

Media Negativity and the Market Reaction to M&A Announcements

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Abstract

We examine the impact of the tone of acquirers' media coverage on investors' response to merger announcements. Using an archive of Thomson Reuters' news articles, we show that the volume of negative news articles prior to an M&A announcement is positively associated with the acquirer's 3-day cumulative abnormal returns around the merger announcement. The result is robust to a matching procedure where we compare similar merger announcements made by the same firm in the same year, with one announcement having high negative media coverage while the other having low negative media coverage. Our analyses also show that the deals with high levels of negative media coverage prior to the merger announcement are also more likely to be abandoned. This evidence suggests that managers of firms with high negative media coverage, and high short-term market reaction are less committed to complete the deal and their announcements are more likely to be “cheap talk.” This strategy seems to be successful as we find no evidence of reversion in the long-term returns.

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Abstract

We examine the impact of the tone of acquirers' media coverage on investors' response to merger announcements. Using an archive of Thomson Reuters' news articles, we show that the volume of negative news articles prior to an M&A announcement is positively associated with the acquirer's 3-day cumulative abnormal returns around the merger announcement. The result is robust to a matching procedure where we compare similar merger announcements made by the same firm in the same year, with one announcement having high negative media coverage while the other having low negative media coverage. Our analyses also show that the deals with high levels of negative media coverage prior to the merger announcement are also more likely to be abandoned. This evidence suggests that managers of firms with high negative media coverage, and high short-term market reaction are less committed to complete the deal and their announcements are more likely to be "cheap talk." This strategy seems to be successful as we find no evidence of reversion in the long-term returns.

Keywords: Mergers and acquisitions, media attention, news analytics, media coverage, investor sentiment.

JEL Classification: G34, G14.

1. Introduction

A large number of studies investigating stock market reactions to merger and acquisitions (M&As) announcements document that, on average, acquirers experience a negative short-term market reaction (e.g., Eckbo, 2009). In this paper, we test whether the sentiment of firm-specific media coverage affects investors' responses to M&A announcements. M&As are among the corporate events that receive the most business media attention. Major news outlets, specialized webpages, and financial blogs dedicate large amounts of space to cover M&A announcements and the companies involved. Although scholars have conducted extensive academic research on the determinants of M&A outcomes, little empirical evidence exists regarding the effects of the tone of financial media on the market response to M&A announcements. These effects are the precise focus of our study in this article.

Two hypotheses may be in play when considering the role of media sentiment on M&A outcomes. The first hypothesis relates to rumors and the anticipation of mergers and acquisitions prior to their announcement dates (e.g., Schwert, 1996; Li and Prabhala, 2007). Recently, Betton, Eckbo, Thompson, and Thorburn (2014) suggest that an M&A is anticipated when the market receives informative signals about potential takeovers with synergistic gains. Accordingly, when the market anticipates a potential deal for the first time during the preannouncement period, the likelihood of a merger should increase significantly. Based on this information, the market estimates the potential synergies of the merger, and incorporates it in the valuation of the merging firms. Consequently, the greater is the amount of news available on the target or the acquiring firm prior to the announcement dates, the lower is the market reaction to the announcements. Our finding that market reaction to an M&A announcement is directly related to the volume of negative news about the firm prior to the announcement contradicts this hypothesis.

The second hypothesis relates to investor attention. Research on behavioral finance has shown that attention is a scarce cognitive resource (Kahneman, 1973). The cognitive constraint which investors face implies that they are not able to maintain perfect attentiveness to all trading opportunities. A large body of financial literature has documented that investor attention drives stock returns and trading volumes.¹ Empirical support also exists for the impact of investor attention on the reaction of stock prices to the announcement of M&As. For example, Louis and Sun (2010) examine the differential market response to Friday and non-Friday stock swap M&A announcements. Consistent with an investor inattention hypothesis, they find that the market reaction to Friday announcements is less negative for acquisitions involving publicly owned targets and less positive for those involving privately owned targets. Louis and Sun (2010) focus on the notion that investors are distracted on Fridays (e.g., Patell and Wolfson, 1982; Penman, 1987; Bagnoli, Clement, and Watts, 2005; and DellaVigna and Pollet, 2009).

In contrast to Louis and Sun (2010), we use the fraction of negative firm-specific news articles as a proxy for investor attention.² Specifically, to measure investor attention, we calculate the fraction of negative firm-specific news items in a recently developed news analytics product called *Thomson Reuters News Analytics* (TRNA). The volume of news articles has been used in extant literature to proxy for investor attention (e.g., Barber and Odean, 2008; Fang and Peress, 2009; and Liu, Sherman, and Zhang, 2014). Furthermore, several authors suggest that market participants pay greater attention to negative news than to positive news, and consequently the market's reaction to negative news is significantly stronger than its reaction to positive news (e.g., Kothari, Shu, and Wysocki, Forthcoming; Sletten, Forthcoming). The stronger reaction to negative

¹ See, for example, Merton, 1987; Barber and Odean, 2008; Fang and Peress, 2009; Peng and Xiong, 2006; Hirshleifer, Lim, and Teoh, 2011

² The volume of news articles has been used in literature before to proxy for investor attention (e.g., Barber and Odean, 2008; Fang and Peress, 2009; and Liu, Sherman, and Zhang, 2014).

news provides the main justification for the use of the volume of negative news articles, over positive or neutral news stories, as a proxy for investor attention. Our results also contradict the investor attention hypothesis.

The third hypothesis relates to the governance role of media. Liu and McConnell (2013) argue that the impact of media is through its effect on managers' reputational capital. Accordingly, we interpret our result as consistent with the notion that managers are less inclined to undertake and announce bad acquisitions if there is already a negative media sentiment about the firm. Additionally, Wang (2016) argues that one of the main strategic motives of takeover is for bidders to catch up with their competitors. Under this scenario, if negative media coverage is a consequence of the firm falling behind its competitors, then the pursuit and announcement takeovers could restore its competitiveness, and thereby elicit a positive market reaction.

We begin our investigation by examining whether the fraction of negative news articles about the acquirer prior to M&A is significantly associated with the market's reaction to the M&A announcement. We find that the volume of news articles with negative tone 90 days prior to the M&A announcement positively impacts cumulative abnormal returns over the 3-day interval (days -1 to +1) around the announcement. This result indicates that firms with high levels of negative media coverage prior to the announcement of acquisitions experience a large increase in their stock prices around the announcement date. These results suggest that the tone of media coverage regarding the acquirer prior to the acquisition announcement plays a significant role in influencing managers' decisions to undertake value-enhancing acquisitions. Our result remains robust after we use a matching procedure to control for firm characteristics in assessing the impact of pre-announcement negative media coverage about the acquirer.

We also find that acquirers with a high negative tone of media prior to the M&A announcement are more likely to abandon the deal. This result is also consistent with Liu and McConnell's (2013) results showing that the level of media attention and the tone of media coverage play an important role in managers' decisions to abandon value-reducing acquisition attempts. This evidence may also suggest that managers of firms with high negative media coverage and high short-term market reaction are more prone to engage in "cheap talk" to appease the market and less committed to complete the deal. This strategy appears to be successful as our analyses reveal no reversion in long-term returns.

Our results are contrary to those of Dutta, John, Saadi, and Zhu (2014) who show that if a firm makes an acquisition despite prevalent negative media coverage, market reacts negatively to such M&A announcements. Our approach differs from Dutta et al. (2014) in that they use Factiva database for their news article search, and they perform content analysis for a number of words based on Loughran and McDonald (2011) and Malmendier and Tate (2008). We note that the use of dictionaries to measure tone has several limitations. For instance, modifiers (e.g., negative construction, adjectives, or adverbs) alter the meaning of words. In contrast to these authors, we estimate the effect of negative tone of media on market reaction by using *Thomson Reuters News Analytics* (henceforth TRNA) news articles, and a more deeply parsed procedure for contextual meaning by using neural network to construct measures of news sentiment for each news story.³ In addition, the sentence approach identifies the sentence's subject. Finally, when a story mentions multiple firms, TRNA correctly attributes each sentence to the corresponding firm. This method is used to determine different sentiment for different firms in the same story. The relevance of the

³ Sinha (2012) and Infonic (2008) provide further discussion of TRNA's text processing.

story for each firm is based on comparing the number of mentions of a firm to the total number of mentions of all firms in the story (Hendershott et al., 2015).

Our study is also related to Ahern and Sosyura (2014), who show that firms originate and disseminate information to the media to influence their stock prices during M&A negotiations, particularly when two companies are in the process of determining the stock exchange ratio. Ahern and Sosyura (2014) term this strategy as “active media management.” This strategy generates a short-lived run-up in bidders’ stock prices during the period when the exchange ratio is being negotiated, which substantially impacts the takeover price. Their results demonstrate that the timing and content of financial media coverage may be biased by firms seeking to manipulate their stock price. We differentiate from Ahern and Sosyura (2014) in that they examine the exchange ratio only. By contrast, we estimate the effect of media coverage on stockholder wealth by calculating the cumulative abnormal returns (CAR) around the M&A announcement. Also, Ahern and Sosyura (2014) focus on news articles that have appeared in major newspapers. We use the Thomson Reuters’s database that collects all forms of news that Reuters or the represented firms themselves publish (through newswire services). The advantage of this dataset is that it contains news articles and press releases that have appeared on the screens of traders; therefore, it may be a better and more direct source of data to proxy for the information arrival rates to professional traders than other news databases.

We contribute to the financial literature in several ways. First, we augment the literature on behavioral finance by introducing and testing a firm-specific measure of investor attention by employing a novel database of news articles from a news analytics provider. Second, we contribute to the sparse literature that examines the effects of investor attention in corporate events (e.g., Ahern and Sosyura, 2014; Kempf, Manconi, Spalt 2014; Liu, Sherman, Zhang, 2014). Third, we

contribute to the growing literature on the media and its influence in stock prices (e.g., Tetlock, 2007; Tetlock, Saar-Tsechansky, and Macskassy, 2008; Fang and Peress, 2009; Peress, Forthcoming). In contrast to previous literature that uses news articles published in major newspapers, we focus on the firm-specific public news that professional traders receive in real time. Also, we study the impact of pre-deal announcement news on not only the acquisitions of publicly-traded firms but also the acquisitions of non-public firms.

We structure the remainder of the paper as follows. Section 2 presents the data sets that we use in the empirical analysis. Section 3 establishes the key empirical results. Section 4 presents some additional analysis. The last section contains a summary and concluding remarks.

2. Data

We start by collecting all company-specific news articles from *Thomson Reuters News Analytics* (TRNA). TRNA is a comprehensive archive that contains all news that Reuters News or the companies themselves (via newswire services) publish. TRNA uses a neural network to construct measures of news sentiment for each news story. The analysis of each news item is conducted at the sentence level rather than the word level, which is a significant improvement over a pure dictionary approach that counts positive and negative words. Sinha (2010); Kyle et al. (2012); Cahan, Chen, and Nguyen (2013); and Hendershott et al. (2015) describe the dataset in detail. For this study, the sample covers all news articles Reuters sent to its clients from January 2003 through December 2012.

We only consider news articles for U.S. common stocks listed in the New York Stock Exchange (NYSE), the American Stock Exchange (Amex), and the Nasdaq National Market (NASDAQ). In total, TRNA contains about 1.9 million news items for the stocks listed on these

exchanges from January 2003 to December 2012. The average number of firms the database covered during this period was 3,820.

We follow Kyle et al. (2012) by applying several filters to include only the most “attention-grabbing” news stories. We remove all one-line alert messages that Thomson Reuters usually sends out before important news articles appear fully. We exclude updates and corrections because they simply provide additional details about original articles. We also exclude news items linked to more than one article in the sample (wrap-up articles), to make sure that this information had not already appeared in the sample. We then merge the TRNA dataset with stock prices from the Center of Research in Security Prices (CRSP), and firms’ financial information from COMPUSTAT. After applying these filters and merging the databases, we identify 764,680 news articles from January 2003 to December 2012 on 3,392 companies.

Next, we collect data on M&As from the Thomson Reuter’s SDC Platinum Financial Securities database. Thomson Reuter’s SDC collects all M&A transactions in the US that involve at least 5% of the ownership change of a company. We apply several filters to the M&A data. We download all US M&A transactions from 2003 to 2012. We exclude restructuring activities labeled as recapitalizations, leveraged buyouts, repurchases, spin-offs, acquisitions of partial interest, acquisitions of remaining interest, buybacks, and exchange offers since these restructuring activities do not consist of ownership change as in the merger of two or more companies. We exclude acquirers with non-positive market value of assets, computed by summing the book value of long-term debt, market value of equity, and total value of preferred stocks. To be included in the sample, any acquirer is required to purchase 100% of the target’s asset. Due to possibly non-material impact of asset transfer, deals with a value of less than \$10 million are also excluded. Finally, only deals worth more than 1% of the acquirer’s market capitalization (market value of

shares outstanding multiplied with the year–end closing stock price of the acquirer prior to announcement) are included in the sample. After applying these filters and merging the resulting repurchases with the TRNA, CRSP, and COMPUSTAT databases, we identify 6,666 M&A announcements from January 2003 to December 2012.

We provide the descriptive statistics for the final sample in Tables 1 and 2.⁴ Panel A of Table 1 presents the number of M&A announcements, CAR (-1,1), number of news articles and percentage of negative news articles in our sample, categorized by year. Panel B of Table 1 presents the same information categorized by industry. Table 2 presents descriptive statistics for news article data, M&A deals details, and the acquirers' characteristics. The descriptive statistics show that, on average, an acquiring firm appears in 9.75 news articles during the period of 90 days prior to the announcement date of the merger. The average percentage of negative news articles during the period of 90 days prior to the announcement date is 19 percent. The average announced deal value over the market equity of an acquirer is 12 percent. The average cumulative abnormal return for the acquirer over the 3-day interval (days - 1, +1, day 0 is the announcement day) around M&As is 0.67 percent. Given the median acquirer's market capitalization of \$1,594.9 million in our dataset (not tabulated), these cumulative abnormal returns represent about \$10.7 million more in shareholders' wealth.

3. Empirical Results

In the analyses that follow, we examine the relationship between the degree of negative tone of media coverage about the acquirer and the market reaction to M&A announcements. We

⁴ We Winsorize all control variables defined as ratios at the upper and lower one percent levels. This approach is the standard procedure scholars use in the finance literature to minimize the influence of extreme outliers. We also Winsorize news articles variables at the upper and lower one percent levels to ensure that extreme values on the key independent variable do not drive the results.

first report the results of a univariate analysis, followed by multivariate regressions, and finally perform a set of robustness checks.

3.1 Univariate Analysis

First, we establish the relationship between mean values for the three-day (-1,1) acquisition announcement period cumulative abnormal returns (CAR) of acquirers for the full sample and for the samples based on: (1) deal size (ratio of deal value to acquirer's market value of equity at the end of the last fiscal year prior to announcement), (2) public status of the target, and (3) the mode of payment (cash or noncash). Each of the subsamples is further partitioned into high and low negative tone of media coverage. More specifically, we form groups of acquirers by dividing the firms into above- and below-median values for percentage of negative news articles over total number of news articles 90 days before the announcements.

Panel A of Table 3 reports mean acquisition announcement period 3-day CAR for acquirers with high negative tone of news articles ("high") and acquirers with low negative tone of news articles ("low") 90 days prior to the announcement of the merger. The mean CAR for the high media coverage subsample is 0.76 percent (significant at the 1 percent level), whereas the corresponding figure for the low media coverage subsample is 0.44 percent (significant at the 1 percent level). The difference between the mean CARs for the two groups is statistically significant. These results are consistent with the prediction of the investor attention hypothesis - if investors pay high attention to the information releases about the company, the market reaction to the acquisition announcement will be most pronounced. These results also provide evidence for the notion that media coverage influences managers to make value-maximizing acquisitions, as posited by Liu and McConnell (2013).

Panel B of Table 3 splits the sample into high and low deal value groups based on the

median deal value over the acquirer market value measured at the year-end preceding the acquisition. Column 3 shows that high deal value acquisitions are received more positively (CAR of 1.17 percent) by the market compared to low value acquisitions (with a value enhancing effect based on the mean three-day CAR of 0.15 percent). More importantly, we find that not all low value acquisitions are received as favorably by the market; rather, acquisitions made by management with high negative media coverage have a significantly higher announcement period abnormal return (0.42 percent). The difference in means between the low and high media coverage groups is statistically significant. For high value acquisitions, stockholders in acquiring firms with high negative media coverage enjoy positive (1.18 percent) mean abnormal returns, whereas acquirers with low negative media coverage experience significant gains of 0.88 percent. However, the difference in gains by the two groups is not statistically significant. Overall, only the positive wealth effect of low value acquisitions can be attributed to negative media coverage.

Panel C of Table 3 partitions the sample firms by the ownership status of the target, and the degree of media coverage. Privately owned targets is the only subgroup where we find a significant difference between the announcement period CARs of low and high negative media coverage about acquirers. For instance, among the privately owned target, the mean CAR for low negative media firms are 0.8 percent. In contrast, high negative media coverage firms have an average CAR of 1.12 percent. The difference between the means of the two groups is statistically significant. The difference in the stockholder wealth effect between the low and high negative media coverage subgroups for firms involved in the acquisition of public targets is insignificant.

Finally, Panel D of Table 3 partitions the sample firms by the method of payment and by the degree of media coverage. Based on the mean three-day CAR, the evidence in column 3 shows that both all cash and non-cash transactions are value-enhancing (mean CARs of 0.59 percent and

0.79 percent, respectively). Further, supporting our hypothesis that negative media coverage aligns management's interests with those of shareholders, we find that the mean announcement period stockholder wealth effect is significantly positive (0.44 percent) for firms with low negative media coverage but significantly smaller than the significantly positive CARs (0.83 percent) for acquirers with high negative media coverage. In contrast, the difference in shareholder value gains between the low and high negative media coverage subgroups for acquirers involved in non-cash acquisitions is statistically insignificant.

3.1 Negative Media Coverage and Short-term Returns around M&A Announcements

In this section, we use a multivariate setting to examine how negative media coverage affects the response of bidder shares around corporate acquisition announcements. We regress the cumulative abnormal returns for the interval of $(-1, +1)$ days around the M&As on the volume of negative news articles before merger announcements using the following specification:

$$\widehat{CAR}(-1, +1)_i = \alpha + \beta * Negative Media_i + \gamma' X_i + T_i + I_i + \epsilon_i, \quad (1)$$

where \widehat{CAR}_i is the cumulative abnormal return for the acquirer company i , and $Negative Media_i$ is the percentage of negative news articles out of the total articles 90 days before the M&A announcement. We use 90 days prior to the announcements because we want to measure the degree of investor attention at the moment firms announce their acquisitions attempt. Earlier news items are less likely to affect investor attention, investor sentiment, or reduce information asymmetries at the time of the M&A announcements.

The vector X_i contains control variables. We control for the following firm characteristics: The natural logarithm of the assets of the acquirer as proxies for firm's size. We include firm size as a control variable because it has been shown that the market reaction to corporate announcements is larger for small firms since there is little information produced for such stocks

during out of announcement periods (Bajaj and Vijh, 1995). We also control for leverage (the ratio of the sum of long-term debt and debt in current liabilities over the book value of assets), market-to-book ratios, and return on assets (ROA). We also control for the following deal characteristics: The ratio of deal value (reported as Value by SDC) to acquirer's market value of equity at the end of the last fiscal year prior to announcement (Deal Value/MVE); a dummy variable for dummy variable that takes the value of 1 if more than one acquirer bid for the target, and 0 otherwise (N Bidders > 1); a dummy variable that takes the value of 1 if acquirer's offer to target's shareholders is tender, and 0 otherwise (Tender); a dummy variable that takes the value of 1 if acquirer's attitude toward target is unfriendly, and 0 otherwise (Unfriendly); and a dummy variable that takes the value of 1 if the target is a publicly-held company, and 0 otherwise (Public). Finally, we include both year (T_i) and industry (I_i) fixed-effects in all regressions.

We present the ordinary least squares (OLS) regression estimates in Table 4. The t -statistics are calculated using White's (1980) correction for heteroskedasticity. Our main hypothesis is that firms with a higher degree of negative media coverage should have better alignment of managerial interests with those of shareholders, and as such, we expect them to undertake value-enhancing deals that would benefit the acquiring-firm shareholders. Therefore, a positive relation is expected between the acquirer's three-day cumulative abnormal return around the acquisition announcement and our focus variable – volume of negative media coverage, *Negative Media_i*.

Table 4 shows the results when we regress the cumulative abnormal returns over the three days around the announcement date, $CAR(-1, +1)$, on the percentage of negative news articles 90 days prior to the announcement and the control variables. Model (1) of Table 4 shows that, for the whole sample of M&A announcements, the coefficient for *Negative Media* is statistically significant with a coefficient of 1.24. This result is consistent with the prediction of the governance

role of media. Consistent with the notion that investors and market participants pay attention to media coverage while reacting to M&A announcement (Engelberg and Parsons, 2011), this finding further suggests that investors and market participants are likely to be influenced by the tone of media coverage (e.g., Neuhierl, Scherbina, and Schlusche, 2013; Luo, 2005; Kau, Linck, and Rubin, 2008). Our results also provide evidence consistent with the hypothesis of Liu and McConnell (2013) that managers have reputational capital at stake when making M&A decisions, and that the degree of negative media attention amplifies the impact of a value-destroying acquisition on the managers' reputational capital. Our results suggest that value-enhancing acquisition are more likely to be undertaken and announced when negative media and investor attention is high.

Models (2) and (3) of Table 4 show the results when we exclude acquisitions by financial firms and announcements with deal sizes in the upper one percent. We exclude these announcements to minimize the influence of regulatory issues and to ensure that our results are not driven by extreme deal sizes. After imposing these filters, the sample size is reduced to 3,847 and 4,162 announcements, respectively. In all models, the coefficients for *Negative Media* remain statistically significant at conventional levels.

In all three models, we find that a number of control variables show significant results. Consistent with the literature, we find that public targets show a significant and negative effect (Fuller et al. 2002; Moeller et al., 2004; Masulis et al., 2007). Tender offer also shows positive effect on cumulative abnormal returns (CARs). Tender offers are generally associated with the implementation of a higher-valued operating strategy in the acquired firm (Bradley et al., 1983) and tender offers are often paid for with cash (Moeller et al., 2004). Our regression analyses as presented in Table 4 shows similar results. As in Masulis et al. (2007), we find that firm leverage

has a significant and positive effect on abnormal returns. Leverage can limit managerial discretion and could force management to make better acquisitions. Our proxy for market-to-book ratio shows a negative and significant coefficient at the one percent level, which is in line with Moeller et al. (2004) and Dong et al.'s (2006) findings. Our results do not show a significant effect for transaction size. Finally, as in Moeller et al. (2004), we find that larger firms destroy more shareholder wealth around the announcement dates. Masulis et al. (2007) posit that managers of larger firms are more entrenched and may make bad acquisitions.

In Table 5, we report the regression results separately for announcements involving only 100 percent cash deals and private targets. We expect the effect of negative media coverage to be stronger for private targets because less information is available about these firms, and cash deal announcements because cash payment signals acquirer's confidence about the synergies associated with the merger, especially when pre-announcement negative media coverage decreases the acquirer's stock price. The mode of payment has been shown to be a significant determinant of acquisition wealth effects (e.g., Travlos, 1987). The literature shows that acquiring firms experience positive (negative) abnormal returns for cash (stock) deals (Fuller et al., 2002). We find from models (1) and (2) in Table 5 that for the sample of M&A announcements involving cash deals, the coefficient for *Negative Media* is statistically significant and larger in magnitude than in the baseline model. In models (3) and (4) of Table 5, we report that the estimated coefficients for *Negative Media* for the sample of announcements with private targets. Consistent with the previous literature (Fuller et al. 2002; Moeller et al., 2004; Masulis et al., 2007), we find that, as predicted, for private targets, *Negative Media* is statistically significant and larger in magnitude than in the baseline model.

3.2 Robustness Tests

In this section, we conduct a set of robustness tests for our primary findings. First, to address the endogeneity relating to the fact that a number of unobservable variables can simultaneously drive both the volume of negative news articles and M&A market reactions, we use a matching procedure to control for firm characteristics in assessing the impact of pre-announcement negative media coverage. We identify acquisition announcements made by the same firm in the same year, with the same relative size, and the same ownership status of the target. Next, from these announcements, we compare an announcement that has high negative media coverage with a matching announcement that has low negative media coverage. Similar to Peress (2008), our strategy is to compare M&A announcements made by the same firm but that differ in the amount of negative media coverage they attract. Specifically, we form pairs of announcements that satisfy the following criteria:

1. The announcements are made by the same firm in the same calendar year;
2. The announcements belong to the same half (higher or lower) of relative deal size. We divide the firms into above- and below-median values in terms of the ratio of deal value to acquirer's market value of equity at the end of the fiscal year prior to the announcement;
3. The matching pair of mergers involve targets with ownership status (public or private);
4. In each pair, one announcement has high percentage of negative media coverage while the other has low percentage of negative media coverage.

Requirement 1 guarantees that the paired announcements correspond to the same firm. Since the longest time interval between matched announcements is three quarters, neither firm characteristics nor the market environment should change significantly for the pair. Requirement

2 ensures that the paired announcements are similar in deal value. Requirement 3 ensures that the paired announcements involve either public or private targets. Finally, requirement 4 introduces differences in negative media coverage across the paired announcements. If we find more than two announcements satisfying these requirements, then we chose the announcements that have the maximum and minimum percentage of negative media coverage. The final sample includes 818 paired announcements.

In Panel A of Table 6, we provide some descriptive statistics for news articles on the matches. Panel A shows that matched announcements have similar media coverage. An average M&A firm appears in 17 news articles in the three months prior to the announcements. The differences in volume of news articles show that each pair of announcements receives media coverage that is not statistically different. More importantly, Panel A matched firms have different degree of negative media coverage prior to the announcements. Firms with low negative media coverage have, on average, 13 percent of their news articles with a negative tone, while firms in the high negative media coverage have 33 percent of their total news articles with negative tones. The difference in negative media coverage is highly statistically different.

Next, we turn to the analysis of cumulative abnormal returns over the three days around the announcement dates between paired observations. Panel B of Table 6 splits the sample of matched announcements into high and low negative media coverage groups based on the percentage of negative news articles in the three months prior to the announcements. We find from the results that high negative media announcements are received more favorably by the market (with a value enhancing effect based on the mean three-day CAR of 0.58 percent) compared to the low negative media acquisitions (with a mean three-day CAR not statistically different from zero). The difference in CARs between the low and high negative media coverage groups is

statistically significant. These results are consistent with the pattern observed in Table 4 for unmatched announcements. Overall, the positive relationship we reported earlier between the market reaction to M&A announcements and the negativity of news articles prior to the announcement and remains qualitatively similar after we control for potential endogeneity issues.

Another issue that may affect our findings is related to the fact that TRNA does not cover the universe of acquisitions. For instance, TRNA may choose to cover bigger, more profitable, and more attention-grabbing news stories in order to increase their readership. Consequently, as an additional robustness check, we examine the robustness of our findings when we control for selection biases. We employ the Heckman selection model to correct the potential estimate bias. The first stage of our Heckman selection model consists of a broad set of firm characteristics that should impact the likelihood of having media coverage (Heckman, 1979). To begin with, we estimate a Probit regression model to derive the inverse Mills ratio, with the dependent variable being a dummy indicating whether the acquirer has any news articles prior to the M&A announcement. Next, we replicate model (1) in Table 7 and include the inverse Mills ratio as an additional control variable. We find that our variable of interest, *Negative Media*, remains positive and significant. Moreover, the coefficient of the inverse Mills ratios is insignificant at conventional levels, indicating that the concern of a non-random sample is possibly not relevant in the context of media coverage of M&As. As such, the economic and statistical significance of the relationship between the ratio of negative news articles prior to M&A announcements and cumulative abnormal return surrounding the announcement remains unaffected, suggesting that potential selection bias does not drive our primary findings.

4. Additional Analyses

4.1 Negative Media Coverage and Likelihood of Completion

Next, we examine the relation between the likelihood of acquisition completion and the volume of acquiring firm's negative media coverage prior to the announcement of the acquisition attempt. Specifically, we estimate the following logit model:

$$\Pr(\text{Completion}_i) = \alpha + \beta * \text{Negative Media}_i + \gamma'X_i + T_i + I_i + \epsilon_i, \quad (2)$$

where the dependent variable equals one for completed deals and zero otherwise. The rest of the variables are defined as in Equation (1).

We report the coefficient estimates of the probit regression of Equation (2) in Table 8. The coefficient of negative media is negative and statistically significant across all subsamples. We find that high pre-announcement negative media coverage about the acquirer predicts surprisingly low likelihood of deal completion. In other words, we find that firms with high levels of negativity of media are significantly less likely to succeed when they attempt to acquire a company. This evidence may suggest that managers of firms with high negative media coverage are less committed to complete the deal and that their announcements are more likely to be “cheap talk”, possibly to appease the investment community. This evidence is consistent also with hubris being more of a factor for managers of firms under high negative media scrutiny. However, the results also support the hypothesis related to the role of media in aligning managers' and shareholders' interests. Specifically, the finding is consistent with Liu and McConnell (2013) who show that in deciding whether to abandon a value-reducing acquisition attempt, CEOs are influenced by the level and the tone of media attention to the proposed transaction.

4.2 Negative Media Coverage and Long-Term Returns after M&A Announcements

In order to examine how pre-announcement negative media coverage is effective in gauging future long-term returns and post-announcement drift of an acquiring firm, we use cumulative abnormal returns over the window [2,60]. We use this window because we expect most of the drift to occur in the two months following announcements. We formalize the empirical set-up with the following regression specification:

$$\widehat{CAR}(+2, +60)_i = \alpha + \beta * Negative\ Media_i + \gamma'X_i + T_i + I_i + \epsilon_i, \quad (3)$$

where \widehat{CAR}_i is the cumulative abnormal return for the acquirer company i over the window [2,60] after the announcement. The rest of the variables are defined as in Equation (1).

Table 9 shows the results when we regress the cumulative abnormal returns over the window [2, 60] around the announcement date on the percentage of negative news articles 90 days prior to the announcement. We find no significant relationship between negative media coverage and drift. This result enables us to disregard the investor attention hypothesis as a potential explanation for the positive impact of prior negative media coverage on merger-induced valuation effect. We expect that heightened media attention, as reflected by negative media coverage, should magnify the immediate return response and reduce the post-announcement drift. For further insight, we examine the post-announcement drift only for acquirers that complete the deal in Table 10. We find that negative media coverage has a strongly positive and significant effect on the post-announcement drift. These results show that the tone of news articles and investor sentiment, rather than investor attention, play an important role in the returns around M&A. This result confirms that a negative sentiment about a firm before an M&A will positively affect the immediate market reaction to the deal and also the post-announcement drift. The result is consistent with the findings of Tetlock et al. (2008) who shows that the fraction of negative words

in firm-specific news stories can forecast low firm earnings, and that negative words in news stories about firms' fundamentals are particularly useful predictors of future earnings and returns.

5. Summary and Concluding Remarks

In this paper, we have shown how negative media coverage affects merger and acquisition announcement returns. To measure negative media coverage, we use the percentage of negative news articles in the *Thomson Reuters News Analytics* database, a comprehensive archive of news stories that covers thousands of companies in the U.S.

We find that negative media coverage is positively and significantly related to firms' cumulative abnormal returns around M&A announcements. This result is consistent with the hypothesis on the governance role that media coverage and negative news articles have on corporate actions. As the positive association between negative media coverage and market reaction to M&A announcements may suffer from endogeneity concerns, we compare announcements made by the same firm in the same year, with the same relative size, and the same public status of the target; when one announcement has high negative media coverage while the other has low negative media coverage. After we compare M&A announcements that are made by the same firm but that differ in the amount of negative media coverage they receive, our results still hold.

Moreover, additional analysis show that those firms with high levels of negative media coverage prior the announcements are also those deals more likely to be abandoned. This evidence seems to suggest that managers of firms with high negative media coverage, and high short-term market reaction are less committed to complete the deal and their announcements are more likely to be "cheap talk." This strategy is successful as we do not see reversions in long-term returns. In fact, we only observe post-announcement drift for acquirers with negative media that have

completed the deal. This results further support the the governance role of negative media coverage in M&A decisions.

Overall, despite some endogeneity concerns, this paper identifies another role that media and investor attention plays in financial markets. More importantly, this article illuminates how the degree of negative media coverage can significantly affect M&A outcomes.

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Appendix: Variable definition

This appendix defines acquirer and deal related variables we use in the empirical tests of the paper.

Variable Name	Definition
CAR (-1,1)	Cumulative abnormal return for the acquirer firm over the three-day event window around the announcement date. The market-adjusted cumulative abnormal return is calculated from market model regressions for each announcing firm and is subtracted from returns of the firm. The market model estimation window starts 250 trading days before the offering and ends five trading days before the announcements. Firms that have no returns for at least 30 trading days are dropped.
News Articles (-90,-1)	Accumulated volume of news articles for the acquirer firm 90 days prior to the M&A announcement.
% of Negative News Articles (-90,-1)	$\text{Negative News Articles } (-90,-1) / \text{News Articles } (-90,-1)$, where <i>Negative News Articles (-90,-1)</i> is the total number of negative news articles 90 days prior to the announcement. TRNA provides sentiment scores for each company that a news item mentions. The scores show how likely each news story for firm is to be positive, neutral, or negative. TRNA labels each news article as positive, neutral, or negative, according to the highest score probability. The sentiment is at the entity level, so two different companies can have different scores for the same news article.
Market-to-Book Ratio (M/B)	$\text{Market Equity} / \text{Book Value of Equity}$, where $\text{Market Equity} = \text{Price} * \text{Common Shares Outstanding}$, and $\text{Book Equity} = \text{Stockholders Equity} + \text{Deferred Taxes} + \text{Investment Tax Credit} - \text{Preferred Stock}$.
Leverage	$(\text{Debt in Current Liabilities} + \text{Long-Term Debt}) / \text{Total Assets}$.
Return on Assets	$\text{Income Before Extraordinary Items} / \text{Total Assets}$.
Log Sales	Natural logarithm of Sales.
Operating Cash Flow	$\text{Operating Income Before Depreciation} / \text{Total Assets}$.
Log Market Value	Natural log of Market Equity, where $\text{Market Equity} = \text{Price} * \text{Common Shares Outstanding}$.
Log (1 + # Analysts)	Natural logarithm of 1 plus the number of analysis following the acquirer.
Deal Value/MVE	Ratio of deal value (reported as Value by SDC) to acquirer's market value of equity at the end of the last fiscal year prior to announcement.
N Bidders > 1	A dummy variable that takes the value of 1 if more than one acquirer bid for the target, and 0 otherwise.
Public Target	A dummy variable that takes the value of 1 if the target is a publicly-held company, and 0 otherwise.
Tender	A dummy variable that takes the value of 1 if acquirer's offer to target's share- holders is tender, and 0 otherwise.
Unfriendly	A dummy variable that takes the value of 1 if acquirer's attitude toward target is unfriendly, and 0 otherwise.
Different 3-SIC	Dummy variable taking the value of 1 if the acquiring firm and the target firm do not share the same SIC code at 3- SIC digit level, and zero otherwise.

Table 1. Distribution of M&A Announcements by Year and Industry

This table presents the number of announcements, average deal value, CAR (-1,1), average number of news articles, and percentage of negative news, categorized by year (Panel A) and industry (Panel B), for firms in our sample of M&A announcements. We only consider announcements made from U.S. acquirers with common stocks listed in the New York Stock Exchange (NYSE), the American Stock Exchange (Amex), and the Nasdaq National Market (NASDAQ). We apply several other filters to the news data. We describe these filters in Section 2.

Panel A: Distribution of M&A Announcements by Year

Year	Number of Announcements	% of Sample	Average Deal Value (\$Millions)	CAR(-1,1) (%)	Total News Articles (-90, -1)	% Negative News Articles (-90,-1)
2003	615	9.2	236.2	0.6	6.3	0.23
2004	691	10.4	342.7	0.1	6.8	0.19
2005	782	11.7	413.1	0.7	6.7	0.15
2006	843	12.6	436.9	0.3	7.2	0.18
2007	800	12.0	354.4	0.5	10.2	0.18
2008	580	8.7	421.1	0.9	13.0	0.19
2009	398	6.0	489.0	1.9	14.2	0.24
2010	625	9.4	429.5	0.5	12.3	0.18
2011	613	9.2	404.5	0.8	12.9	0.19
2012	719	10.8	324.2	1.0	11.3	0.21

Panel B: Distribution of M&A Announcements by Fama-French Industry Classification.

Fama-French industry code (12 industries)	Number of Announcements	% of Sample	Average Deal Value (\$Millions)	CAR(-1,1) (%)	Total News Articles (-90, -1)	% Negative News Articles (-90,-1)
Consumer NonDurables -- Food, Tobacco, Textiles, Apparel, Leather, Toys	225	3.4	413.7	2.6	7.4	0.21
Consumer Durables -- Cars, TV's, Furniture, Household Appliances	91	1.4	215.7	2.1	5.0	0.22
Manufacturing -- Machinery, Trucks, Planes, Off Furn, Paper, Com Printing	587	8.8	338.2	1.2	7.9	0.20
Oil, Gas, and Coal Extraction and Products	416	6.2	587.8	1.0	8.1	0.24
Chemicals and Allied Products	86	1.3	659.5	1.0	7.2	0.20
Business Equipment -- Computers, Software, and Electronic Equipment	1408	21.1	253.6	0.3	14.9	0.19
Telephone and Television	242	3.6	739.4	-0.4	16.0	0.19
Utilities	159	2.4	926.6	-0.2	9.7	0.16
Wholesale, Retail, and Some Services (Laundries, Repair Shops)	452	6.8	274.1	1.4	7.2	0.18
Healthcare, Medical Equipment, and Drugs	612	9.2	430.0	0.4	12.2	0.28
Finance	1760	26.4	371.0	0.1	7.7	0.15
Other -- Mines, Constr, BldMt, Trans, Hotels, Bus Serv, Entertainment	628	9.4	333.4	1.7	5.6	0.20

Table 2. Descriptive Statistics of Key Variables

This table reports descriptive statistics for dependent and independent variables we use in this study. We collect news articles from Thomson Reuters News Analytics for the period January 2003 to December 2012. We take data on firms' characteristics from COMPUSTAT. We collect data on M&A announcements from SDC Platinum database. The table presents the number of observations, mean, median, standard deviation (SD), min, max, and 25th and 75th percentiles. We define these variables in the Appendix.

Variable	N	Mean	Median	SD	Min	Max	P25	P75
TRNA								
Total News Articles (-90, -1)	6666	9.75	4.00	18.05	0.00	118.00	1.00	10.00
% Negative News Articles (-90, -1)	5325	0.19	0.13	0.24	0.00	1.00	0.00	0.31
Deal Characteristics								
CAR(-1,1) (%)	6471	0.67	0.19	6.71	-55.44	127.32	-1.81	2.53
Acquisition premium 4 weeks (%)	1003	41.99	33.06	41.24	-27.65	231.33	18.80	54.68
CAR(2,60) (%)	6570	-2.00	-1.17	19.65	-278.08	151.67	-10.86	7.26
Deal Value/Acq. Market Value	6662	0.12	0.04	0.22	0.00	1.33	0.01	0.12
Different 3 SIC	6666	0.55	1.00	0.50	0.00	1.00	0.00	1.00
All Cash	6666	0.38	0.00	0.49	0.00	1.00	0.00	1.00
All Stock	6666	0.06	0.00	0.23	0.00	1.00	0.00	0.00
N Bidders > 1	6666	0.01	0.00	0.11	0.00	1.00	0.00	0.00
Tender Offers	6666	0.02	0.00	0.15	0.00	1.00	0.00	0.00
Unfriendly	6666	0.00	0.00	0.05	0.00	1.00	0.00	0.00
Completed	6666	0.92	1.00	0.28	0.00	1.00	1.00	1.00
Acquirer Characteristics								
Ln(Assets)	6662	7.24	7.19	1.97	-0.22	14.60	6.04	8.41
Operating Cash Flow	6639	0.06	0.07	0.11	-0.52	0.29	0.02	0.12
Market-to-book ratio	6658	0.76	0.71	0.65	-0.77	2.85	0.32	1.13
Leverage	6647	0.24	0.20	0.21	0.00	0.82	0.06	0.38
ROA	6639	0.03	0.04	0.11	-0.60	0.26	0.01	0.08

Table 3. Univariate analysis for CARs, Categorized by Degree of Media Coverage.

This table shows the univariate results regarding the relation of negative media coverage with cumulative returns of bidders estimated over the three-day period around the merger announcement (-1,+1). Panel A shows the difference of means tests of cumulative abnormal returns three-day around the announcements, CAR(-1,+1), between firms with low and high negative media coverage. The market-adjusted cumulative abnormal return is calculated from market model regressions for each announcing firm and is subtracted from returns of the firm. We form portfolios of M&A announcements by dividing acquirers into above and below-median values for the percentage of negative news articles 90 days prior to the announcements (“high” and “low” negative media). Panel B splits the sample into high and low deal value groups based on the median deal value over the acquirer market value measured at the year-end preceding the acquisition, and by the degree of negative media coverage. Panel C partitions the sample firms by the public status of the target and by the degree of negative media coverage. Panel D partitions the shareholder wealth response to acquisitions by the mode of acquisition (mergers versus tender offers) and by the level of negative media coverage. Panel E partitions the sample firms by the method of payment and by the degree of media coverage. ***, **, and ** indicate the coefficient is significantly different from zero at the 1%, 5%, and 10% significant level, respectively.

Panel A: CARs (-1,1) Categorized by Degree of Negative Media Coverage					
Attribute	Full Sample	Low Negative Media	High Negative Media	High-Low	
Mean	0.67***	0.44***	0.76***	0.32*	
p-value	0.00	0.00	0.00	0.05	
N	6471	2661	2518		
Panel B: CARs (-1,1) Categorized by Deal Value and Degree of Negative Media Coverage					
		All Firms	Low Negative Media	High Negative Media	High-Low
Low Deal Value/Acq. MVE	Mean	0.15**	-0.020	0.42***	0.44**
	p-value	0.04	0.85	0.00	0.01
	N	3212	1303	1392	
High Deal Value/Acq. MVE	Mean	1.17***	0.88***	1.18***	0.30
	p-value	0.00	0.00	0.00	0.32
	N	3255	1356	1125	
Panel C: CARs (-1,1) Categorized by Public Status of the Target and Degree of Negative Media Coverage					
		All Firms	Low Negative Media	High Negative Media	High-Low
Privately owned targets	Mean	1.02***	0.8***	1.12***	0.32*
	p-value	0.00	0.00	0.00	0.07
	N	5378	2246	2050	
Publicly owned targets	Mean	-1.09***	-1.52***	-0.82***	0.70
	p-value	0.00	0.00	0.00	0.11
	N	1093	415	468	
Panel D: CARs (-1,1) Categorized by Means of Payment and Degree of Negative Media Coverage					
		All Firms	Low Negative Media	High Negative Media	High-Low
Non 100% cash	Mean	0.59***	0.43***	0.7***	0.270
	p-value	0.00	0.00	0.00	0.24
	N	4005	1678	1464	
100% Cash	Mean	0.79***	0.44**	0.83***	0.4*
	p-value	0.00	0.01	0.00	0.09
	N	2466	983	1054	

Table 4. Negative Media Coverage and Acquirer Announcement CARs

This table explores whether the relation between negative media coverage and bidder returns holds after adjusting for a number of control variables. The dependent variable in all columns is the percentage cumulative abnormal returns estimated three-day around the merger announcement, CAR(-1,+1). The market-adjusted cumulative abnormal return is calculated from market model regressions for each announcing firm and is subtracted from returns of the firm. The main independent variable under consideration is the percentage of negative news articles, which is estimated in the interval period between 1 and 90 days before the merger announcement. Acquirer-level control variables are calculated on a yearly basis. We define control variables in Appendix. We also include Fama-French 49 industries fixed-effects and year fixed-effects. Column (1) of this table shows the estimated results for the whole sample of merger announcements. Column (2) excludes announcements by bidders in the financial sector. Column (3) excludes announcements corresponding to the one percent largest deals in our sample. Robust standard errors are in parentheses. *, **, and *** indicate the coefficient is significantly different from zero at the 10%, 5%, and 1% significant level, respectively.

Dependent Variable: CAR(-1,1)

	<i>All Sample</i>	<i>Excluding Financial</i>	<i>Excluding 1% Deals</i>
	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>
% Negative News Articles (-90, -1)	1.2360*** (2.7558)	1.5627*** (2.8024)	1.1094** (2.2148)
Acquirer and Deal Controls:			
Log Assets	-0.1877*** (3.1905)	-0.2234*** (3.1162)	-0.2758*** (3.5576)
Operating Cash Flow	-0.0737 (0.0199)	-0.0889 (0.0229)	-1.7712 (0.4378)
M/B	-0.3560* (1.7102)	-0.4608* (1.8616)	-0.3146 (1.2648)
Leverage	1.3182** (2.1599)	1.9179** (2.5110)	1.8516*** (2.6027)
Return on Assets	0.7961 (0.2141)	0.9322 (0.2388)	2.2901 (0.5661)
Deal Value / MVE	1.3290 (1.5582)	1.4224 (1.4272)	1.4028 (1.6115)
Different 3-SIC	-0.1769 (0.8822)	-0.0321 (0.1399)	-0.1917 (0.8158)
N Bidders > 1	1.4710* (1.8536)	1.2143 (1.3593)	1.5544* (1.8633)
Tender Offer	1.1658* (1.8432)	1.4546** (2.1534)	1.3525** (1.9738)
Unfriendly	1.0565 (0.6428)	1.2277 (0.7037)	1.3180 (0.8416)
Public Target	-2.3968*** (8.0765)	-2.5488*** (6.5429)	-2.5787*** (7.5640)
CAR(-30, -2)	-0.0071 (0.5545)	-0.0060 (0.4141)	-0.0064 (0.4334)
Constant	5.1031 (1.5251)	5.1815 (1.5448)	5.4549* (1.6531)
Year fixed-effects	Yes	Yes	Yes
Industry fixed-effects	Yes	Yes	Yes
N	5099	3847	4162
Adjusted R2	.0460	.0443	.0518

Table 5. Negative Media Coverage and Acquirer Announcement CARs, Categorized by Means of Payment and Private Status of Targets.

This table explores within a multivariate analysis the relation of negative media coverage with bidder cumulative abnormal returns within alternative subgroups: 100% cash deals and private targets. The dependent variable is the percentage cumulative returns (CARs) estimated over the three-day period around the merger announcement. The market-adjusted cumulative abnormal return is calculated from market model regressions for each announcing firm and is subtracted from returns of the firm. Other explanatory variables defined in Appendix. We also include Fama-French 49 industries fixed-effects and year fixed-effects. Columns (1) and (4) of this table show the estimated results for the whole sample of merger announcements. Columns (2) and (5) exclude announcements by bidders in the financial sector. Column (3) and (6) exclude announcements corresponding to the one percent largest deals in our sample. Robust standard errors are in parentheses. *, **, and *** indicate the coefficient is significantly different from zero at the 10%, 5%, and 1% significant level, respectively.

Dependent Variable: CAR(-1,1)

<i>Dependent Variable: CAR(-1,1)</i>	<i>100% Cash</i>			<i>Private Targets</i>		
	<i>All Sample</i>	<i>Excluding Financial</i>	<i>Excluding 1% Deals</i>	<i>All Sample</i>	<i>Excluding Financial</i>	<i>Excluding 1% Deals</i>
	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>
% Negative News Articles (-90, -1)	1.4208**	1.7632**	1.3689**	1.3558***	1.7969***	1.2530**
	-2.3237	-2.2226	-2.0649	(2.7827)	(3.0544)	(2.2687)
Acquirer and Deal Controls:						
Log Assets	-0.2139***	-0.2392**	-0.2922***	-0.1934***	-0.2294***	-0.2979***
	-2.8835	-2.5394	-2.9872	(3.0812)	(3.0239)	(3.3494)
Ope. Cash Flow	0.3609	0.3785	-2.2377	-0.7528	-0.4997	-2.5543
	-0.0695	-0.0689	-0.4021	(0.2013)	(0.1255)	(0.6226)
M/B	0.0108	-0.0934	0.1054	-0.3177	-0.3877	-0.3038
	-0.0404	-0.2879	-0.3439	(1.4191)	(1.4538)	(1.1069)
Leverage	1.7005*	2.6933**	2.4305**	0.9091	1.3130*	1.4672*
	-1.8442	-2.2564	-2.2998	(1.4103)	(1.6538)	(1.8931)
Return on Assets	-0.5772	-0.4168	1.9969	0.7321	0.6099	2.3853
	-0.1127	-0.0768	-0.3649	(0.1894)	(0.1486)	(0.5627)
Deal Value / MVE	2.3547**	2.9865***	2.4897**	5.4016***	5.7687***	5.4507***
	-2.4771	-2.6309	-2.5684	(5.0098)	(4.5504)	(4.9066)
Different 3-SIC	-0.4828*	-0.3863	-0.5148	-0.0339	0.1143	0.0213
	-1.7306	-1.1676	-1.6099	(0.1542)	(0.4737)	(0.0801)
N Bidders > 1	1.8425	1.7439	1.7356	1.2946	0.9083	1.5537
	-1.3188	-1.0609	-1.1985	(0.5281)	(0.4857)	(0.6238)
Tender Offer	2.0788	2.7564*	1.924	2.0944***	2.0781**	2.5835**
	-1.4021	-1.7038	-1.1697	(2.7103)	(2.5191)	(2.5350)
Unfriendly	3.3410*	4.0720*	3.8064*	.	.	.
	-1.6762	-1.8267	-1.8867	.	.	.
Public Target	-3.8585***	-4.6698***	-4.0453***	.	.	.
	-8.9112	-7.3391	-8.4834	.	.	.
CAR(-30, -2)	-0.0109	-0.0115	-0.0073	0.0022	0.0040	0.0054
	-0.766	-0.7029	-0.4633	(0.1571)	(0.2628)	(0.3382)
Constant	22.5301***	22.4697***	23.7832***	5.3968	5.4379	5.8106
	-18.4672	-17.7491	-15.5992	(1.4788)	(1.4934)	(1.6207)
Year fixed-effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed-effects	Yes	Yes	Yes	Yes	Yes	Yes
N	3095	2151	2611	4231	3244	3378
Adjusted R2	0.0771	0.077	0.085	.0571	.0570	.0575

Table 6. Robustness Check: Serial Acquirers

This table reports the results of a matching procedure to control for firm determinants in assessing the impact of preannouncement negative the media coverage. Each announcement pair consists of a high- and a low-negative media coverage announcement such that they are made by the same firm in the same calendar year, belong to the same relative size, and has the same public status of the target. Panel A reports the total number of news articles and the percentage of negative news articles, which are estimated in the interval period between 1 and 90 days before the merger announcement. Panel B reports the average difference in mean CARs (-1,+1) across matched announcements (high-negative media minus low-negative media). CARs (+1,1) are defined as the cumulative abnormal return over the three-day event window around the offer date. The market-adjusted cumulative abnormal return is calculated from market model regressions for each announcing firm and is subtracted from returns of the firm.

Panel A: News Articles for Matched Announcements, Categorized by Degree of Negative Media Coverage

	Full Sample	Low Negative Media	High Negative Media	High-Low
Total News Articles (-90, -1)	17.36***	17.43***	17.29***	0.140
p-value	0.00	0.00	0.00	0.93
% Negative News Articles (-90, -1)	0.23***	0.13***	0.33***	-0.2***
p-value	0.00	0.00	0.00	0.00
N	818	409	409	

Panel B: CARs (-1,1) for Matched Announcements, Categorized by Degree of Negative Media Coverage

	Full Sample	Low Negative Media	High Negative Media	High-Low
Mean CARs (-1,1)	0.31**	0.040	0.58***	-0.55*
p-value	0.03	0.85	0.00	0.05
N	818	409	409	

Table 7. Robustness Check: Heckman Model

This table reports the coefficient estimations on the relationship between negative media coverage and cumulative returns of bidders estimated over the three-day period around the merger announcement, CARs (-1,+1), using a Heckman two-stage regression model. The first stage obtains inverse Mill's ratio from the probit regression in the first column. The second stage estimated with ordinary least squares, adds inverse Mill's ratio as an additional control to obtain consistent estimates on the remaining variables. The dependent variable of the first stage is Media Dummy, indicating whether the firm is covered by Thomson Reuters News Analytics (TRNA) prior to the merger announcements. The dependent variable of the second stage is CARs (-1,+1). The percentage of negative news articles during 90 days prior to the M&A announcement is the main explanatory variable. Other variables included in regressions are defined in the Appendix. Year-fixed effect and industry fixed effect are included in all regressions. Robust standard errors are in parentheses. *, **, and *** indicate the coefficient is significantly different from zero at the 10%, 5%, and 1% significant level, respectively.

	First-stage Regression	Pooled OLS Regressions		
	Dep. Var.: Media Dummy	Dependent Variable: CAR(-1,1)		
		All Sample	Excluding Financial	Excluding 1% Deals
% Negative News Articles (-90, -1)		1.2610***	1.6126***	1.1321**
		(2.7697)	(2.8299)	(2.2264)
Inverse Mills Ratio (Lambda)		1.7785	1.3547	1.7707
		(0.9063)	(0.5863)	(0.7794)
Log Assets	-0.0515	-0.0785	-0.1363	-0.1576
	(0.8416)	(0.6983)	(1.0166)	(1.1202)
Operating Cash Flow	-0.9572*	-0.7878	-0.6461	-2.5512
	(1.7182)	(0.2053)	(0.1593)	(0.6076)
M/B	-0.0364	-0.2754	-0.3910	-0.2226
	(0.7678)	(1.3170)	(1.5635)	(0.8882)
Leverage	-0.2604**	1.0430	1.6622*	1.5386*
	(2.3631)	(1.5501)	(1.9174)	(1.9537)
Return on Assets	1.4301***	1.9470	1.8064	3.4823
	(2.7656)	(0.5007)	(0.4377)	(0.8114)
Deal Value / MVE		1.3263	1.4480	1.4129
		(1.5183)	(1.4093)	(1.5840)
Different 3-SIC		1.3263	1.4480	1.4129
		(1.5183)	(1.4093)	(1.5840)
N Bidders > 1		1.0490	0.6802	1.1132
		(1.4237)	(0.8360)	(1.4175)
Tender Offer		1.1481*	1.4441**	1.3192*
		(1.8248)	(2.1458)	(1.9294)
Unfriendly		0.7611	0.9847	1.0320
		(0.4371)	(0.5298)	(0.6216)
Public Target		-2.3928***	-2.5478***	-2.5855***
		(8.0580)	(6.5205)	(7.5714)
CAR(-30, -2)		-0.0060	-0.0050	-0.0051
		(0.4626)	(0.3405)	(0.3406)
Log Market Value	0.2101***			
	(3.7322)			
Log Sales	-0.0249			
	(1.0128)			
Log (1 + # Analysts)	0.1076***			
	(5.9580)			
Year fixed-effects	Yes	Yes	Yes	Yes
Industry fixed-effects	Yes	Yes	Yes	Yes
N	6549	5051	3799	4124
Adjusted R2	.0803734	.0451339	.0433462	.0501967

Table 8. Probit Analysis of Negative Media Coverage and Likelihood of Completion

The table presents results of the cross-sectional probit analysis of transaction completeness on negative media coverage and other control variables for a sample of US acquisition attempts announced over the period of January 1, 2003 to December 31, 2012 drawn from the Thomson Financial SDC Mergers and Acquisitions database. The dependent variable is a dummy variable taking the value of one for completed acquisition attempts and zero for abandoned attempts. Variables are defined in Appendix. All regressions control for year and industry fixed effects. Robust standard errors are in parentheses. *, **, and *** indicate the coefficient is significantly different from zero at the 10%, 5%, and 1% significant level, respectively.

Dependent Variable: Dummy= 1 for Completed Deals

	<i>All Sample</i>	<i>Excluding Financial</i>	<i>Excluding 1% Deals</i>
	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>
% Negative News Articles (-90, -1)	-0.5332** (2.5312)	-0.5678** (2.3311)	-0.5884** (2.5462)
Acquirer and Deal Controls:			
Log Assets	0.0726** (2.0799)	0.0959** (2.3569)	0.1330*** (2.9946)
Operating Cash Flow	3.4075** (2.3790)	3.6258** (2.4167)	3.4203** (2.2812)
M/B	-0.1281 (1.4526)	-0.2025** (2.1188)	-0.0809 (0.7947)
Leverage	-0.2975 (0.9285)	-0.0863 (0.2328)	-0.4076 (1.1541)
Return on Assets	-2.1375 (1.5200)	-2.3534 (1.6043)	-2.0824 (1.4398)
Deal Value / MVE	0.0384 (0.1385)	0.1283 (0.4192)	0.1191 (0.4046)
Different 3-SIC	-0.1022 (0.8707)	0.0414 (0.3132)	-0.0742 (0.5536)
N Bidders > 1	-2.1330*** (6.6241)	-2.1380*** (5.7194)	-2.3388*** (6.8120)
Tender Offer	0.7452* (1.7589)	0.9680** (2.1316)	0.7960* (1.6940)
Unfriendly	-3.4368*** (4.6663)	-3.8000*** (4.6337)	-3.6751*** (4.3002)
Public Target	-0.3453** (2.0696)	-0.6237*** (3.2922)	-0.5978*** (3.2331)
CAR(-30, -2)	-0.0002 (0.0367)	0.0008 (0.1707)	-0.0011 (0.2241)
CAR(-1, -1)	0.0115 (1.3443)	0.0126 (1.4000)	0.0188** (1.9912)
Constant	2.2078*** (2.6959)	2.0269** (2.4323)	1.6828** (1.9708)
Year fixed-effects	Yes	Yes	Yes
Industry fixed-effects	Yes	Yes	Yes
N	3095	2151	2611
Pseudo R2			

Table 9. Negative Media Coverage and Long-Term Performance

This table explores the relation between negative media coverage and long-term bidder returns holds after adjusting for a number of control variables. The dependent variable in all columns is the percentage cumulative abnormal returns estimated between two and 60 days after the merger announcement, CAR(+2,+60). The market-adjusted cumulative abnormal return is calculated from market model regressions for each announcing firm and is subtracted from returns of the firm. The main independent variable under consideration is the percentage of negative news articles, which is estimated in the interval period between 1 and 90 days before the merger announcement. Firm-level control variables are calculated on a yearly basis. We define control variables in Appendix. We also include Fama-French 49 industries fixed-effects and year fixed-effects. Column (1) of this table shows the estimated results for the whole sample of merger announcements. Column (2) excludes announcements by bidders in the financial sector. Column (3) excludes announcements corresponding to the one percent largest deals in our sample. Robust standard errors are in parentheses. *, **, and *** indicate the coefficient is significantly different from zero at the 10%, 5%, and 1% significant level, respectively.

Dependent Variable: CAR(2,60)

	<i>All Sample</i>	<i>Excluding Financial</i>	<i>Excluding 1% Deals</i>
	(1)	(2)	(3)
% Negative News Articles (-90, -1)	2.0689 (1.6118)	2.0797 (1.3329)	1.5351 (1.1370)
Acquirer and Deal Controls:			
Log Assets	0.0125 (0.0652)	0.2769 (1.2168)	-0.0393 (0.1726)
Operating Cash Flow	-9.2653 (0.7734)	-11.4440 (0.8965)	-15.2074 (1.1610)
M/B	-2.4988*** (4.4364)	-2.7269*** (4.1876)	-2.6154*** (4.1295)
Leverage	2.1091 (1.2361)	3.4151 (1.6232)	2.1879 (1.1949)
Return on Assets	16.1701 (1.3644)	17.0781 (1.3546)	24.0815* (1.8421)
Deal Value / MVE	-2.7209 (1.6397)	-2.2383 (1.1425)	-2.8080 (1.6453)
Different 3-SIC	0.4261 (0.7167)	0.8238 (1.2128)	0.1833 (0.2703)
N Bidders > 1	5.1835** (2.4674)	7.1600*** (3.0005)	4.7997** (2.1842)
Tender Offer	0.0168 (0.0108)	1.0378 (0.6244)	0.6072 (0.3563)
Unfriendly	-2.2067 (0.2956)	-2.4143 (0.3063)	-2.2571 (0.3027)
Public Target	-0.5773 (0.7072)	-2.3939** (2.2826)	-0.7303 (0.8131)
CAR(-30, -2)	-2) CAR" (7.0651)	0.2388*** (6.3721)	0.2377*** (6.6794)
Constant	-9.5908*** (3.8926)	-11.1435*** (4.0856)	-9.1725*** (3.8517)
Year fixed-effects	Yes	Yes	Yes
Industry fixed-effects	Yes	Yes	Yes
N	5231	3905	4258
Adjusted R2	.0394	.0387	.0432

Table 10. Negative Media Coverage and Long-Term Performance, Sample of Completed Deals

This table explores whether the relation between negative media coverage and long-term bidder returns within the subgroup of completed deals. The dependent variable in all columns is the percentage cumulative abnormal returns estimated between two and 60 days after the merger announcement, CAR(+2,+60). The market-adjusted cumulative abnormal return is calculated from market model regressions for each announcing firm and is subtracted from returns of the firm. The main independent variable under consideration is the percentage of negative news articles, which is estimated in the interval period between 1 and 90 days before the merger announcement. Firm-level control variables are calculated on a yearly basis. We define control variables in Appendix. We also include Fama-French 49 industries fixed-effects and year fixed-effects. Column (1) of this table shows the estimated results for the whole sample of merger announcements. Column (2) excludes announcements by bidders in the financial sector. Column (3) excludes announcements corresponding to the one percent largest deals in our sample. Robust standard errors are in parentheses. *, **, and *** indicate the coefficient is significantly different from zero at the 10%, 5%, and 1% significant level, respectively.

Dependent Variable: CAR(2,60)

	<i>All Sample</i>	<i>Excluding Financial</i>	<i>Excluding 1% Deals</i>
	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>
% Negative News Articles (-90, -1)	7.4966* (1.7520)	10.0529* (1.9145)	9.4126** (2.0329)
Acquirer and Deal Controls:			
Log Assets	0.1001 (0.1309)	1.2910 (1.5575)	0.3204 (0.3880)
Operating Cash Flow	-63.6922 (0.9760)	-86.7366 (1.1699)	-146.5292** (2.2652)
M/B	-3.1391 (1.4354)	-3.7523 (1.4226)	-2.8123 (1.1373)
Leverage	-5.2366 (0.9618)	-3.9313 (0.5286)	-9.0171 (1.3244)
Return on Assets	59.8775 (0.9732)	75.4172 (1.0788)	133.9009** (2.2407)
Deal Value / MVE	-6.6911 (1.0245)	-5.9136 (0.7867)	-6.9739 (1.0442)
Different 3-SIC	-1.1206 (0.4089)	0.7053 (0.2240)	-3.4961 (1.1242)
N Bidders > 1	12.0498*** (2.6531)	14.6673*** (3.0148)	12.5900** (2.3647)
Tender Offer	7.3304 (1.5012)	10.2797** (2.1388)	12.0477** (2.0897)
Unfriendly	-2.6976 (0.3459)	-4.6820 (0.6101)	-5.2733 (0.6312)
Public Target	-9.8942*** (2.9238)	-15.1269*** (3.7356)	-10.0035*** (2.9175)
CAR(-30, -2)	0.1620 (1.3564)	0.1749 (1.2788)	0.1655 (1.4227)
Constant	-12.1376** (1.9697)	-22.5714*** (3.3053)	-10.4925 (1.4812)
Year fixed-effects	Yes	Yes	Yes
Industry fixed-effects	Yes	Yes	Yes
N	436	325	353
Adjusted R2	-.0017	.0263	.0806