13	0.12	0.99	-0.86	8.38	6.01	9.24	17.03	18.27	15.07	13.03	22.40
		(0.01)	(0.34)	(-0.57)	(3.00)	(2.31)	(6.00)	(15.82)	(9.31)	(5.83)	(4.00)	(4.33)
Bidder Firms	7	(2.06	1.89	0.17	-0.21	-0.16	-0.39	0.88	-2.44	-8.88	-5.92	-4.25
		0.74)	(0.87)	(-0.04)	(-0.40)	(-0.45)	(-0.64)	(1.04)	(-1.05)	(-2.49)	(-1.11)	(-0.53)
I After January 1970												
Target Firms	30	10.81	7.18	3.63	16.08	14.07	12.46	18.20	24.52	20.02	10.08	33.35
		(5.47)	(4.05)	(3.93)	(12.60)	(13.38)	(16.26)	(21.00)	(16.65)	(10.23)	(5.55)	(11.12)
Bidder Firms	11	0.29	1.51	-1.22	6.14	6.96	7.36	2.39	4.66	2.16	0.84	8.48
		(0.37)	(0.62)	(-0.33)	(2.89)	(3.87)	(5.47)	(1.22)	(1.48)	(0.22)	(-0.07)	(1.37)

Table 12

Percent Cumulative Average Abnormal Returns (CAAR) to Bidder and Target Firms in Successful Cash Minority Buyouts After the January 1970 Regulatory Amendments, Classified According to Tender Offer Procedure.
(Z-values in parentheses)

Tender Offer Procedure[1]	Sample Size	Weeks relative to the week of the Offer (Week 0).										
		[-8,-1]	[-8,-3]	[-2,-1]	[-2,0]	[-1,0]	[0,0]	[1,1]	[1,3]	[1,6]	[1,12]	[-8,12]
I Regular Procedure												
Target Firms	19	-3.28 (-1.43)	-4.69 (-1.92)	1.41 (0.46)	22.73 (11.73)	21.87 (14.10)	21.32 (19.66)	14.69 (15.29)	15.88 (9.47)	16.29 (6.91)	12.74 (4.29)	29.25 (6.66)
Bidder Firms	9	1.46 (0.88)	2.78 (1.54)	-1.31 (-0.90)	-1.21 (-0.60)	-1.26 (-1.24)	0.11 (0.23)	-0.71 (-0.44)	-0.65 (-0.40)	-1.98 (-0.07)	-9.30 (-1.88)	-7.73 (-0.82)
II Simplified Procedure												
Target Firms	11	5.45 (1.79)	5.19 (1.79)	0.27 (0.39)	16.40 (8.78)	16.83 (10.94)	16.14 (14.65)	14.04 (8.71)	15.18 (5.61)	11.85 (3.12)	-4.63 (0.49)	16.96 (4.67)
Bidder Firms	6	-1.60 (-0.33)	-0.91 (-0.25)	-0.70 (-0.23)	-1.23 (-0.38)	-2.06 (-0.92)	-0.53 (-0.34)	-1.12 (-0.64)	-5.17 (-2.38)	-2.22 (-1.02)	-4.89 (-1.20)	-7.02 (-1.19)

1. In the "regular" procedure, the bidder owns at least 67 percent of the target firm prior to the offer, while in the "simplified" procedure the bidder owns close to 90 percent prior to the offer.

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