

Do target shareholder agreements induce bidders to pay higher premiums?

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Abstract

In listed companies, some shareholders can be signatories to agreements that govern their relations. Such agreements are often viewed as means of insulating the firm from the market for corporate control. Specific provisions (namely concerted action, pre-emptive buying rights and repartitioning of board seats) are indeed likely to influence the outcome of takeovers. Using a sample of French deals, this paper investigates the impact of shareholder agreements on takeover premiums. A shareholder agreement is in force in 27.1% of target companies. A positive relationship between shareholder pacts and takeover premiums is observed. This result is robust to the use of an econometrical specification which treats as endogenous the existence of a shareholder agreement. This finding suggests that shareholder pacts dramatically increase the negotiating power of target shareholders.

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1. Introduction

In listed companies, some shareholders can be signatories to explicit agreements that govern their relations. These agreements can contain a very large number of clauses that specify restrictions on the transfer of shares and/or organize an effective control over the firm. A recent report commissioned by the European Commission (ISS, Shearman and Sterling, and ECGI, 2007) documents the importance of this phenomenon: such an agreement is in force in nearly 12% of European listed companies.

Beyond this evidence, some questions arise. What is the main motivation of shareholders entering into an agreement? According to Chemla et al. (2007), shareholder agreements are efficient coordination mechanisms. They provide the contracting parties with the incentives to make *ex-ante* optimal investments and limit *ex-post* adverse wealth transfers. Other predictions have been developed. Some shareholders could be interested in agreements because they maintain a lock on control. In Bennedsen and Wolfenzon (2000), coalition members share private benefits at the expense of non contracting shareholders. Following this reasoning, one could postulate that such agreements are aimed at protecting entrenched insiders from takeovers. In this context, the emergence of an agreement is a negative event; Gianfrate (2007) demonstrates that the renewal or the signature of an agreement is associated with negative and significant abnormal returns.

This paper investigates the relationship between shareholder agreements and the market for corporate control. More precisely, the focus is on the impact of such agreements on takeover premiums. The questions I address are the following: how does the existence of a shareholder agreement influence the bidding strategy? Do such agreements force the bidder to pay a higher price to gain control of the target? The purpose of this paper is to contribute to the vast literature which relates target returns to ownership structure by analyzing an explicit mechanism that has received little attention.

My empirical analysis relies on a sample of 140 French takeovers occurring between 1999 and 2007. To the best of my knowledge, this paper is the first to investigate the existence of shareholder agreements in target firms. Such an agreement is in force in 27.1% of the targets. The prevalence of shareholder pacts among target firms is very similar to that reported by earlier studies which use classical samples of listed companies (Roosenboom and Schramade, 2006; Boubaker, 2007).

This paper also investigates the corporate governance of firms concerned by a shareholder agreement. There is no evidence of an illegitimate control insofar as the signatories to the

agreement own board rights (as proxied by the percentage of board seats reserved to the members of the pact) that closely match their voting rights. This result does not validate the idea that shareholder agreements are entrenchment devices allowing their signatories to secure a disproportionate board representation (Gianfrate, 2007).

I observe a positive and significant relationship between shareholder agreements and bid premiums. This finding suggests that shareholder pacts are means of extracting surplus from the bidder, this extraction being possible thanks to a better negotiating power. The effect of different provisions is also analyzed. The focus is on pre-emptive buying rights, repartitioning of board seats and concerted action. These clauses are likely to influence the outcome of a takeover and are hence expected to affect bidding behavior. The empirical analysis demonstrates that these clauses are positively associated with takeover premiums. The results are robust to the use of a two-step Heckman procedure which treats the existence of a shareholder agreement as an endogenous variable.

Some papers (Volpin, 2002; Roosenboom and Schramade, 2006; Belot, 2008) notice a higher valuation for firms featuring a shareholder agreement. This paper could improve our understanding of this latter result: it could be that the higher anticipated takeover premium explains the positive effect of shareholder agreements on firm value.

The remainder of the paper is organized as follows. Section 2 briefly describes shareholder agreements and the French institutional framework. In the third section, the literature analyzing the link between ownership structure and takeover premiums is reviewed. Section 4 presents the sample and the methodology. In section 5, empirical results and robustness checks are exposed. Section 6 concludes the paper.

2. Shareholder agreements: The French institutional framework

I simply define a shareholder agreement as an arrangement among shareholders. The purpose of these agreements is to take, retain and organize effective control over the firm. As the focus of this paper is on listed companies, it is worth mentioning that these pacts are extra-statutory and only concern a small number of shareholders (the signatories to the agreement).

In France, shareholder agreements must be disclosed to the AMF (*Autorité des Marchés Financiers*, the French equivalent to SEC) in the five days following their signature as soon as they concern at least 0.5% of the securities or voting rights. This rule allows to know precisely the contracting shareholders, their stakes and above all the agreement's provisions. One could wonder whether all shareholder agreements are disclosed to the AMF. To my

knowledge, there are no failures to comply with this obligation; furthermore no anecdotal evidence tends to validate the idea that some agreements remain secret.

In my analysis of shareholder agreements, I observe a very large number of clauses. Some clauses are very widespread and classical¹ (for instance pre-emptive buying rights under which a shareholder wishing to sell her shares is required to offer these shares to other contracting shareholders) whereas other clauses are very specific and only encountered in a low number of listed companies. The imagination of lawyers is the only limit to the clauses of shareholder pacts, which is why some mechanisms are really firm specific.

An important question arises from the signing of an agreement: can it be described as a concerted action? According to French law, an “*agreement concluded to acquire or sell voting rights or to exercise these voting rights so as to implement a common policy towards the company*” is characteristic of concerted action. The most important feature of a concerted action is the fact that contracting shareholders express a common will and vision about the firm’s strategic decisions.

Depending on their clauses, some shareholder pacts will be described as concerted action and some others will not. For example, a shareholder agreement which only contains mutual pre-emptive buying rights will not necessarily be considered as a concerted action. If the same agreement also includes the obligation for the contracting parties to meet before the general meeting in order to decide on vote orientation, it will constitute a concerted action.

In this paper, I will especially be interested in three particular provisions. The focus will be on agreements that characterize a concerted action (CONCERT), on agreements that specify pre-emptive buying rights (PREEMPTION) and on agreements that prescribe *ex-ante* a certain repartitioning of board seats between contracting shareholders (BOARD).

Lastly, it is worth mentioning that shareholder agreements remain in force in the case of a takeover. Shareholder agreements are ordinary private contracts whose content is not limited by law. Consequently, a clause specifying that the agreement is no longer binding once a takeover is launched on the company could be written. I have never come upon such a provision.

3. Background

¹ For a detailed (but not exhaustive) list of shareholder agreements’ provisions, see Chemla et al. (2007) and Belot (2008).

Many theoretical and empirical papers have analyzed the impact of target ownership structure on shareholder gains during takeovers. Unfortunately, we lack theoretical predictions concerning the impact of shareholder agreements. The magnitude and the direction of this impact will consequently appear as an open empirical issue.

3.1 *Ownership structure and takeover premium*

In Stulz (1988), higher ownership is associated with greater negotiating power. This latter provides target shareholders with the ability to extract higher rents from the bidder. Consequently, a positive association between inside ownership and takeover premium is expected.

Through its impact on firm performance, inside ownership may be related to takeover premiums. Morck et al. (1988) document a negative entrenchment effect arising at certain levels of inside ownership, the impact being even more pronounced when the insider own voting rights in excess of cash flow rights (Bebchuk et al., 2000). This effect is detrimental to firm performance and reduces firm valuation (Claessens et al., 2002). Anticipating the inefficiencies she will be able to reduce, the bidder may be prone to offer a high price when the *ex-ante* performance of the target is low.

In contrast, a positive association between inside ownership and *ex-ante* firm performance (Jensen and Meckling, 1976) may induce bidders to offer lower premiums. A negative association between inside ownership and takeover premiums is then expected. Such a negative association may also result from an opportunistic behavior of insiders using their control to expropriate minority shareholders during the takeover process. Target insiders may indeed trade takeover premiums in return for private benefits as postulated by Moeller (2005).

Many empirical papers have analyzed the impact of inside ownership on target returns. It is worth mentioning that in the vast majority of the papers the dependent variable is a cumulative abnormal return around the announcement date (and seldom the takeover premium). This empirical strategy relies on the intuition that high takeover premiums translate into positive abnormal returns. Stulz et al. (1990) and Song and Walkling (1993) document a positive relationship between abnormal returns and inside ownership for a sample of contested bids. Focusing on takeover premiums, Moeller (2005) notices a negative impact of CEO ownership what he interprets as an evidence of the CEO bargaining for personal compensation and side payments instead of bargaining for higher premiums from which all existing shareholders would benefit. To sum up, theoretical literature as well as empirical

literature provide us with mixed and opposite conclusions concerning the sense of the relationship between insider ownership and takeover premium.

3.2 *Shareholder agreements and takeover premiums*

Shareholder agreements can be viewed as efficient coordination mechanisms (Chemla et al., 2007). This might explain the highest valuation of firms concerned by an agreement (Volpin, 2002). If shareholder agreements generate efficiency, one could expect that a bidder will be less likely to offer a high price according to the above performance argument.

Stulz (1988) provides another argument predicting a positive association between shareholder agreements and takeover premiums. Shareholder agreements can be viewed as means of enhancing the bargaining power of target insiders. This prediction may be particularly true when the agreement specifies provisions that can hamper the transfer of control. Some shareholder agreements' provisions may play this role.

(1) Concerted action requires unanimity among the contracting shareholders. No important decision can be made without the approval of each signatory. If such a unanimity cannot be reached, some shareholder pacts specify provisions that will help resolve the conflict (for instance through the nomination of a referee). This need for unanimity of course leads to bargaining problems among contracting shareholders. In Gomes and Novaes (2005), these bargaining problems can lead the firm to pass up bad investment projects. This reasoning can be duplicated for mergers and acquisitions: the need for unanimity among the members of a coalition can lead the firm to pass up bad acquisition projects, in other words bids that are not valuable.

(2) Pre-emptive buying rights appear as another way to extract rents from the bidder in form of higher takeover premium. According to this provision, a contracting shareholder wishing to tender her shares to the bidder is required to offer it to the other contracting parties. Suppose that shareholder X agrees with the terms of the offer but that shareholder Y considers the offer as underpriced. Shareholder Y is granted a priority buying right over the shares to be tendered by shareholder X. By exercising this right, shareholder Y can strengthen her control over the firm and prevent the takeover. Being aware of this credible threat, the bidder may be forced to pay a higher premium. It is worth noting that this threat is only credible if shareholder Y is wealthy enough to buy the stake of shareholder X. This point is of particular importance for the empirical study, but it is unfortunately impossible to know if Y is a deep pocket shareholder.

(3) An allocation of board seats can be prescribed by the shareholder agreement. Under such a provision, contracting shareholders agree to favor their election as members of the board of directors. The agreement can specify that shareholder X will be granted two seats whereas one seat will be reserved to shareholder Y. In the case of a takeover, the target's board of directors has to evaluate the quality of the bid. If it leads to an over-representation of the signatories (Gianfrate, 2007), a clause prescribing an allocation of board seats is another mechanism that enhances the bargaining power of the contracting shareholders. This clause is hence likely to force a bidder to pay a significant premium if she wants to attract the approval of the board.

Following these arguments, a positive association between shareholder agreements and takeover premium is expected. However, this positive analysis of shareholder agreements is possibly incorrect. Suppose that the agreement is a means of enhancing the bargaining power of the coalition members and that these latter only use it in their own interest (for instance they can privately negotiate side payments with the bidder or the guarantee of an important position in the bidder's management committee). Having obtained these side payments, contracting shareholders may no longer be concerned and interested in a high premium from which all existing shareholders would however benefit. This argument is developed by Moeller (2005).

Trying to disentangle the positive and negative effects of shareholder agreements on takeover premium is hence an empirical issue, and I will try to address it in the following sections.

4. Sample, variables and methodology

4.1 Sample

I extract my acquisition sample from the Securities Data Corporation's (SDC) mergers and acquisitions database. To be included in the sample, a transaction must satisfy the following criteria:

- The target is a French listed company.
- The announcement date is between August 30, 1999 and December 31, 2007.
- The acquisition is completed.
- The deal value reported in SDC is greater than 20 million Euros.

- The percent of shares held by the acquirer 6 months prior to the announcement is lower than 50%; the percent of shares she owns after the transaction is greater than 50%. Consequently, I only focus on transactions that imply a change of control.
- The bidder acquires at least 15% of the target shares in the transaction.

This initial screening gives 194 observations. When the ownership structure of the target is not available (due to the impossibility of finding the filing that describes the transaction and/or the target's annual report), the transaction is excluded. This reduces the sample to 169 observations. Acquisitions are also excluded when financial market data are not available in DATASTREAM and/or accounting data are not reported in WORLDSCOPE. This reduces the sample to 162 observations.

4.2 Variables

4.2.1 Dependent variable

The purpose of this paper is to address a specific question: how does a shareholder agreement influence the bidding behavior of a potential acquirer? The most important component of the bidding strategy is the price that is proposed to existing shareholders. One could postulate that a shareholder agreement is a mechanism that is viewed as a credible threat by the bidder. This could in return enhance the bargaining power of the target shareholders and force the bidder to offer a higher price.

The dependent variable of the empirical analysis is the control premium which is calculated as the ratio of the difference between the offer price and the stock price one month prior to the announcement date to this same stock price.

$$\text{Premium} = \frac{\text{Offer price} - \text{Stock price one month before the announcement date}}{\text{Stock price one month before the announcement date}} - 1$$

When I observe a stock offer, I determine the offer price by multiplying the number of bidder shares offered per target share by the bidder's closing price on the announcement date.

This is a standard measure in the financial literature (Bange and Mazzeo, 2004; Officer, 2003; Rossi and Volpin, 2004; Moeller, 2005; Anderson and Dyl, 2004). Some studies (e.g. Rossi and Volpin, 2004) rely on the value that is provided by the SDC database. The SDC database provides a measure of the preceding ratio but it is often incomplete and many problems arise (for a discussion of this issue, see Officer (2003)). I do not use the information

provided by SDC but obtain the offer price through the filings² which describe the acquisition whereas the stock price is taken from DATASTREAM. Following Officer (2003), I exclude the acquisitions which exhibit a negative premium.³ This reduces the sample to 140 deals.

4.2.2 Deal characteristics

I control for deal characteristics that are likely to be correlated with takeover premiums.

- The dummy variable SAME INDUS takes the value of one when the target and the bidder have the same 2-digits SIC code (source: SDC) and zero otherwise. If the bidder and the target are drawn from the same industry, operational synergies arising from economies of scales are likely to emerge. The bidder may be eager to offer a higher premium when such synergies are expected (Sudarsanam et al., 1996).
- The dummy variable TENDER (source: SDC) indicates if the bid takes the form of a tender offer. Huang and Walkling (1987) find that tender offers yield significantly higher returns.
- I control for the existence of a toehold (TOEHOLD) which is defined as the percentage of target shares owned by the bidder before the acquisition. This data is obtained manually. Betton and Eckbo (2000) show that the takeover premium is negatively impacted by the bidder's toehold.
- The dummy variable PRIVATE takes the value of one when the bidder is a private company. This variable is important because Barger et al. (2008) demonstrate that private acquirers offer premiums that are lower than those offered by public bidders.

4.2.3 Control variables

I take into account three financial indicators of target size, leverage and valuation.

- Market capitalization (MARKET CAP) is defined as the target market value of equity one month before the takeover announcement.
- Market to book (M to B) is calculated as the sum of market value of equity (one month before the announcement) and financial debts (proxied by its book value) over total assets. Bauguess et al. (2008) demonstrate a positive association between takeover

² These filings are available through the AMF website, www.amf-france.org.

³ Officer (2003) also excludes acquisitions featuring a very high premium (an arbitrary bound of 2 is chosen). This is not relevant in this paper because the highest premium is equal to 187%.

premium and book to market (hence a negative association between market to book and takeover premium).

- Leverage (LEVERAGE) is the ratio of financial debt over total assets.⁴ On one hand, a higher leverage could result in a better monitoring of the management, which makes the payment of a high premium less likely. On the other hand, Stulz (1988, p.43) postulates that “*an increase in leverage consolidates voting rights in the hands of management and hence enables it to force a bidder to pay a higher premium to acquire control*”. Consequently, the sense of the relationship between target leverage and takeover premium is not really clear.

4.2.4 Ownership variables

For each target, I manually collect ownership data from firms’ annual reports for the end of the year preceding the deal. Although this manual collection is a slow process, it is necessary to the extent that the commercial databases do not provide accurate information. For instance, the ownership component of THOMSON ONE BANKER only supplies percentages of capital which can strongly differ from percentages of voting rights. In France, the charter of the firm can indeed authorize double voting rights for registered shares that have been held for a defined number of years (between 2 and 4 years).

I also manually collect data about shareholder agreements. These are easily accessible through a dedicated section in the annual report but also through designated pages on the AMF website. These filings always contain the signature date, the identity of contracting shareholders and the content of the agreement.

Following previous studies (starting with La Porta et al., 1999), I use the ultimate ownership methodology (at the 20% threshold) in order to capture the discrepancy between control rights and cash-flow rights. This is of special importance to the extent that pyramidal structures and double voting rights are very widespread in France (Boubaker, 2007). My methodology slightly differs from those adopted by Faccio and Lang (2002). The following example illustrates this point: consider a company (firm X) whose main shareholder is the firm Y with 17% of cash-flow and voting rights. If the main shareholder of Y is the family F with 18% of cash-flow and voting rights, I will say that at the 20% threshold the ultimate

⁴ Accounting numbers (for financial debts and total assets) are extracted from WORLDSCOPE for the fiscal year prior to the deal announcement.

owner of firm X is the widely held firm Y with 17% of cash-flow and voting rights.⁵ SH1 CFR denotes the ultimate cash-flow rights of the largest shareholder; SH1 VR denotes her ultimate voting rights. If some shareholders are signatories to an agreement, SHAG VR denotes the ultimate voting rights of the coalition (the sum of the individual voting rights). The concerted action provision materializes the existence of a strong shareholders' coalition, I hence calculate CONCERT VR which denotes the ultimate voting rights of the signatories to a concerted action. As an illustration, Appendix A describes the ownership structure of SELF TRADE and the value of each ownership variable.

To capture any entrenchment effect induced by a high wedge between voting and cash-flow rights, I include the variable SH1 EXCESS which is computed as $SH1\ VR / SH1\ DCF$ (Villalonga and Amit, 2007). If we assume that the target's largest shareholder tends to collude with the bidder during the takeover (Moeller, 2005), a negative relationship between takeover premium and excess of control is expected.

Suppose that the first shareholder is the leader of the coalition and that other contracting shareholders always agree with her. In such a case, one can postulate that the first shareholder exercises not only her own voting rights but also those owned by other signatories. In such a case, the shareholder agreement provides the first shareholder with an illegitimate excess of control (SH1 EC AGREEMENT) which is calculated as the ratio $SH1\ AG / SH1\ VR$. I also calculate the excessive control provided by a concerted action provision as $SH1\ CONCERT / SH1\ VR$ (SH1 EC CONCERT).

4.2.5 Board composition

The board of directors plays a crucial role in the takeover process because it is supposed to give an opinion about the bid (approve or reject it). For a sample of Italian firms, Gianfrate (2007) demonstrates that the board of directors is highly dominated by the members of the coalition when a shareholder agreement is in force. Furthermore, he notices that the coalition owns board rights that strongly exceed its control rights. It seems interesting to explore this issue for a sample of target firms and to compare the results to those obtained with a classical sample of listed firms.

The task of matching an ownership structure with a board structure is not always obvious. It is straightforward when the largest shareholder is a family. For instance, the board of

⁵ In Faccio and Lang's (2002) analysis, firm X would be considered as a widely held firm at the 20% threshold.

MARIONNAUD is composed of 4 directors who all have the same last name (FRYDMAN). The ultimate owner of MARIONNAUD is the FRYDMAN family with 19.8% of the cash-flow rights and 32.3% of the voting rights. This high wedge between voting and cash-flow rights is due to the existence of double voting rights. The FRYDMAN family owns 100% of board rights and only 19.8% of cash-flow rights. Due to marriages, however, some directors can be members of the same family but have different last names. For instance, C. De MARGERIE is a member of the TAITTINGER family who is the ultimate owner of the listed company TAITTINGER.

The situation is even more complicated when the shareholder is a (listed) company. The example of SELF TRADE (Appendix A) illustrates this point. The largest shareholder is SEB, and SEB's CEO (L. THUNELL) serves as director of SELF TRADE. A shareholder agreement is in force and specifies that two seats of SELF TRADE's board of directors will be allocated to SEB. An important question arises: how to identify the other director appointed by SEB? I consider that G. BREGUET is likely to be the second director, because he was appointed in October 1998 (when SEB became a shareholder of SELF TRADE) and was between 1982 and 1993 the chairman of ABB and ASEA, other companies controlled by SEB's ultimate owner (the WALLENBERG family).

SH1%BOARD denotes the percentage of seats controlled by the largest shareholder, SHAG%BOARD is the percentage of seats owned by the signatories to the agreement. In the SELF TRADE example, $SH1\%BOARD = 2/9 = 22.22\%$ and $SHAG\%BOARD = 7/9 = 77.78\%$.

Due to the difficulty of accurately matching directors and owners, it is unfortunately possible to consider some directors as unaffiliated whereas they are in fact affiliated to one shareholder. In other words, the analysis is likely to underestimate the actual control over the board of directors. Due to missing data, the analysis of board of directors relies on a sample of 135 firms.

5. Empirical results

5.1 Descriptive statistics

Table 1 reports the annual number and the value of the deals; it also describes the prevalence of shareholder agreements in target firms. The average (median) market capitalization one month before the announcement is 1,263.7 (200.6) million Euros. These figures are higher than those observed by Bange and Mazzeo (2004). 38 targets (27.1% of the

sample) have a shareholder agreement. I am not aware of any study describing the prevalence of shareholder agreements in target firms, nevertheless previous literature gives us insights about the use of such agreements in listed companies. Boubaker (2007) documents that an agreement is in force in one third of French listed firms; Roosenboom and Schramade (2006) notice that over the period 1993-1999 26.4% of French IPOs featured a shareholder agreement. It hence appears that the prevalence of shareholder agreements among target firms is very similar to that observed for a sample of listed firms (which are not targets of a takeover bid). Although the purpose of this paper is not to shed some light on the relationship between shareholder agreements and the likelihood of a takeover bid, the nearly identical distribution of shareholder agreements in target and listed firms tends to show that shareholder pacts do not prevent takeover bids. This point deserves a more accurate empirical analysis; however firms having a shareholder agreement do not appear as offering higher resistance to takeover bids. This result is in line with Ambrose and Megginson (1992) who do not find any significant relationship between ownership structure and acquisition likelihood.

[Insert table 1 here]

In table 2, I split the sample according to the existence of a shareholder agreement. This table describes the ownership patterns of the targets, some financial indicators and the characteristics of the deal. This table presents the differences between targets that are concerned by an agreement and targets that are not. The last columns of this table test for the significance of the difference in means.⁶

It appears that the ownership structures of firms concerned by an agreement are very specific. In the vast majority of the cases, there are at least two large blockholders⁷ (COMPLEX=78.9% on average). Complex ownership structures represent 48.6% of the sample; this figure is higher than that reported by Laeven and Levine (2008) or Belot (2008). Not surprisingly, the first shareholder is less powerful in targets concerned by an agreement (ultimate voting rights of 37.4% against 47.3%). The shareholder agreement appears useful in that it can help the largest shareholder to consolidate her power.

⁶ The table does not report the Wilcoxon z-statistics (for the difference in medians) to the extent that the conclusions are exactly similar. These results are available upon request.

⁷ These ownership structures are defined as “Complex Ownership Structures” by Laeven and Levine (2008). Such ownership structures exhibit at least two large shareholders, each of them owning at least 10% of the voting rights.

On average, the takeover premium is equal to 27.4%. It is higher for the sample of firms having an agreement but the difference is not statistically significant (p-value of 18.9%). Previous studies report higher takeover premiums (30.8%, Moeller (2005); 32.8%, Bange and Mazzeo (2004)). The vast majority of the deals are exclusively paid with cash, which is a characteristic of European deals (Faccio and Masulis, 2005). This statistic is not surprising to the extent that 56.4% of the bidders are private firms which by definition are not able to offer stocks. It appears that firms whose shareholders are signatories to an agreement are less likely to receive a pure cash offer. Concerning the relatedness of the activities of the acquiring and target firms, I notice that 62.9% (=1-37.1%) of the acquisitions can be considered as diversifications. This figure is higher than that reported by Officer (2003) for a sample of US firms. Toeholds are higher for target firms concerned by an agreement; this tends to show that the bidder is frequently a signatory to a shareholder agreement. Lastly, hostile and contested deals are relatively rare events: this is in line with Moeller (2005) who documents a really low prevalence of such deals in his sample of US acquisitions.

[Insert table 2 here]

There is no significant difference in the financial and accounting indicators. Nevertheless, the size (proxied by the market value of equity) of firms concerned by an agreement is higher. Following Demsetz and Lehn (1985), one can easily explain this phenomenon: the larger is the firm, the higher is the wealth needed to control it. It becomes more and more difficult to control solely a firm as its value increases; alliances with other shareholders (in order to consolidate control) are hence more likely to occur.

5.2 *Shareholder agreements: provisions, voting rights and board composition*

Table 3 describes the agreements' provisions and the voting rights of the signatories. I first split the sample according to the type of the largest signatory (Panel A); the sample is then divided according to the existence of a concerted action provision (Panel B) and according to the existence of a clause which specifies *ex-ante* an allocation of board seats (Panel C).

73.7% of the agreements contain pre-emptive buying rights, 60.5% of the shareholder pacts characterize a concerted action and an allocation of board seats is specified in 36.8% of

the sample. The prevalence of concerted action and board representation provisions is higher than that reported by Roosenboom (2005) for a sample of French IPOs. This comparison suggests that the design of shareholder agreements evolves along the company's life cycle. Family agreements⁸ are more likely to characterize a concerted action and their control over the firm (measured by the sum of the signatories' voting rights) is significantly higher. Furthermore, a member of the coalition is more likely to participate in the management. One possible interpretation is that families are more risk-averse and are prone to secure a strong control over the company which lead them to form coalitions with strong allies. Interestingly, the number of signatories is significantly higher for agreements that do not contain a concerted action provision. This latter clause requires unanimity among signatories. When the number of coalition members is high, the shareholders are maybe reluctant to sign a concerted action provision because they anticipate the future difficulty of reaching unanimity.

Using a sample of Italian firms whose shareholders are kept together by a voting trust agreement, Gianfrate (2007) analyzes the composition of the board of directors. He notices that a voting trust owning 52% of the company's cash-flow rights is able to exercise up to 87% of the total board rights. Thanks to the voting trust, the largest shareholder is able to gain full control over the firm (through a majority of seats at the board of directors) despite a low fraction of cash-flow rights (28% on average). The conclusion is that voting trust agreements are used as entrenchment devices whose purpose is to insulate the firms from the takeover market and secure private benefits. Table 3 replicates Gianfrate's analysis: on average, the members of the agreements exercise 55.5% of board rights while owning 46.1% (58.5%) of the cash-flow rights (voting rights). The pact's largest shareholder only owns 27.8% of cash-flow rights. It appears that the members of the coalition are slightly over-represented at the board of directors because they exercise board rights that are higher than their cash-flow rights. The very high wedge between board rights and cash-flow rights highlighted by Gianfrate (2007) does not seem to exist in the sample of French target firms. The signatories to the pact have a number of seats that matches their voting rights. This is also true for the firms whose shareholder are kept together by a concerted action. Strikingly, the composition of the board of directors does not seem to differ when an allocation of board seats is prescribed by the shareholder agreement. To sum up, these results are not consistent with the intuition that shareholder agreements are entrenchment devices. Indeed, shareholder agreements do not seem to be associated with disproportional board representation.

⁸ "Family agreement" refers to agreements whose largest signatory is a family.

[Insert table 3 here]

It is nevertheless possible to argue that the sample is very specific insofar as it is composed of target firms. It would be interesting to compare this sample to a sample of non-target listed companies. In such companies, shareholder agreements' signatories are maybe more entrenched which makes a takeover less likely. In other words, my sample possibly contains the "weakest" agreements (this is a selection bias) and this could explain why the firm becomes a target.

This analysis suffers one weakness: there is no comparison with a sample of firms that are not concerned by an agreement. Such an analysis requires one assumption: I will hypothesize that firms whose ownership structure does not exhibit a shareholder agreement are solely controlled by the largest shareholder. The sample will be made of firms that have at least one large shareholder⁹, I hence exclude three widely held firms that are not concerned by an agreement.

In table 4, the sample is divided according to the existence of an agreement. The first subsample contains 96 firms that are not concerned by an agreement whereas the second subsample contains 36 firms whose shareholders are kept together by an agreement. In the first subsample, the decisions are assumed to be made by the largest shareholder. I compare the power of the coalition (for firms having an agreement) to the power of the largest shareholder (for firms that are not controlled by an agreement and are hence considered as solely controlled by their largest owner).

[Insert table 4 here]

It appears that the board of directors is larger and that the controlling shareholders participate more in the management when a shareholder agreement is in force. If the focus is on the discrepancy between board rights and control (or voting rights), the table shows that allied shareholders are not more over-represented than single owners at the board of directors. It is worth noticing that the discrepancy between cash-flow rights and voting rights is very large for the first subsample (with a mean of 1.791). This is due to the mechanism of voting rights that is very widespread in French listed companies and to the existence of pyramids

⁹ That is to say a shareholder owning at least 10% of the voting rights.

(Ginglinger and Hamon, 2007). The figure (1.331) is lower for firms having an agreement. This suggests that shareholder agreements are possibly substitutes for pyramids and other control-enhancing mechanisms. When she is not able to secure an effective control over the firm through pyramids, multiple voting rights or cross-holdings, a shareholder is maybe prone to enter into agreements with other owners. In this context, the device used to ensure a stability of control may change over time as postulated by Bianchi and Bianco (2006) who demonstrate that Italian firms experienced a switch from pyramids to shareholders' coalitions in the past 15 years.

5.3 *Multivariate analysis*

In table 5, the link between shareholder agreements, ownership structures and takeover premiums is investigated. In regression (1), I only include a dummy variable which takes a value of one if a shareholder agreement (whatever its provisions) is in force and zero otherwise. From our control variables, only size (proxied by the market capitalization), market to book value and sector relatedness significantly impact the takeover premium. In line with Officer (2003), it appears that premiums are significantly higher when the target has a small market capitalization, the target has a low market to book and the transaction is an intra-industry deal. This first regression tends to show that the presence of a shareholder agreement positively (and significantly) affects the takeover premium. One possible interpretation is that the shareholder agreement provides the signatories with more bargaining power which forces the bidder to offer a higher price.

In regressions (2) and (3), I control for the ultimate cash-flow rights of the first shareholder. Regression (3) includes a dummy variable (SH1 SIGNATORY) which takes a value of one whether the first shareholder is signatory to an agreement. Contrary to the previous studies which document significant associations between insider ownership and premiums (Moeller, 2005; Bauguess et al., 2008), I do not find any significant relationship between the stake of the first shareholder and the premium. Premiums are higher when the first shareholder is signatory to a shareholder pact. The difference between regressions (2) and (3) is the following: in regression (2) the dummy AGREEMENT captures all the agreements (in particular agreements whose signatories are small – i.e. do not own at least 10% of the voting rights) whereas in regression (3) the dummy SH1 SIGNATORY captures only the coalitions whose largest shareholder own at least 10% of the voting rights. It hence

appears that the agreements concerning at least one large shareholder have the most important economical significance.

In regression (4), the discrepancy between voting and cash-flow rights is included to control for any entrenchment effect. The excess control negatively affects the takeover premiums. This could be interpreted as an evidence of expropriation by the largest owner: when she has wrong incentives, she could negotiate and extract private payments from the bidder instead of a high price (Moeller, 2005). The positive “agreement effect” however remains.

In regressions (5) and (6), I take into account the additional control provided by shareholder agreements. The variable is computed with the assumption that the first shareholder solely exercises the voting rights of all the signatories. This assumption is certainly more relevant when the shareholder agreement characterizes a concerted action; consequently regression (6) only includes the excess voting rights provided by a concerted action provision. This is very similar to Villalonga and Amit’s (2007) analysis which focuses on voting trust.¹⁰ Almost not significant (p-value of 13.8%), the coefficient of the variable SH1 EC AGREEMENT tends to show that the voting rights that are accumulated through the agreement positively impact the takeover premium. By signing an agreement, the largest shareholder is able to consolidate her control over the firm; this increases her bargaining power and makes more likely the extraction of a high premium. This result could also be interpreted in light of the Bennedsen and Wolfenzon’s (2000) model: the accumulation of cash-flow rights by the controlling coalition makes it more likely to internalize the cost of its actions. A positive alignment effect dominates a negative coalition formation effect. The result is less convincing for voting rights that are accumulated *via* a concerted action (regression (6)).

[Insert table 5 here]

In table 6, light is shed on the impact of specific agreement provisions. In regressions (1) to (3), dummy variables are included. I test for the impact of pre-emptive buying rights (PREEMPTION), concerted action (CONCERT) and provisions that specify *ex-ante* an allocation of board seats (BOARD). As described in section 3, these provisions are supposed to play a crucial role in the takeover process insofar as they are likely to strongly influence

¹⁰ A voting trust is a special agreement by which a shareholder transfer her voting rights to another shareholder.

the outcome of the takeover. For the sake of brevity, the regressions including the stake of the largest shareholder are not reported (the inclusion of this variable does not change the results¹¹). Whereas pre-emptive buying rights and repartitioning of board seats significantly affect takeover premiums, it appears that the effect of concerted action provisions is not significant. This result appears counterintuitive to the extent that concerted action seems to be the most binding provision. I will try to address more accurately this puzzling result in the following section dedicated to endogeneity.

In regressions (4) and (5), the impact of different characteristics of the shareholder agreement is investigated. Regression (4) includes a dummy variable (AG MGT) which takes a value of one if a member of the coalition is also a member of the management team. This regression shows that the positive impact of shareholder agreements is especially strong when coalition members participate in the firm's management. Such owner-managers could benefit from their power and trade takeover premiums for private benefits, such as the guarantee to receive executive positions in the merged firms (Moeller, 2005). The results are not consistent with this story.

Regression (5) includes a dummy variable (FAMILY) that indicates whether the largest shareholder of the coalition is a family. According to Maury and Pajuste (2005), families are eager to collude in order to expropriate minority shareholders. This does not seem to be true here: family agreements are associated with higher takeover premiums.

[Insert table 6 here]

5.4 *Robustness: endogeneity issue*

In the preceding empirical analysis, the shareholder agreement dummy is an exogenous variable. Demsetz and Lehn (1985) argue that firm and industry characteristics notably influence the structure of corporate ownership. In this section, I try to take into account variables that could explain the emergence of a shareholder agreement. In Gomes and Novaes (2005), an entrepreneur is likely to attract a large investor who will finance an investment. This large investor has to make an important decision: either she chooses to monitor the entrepreneur without participating in the management, or she decides to share control with the entrepreneur over the investment decision. In my opinion, the existence of an agreement

¹¹ Results are available upon request.

between large shareholders clearly characterizes such sharing of control. One of the conclusions is that shared control is more likely to emerge in firms whose investment opportunities are hard for outsiders to evaluate. To take into account the difficulty of evaluating investment opportunities, I use variables that are often viewed as proxies for information asymmetry and environment instability: the volatility (VOLATILITY) of company returns (for the year preceding the takeover) and R&D expenditures (scaled by total assets) reported on WORLDSCOPE (R&D/ASSETS).

It is often argued that a shareholder agreement is a means of insulating the company from the market for corporate control (Gianfrate, 2007). One could therefore expect that this protection is more relevant when corporate takeovers within the firm's industry are very frequent. To control for this takeover activity, I compute the measure developed by Schlingemann et al. (2002) (TA_LIQUIDITY) which is defined as the liquidity index of the market for corporate control for the target's industry. It is calculated as the value of all corporate transactions for \$1 million or more reported by SDC for the year preceding the takeover and two-digit SIC code divided by the total book value of assets of firms in the same two-digit SIC code for that year.¹² It can be hypothesized that shareholder agreements are more likely to emerge when TA_LIQUIDITY is high.

I correct for endogeneity using treatment effect regressions for my indicators of shareholder agreement. I use the *treatreg* (Heckman two-step option) subroutine of the Stata package (version 10 IC). In the first stage which takes the form of a probit regression, I regress the dummy AGREEMENT (or dummies which takes of a value of one whether certain provisions are in force) against a set of independent variables in order to generate an instrument. The latter is then included in a regression with takeover premium as dependent variable. Such a procedure is used by Miller et al. (2007) who treat as endogenous a dummy variable which indicates family control. Due to missing data, the sample is now reduced to 129 observations.

In table 7, the emergence of a shareholder agreement (regression (1)), of a concerted action (regression (2)) and of a clause that specifies a repartitioning of board seats (regression (3)) is treated as an endogenous process. In the first step, the above variables are included. I also include the market to book, the leverage, and the market capitalization of the target.

¹² The book value of assets is collected from the THOMSON ONE BANKER database.

Variables related to the characteristics of the deal are not included.¹³ One could argue that shareholder agreements not only emerge in response to a specific environment but also in response to a specific ownership structure. If the largest shareholder considers that she is not strong enough to secure control over the firm, she may be prone to find a partner. I control for this issue in regression (4) by including in the first step the Herfindahl index (HERFINDAHL) computed as the sum of the squared cash-flow rights of each shareholder owning at least 5% of the cash-flow rights (i.e. the minimum disclosure threshold in France). Gomes and Novaes (2005) also argue that shared control is more likely to emerge when the information asymmetry between shareholders is low. This situation arises when shareholders have common background, which will be especially true when they are families. I hence include a dummy variable (FAMILY) which is equal to one if the largest shareholder of the target is a family.

Regression (1) does not suggest that shareholder agreements significantly impact the takeover premium; however the coefficient is very close to significance with a p-value of 0.11. The only significant predictor in the first step regression is the size of the target (proxied by its market value of equity). This is in line with the predictions of Demsetz and Lehn (1985). Contrary to the results obtained with a standard OLS regression, regression (2) demonstrates a positive relationship between concerted action and takeover premiums. The takeover activity within the firm's industry positively impacts the likelihood of having a concerted action. This tends to show that the coalition members are willing to insulate the firms from the takeover market. The significance of the selection parameter λ indicates the presence of endogeneity in the original model. Concerted action appears as the most binding commitment of shareholder agreements; this is why a significant impact of this provision is expected. By using a standard OLS regression (see above), I do not find any strong relationship. The use of a more powerful econometrical specification suggests another conclusion. An unreported regression (available upon request) confirms that pre-emptive buying rights significantly affect the takeover premium. The conclusion concerning the BOARD provision is not robust to the use of a two-step procedure (regression (3)). Lastly, I take into account the target ownership structure (regression (4)). This increases the overall significance of the model; the positive impact of a concerted action remains.

¹³ There is no reason to include the characteristics of the deals as predictors of the existence of a shareholder agreement insofar as the agreement is in force *ex-ante*. The characteristics of the deal are possibly influenced by the *ex-ante* existence of a shareholder agreement, but this is not the concern of this paper.

[Insert table 7 here]

The validity of these results is of course subject to the relevance of the variables used in the first stage. I rely on Gomes and Novaes's (2005) theoretical predictions, but other variables¹⁴ could maybe have a stronger explanatory power. This section dedicated to endogeneity complements the results obtained with standard OLS regressions and tends to demonstrate that shareholder agreements are significantly associated with takeover premiums.

6. Conclusion

Using a sample of 140 completed acquisitions, this paper investigates the impact of shareholder agreements on takeover premiums. The main finding is that takeover premiums are significantly higher when some target shareholders are kept together by an agreement. This tends to validate the idea that such agreements enhance the negotiating power of target shareholders and force the bidder to pay a higher premium. These results are robust to the use of a Heckman two-step procedure which treats as endogenous the existence of an agreement.

The corporate governance of firms concerned by a shareholder agreement is also analyzed. Contrary to previous studies (Gianfrate, 2007), this paper does not point out any large wedge between ownership and control of shareholders' coalitions.

The paper hence argues for a positive view of shareholder agreements which appear as means of extracting higher rents from the bidder. Of particular interest is the fact that all shareholders (even those that are not signatories to the agreement) will benefit from this higher premium.

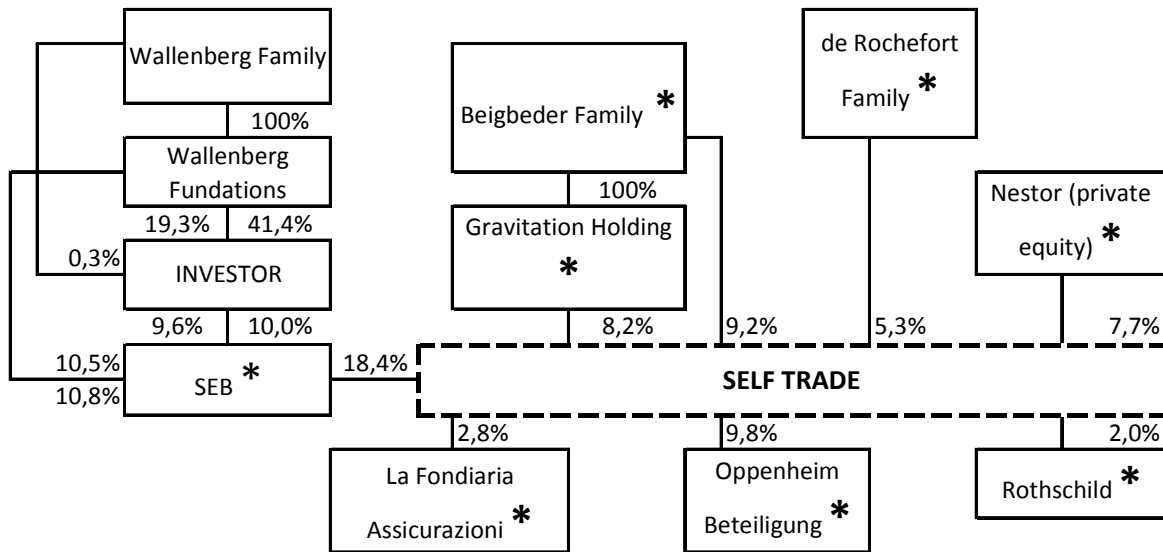
Belot (2008) and Roosenboom and Schramade (2006) document a positive association between shareholder agreements and firm value. This paper might explain this phenomenon: it could be that the higher anticipated takeover premium explains the positive effect of shareholder agreements on firm value.

Be that as it may, this paper highlights the value of devoting considerable attention to shareholder agreements. For example, further research should increase our knowledge of the effect of shareholder agreements on takeover likelihood. It is often postulated that such agreements hamper control transactions but there is no empirical analysis validating this intuition.

¹⁴ To my knowledge, there is no other paper focusing on shared control and on the conditions of its emergence.

Appendix A

SELF TRADE: Ownership Structure and Board of Directors



The asterix * denotes the shareholders who are signatories to an agreement.

There are 2 large shareholders (the Wallenberg and Beigbeder families) who own respectively 2.3% (SH1 CFR) and 17.4%. The ultimate voting rights are 18.4% (SH1 VR) and 17.4% respectively.

The members of the agreements jointly own 63.4% of the voting rights (SHAG VR). As the agreement does not characterize concerted action, CONCERT VR=0.

Board of Directors

<i>Name</i>	<i>Position</i>	<i>Affiliated to shareholder</i>
M. Appendino	Founder of Nestor	Nestor
C. Beigbeder	-	Beigbeder Family
J. Beck	-	-
G. Breguet	Former Chairman of ABB and ASEA (controlled by the Wallenberg family)	SEB
R. Gavazzi	CEO of La Fondiaria Assicurazioni	La Fondiaria Assicurazioni
F. James	Lawyer	-
C. de Labriffe	Partner of Rothschild	Rothschild
J. Maret	Associate of Oppenheim	Oppenheim
L. Thunell	CEO of SEB	SEB

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Table 1: Numbers of deals and prevalence of shareholder agreements

The 140 observations of the sample are classified by years. **Target Market Capitalization** (Source: DATASTREAM) is equal to the target market value of equity (in million Euros) one month before the announcement of the deal. **Shareholder Agreement** is a dummy variable which takes a value of one if some target shareholders are signatories to an agreement and zero otherwise.

Year	n=	Target Market Capitalization		Shareholder Agreement	
		mean	median	sum	mean
1999	12	1705.7	137.1	4	33.3%
2000	23	719.7	195.3	7	30.4%
2001	12	1083.0	634.1	3	25.0%
2002	12	1534.5	218.4	4	33.3%
2003	14	405.6	128.1	2	14.3%
2004	12	4030.5	468.1	3	25.0%
2005	25	1544.0	257.8	6	24.0%
2006	13	246.5	78.1	2	15.4%
2007	17	743.6	123.1	7	41.2%
Total	140	1263.7	200.6	38	27.1%

Table 2 : Ownership, deal characteristics and financial indicators

WH10 takes a value of one if the firm does not have any large shareholder (i.e. owning at least 10% of the voting rights), **ONE LARGE** takes a value of one if there is only one large shareholder, **COMPLEX** is equal to one when the target ownership structure exhibits at least 2 large shareholders. **SH1 CFR (VR)** denotes the ultimate cash-flow (voting) rights (at the 20% threshold) of the largest shareholder, **SH1 EXCESS** is computed as ultimate voting rights over ultimate cash-flow rights of the largest shareholder. **PREMIUM** is calculated as (Offer Price / Price one month before the announcement)-1. **TENDER** takes a value of one when a tender offer is launched for the target, **SAME INDUS** takes a value of one if the bidder and the target have the same 2-digits SIC code, **PRIVATE** indicates whether the bidder is a private company, **CASH** takes a value of one if the bidder offers only cash, **MULTIPLE** takes a value of one if the bid has been contested, **HOSTILE** is equal to one if the bid is recorded by SDC as hostile. **TOEHOLD** is the percentage of target shares owned *ex-ante* by the bidder. **MARKET CAP** is the target market value of equity one month before the announcement of the takeover, **LEVERAGE** is calculated as total financial debt over total assets at the end of the year preceding the announcement, **M to B** is the sum of the market capitalization (one month before the announcement) and financial debt divided by total assets (at the end of the fiscal year preceding the announcement).

Student t-statistics test for the difference in means between the two categories. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) level, respectively.

	Whole Sample n= 140		No Agreement n= 102		With Agreement n= 38		Difference in means		
	mean	median	mean [a]	median [b]	mean [c]	median [d]	[a] - [c]	t-stat	
<i>Ownership Characteristics</i>									
WH10	0.043	0.000	0.029	0.000	0.079	0.000	-0.050	-1.28	
ONE LARGE	0.471	0.000	0.598	1.000	0.132	0.000	0.466	5.37	***
COMPLEX	0.486	0.000	0.373	0.000	0.789	1.000	-0.417	-4.69	***
SH1 CFR	0.355	0.313	0.381	0.362	0.284	0.280	0.097	2.35	**
SH1 VR	0.446	0.402	0.473	0.484	0.374	0.332	0.099	2.34	**
SH1 VR – SH1 CFR	0.091	0.065	0.092	0.065	0.090	0.067	0.002	0.11	
SH1 EXCESS	1.693	1.163	1.732	1.146	1.589	1.261	0.143	0.33	
<i>Deal Characteristics</i>									
PREMIUM	0.274	0.222	0.255	0.200	0.323	0.235	-0.067	-1.32	
TENDER	0.407	0.000	0.382	0.000	0.474	0.000	-0.091	-0.97	
SAME INDUS	0.371	0.000	0.333	0.000	0.474	0.000	-0.140	-1.53	
PRIVATE	0.564	1.000	0.618	1.000	0.421	0.000	0.197	2.10	**
CASH	0.814	1.000	0.863	1.000	0.684	1.000	0.179	2.45	**
MULTIPLE	0.029	0.000	0.029	0.000	0.026	0.000	0.003	0.10	
HOSTILE	0.014	0.000	0.020	0.000	0.000	0.000	0.020	0.87	
TOEHOLD	0.035	0.000	0.019	0.000	0.077	0.000	-0.057	-3.27	***
<i>Financial Indicators</i>									
MARKET CAP	1263.733	200.635	954.641	148.380	2093.399	474.995	-1138.758	-1.50	
LEVERAGE	0.270	0.224	0.271	0.196	0.267	0.246	0.004	0.11	
M to B	1.506	1.115	1.580	1.108	1.308	1.138	0.272	0.80	

Table 3: Shareholder agreements

The whole sample contains 38 targets whose shareholders are signatories to an agreement. In Panel A, the sample is divided according to the type of the largest signatory (FAMILY/NOT FAMILY). In panel B, the sample is divided according to the existence of a concerted action provision (CONCERTED ACTION). In panel C, the sample is divided according to the existence of a provision which prescribes an allocation of board seats (BOARD PROVISION). **LARGEST FAM** indicates whether the largest signatory is a family, **CONCERT** indicates whether the agreement characterizes a concerted action, **PREEMPTION** takes a value of one if a clause that specifies pre-emptive buying rights is in force, **BOARD** indicates whether the agreement specifies an allocation of board seats. **SIGNATORIES** is the number of signatories, **LARGEST CFR (VR)** denotes the ultimate cash-flow rights (voting rights) of the largest signatory, **SHAG CFR (VR)** denotes the ultimate cash-flow rights (voting rights) of the coalition, **SHAG MGT** indicates whether a signatory to the agreement is also a member of the executive committee. **LARGEST%BOARD** denotes the percentage of board seats that is allocated to the largest signatory to the agreement, **SHAG%BOARD** denotes the percentage of board seats that is allocated to the members of the coalition.

This table contains means for the above described variables. In each panel, Student t-statistics test for the difference in means between the two categories. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) level, respectively.

	Whole Sample	<i>PANEL A</i> <u>LARGEST SIGNATORY</u>			<i>PANEL B</i> <u>CONCERTED ACTION</u>			<i>PANEL C</i> <u>BOARD PROVISION</u>		
		NOT FAMILY	FAMILY	test for diff.	NO	YES	test for diff.	NO	YES	test for diff.
	n=38	n=16	n=22	t-test	n=15	n=23	t-test	n=24	n=14	
LARGEST FAM	0.579	-	-	-	0.4	0.696	-1.84 *	0.542	0.643	-0.60
CONCERT	0.605	0.438	0.727	-1.84 *	-	-	-	0.500	0.786	-1.76 *
PREEMPTION	0.737	0.750	0.727	0.15	0.933	0.609	2.32 **	0.708	0.786	-0.51
BOARD	0.368	0.313	0.409	-0.60	0.200	0.478	-1.76 *	-	-	-
SIGNATORIES	3.289	3.188	3.364	-0.28	3.933	2.870	1.77 *	3.375	3.143	0.37
LARGEST CFR	0.278	0.272	0.282	-0.19	0.285	0.273	0.22	0.291	0.256	0.60
LARGEST VR	0.366	0.316	0.402	-1.38	0.359	0.370	-0.17	0.366	0.365	0.03
SHAG CFR	0.461	0.444	0.473	-0.46	0.492	0.440	0.84	0.462	0.459	0.05
SHAG VR	0.585	0.510	0.640	-2.04 **	0.589	0.583	0.10	0.575	0.603	-0.41
SHAG MGT	0.632	0.375	0.818	-3.05 ***	0.733	0.565	1.04	0.625	0.643	-0.11
	n=36	n=16	n=20		n=14	n=22		n=22	n=14	
LARGEST%BOARD	0.305	0.265	0.337	-1.24	0.261	0.333	-1.20	0.295	0.320	0.410
SHAG%BOARD	0.555	0.509	0.593	-1.37	0.605	0.524	1.31	0.579	0.518	0.970

Table 4: Corporate governance

The whole sample contains 132 observations. The sample is divided according to the existence of a shareholder agreement. Firms which do not have at least one large shareholder (i.e. owning at least 10% of the voting rights) are excluded from the subsample of firms that are not concerned by an agreement. **BOARD SIZE** denotes the number of board members. **CEO/CH** is equal to one when the CEO is also the chairman of the company. **CFR** denotes the ultimate cash-flow rights (at the 20% threshold) of the largest shareholder in subsample 1 whereas it denotes the cumulated ultimate cash-flow rights of the signatories to the agreement in subsample 2. **VR** denotes the ultimate voting rights (at the 20% threshold) of the largest shareholder in subsample 1 whereas it denotes the cumulated ultimate voting rights of the signatories to the agreement in subsample 2. **%BOARD** denotes the percentage of board seats that is allocated to the largest shareholder in subsample 1 whereas it denotes the percentage of board seats that is allocated to the signatories to the agreement in subsample 2. **MANAGEMENT** takes a value of one when the largest shareholder participates in the management in subsample 1; it takes a value of one when one of the signatories to the agreement participates in the management in subsample 2.

Student t-statistics and Wilcoxon z-statistics test for the difference in means and medians between the two categories. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) level, respectively.

	WHOLE SAMPLE		NO AGREEMENT		WITH AGREEMENT		Test for differences in			
	n=132		Subsample 1 n=96		Subsample 2 n=36		means		medians	
	mean	median	mean	median	mean	median	t-stat		z-stat	
BOARD SIZE	7.864	7.000	7.240	7.000	9.528	9.000	-3.34	***	-3.35	***
CUMUL	0.674	1.000	0.677	1.000	0.667	1.000	0.11		0.11	
MANAGEMENT	0.485	0.000	0.427	0.000	0.639	1.000	-2.19	**	-2.16	**
CFR	0.408	0.404	0.388	0.372	0.460	0.470	-1.69	*	-1.78	*
VR	0.506	0.528	0.480	0.484	0.574	0.634	-2.24	**	-2.21	**
VR-CFR	0.098	0.080	0.092	0.068	0.115	0.106	-1.12		-1.39	
VR/CFR	1.666	1.170	1.791	1.154	1.331	1.252	1.10		-1.18	
%BOARD	0.468	0.444	0.435	0.400	0.555	0.563	-2.36	**	-2.64	***
%BOARD-CFR	0.060	0.044	0.047	0.011	0.096	0.088	-0.94		-1.49	
%BOARD/CFR	1.885	1.088	2.059	1.044	1.421	1.205	0.86		-1.63	
%BOARD-VR	-0.038	-0.063	-0.045	-0.083	-0.019	0.007	-0.56		-0.84	
%BOARD/VR	0.974	0.896	0.943	0.817	1.055	1.020	-0.96		-1.56	

Table 5 : Shareholder agreements, ownership structures and takeover premiums

This table presents regressions of takeover premiums on ownership variables and various control variables for the total sample. The dependent variable in all models is the takeover premium, computed as (Offer Price / Price one month before the announcement)-1. **TENDER** is a dummy variable which takes a value of one when a tender offer is launched for the target, **SAME INDUS** is a dummy variable which takes a value of one if the bidder and the target have the same 2-digits SIC code, **PRIVATE** is a dummy variable which takes a value of one if the bidder is a private company, **TOEHOLD** is the percentage of target shares owned *ex-ante* by the bidder. **LOG(MARKET CAP)** is the logarithm of target market value of equity one month before the announcement of the takeover, **LEVERAGE** is calculated as total financial debt over total assets at the end of the year preceding the announcement, **M to B** is the sum of the market capitalization (one month before the announcement) and financial debt divided by total assets (at the end of the year preceding the announcement). **AGREEMENT** is a dummy variable that takes a value of one if a shareholder agreement is in force, **SH1 CFR** denotes the ultimate cash-flow rights (at the 20% threshold) of the largest shareholder, **SH1 SIGNATORY** indicates whether the largest shareholder (owning at least 10% of the voting rights) is signatory to an agreement, **SH1 EXCESS** is computed as ultimate voting rights over ultimate cash-flow rights of the largest shareholder. **SH1 EC AGREEMENT (CONCERT)** is computed as the ratio of the voting rights owned by all the signatories to a shareholder agreement (concerted action) over the voting rights of the largest shareholder, it is set equal to 0 if there is no shareholder agreement (concerted action) in the target.

All regressions are OLS regressions which include year dummies. **n** is the number of observations. Heteroskedastic-consistent t-statistics are in parentheses. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
TENDER	0.001 (0.01)	-0.003 (-0.08)	0.004 (0.09)	-0.021 (-0.50)	-0.028 (-0.69)	-0.035 (-0.79)
SAME INDUS	0.139 *** (2.70)	0.138 *** (2.70)	0.136 *** (2.66)	0.134 *** (2.67)	0.135 ** (2.60)	0.144 *** (2.83)
PRIVATE	0.024 (0.57)	0.026 (0.60)	0.025 (0.59)	0.038 (0.90)	0.033 (0.80)	0.028 (0.69)
TOEHOLD	-0.069 (-0.27)	-0.072 (-0.27)	-0.026 (-0.10)	-0.051 (-0.19)	-0.032 (-0.12)	0.016 (0.05)
LEVERAGE	0.115 (0.72)	0.113 (0.73)	0.101 (0.65)	0.094 (0.63)	0.092 (0.61)	0.094 (0.63)
LOG(MARKET CAP)	-0.045 ** (-2.42)	-0.045 ** (-2.33)	-0.045 ** (-2.34)	-0.043 ** (-2.37)	-0.040 ** (-2.22)	-0.037 ** (-2.04)
M to B	-0.019 *** (-2.65)	-0.019 *** (-2.72)	-0.019 *** (-2.78)	-0.020 *** (-2.93)	-0.021 *** (-2.98)	-0.021 *** (-3.04)
AGREEMENT	0.093 ** (1.99)	0.092 * (1.88)				
SH1 CFR		-0.022 (-0.20)	-0.031 (-0.29)	-0.117 (-0.84)	-0.114 (-0.80)	-0.128 (-0.91)
SH1 SIGNATORY			0.099 ** (2.04)	0.094 * (1.87)		
SH1 EXCESS				-0.018 * (-1.80)	-0.019 * (-1.94)	-0.019 * (-1.88)
SH1 EC AGREEMENT					0.039 (1.49)	
SH1 EC CONCERT						0.003 (0.10)
Constant	0.353 *** (4.28)	0.364 *** (3.17)	0.370 *** (3.26)	0.418 *** (3.27)	0.418 *** (3.22)	0.430 *** (3.31)
n =	140	140	140	140	140	140
R ²	0.305	0.305	0.307	0.324	0.316	0.306
Adjusted R ²	0.215	0.208	0.211	0.223	0.214	0.202

Table 6: Agreements' provisions and characteristics

This table presents regressions of takeover premiums on ownership variables and various control variables for the total sample. The dependent variable in all models is the takeover premium, computed as (Offer Price / Price one month before the announcement)-1. **TENDER** is a dummy variable which takes a value of one when a tender offer is launched for the target, **SAME INDUS** is a dummy variable which takes a value of one if the bidder and the target have the same 2-digits SIC code, **PRIVATE** is a dummy variable which takes a value of one if the bidder is a private company, **TOEHOLD** is the percentage of target shares owned *ex-ante* by the bidder. **LOG(MARKET CAP)** is the logarithm of target market value of equity one month before the announcement of the takeover, **LEVERAGE** is calculated as total financial debt over total assets at the end of the year preceding the announcement, **M to B** is the sum of the market capitalization (one month before the announcement) and financial debt divided by total assets (at the end of the year preceding the announcement). **PREEMPTION** indicates whether a shareholder agreement is in force and specifies pre-emptive buying rights, **BOARD** indicates whether a shareholder agreement is in force and specifies an allocation of board seats, **CONCERT** indicates whether a shareholder agreement is in force and characterizes a concerted action. **AGREEMENT** is a dummy variable that takes a value of one if a shareholder agreement is in force, **AG MGT** takes a value of one if a signatory to the agreement participates in the management of the company, **FAMILY** is a dummy variable which takes a value of one if the largest signatory to the agreement is a family.

All regressions are OLS regressions which include year dummies. **n** is the number of observations. Heteroskedastic-consistent t-statistics are in parentheses. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) level, respectively.

	(1)	(2)	(3)	(4)	(5)
TENDER	0.002 (0.05)	0.001 (0.01)	-0.002 (-0.04)	-0.005 (-0.10)	-0.007 (-0.15)
SAME INDUS	0.141 *** (2.73)	0.151 *** (2.89)	0.148 *** (2.85)	0.133 ** (2.58)	0.138 *** (2.69)
PRIVATE	0.029 (0.64)	0.020 (0.50)	0.014 (0.34)	0.025 (0.59)	0.020 (0.47)
TOEHOLD	-0.036 (-0.14)	-0.014 (-0.05)	0.029 (0.11)	-0.065 (-0.25)	-0.076 (-0.30)
LEVERAGE	0.114 (0.71)	0.115 (0.73)	0.109 (0.68)	0.128 (0.81)	0.121 (0.77)
LOG(MARKET CAP)	-0.044 ** (-2.37)	-0.041 ** (-2.22)	-0.040 ** (-2.11)	-0.041 ** (-2.10)	-0.040 ** (-2.06)
M to B	-0.018 ** (-2.63)	-0.021 *** (-2.81)	-0.020 *** (-2.78)	-0.019 *** (-2.67)	-0.019 *** (-2.66)
PREEMPTION	0.099 * (1.70)				
BOARD		0.121 * (1.78)			
CONCERT			0.029 (0.61)		
AGREEMENT *AG MGT				0.124 ** (2.14)	
AGREEMENT *(1-AG MGT)				0.033 (0.66)	
AGREEMENT *FAMILY					0.131 ** (2.15)
AGREEMENT *(1-FAMILY)					0.031 (0.67)
Constant	0.350 *** (4.25)	0.357 *** (4.35)	0.358 *** (4.35)	0.330 *** (3.73)	0.334 *** (3.84)
n =	140	140	140	140	140
R ²	0.303	0.303	0.288	0.311	0.313
Adjusted R ²	0.213	0.212	0.195	0.215	0.217

Table 7: Treatment effect regressions

This table presents treatment effect regressions (using Heckman’s two step consistent estimators) of takeover premium on ownership variables and various control variables for the total sample. The first stage model (probit estimation) includes variables which instrument for the existence of a shareholder agreement (and specific provisions), the second stage controls for the variables that are expected to impact the takeover premium and includes year dummies. Takeover premium is computed as (Offer Price / Price one month before the announcement)-1. **LOG(MARKET CAP)** is the logarithm of target market value of equity one month before the announcement of the takeover, **LEVERAGE** is calculated as total financial debt over total assets at the end of the year preceding the announcement, **M to B** is the sum of the market capitalization (one month before the announcement) and financial debt divided by total assets (at the end of the year preceding the announcement). **VOLATILITY** is the monthly calculated volatility of the target share price in the year preceding the announcement, **R&D/ASSETS** is computed as R&D expenditures over total assets (at the fiscal year end prior to the announcement), **TA_LIQUIDITY** is the liquidity of the market for corporate control for the target firm’s industry and is defined as the value of all corporate control transactions for \$1 million or more reported by SDC for each year and two-digit SIC code divided by the total book value of assets of all THOMSON ONE BANKER firms in the same two-digit SIC code and year. **HERFINDAHL** is computed as the sum of the squared cash-flow rights of shareholders owning at least 5% of the cash flow rights, **FAMILY** indicates whether the largest shareholder of the target is a family. **AGREEMENT** is a dummy variable that takes a value of one if a shareholder agreement is in force, **CONCERT** indicates whether the agreement characterizes a concerted action; **BOARD** indicates whether the agreement specifies an allocation of board seats. **TENDER** is a dummy variable which takes a value of one when a tender offer is launched for the target, **SAME INDUS** is a dummy variable which takes a value of one if the bidder and the target have the same 2-digits SIC code, **PRIVATE** is a dummy variable which takes a value of one if the bidder is a private company, **TOEHOLD** is the percentage of target shares owned *ex-ante* by the bidder. **n** is the number of observations. z-statistics are in parentheses. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) level, respectively.

	(1)		(2)		(3)		(4)	
	Step 1	Step 2	Step 1	Step 2	Step 1	Step 2	Step 1	Step 2
LEVERAGE	-0.296 (-0.45)	0.186 (0.81)	-0.664 (-0.86)	0.175 (1.11)	-1.040 (-1.05)	0.110 (0.98)	-0.451 (-0.54)	0.149 (1.18)
LOG(MARKET CAP)	0.255 *** (3.25)	-0.130 ** (-2.00)	0.212 ** (2.48)	-0.071 *** (-2.72)	0.186 * (1.88)	-0.037 ** (-2.09)	0.223 ** (2.27)	-0.054 *** (-2.89)
M to B	-0.208 (-1.31)	0.030 (0.54)	-0.098 (-0.63)	-0.012 (-0.39)	-0.085 (-0.35)	-0.023 (-1.02)	-0.131 (-0.81)	-0.016 (-0.65)
VOLATILITY	-0.180 (-0.08)		-0.901 (-0.32)		-14.575 * (-1.87)		-1.235 (-0.44)	
R&D/ASSETS	1.691 (0.59)		3.106 (1.00)		10.116 * (1.74)		2.945 (0.92)	
TA_LIQUIDITY	2.444 (0.97)		4.932 * (1.67)		1.602 (0.59)		3.815 (1.27)	
HERFINDAHL							-1.557 (-1.34)	
FAMILY							0.602 * (1.82)	
AGREEMENT		1.131 (1.60)						
CONCERT				0.658 ** (1.96)				0.360 * (1.77)
BOARD						0.068		

TENDER			-0.004 (-0.05)				-0.012 (-0.22)			(0.22) -0.015 (-0.31)							-0.031 (-0.62)
SAME INDUS			0.136 *				0.148 ***			0.171 ***							0.155 ***
PRIVATE			(1.93) 0.036				(2.89) 0.024			(3.68) 0.035							(3.34) 0.021
TOEHOLD			(0.53) -0.077				(0.48) 0.072			(0.77) 0.018							(0.46) 0.063
Constant	-1.830 ***		(-3.11) 0.437 **				(-3.07) 0.379 ***			(-1.17) 0.342 ***							(-2.41) 0.367 ***
Selection Parameter λ			0.413				0.187 **			0.165							0.117 *
n=	129		129				129			129							129
Pseudo R ²	0.096						0.100			0.146							0.149
Wald χ^2			34.340 **				47.210 ***			57.160 ***							55.950 ***