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Deal-Makers or Deal-Takers

An Empirical Analysis of Target-Initiated M&A Transactions

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Master Thesis, Financial Economics

NORWEGIAN SCHOOL OF ECONOMICS

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Abstract

The purpose of this paper is to introduce research on deal initiation in the Norwegian merger & acquisition (M&A) market. We have manually collected and assessed deal initiation data in order to investigate 1) the motivation behind target initiation and 2) its effect on target premiums. We find that companies struggling financially, especially with short term obligations, are more likely to pursue a sale of their company. Our finding suggests that a unit decrease in a company's Altman Z-score represent 10,4% higher probability of target initiation. Furthermore, our analysis shows that the higher the percentage of shares owned by the CEO is, the more likely the company is to initiate the deal. Target-initiated transactions on average receive 13,5% in takeover-premium. This is a significantly lower premium than transactions initiated by acquirers, receiving 30,5% more than their market price. We find the act of target initiation to be a significant determinant, solely decreasing the premium by 14,5%. In conclusion, our results suggest that deal initiation has a meaningful impact on M&A outcomes in Norway and especially on the premiums achieved.

Keywords - Mergers & Acquisitions, Target initiation, Stock Exchange Announcements, Deal initiation, Takeover premium, Financial distress, Financial constraints

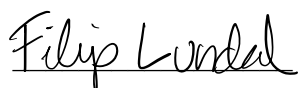
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We would like to thank our supervisor, Associate Professor Kyeong Hun Lee, whose expertise has been particularly useful in formulation of our hypotheses and guiding us through the thesis. We hope this thesis adds to existing research and inspires further examinations of target initiation, which we believe is a relevant and exiting topic within M&A.

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1. Introduction

Deal initiation is an important determinant for bargaining power and thus negotiation outcome. Initiating a deal is a show of hand, providing the counterpart with leverage in negotiations. However, the finance literature seems to have ignored deal initiation in this respect. This is likely due to lack of available data from traditional M&A data vendors. Recently, the first paper to examine the topic was published, written by Masulis and Simsir (2018). The paper focuses on determinants of deal initiation and its effect on merger outcome in the US market. This topic is yet to be studied in Norway. Given the intensity of domestic M&A activity, we find reason to also examine deal initiation in the Norwegian market.

Using our hand-collected data on deal initiation in Norway, we examine both motivation behind deal initiation and its effect on premium. We consider all deals between 2001 and 2021 involving publicly listed Norwegian targets with a deal size in excess of \$2 million where a Norwegian acquirer own the majority of the shares following the transaction. 31% of the deals in our sample is initiated by the targets. This percentage is consistent with findings by Masulis and Simsir (2018) in the US market.

We have analyzed statements by deal participants to determine initiators in deals across a 20-year period. We find certain pre-determined phrases recurring for both target-initiated and acquirer-initiated deals. While often not explicitly stating initiators, the companies often disclose information leading to concluding evidence in offer documents, press releases, statements in news articles etc. as to whether the deal was target-initiated or acquirer-initiated.

To preview our main results, we find shareholders receiving a significantly lower premium in target-initiated deals compared to acquirer-initiated deals. The bid premium, defined as the difference in percentage between the bid price and the stock price 63 days prior to announcement, averages 13.5% for target-initiated deals and 30.5% for acquirer-initiated deals. In addition, target- and deal characteristics significantly differ in the two deal scenarios, with targets in self-initiated deals being financially weaker and deals less likely to be structured through tender offers.

We consider two main hypotheses for why targets initiate deals, and why they end up receiving a lower premium. The first hypothesis argues that financially distressed targets with reduced profitability are more likely to initiate deals given their risk of bankruptcy. Companies in

financial distress with subpar performances are more likely to consider the option of initiating a transaction to relieve financial constraint. The second hypothesis considers the lower bid premium in deals initiated by targets. Initiating a transaction reduces the negotiation power of targets, making acquirers less willing to pay over the odds for the company. Our hypothesis is: Targets initiating the sale accepts lower premium regardless of company and deal characteristics.

Empirically, we find targets initiating deals to be economically weaker and more financially distressed compared to targets in bidder-initiated deals. The probability of target initiation rises with increased financial distress and lack of profitability. Additionally, the shareholding position of CEOs influences the likelihood of target initiation. This suggests strategic processes considered by companies are less likely to conclude with initiation of a sales process should the CEO and management not hold a meaningful portion of shares. Secondly, target initiation seems to be a significant determinant of deal premium. While target and deal characteristics are important determinants, adjustments for said variables do not remove the significance of initiation. The coefficient remains significantly negative, reflecting a reduced premium when targets initiate the deal.

Currently, only one major research paper has considered target initiation on a broader sample of M&A deals. Providing further explanation of both incentives for target initiation and the consequences for bid premium will hopefully help contextualize the decision of targets. Given the vast amount of research on M&A, the lack of attention to the early stage of the process makes it an interesting topic for further research. There are clearly crucial decisions taken prior to deal announcement, having massive effects on returns to shareholders and the future development of companies. We aim to shed further light on the process.

2. Literature Review

In this section, we review topics and studies related to our research, including literature on target motives for takeover, abnormal returns, and bargaining power.

2.1 Mergers & Acquisition Rationale

The rationale behind M&A activity has been justified by a multitude of theories. There is a consensus among observers that mergers are driven by a complex pattern of motives, and one approach cannot completely provide explanation of rationale. M&A is regarded as the most prominent course of action for inorganic growth. While the acquirer's view M&A for accelerating growth and as alternative R&D investment, target owners are often motivated by the opportunity for a profitable exit strategy. Berkovich & Naryanan (1993) believes that there are three motives mainly driving takeovers: synergy, agency, hubris, with our focus on synergies.

Synergies refer to the phenomenon of $2 + 2 = 5$. In mergers, this can be interpreted as the ability of corporate combination being more profitable than the stand-alone value of the respective companies should they be combined (Gaughan, 2018). The anticipation of synergistic benefits drives premium to target shareholders for their shares, as the combined firm achieves positive net acquisition value (NAV). It is in this respect worth noting that the payment for the synergies will be received upfront in a cash deal, while the target owners will participate in the realization of synergies through their ownership in the combined company if the transaction is conducted as a merger (or the consideration otherwise partly or in its entirety is made in the form of shares in the acquirer).

There are mainly two types of synergies, both improving operating profits: revenue enhancements (revenue synergies) and cost reductions (cost synergies). The opportunity to exploit synergies varies significantly and is by nature subject to various degrees of uncertainty when the transaction is agreed. While operating synergies involving cost reductions are often more easily achievable and easier to predict, expected revenue-enhancing synergies are often not realized. According to McKinsey (Christofferson, McNish, & Sias, 2004), 70% of mergers fail to realize merger-induced expected growth in revenue. In fact, the under communicated potential for "dissynergies" through reduction in customer base could potentially make the

deal a loser. On the other hand, cost-reducing synergies is perceived as the main source of operational synergies. The rationale behind them is usually economies of scale, a decreasing cost-per-unit resulting from the increased size of the combined company (Gaughan, 2018). Empirical studies support the idea that M&As are successful in achieving operating economics involving cost reductions. Thus, the combined bidder/target returns being significantly improved has as such shown markets believe in deal enhancement by mergers, which is consistent with stock market data (Shahrur, 2005).

A merger or an acquisition is usually negotiated in a friendly environment. While the process of buyer-initiated takeovers usually takes form of management of acquirer contacting the target company's management, target-initiated deals are usually facilitated through the investment bankers of each company (Gaughan, 2018). As shown through empirical research, the idea of hostile takeovers is far less attractive, as the raider must pay a higher premium, and the takeover attempt complicates the likelihood of acceptance among shareholders. This is due to the target resisting the transaction, and it could be made more difficult for acquirer to gain access to due diligence, resulting in less willingness to pay over the odds for the company.

2.2 Why are Companies Made Subject to Takeovers?

The literature on corporate control has previously examined a variation of reasons for company takeovers, including operating synergies, creation of market power, and undervaluation of targets as potential motives. As stated by Brealey and Myers (1991) "There are always companies with unexploited opportunities to cut costs and increase sales and earnings. Such firms are natural candidates for acquisitions by other firms with better management. In some cases, "better management" may simply mean determination to force painful cuts or realignment of the company's operations."

Jensen (1988) have broken down several empirically established facts by other studies on the effect of takeover markets. These facts resonate well with Brealey and Myers. Takeover gains do not come from creation of monopoly power, nor redistribution amongst different parties, but rather from generating substantial gains of up to 8% of the combined total value of the involved companies from economic efficiency. As such, the market for corporate control allows resources the ability to quickly move towards their highest-valued use, Jensen concludes.

2.3 The Underperformance of Targets

Companies in financial distress are more likely to consider selling at a discount when risk of liquidation looms. As Hotchkiss (1998) argues, acquisitions serve as alternative to bankruptcy when potentially redeploying financially distressed firm assets. Acquirers typically improve the performance of financially distressed firms in comparison to continuously independent firms in the aftermath. According to Almeida, Campello & Hackbarth (2011), financially distressed firms tend to be purchased by industrially similar firms with a higher liquidity, despite of potentially less synergies between target and acquirer. This phenomenon is dubbed the “liquidity merger” due to the purpose to reallocate liquidity to firms that may otherwise fail.

Financially distressed firms are often targets following economic shocks such as a financial crisis. Senbet and Wang (2012) look at resolution mechanisms following said events. According to their empirical results, corporate restructurings such as mergers, acquisitions and buyouts can potentially help companies improve underperformance and avoid bankruptcy. As stated by Ang and Mauck (2009), given the financial constraint and weakness of targets, they are not likely to attract premiums in the range they desire. However, in periods of financial distress, targets have been found likely to seek a buyer should they expect the current situation to continue. This is reflected in prior work, with targets typically experiencing significant negative abnormal returns prior to deal announcement (Kini, Kracaw, & Mian, 1995) and inferior operating performance (Berger & Ofek, 1996).

Under the condition that qualified related acquirers may not participate, the firm may be forced to sell to a lower value user when the target’s industry is distressed, leading to fire sale prices and losses to the target. Additionally, distress is more prevalent during financial crises, which leads to a greater number of targets with reduced bargaining power in these periods. A second explanation for fire sales is the urgency to raise funds or seek an exit from the market. In such regard, the worse the firm financially are off, the lower the premium the company will be able to attract.

2.4 Bankruptcy Avoidance as Motive for Mergers

Lee & Barker (1977) introduce positive transaction costs for what they label “crisis” and “bankruptcy” conditions of a firm. By deriving conditions defining optimal debt capacity for firms, they show that the costs of bankruptcy/crisis for the merged firm are less than or equal to the combined costs for unmerged firms. Additionally, the optimal debt capacity for the merged firm exceeds the combined debt capacities for the unmerged firms. In conclusion, “...the act of merging can properly be viewed as having direct or indirect effect upon firm value. The direct effect comes from avoidance of crisis/bankruptcy at premerger debt levels.”

Another empirical approach to analysis of mergers which relates indirectly to the research at hand is that employed in a paper by D. L. Stevens (1973) investigating the financial characteristics of acquired firms versus nonacquired firms. He derived a model using discriminant analysis which employed four financial ratios. Stevens' model found on average that profitability and liquidity were higher for firms which were subsequently acquired than those not subsequently acquired, and that financial leverage was lower. These findings appear to be contrary to the bankruptcy avoidance merger rationale since most acquired firms were financially healthy relative to nonacquired firms. However, the fact that most acquired firms are financially sound does not rule out bankruptcy avoidance as a motive for some mergers.

2.5 M&A in Economic Shocks

Historically, M&A cycles tend to last for approximately ten years at a time. While most deals are done in more buoyant periods, downturn deals tend to outperform them in terms of how successful the combination of the companies is (Cools, Gell, Kengelbach, & Roos, 2007). As firm value tends to drop during downturns, target companies are often found at a discount. Allowing target firms to be purchased at a discount should essentially see a similar upturn for both companies following recessions. However, studies are not consistently convinced that M&A announcement has the same influence on both sets of companies in recessions and non-recessions. Renneboog & Goergen (2004) finds target companies accruing significant abnormal returns in normal times while acquirers experience non-significant returns.

A different understanding of impact on stock prices during downturns vs non-recessions is found in behavioral finance. Wann & Lamb (2016) argues investors react differently in different states of economic conditions due to changing preferences and expectations. All the

same, economic shocks provide a difficult predicament for targets. While the financial distress of targets increases and performance of targets often deteriorates during and following economic shocks, target firms are simultaneously found at a discount. Consequently, as the companies could be on the verge of bankruptcy, the market conditions for a take-over are unfavorable. Consequently, M&A in economic shocks and down turns works as a double-edged sword for target companies, leaving no attractive route to profitability for shareholders.

2.6 Information Asymmetry

Companies involved in mergers and acquisitions have a fundamental issue when they first start to negotiate. As companies do not disclose all information, the data necessary for decision making is unequally divided between buyer and seller. As stated by Dierickx and Koza (1991), information asymmetry generally causes adverse selection, buyers are not receiving the same information regarding a target company as the management they are negotiating with.

Targets and acquirers are typically uncertain regarding each other's valuation. There is consensus amongst several authors that the acquisition process is quite alike that of the Japanese version of an English auction (Fishman, 1988; Ravid & Spiegel, 1998). A Japanese auction can be described as the last man/company standing when the price of an item, or in this case company, incrementally increases starting from either 0 or a reference point of the seller. Even though acquisitions do not necessarily involve several bidders, Fishman circumvents this issue by modelling the acquisition as costly in an informational asymmetry perspective. As acquisitions with single bidders have potential for other interested parties to come into the equation at any point, it could be considered a potential auction still.

If adverse selection problems have the potential to reduce total target premium for an acquisition, the management of a well-performing target company is incentivized to signal its private information to bidders (Spence, 1973). A potential signaling device in such a case is providing external auditors to further assess the target values. Akerlof (1970) proposes buyers should offer discounted prices to sellers when buyers are at an informational disadvantage. Such discounts should theoretically reveal sellers/targets of poor quality, given the incentive for well-performing firms to withdraw from such negotiations in the event that they are not provided with information of sufficient quality. As such, bidders are likely to continuously update and improve their information on sellers/targets, reducing the informational gap

throughout negotiations with target companies. Deal initiation might be a revealing trait for bidders being at an informational disadvantage. Should it be revealing, it is likely to disclose potential weakness of the target firm. Consequently, the deal premium could essentially be reduced as a result.

2.7 Abnormal Return

Consistently shown by empirical studies, shareholders of target company gain significant excess return in and around announcement days. This contrasts with acquirers, who are likely to either see significant negative return or insignificant excess return relative to their target (Langetieg, 1978; Mandelker, 1984; Andrade, Mitchell, & Stafford, 2001). Cross-sectional target abnormal returns are in large part explained by firm- and deal characteristics such as payment form, type of acquisition, and financial strength.

As news of potential deals often seeps out into the market, price adjustment/abnormal return can be observed prior to announcement date. This has been observed in empirical studies, as Keown and Pinkerton (1981) observe a positive cumulative average residual 25 trading days prior to announcement. Furthermore, as essentially 50% of the total adjustment is observed prior to deal announcement, deals are clearly anticipated in advance. This can potentially be attributed to leakages of insider trading-information as discussed by Jensen & Ruback (1983). However, distinguishing between information leakage and market anticipation is in many cases difficult, complicating test statistics regarding the subject. As target-initiated deals occasionally happens due to a public “Take Me Over” approach, such deals could be well-anticipated long in advance of deal announcement.

Agency theory attributes shareholder gain with disciplinary action against managers performing poorly (Manne, 1965; Palepu, 1986). As such, abnormal returns could be attributed to the expected managerial performance of target firms as a stand-alone firm in disciplinary acquisitions. According to Gosh and Lee (2000), there are two broad economic motives for value maximizing acquisitions: disciplinary and non-disciplinary. As mentioned, agency problems and subpar managerial performance is attributed to disciplinary acquisitions.

3. Hypotheses

To the best of our knowledge, no other studies have examined target initiation in the Norwegian M&A market prior to us. However, comparisons made with the international research conducted by Masulis and Simsir (2018) provides valuable reference. We aim to examine the differentiating characteristics of initiating and non-initiating target companies in M&A transactions and provide variables for the likelihood of target initiation. Additionally, we will consider the effect of target initiation on deal premium, and whether it is a significant determinant. We propose two hypotheses to further investigate these topics.

3.1 Hypotheses 1: Target Initiation

Our first hypothesis is supported by findings from the literature review, that companies in financial distress are more likely to sell (Hotchkiss E. S., 1998). Financial distress may operate as a potential trigger for target initiation. Firms with few viable alternatives to initiating a takeover will potentially preserve its value as a going concern and preempt financial costs by initiating a takeover (Pastena & Ruland, 1986). Targets have shown to be underperforming prior to mergers, generally exhibiting negative abnormal returns (Kini, Kracaw, & Mian, 1995) and inferior operating performance (Berger & Ofek, 1996). Inferior operating performance is often attributed to management as per Brealey and Myers (1991), and target shareholders could therefore be compelled to seek out potential buyers in a “Take Me Over” announcement. Should a company not be financially distressed however, management (and main shareholders) would often prefer to remain independent and resist offers to increase the value of the company on a stand-alone basis.

Financially distressed targets taken over by acquirers improve operations compared to targets remaining independent (Hotchkiss & Mooradian, 1998). This suggests incentives for targets to initiate a merger process should the company be in distress. Furthermore, as reflected in prior research by Erel, Jang and Weisbach (2014), European target firms on average show signs of financial distress prior to mergers, but have been solidified following completion.

Distressed firms with low leverage and high ownership concentration tend to prefer mergers to bankruptcy (Pastena & Ruland, 1986). As such, should the CEO have a significant ownership position in the company, they are likely further incentivized to sell. Target

shareholders and the CEO are likely to receive an offer premium for their shares, even though the company is unlikely to succeed independently (Betton, Eckbo, & Thorburn, 2008). Such an incentive is likely to sway their opinion and convince them of giving up their shares.

We believe companies in financial distress initiate more deals than financially viable companies. With variables such as *Altman Z*, *Leverage* and *Liquidity* acting as proxies, we wish to test the following hypothesis:

Hypotheses 1: *Financially distressed targets are more likely to initiate deals.*

3.2 Hypothesis 2: Premium

As stated by Ang and Mauck (2009), financially distressed targets are not likely to attract premiums in the range they desire. Supporting this view, targets initiating deals are likely to accept a lower premium, as they wish to avoid costs and loss associated with financial distress and potentially bankruptcy. Despite their reduced attraction, targets are found to be seeking a buyer should they expect their current predicament to not be resolved. Consequently, in the position of expecting financial distress to continue, companies are at risk of bankruptcy. Senbet and Wang (2012) believe corporate restructurings such as mergers, acquisitions and buyouts have the attributes to resolve bankruptcy risk. Considering the findings of Senbet and Wang, when facing the risk of bankruptcy, targets are likely to sound out potential buyers, and as such find themselves negotiating from a position of weakness. Consequently, they are likely to receive offers with premium below expected levels in an ordinary situation.

Acquirers can easily identify financial distress, financial constraints, and economic wide shocks. As such, the valuation of target companies is likely to be reduced. As targets need a quick resolution to their issues, their bargaining power when facing a lack of qualified buyers diminish. As the constraints often arise following an economic-wide- or industry shock, a lack of qualified buyers is often probable due to market conditions. As such, a fire sale process could easily occur, with industry peer's willingness to participate in the sale process suppressed (Betton, Eckbo, & Thorburn, 2008). A fire sale process in which initiating targets have reduced bargaining power could potentially severely reduce target premium received and thus increase the interest of potential acquirers to participate in the deal.

Alternatively, Lee & Barker (1977) believe there is a positive transaction costs introduced for crisis and bankruptcy conditions of a firm. As costs of bankruptcy/crisis for the merged firm are less than, or equal to, the cost of the unmerged firm, the merger action provides the positive transaction cost. Given that the optimal debt capacity improves for both firms, "... the act of merger can properly be viewed as having direct or indirect effect of firm value. Consequently, the positive transaction cost could essentially increase the potential target premium. Should Lee & Barker be correct, then our hypothesis will be rejected.

In conclusion, we believe there to be a discount on premium paid for target-initiated deals, and as such our null hypothesis is:

Hypotheses 2: *Target firms are willing to accept lower premium in self-initiated deals.*

4. Methodology

In this section we present the framework used to evaluate the hypotheses suggested. Our choice of regression models vary based on the dependent variable we are regressing on. Firstly, we describe the regression models used to identify any significant characteristics in target-initiated deals, and test our first hypothesis. Secondly, we explain the regression models used to estimate the effect of deal initiation on premium variables to test hypothesis 2. Lastly, we explain the t-test method used to test the significance of differences in target-initiated and acquirer-initiated deals.

4.1 Probit Regressions

In our first hypothesis, the dependent variable *Target-Initiated* is a binary, dichotomous variable that only takes the value 0 or 1. In this case, the assumptions underlying OLS significance testing are violated and can mislead the significance levels (Noreen, 1988). We are interested in the probability of the target company being the initiator given certain target characteristics. Consequently, we need to use a probit model.

The probit model is a non-linear binary response model that restricts the predicted value of a dependent variable between 0 and 1 (Wooldridge, 2013). In a probit regression, the dependent variable is modeled as a function of one or more independent variables, with the assumption that the dependent variable is a random variable that follows a standard normal distribution. The model has many similarities to the logit model, however the two models differ in their assumptions about the distribution of the dependent variable. In the probit regression, the dependent variable is assumed to be normally distributed, while the logit regression assumes a logistic distribution. A major benefit of the probit model is that the effect of change in independent variable X on the probability of event Y depends on the probability of event Y (Hoetkey, 2007) and the initial probability of event Y depends on all the independent variables obtained in the model. Subsequently, the model characteristics is desirable as we expect change in our independent variables to impact our dependent variable, target initiation. In order to interpret the coefficients from the probit regression model, marginal effects need to be computed. Marginal effects show the change in probability for an outcome when the predictor or independent variable increases by one unit. In our case, computing the marginal

effect for different deal- and target characteristics help us indicate whether the probability of a deal being initiated by the target increases or decreases.

To address potential selection issues regarding deal initiator, we have grouped our independent variables into three groups: target financial distress measures (*Altman Z-score, Liquidity, Leverage*), target performance measures (*Change in ROA over the past 3 years, Tobins Q, Sales Growth*), and economic shock measures (*2001 and 2008 Economic recession, 2014 Oil crisis*).

Probit 1:

$$P(Y = 1) = \varphi(B_0 + B_1 \textit{Altman Z} + B_2 \textit{Liquidity} + B_3 \textit{EBIT}_{\textit{Margin}} + B_4 \textit{Tobins}_Q + B_5 \textit{Revenue_Growth_Mean} + B_6 \textit{Owned_Prior_To_Transaction} + B_7 \textit{Recession} + B_8 \textit{CEO_Shares})$$

Probit 1 displays one of our two probit regression specifications. The coefficients (β) connects to different explanatory and control variables that we see as relevant for predicting target initiation. We use these models to identify characteristics of target initiators, and examine the effect of the explanatory variables on target initiation.

4.2 OLS Regression

The ordinary least squares regression estimates the parameters of the regression by minimizing the sum of squares of the differences between the observed values of the dependent variable and predicted values of the dependent variable. Our models use *Premium* as dependent variable, and further includes control variables that are expected to affect the regressor independently of initiator. These variables capture effects that deal-, and target characteristics may have on the dependent variable, and are categorized into the following three groups: deal characteristics (*Percent cash, Tender, same industry, blockhold, CEO shares*), target financial characteristics (*Altman Z, Liquidity, Leverage*), and target performance measures (*Change in ROA over the past 3 years, Tobin'Q, Sales Growth*). To make sure we don't over-specify our OLS regressions, we focus on the most significant variables that we think have impact on the dependent variable. Furthermore, we control for outliers, multicollinearity, heteroskedasticity and misspecification (see section 9. Robustness). In order to interpret the results, we use the coefficient values as indicators for increase or decrease in deal premium.

OLS 1:

$$Premium = a_i + \beta_1 Target_{Initiated}$$

OLS 2:

$$Premium = a_i + \beta_1 Target_{Initiated} + \beta_2 Tender_{Offer} + \beta_3 Altman_z + \beta_4 Liquidity + \beta_5 Blockhold + \beta_6 EBIT_Margin$$

OLS 1 and 2 displays two of our 4 regression models. We augment the total number of models to four by adding additional variables, in order to assess whether the models' explanatory power is enhanced as a result.

4.3 Two Sample T-Test

In order to test significance between the mean value of several deal and target characteristics based on deal-initiator, we conduct two sample t-tests. The t-test is calculated by taking the difference between the means of the our two initiator-groups and dividing it by the estimated standard error of the difference. The resulting t-statistic is then compared to a critical value from the t-distribution to determine whether the difference between the means is statistically significant at a given level. The t-test provides indication for which variables has the most significant variation between target-, and acquirer-initiation (see table 7.3). As we get an understanding of comparable mean of values between the samples, it is important to acknowledge that this does not prove any causal relationship between initiator and other variables in a regression setting.

5. Identifying Deal Initiators

In this section, we describe how we identify deal initiators and discuss our methodology.

Deal Initiation relates to the initiation of conversations regarding a deal. The approach of a company varies. While acquirors typically initiate conversations either directly with a target or through an investment bank, targets have the opportunity for broader approaches indicating more freely to the market their intent to sell/merge. Target-initiated deals are often phrased slightly more ambiguous, however from various deal documents, press releases and news articles, there seem to be certain variations reoccurring.

Researching for deal initiators has proven to be a challenge. There are no requirements under Norwegian law for companies to disclose information regarding deal initiator. While the US system has the EDGAR database for target and acquirer filings for each deal, the Norwegian system does not have anything of similarity. In Norway, offer documents were historically often disclosed in their entirety. However, such documents are no longer consistently attached to the stock market announcements but only sent out directly to shareholders and/or possible to obtain from the investment banks during the offer period. As such, the availability of historical offer documents varies and we have therefore investigated other sources to find the relevant information.

Given the restrictions we set regarding deals, the total number originally attained was 158, including “double deals” in which an acquirer triggered an obligation to make a mandatory offer upon completion of the voluntary offer, and thus made two offers.

When considering which party who initiated a transaction, we have also sought to consider that there are different incentives in different types of deals to be ambiguous regarding initiation. In mergers, there is a pre-set approach taken by most companies, labelling the deal “*the two parties have jointly found each other and agreed to merge.*” to label the merger as a merger among equals. Despite such communication and the fact that the statements from the boards of the merging companies provide little clarity, it is normal for one of the parties (and often the acquiror) to initiate a merger. Due to the lack of certainty regarding the initiator due to this form of communication, few mergers have, however, been included in our sample.

When examining deals for potential initiator information, our optimal source of information has been offer documents and additional information found in the stock market announcements.

The offer documents include a section called “*Contact between the parties prior to the offer*”, which provides useful information when assessing the initiator of the deal. Both these sections and the stock exchange announcement may contain quite similar phrases that would indicate that the deal was initiated by the target. Statements to the effect that the offer is as “*a result of a strategic process related to the company*” or announcements prior to the deal that “*we have commenced a strategic process, in which we will consider a potential sale*” identify companies inclined to initiate a sales process. In contrast, other offer documents contain statements that “*no contact took place prior to the mandatory offer*” or states that the target was approached by the acquiror, meaning that the acquirors themselves initiated the deal. The table below presents some of the more standardized phrases reoccurring through deals indicating initiator.

Table 5. 1: Target Initiation Text Analysis

	Phrasing	Reference
Target-initiated		
Ocean Yield	“...The Offer is the result of a strategic process related to the Company...”	<i>Offer Document</i>
EVRY	“...Announced the beginning of a structured strategic process to consider different strategic opportunities for the company, including a potential sale...”	<i>Interview with management</i>
Morpol	“...Following the decision by “...” to initiate the strategic sales process for their shares...”	<i>Offer Document</i>
Acquirer-initiated		
Eastern Drilling	“...Prior to announcement of the mandatory offer, SeaDrill had no contact with the management or governing bodies of Eastern Drilling...”	<i>Offer Document</i>
Saga Tankers	“...Spetalen and Blystad are fighting over the company...”	<i>News Article</i>
Hydro	“...Statoil has worked on merger plans with Hydro since 2001...”	<i>News Article</i>

While some announcements provide an ambiguous terminology complicating the process, many deals are phrased clearly enough to identify the initiator with a sufficient degree of certainty. From the total of 158 deals studied, the number of deals for which we identified the initiators was 122. Out of those 122 deals, we concluded that 38 of the deals were target-initiated, indicating that 31.1 % of deals are target-initiated. This is in accordance with our reference paper on deal initiation in the American market, in which they find that roughly 35 % of the deals are initiated by targets.

While not included in our sample, special cases have also occurred, which should be noted in future research. In Shelf Drilling North Sea's acquisition of five oil rigs from Noble, Noble was the initiator due to conditions imposed by the British Competition and Markets Authority in relation to their assessment of the proposed merger with Maersk. The deal was in other words initiated by the seller as a result of actions by the authorities (not as a result of financial distress).

It is in this respect also interesting to note the relatively high number of recent take-overs on Euronext Growth in Norway. The target companies were not underperforming, but had listed on Euronext Growth in the belief that Euronext Growth would provide access to new equity. When this source of equity dried up, the companies decided to initiate sales processes in order to attract new owners that could provide them with the financing required to develop the companies and to initiate such measures before they ended up in financial distress. The additional finding suggests other motives to target initiation may also be present. As such, there are trends occurring related to initiation that might be different to our sample. Furthermore, the short lifespan on the stock exchange provides lack of data leading to difficulties running analysis on such companies. We will expand on the problem of insufficient data in section 6.1.

6. The Data

In this section, we present the data set and variables used for our regression and prediction models. The subsections are divided by stock market data, dependent variable selection and independent variable selection. Firstly, we present the collection of deals obtained and included in the data set based on different criteria. To avoid look-ahead bias in our models, all the data is subtracted from the calendar year prior to the deal announcement. Secondly, we present the dependent and independent variables used in our models. Here we differ between deal characteristics, target characteristics and control variables for economic shocks.

6.1 Sample Selection

The deal samples are extracted from SDC Platinum, where we have set the following criteria: 1) “Deal value” exceeds \$2 million, 2) Both acquirer and target are Norwegian companies, 3) Target company is publicly listed 4) The deal announcement occurs between 2001-2021, 5) Ownership percentage of the acquirer after the transaction is above 50%, 6) Exclude all sellers of minority interest, and 7) The deal status is “completed”. Given these criteria, our data yield an initial sample of 122 deals in the announcement-window with sufficient initiation data.

6.1.1 Returns and Financial Data

Premium estimation and market value for target companies are created with basis in stock market return for the estimation period $[-63, +2]$ around announcement date. We primarily extracted data through Refinitiv Eikon’s Datastream, while supplementing the missing stock return with Yahoo Finance or Amadeus 3.0 (NHH Børsprosjektet).

Most companies acquired have a short-lived span as listed on the stock market. Once companies are delisted, they are no longer required to provide information publicly, resulting in a lack of resources available for historical data. Following acquisitions, either target, acquirer, or both companies are often renamed, creating further issue in extracting necessary financial data. As such, the number of deals available have decreased due to lack of public information. To provide consistent data and run accurate regressions, all deals not containing either daily stock returns 63 days prior to announcement or lacking historical balance sheet and income statements have been omitted. With deal premium being calculated as offer price divided by stock price 63 days prior, and target characteristics analysis based on change in

operating performance and financial state, said data is an absolute necessity. To compute the abnormal return, we downloaded the 20-year daily OSEBX index, and matched this with the estimation window for each individual deal.

Financial data such as debt ratio, stock price and premium 1 week prior to announcement has originally been extracted from SDC Platinum. However, when controlling data, we have observed several irregularities in SDC Platinum when cross-checking with other sources. Consequently, we have backtracked all information through either DataStream, annual reports, or stock exchange announcement to provide accurate data. Most of our collection is directly obtained from DataStream, personally experienced as the most consistent database.

As a combination of these two processes, a total of 42 deals were dropped from our sample, due to insufficient data. Some of these deals were also dropped due to “trigger” effects for the underlying deal, which leads to an additional acquisition shortly after the first deal. In this case, we have kept the first deal and left out the second one, as this creates the best image for deal characteristics. Consequently, our final sample consists of 80 deals.

6.2 Selection of Dependent Variables

6.2.1 Premium

We calculate the *premium* as the offer price divided by the target stock price 63 trading days prior to the bid announcement minus one. The offer price is obtained from “deal details” in SDC Platinum and cross-checked with news articles and stock market announcements, while historical stock prices is obtained from either DataStream, Yahoo Finance or Amadeus 2.0. The reason we extend our estimation window to 63 trading days, rather than looking at the stock price one day prior to the announcement, is because deal anticipation is a bigger issue in target-initiated deals (Scwhert, 1996). As target-initiated deals may publicize their intentions to be sold before deal announcement, fluctuations in the stock price may disturb the “true” premium obtained in the deal.

6.2.2 Cumulative Abnormal Return

In considering the cumulative abnormal return, we look at both a short-term event-window variable and a longer estimation-window variable. In the short *CAR*, we estimate the cumulative abnormal from 2 days prior to the announcement date to 2 days after announcement date. The longer *CAR* is estimated from 63 trading days prior to the announcement until 2 days after. This is, as mentioned under “Premium”, because target-initiated deals often are a case of early signalling, which can affect the long *CAR* to a higher degree than acquirer-initiated deals.

6.2.3 Target Initiation

Target initiation is a dummy variable that takes the value 1 if the target company initiates the deal process, and 0 if the acquirer initiates. We indicate a deal as target-initiated if the target company initiates the negotiations or indicate a willingness to sell, or if a third party, such as an investment bank initiates the deal on behalf of the target. As we want to evaluate target characteristics in our prediction models, this variable is crucial for our results.

6.3 Selection of Independent Variables

The independent variables are selected based on previous and upcoming literature discussed, and the expected characteristics driving target initiation. We separate the independent variables between deal characteristics, target characteristics, and economic shocks and recessions. We divide target characteristics between financial and operating characteristics.

6.3.1 Deal Characteristics

Percent Cash

We have extracted the percentage of cash used as payment in each individual deal from SDC Platinum. This is used as an independent variable in our tests for premium differences between target and acquirer-initiated deals.

Blockhold

Blockhold is added to consider the potential informational advantage of acquirers with ownership prior to announcement. Acquirers with an initial ownership could potentially have a different effect on premium compared to new acquirers. The variable is a dummy variable, taking the value 1 if the acquiror had an initial ownership prior to the deal, and otherwise 0.

Tender

Tender is a dummy variable that equals 1 if the target has received a tender offer, and otherwise 0. Offenberg and Prinsky (2015) find that high levels of acquirer-specific synergies can lead acquirors to initiate deals with targets using tender offers to reduce the likelihood of competing bids. This leads to a negative relationship between tender offer indicators and target initiation. Hence, we use the *tender* variable to control for tender offer effect on bid premium.

Industry

We wish to control for deals of same industry as this can differentiate strategic- versus financial buyers, where strategic buyers more frequently occur in deals of same industry. By obtaining the SIC-code from SDC Platinum, we have given the *industry* variable value 1 if the first two digits in the SIC-code matches for target and acquirer, and otherwise 0.

CEO Ownership

Given that CEOs are more incentivized to initiate deals for companies in financial distress when they have an ownership position, we wish to control for this variable. We extract information on CEO shares from stock market announcements and annual reports published by the company, tallying the ownership as a percentage of outstanding shares.

6.3.2 Target Characteristics

To assess whether a target is experiencing financial distress, we analyse several financial variables to capture significant effects on deal initiation. We also use variables for operating performance to look at the target's historical development prior to the deal.

Altman Z – Score

The *Altman Z-score* is a measurement of credit-strength that gauges a publicly listed company's likelihood of bankruptcy (Altman, 1968). The variable is a combination of profitability, leverage, liquidity, solvency, and activity ratios. Altman revalued the score over the years 1968 – 1975 and predicted bankruptcy for a sample of 86 companies in financial distress with an accuracy of 94%. A score of close to zero implies that a company in financial distress that might be headed for bankruptcy, while a score close to 3 implies a financial stable company. The Altman Z-score can be computed as follows:

$$\text{Altman Z – Score} = 1,2 * A + 1,4 * B + 3,3 * C + 0,6 * D + 1 * E$$

Where:

- A = Working Capital / Total Assets
- B = Retained Earnings / Total Assets
- C = Earnings Before Interest and Tax / Total Assets
- D = Market Value of Equity / Total Liabilities
- E = Sales / Total Assets

Although this is tested to be a significant model to categorize financially distressed companies, it has its limitations. Firstly, negative working capital can create an incorrect picture of the financial situation, as it reduce the total score. While negative working capital could be an indicator of financial distress, it can also be a sign of managerial efficiency. It might be a company with low inventory and current assets, which can be a case of operational efficiency. Furthermore, extreme price-to-book ratios will create artificially high z-scores. As stock market performance do not necessarily reflect a significant view of a company's financial stability, positive trends, news, and announcements can cause unjustifiable scores. As the market value of equity is calculated based on the closing price at the end of a year multiplied by outstanding shares, fluctuations in the stock price could make for a time-sensitive measurement.

Liquidity Ratio

The *liquidity ratio* we have used is the current ratio, measuring a company's ability to pay off its current liabilities with its total current assets. A high current ratio suggests a company in a liquid stability while a low ratio suggests an illiquid company. Yang, Guariglia and Guo find

that cash-rich firms are more likely to attempt acquisitions than their cash-poor counterparts, and hence, target initiation may be more frequent for illiquid companies (2019). The ratio is calculated as follows:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The current ratio could be a good measurement of whether a target company is in immediate financial distress, as it indicates its ability to pay off its liabilities short-term. However, as previously mentioned, a company with low inventory and current assets can also be an incident of efficient operations.

Leverage

Leverage is calculated by dividing total liabilities by total assets. Masulis & Simsir suggests that high leverage ratios are more common among target initiators, as these are more likely to face long term debt obligations (2018). As high debt obligations often are a significant reason for bankruptcy, it is seen as a good variable to capture companies in financial distress.

Tobin's Q

The *Tobin's Q* ratio expresses the relationship between market value and intrinsic value. The ratio is calculated by dividing the market value of a company by its assets, and hence, it works as a measurement of over- or undervaluation. Tobin's Q-ratio is extensively used as a proxy for investment opportunities in finance literature. The ratio is, in its many variations, very popular in empirical analysis. As shown through research, there is a significant relationship between Tobin's Q and future operating performance, indicating companies with a higher q should be more popular (Servaes, 1991). According to prior research, performance is mostly indicated short term, with correlation declining approximately from year +1 to +2, at which the correlation between performance and q-ratio stabilizes. However, the stabilization of correlation shows a long-term effect, meaning firms with a higher ratio experience superior operating performance and as such looks to be a better investment opportunity.

Return on Assets

We have used *ROA* as a measurement of operating performance, as it indicates how profitable a company is in relation to its assets. This is expressed as a percentage of net income divided by the company's total assets. ROE is probably the most well-liked performance operating measure by analysts. However, the strive for increasing ROE by companies often has the risk

of diverting them from business fundamentals. As such, the focus does for a while hide deteriorating performances. For example, the strive to maintain a healthy ROE hides growing debt leverage and stock buybacks funded through accumulated cash. On the other hand, return on assets (ROA) avoids the potential distortions created by financial strategies. Additionally, as ROA explicitly considers the assets used to support business activities, it becomes less biased.

Sales Growth

To understand the historical trend of the target companies, we look at their sales growth over the past three years prior to the deal announcement. This gives us an understanding of whether the company has had a positive or negative trend in sales volume, and if this can capture some of the significant characteristics for target initiation. We have used both revenue growth in the year prior to our year 0, but also the average and cumulative growth over the three periods. As negative growth for a single period can be interrupted by external factors such as negative market trends, economic shocks, or strategic decisions, we found it best to look at the growth over several periods to capture the sales trend for the target companies.

EBIT Margin

EBIT Margin is an additional performance measure to consider the operating profit of the company based on its sales. The variable allows us understanding of the company's ratio between income and expenses, and moreover exclusively operating cost and income. Essentially, allowing us to observe the company's ability to generate profits from its core business. A firm with a higher margin is a more efficient company, which could indicate it is healthier ran, and likelier to be in a stable financial state. As such, companies with lower margin would likely be worse financially off, making the variable a good control of premium when acquiring firms are circling.

6.3.3 Economic Shocks

2001 Recession

To control for the economic recession in 2001, we include a dummy variable taking the value 1 if the deal announcement is in this period, and 0 otherwise. We have 2 deals between 2000 and 2001, and hence, this is our only two samples in this period.

2008 Recession

Further, to try and capture some of the market movements during the financial crisis in 2008, we include a similar dummy variable for this period. Our estimated period of this event is from June 2007 to October 2010, which gives us a sample of 18 deals affected by this recession.

2014 Oil Crisis

The last market movement we would like to control for is the oil crisis in 2014, where we also include a dummy variable of 1 if the deal was in this period. We have set this period from January 2014 until February 2015, where we have a total of 5 deals occurring in this window.

7. Descriptive Statistics

In the following section, we provide an overview of our sample and present descriptive statistics about the variables. Most tables divide variables into columns that separate transactions into two categories, differentiating between target- and acquirer-initiated transactions.

7.1 Deal Overview

Table 7.1 below shows deals per year in our sample, and the share of target- and acquirer-initiated deals. Our total deal sample consists of 80 deals, sequenced by 28 target-initiated and 52 acquirer-initiated. The year with the highest frequency of deals is 2011 with 8 deals. 2002, 2004, 2015 and 2016, are the years with the lowest frequency, with only one deal occurring each of these years.

Table 7. 1: Target- vs. Acquirer-initiated deals per year

Year	Target-initiated	<i>Target % of total</i>	Acquirer-initiated	<i>Acquirer % of total</i>	Total
2001	0	0%	2	100%	2
2002	1	100%	0	0%	1
2003	1	50%	1	50%	2
2004	0	0%	1	100%	1
2005	1	33%	2	67%	3
2006	1	14%	6	86%	7
2007	1	14%	6	86%	7
2008	2	33%	4	67%	6
2009	1	17%	5	83%	6
2010	2	40%	3	60%	5
2011	4	50%	4	50%	8
2012	2	40%	3	60%	5
2013	3	50%	3	50%	6
2014	2	29%	5	71%	7
2015	1	100%	0	0%	1
2016	0	0%	1	100%	1
2017	1	33%	2	67%	3
2018	0	0%	2	100%	2
2019	1	50%	1	50%	2
2020	2	67%	1	33%	3
2021	2	100%	0	0%	2
Total	28	35%	52	65%	80

Table 7.2 presents deal characteristics and its observation frequency differentiating between target- and acquirer-initiated deals. Firstly, tender offers account for 54 out of 80 deals, where target-initiated deals represent 28%. Secondly, deals announced during economic shock periods are presented, where the 2008 recession has the highest frequency of deals. The last panel presents an overview of the individual deal's transaction value in million dollars. When extracting data from SDC Platinum, we introduce a lower limit deal value of \$2 million, to ensure only deals of significance are included. The range between \$2 million and \$50 million has the highest concentration of deals. However, the sample also includes a wide range of deals between \$50 and \$1,000 million.

Table 7. 2: Target vs. Acquirer-initiated deals characteristics

Deal Characteristic	Target-initiated	<i>Target % of total</i>	Acquirer-initiated	<i>Acquirer % of total</i>	Total
Deal Characteristic					
Tender	15	28%	39	72%	54
Same industry	11	48%	12	52%	23
Blockhold	13	27%	35	73%	48
Economic Shock					
2001 Recession	0	0%	2	100%	2
2008 Recession	4	22%	14	78%	18
2014 Oil Crisis	2	29%	5	71%	7
Deal Value (\$M)					
2 to 50	6	23%	20	77%	26
50 to 100	5	56%	4	44%	9
100 to 200	5	38%	8	62%	13
200 to 500	5	36%	9	64%	14
500 to 1,000	5	45%	6	55%	11
1000 to 5,000	1	20%	4	80%	5
5000 to 10,000	1	100%	0	0%	1
Over 10,000	0	0%	1	100%	1

7.2 Difference in Means Between Initiator Group

In this section, we provide an overview of all variables in our sample comparable between target- and acquirer-initiated deals with corresponding median and mean for each variable. Additionally, we conduct t-tests to compare the significance of differences in mean values for these variables based on initiator.

Table 7. 3: Descriptive statistics for all variables in initiator subsections

Deal Characteristics	All deals N = 80		Target-initiated N = 28		Acquiror Initiated N = 52		Diff. In Mean
	Mean	Median	Mean	Median	Mean	Median	
Percent cash	0.946	1	0.91	1	0.963	1	-0.053
Tender offer	0.675	1	0.536	1	0.75	1	-0.214*
Same Industry	0.287	0	0.393	0	0.231	0	0.162
Blockhold	0.262	0.198	0.205	0	0.293	0.314	-0.088*
Deal Value	769.91	144.71	455.853	139.79	939.02	144.71	-483.17
CEO Shares	0,032	0,002	0,054	0,006	0,021	0,001	0,053
Return and Premium Variables							
Premium	0.246	0.237	0.135	0.096	0.305	0.292	-0.170**
CAR -2, +2	0.141	0.108	0.048	0.079	0.192	0.132	-0.144**
CAR -63, +2	0.211	0.241	0.093	0.103	0.275	0.282	-0.182
Deal Value to EBIT	0.235	0.452	0.710	0.181	-0.020	0.557	0.730
Target Characteristics							
Altman Z	1.909	1.610	1.065	1.046	2.363	1.941	-1.298***
Leverage	0.611	0.609	0.687	0.654	0.57	0.575	0.117**
Liquidity	1.667	1.296	1.627	1.159	1.689	1.353	-0.062
ROA	0.012	0.036	-0.026	0.007	0.032	0.059	-0.058*
Tobin's Q	2.21	1.187	2.793	0.965	1.896	1.364	0.897
Sales Growth	0.852	0.115	0.8	0.129	0.88	0.114	-0.080
EBIT Margin	-0.131	0.062	-0.513	0.019	0.079	0.064	-0.592**

*p<0.10, **p<0.05, ***p<0.01. The list is limited to variables that are relevant for comparison between target- and acquiror initiation

7.2.1 Deal Characteristics Differences

Testing for differences among deal characteristics show minor differences. There are two parameters with definitive differences between the counterparts. Both *Tender offer* and *Blockhold* seem to be a significantly more common occurrence in acquirer-initiated deals. The concentration of tender offers in acquirer-initiated deals is consistent with prior research. As observed by Offenberg and Prinsky (2015), tender offers are actively used by acquirers to reduce the likelihood of competing bids. Blockhold provides acquirors with additional information on companies. Consequently, it allows them to act on the mentioned information, eradicating potential uncertainty and informational asymmetry when initiating deals. However, with the smaller sample size and a significance level of 10%, this could prove to be misinterpreted.

7.2.2 Premium Differences

The return and premium variables differ to some extent when comparing target- and acquirer-initiated deals. The two parameters, significantly different at a 5% level, are premium and short-term CAR. Target-initiated deals achieve an average premium of 13.5%, while acquiror initiated deals pay an average premium of 30.5%. The premium is reflective of some prior research. However, whether the act of initiation affects premium remains to be seen. Target-initiated deals have an average cumulative abnormal return of 4.8% over the short-term event window, while acquirer-initiated deals have an average of 19.2%. This difference of -14.4% is also significant on the 5% level. As discussed in section 2.7, information often seeps out as targets either present a “Take Me Over” plea or initiate discussions with counterparties. As such, the abnormal cumulative return could in larger part be attributed to expectancy prior to deal announcement.

7.2.3 Target Characteristics Differences

The t-tests in the third panel gives us some indications of differences in target characteristics between target- and acquiror-initiated deals. We find that the average *Altman Z* score is significantly lower for target-initiated deals at the 1% level. Target-initiated deals have an average z-score of 1.065, as opposed to acquirer-initiated deals with an average score of 2.363. The *Altman Z* is used as one of our major indicators to assess whether a target company is financially distressed, hence this significance level is a positive finding for our hypothesis. Furthermore, we find that *Leverage* is significant at the 5% level as well. Target-initiated deals

have a higher average leverage ratio compared to acquirer-initiated, with 0.687 and 0.57, respectively. *ROA* is significant at the 10% level, with an average ratio for target-initiated deals at -0.026 compared to 0.032 for acquirer-initiated deals. The reason for such low average *ROA*'s is due to some of our targets having significantly negative net income, resulting in negative ratios decreasing the average. *EBIT Margins* seems to be significantly lower in target-initiated deals, with companies initiating as targets looking less profitable compared to their counterparts. While target-initiated companies have an average *EBIT Margin* of -51.3%, the acquirer-initiated counterparts have an average margin of 7.9%. However, this result could be skewed due to some outliers performing well below par.

8. Results

In this section, we present the findings from testing our hypothesis introduced in section 3. The first part will focus on identifying motives and characteristics for target-initiation in M&As. To conduct a thorough analysis of our first hypothesis regarding target initiation, we introduce a probit regression. Secondly, we will examine whether initiator has significant effect on differences in premiums. To understand the causal relationship between initiator and premium, we will add several control variables to our OLS regression.

8.1 Probit Regression of Target Initiation

When considering whether targets initiate deals due to financial constraints and the risk of bankruptcy, we employ a probit regression and examine the following hypothesis:

H₀: Financially distressed targets are more likely to initiate deals

H₁: Financially distressed firms are not more likely to initiate deals.

The first regression ran on target initiation considers four different variables accounting for financial and operating measures. *Altman Z-score* has been included to account for the company's financial distress, more precisely its risk of bankruptcy. *Liquidity* reflects only the more immediate constraint on the company, i.e. whether a potential lack of liquidity complicates the payment of short-term debt to creditors. *EBIT Margin* is a proxy for the company's operating performance and profitability, and therefore provides some explanation to how well it is operated. Lastly, *Tobin's Q* attempt to consider whether it is over-priced or under-priced. These are the four determinants we believe could provide most explanation for targets motivation behind self-initiating deals.

There is only one significant variable in the first regression model. Altman Z-score seem to be a very significant variable in predicting Target Initiation. While "operating" measures such as EBIT margin and Tobin's Q seem insignificant, Altman Z-score is significant on 1% level. The regression indicates that the lower the Altman Z is, the higher is the probability of initiation by targets. This is in line with our hypotheses that financial constraint and risk of bankruptcy incentivizes targets to initiate mergers and acquisitions, given its attributes as an alternative outcome. However, the decision to initiate deals is obviously a complicated process not exclusively made based on financial and operating measures (as it for example also can be

initiated for strategic reasons, due to new regulatory requirements, as a result of the main shareholder's preferences and needs etc.). Therefore, given the lack of controlling variables, the test is likely to suffer from omitted variable bias, meaning the test lacks necessary explanatory power to predict target initiation.

Table 8. 1: Probit Regressions of Target Initiation

	<i>Dependent variable: Target-initiated</i>	
	(1)	(2)
Altman_Z	-0.361*** (0.006)	-0.397*** (0.007)
Liquidity	0.096 (0.351)	0.242* (0.092)
EBIT_Margin	-0.265 (0.117)	-0.227 (0.212)
Tobins_Q	0.084 (0.163)	0.102 (0.212)
Revenue_Growth_1		-0.157 (0.200)
Owned_Prior_To_Transaction		-1.090* (0.096)
Recession		-0.439 (0.248)
CEO_Shares		2.828* (0.092)
Constant	-0.157 (0.597)	0.069 (0.857)
Observations	80	80
Log Likelihood	-43.083	-35.530
Akaike Inf. Crit.	96.166	89.060

P-values are indicated in parenthesis

*p<0.1; **p<0.05; ***p<0.01

The second regression model includes variables related to economic shocks, ownership, and historical performance. The control variable *Regression* is a dummy variable consisting of deals made in and around either the 2001 economic crisis, the 2008 economic crisis or the 2014 oil crisis. While *CEO Shares* is related to CEO ownership prior to the deal, *Owned Prior to Transaction* controls for the value of shares owned by the acquiring company prior to announcement of the transaction referred to. *Revenue Growth* is calculated as growth in sales over the past year and should control for potential underperformance by target-initiating companies.

The regression continues valuing Altman's Z-score as a very significant proxy for financial distress when determining target-initiation. By calculating the marginal effects, we find that a one unit increase in Altman Z-score, decreases the average marginal probability of target initiation by 10,4% (see table A.1). Consequently, with the degree of financial distress increasing, the likelier targets are to initiate a potential sale. Additionally, *liquidity*, *owned prior to transaction*, and *CEO shares* is deemed significant at the 10% level. Our model suggests that a one unit increase in liquidity increases the average marginal probability of the deal being target-initiated by 6.4%. The regression indicates that target initiation is amongst other determined by financial distress.

The regression further indicates that target-initiated deals are less likely to be conducted through block holders, as the coefficient for owned prior to transaction is of negative character. From our marginal effect analysis, we find that a 0.1 unit increase in prior ownership decreases the probability by 2.8%. Given the informational advantage of blockholders, they are likelier to act given the informational advantage they possess over competitors. Consequently, the effect of blockholders is intuitively similar to prior expectation. Furthermore, an interesting observation is the significance of CEO ownership, indicating that the higher the ownership of CEO, the more likely the target company is to self-initiate in potential mergers. In quantifying the likelihood, a 0,1 unit increase in CEO shares increases the probability of target initiation by 7.4%, everything else equal. This supports prior research on initiation, and research that underperformance of management is likely to require incentives for the CEO to initiate or undergo a sale, as per Brealey and Myers (1991).

In summary, the indicators of target initiation are mostly unsurprising. We find that our financial distress measures are statistically significant, which further strengthen our hypothesis. However, in contrast to prior research and economic intuition, our findings

indicates that profitability of operations, proxied by EBIT margin, is deemed insignificant when determining probability of target initiation. Furthermore, the market pricing of companies relative to their book value does not seem to be a significant determinant, although the coefficient is positive, indicating that the higher the relative price of the company is, the likelier target initiation is. The reason behind the insignificance of EBIT margin and Tobin's Q value may well be informational asymmetry between the parties involved in a deal. As acquiring companies are at an informational disadvantage prior to deal initiation, target initiation may reveal overpricing, thereby weakening the incentive for target initiation.

Consequently, targets would be hesitant to initiate deals when the market price exceeds the book price due to the information leakage, while acquirers would potentially be sceptic regarding price. This is further discussed by Masulis and Simsir (2018), investigating information asymmetry and deal initiation.

In conclusion, operating performance is not deemed a significant determinant of initiation. There are several factors determining initiation, including more minor details of the transaction, such as CEO ownership and Blockhold. However, the severity of financial constraint of a company, proxied by Altman Z score, is statistically significant and influences the likelihood of target initiation. Consequently, the hypothesis is accepted, meaning the increased financial distress (i.e. low Altman Z score) elevates the likelihood of target initiation.

8.2 OLS Regression of Target Premium

In analyzing the effect of deal initiation on target premiums, we test the following hypothesis:

H₀: Targets initiating deals do accept lower premiums

H₁: Targets initiating deals do not accept lower premiums

As shown in table 8.2, we test four regressions with different model specifications. The first column tests only the effect of target-initiation on premiums with no controlling variables. We find that target initiation alone reduces the premium by 17% and is significant on the 5% level. The original regression has a coefficient consistent with the belief that target initiation reduces the premiums paid by acquirors, as expected considering the significant difference in premium mean between target-initiated and acquiror-initiated transactions. However, given that the regression attributes all variation in premiums to target initiation, the result is likely affected by omitted variable bias.

Column 2 includes variables deemed most significant when testing for difference in means (see Table 6.3). The variables introduced are *Tender*, *Altman Z*, *Liquidity*, *Blockhold*, and *EBIT margin*, meaning inclusion of deal- and target characteristics. The inclusion of the controlling variables reduces the causal effect and significance level of *Target Initiation*. This indicates that premium is determined by other controlling variables as well. *Target Initiation* remains the same, with a negative effect on *premiums* of 17%, statistically significant on a 5% level. When interpreting the control variables, *tender offer* appears to increase premiums by 16% and is significant on the 5% level, with a p-value of 0.045. Additionally, we see that the second model's explanatory variable *Adjusted R²* increases because of the added variables. Consequently, deal initiator does not accurately predict premiums in isolation, as adding other controlling variables increases the explanatory power on deal premiums.

In the third column, we include *CEO shares*, *Average Revenue Growth over 3 years*, *Tobin's Q*, *Same industry*, *Leverage* and *Return on Assets*. We see that target-initiation then reduces the premiums by 15.5% but is only significant on the 10% level. Subsequently, *tender* seems to increase the premiums by 16.3%, and is significant on a 5% level.

Table 8. 2: OLS Regression of Target Premium

	<i>Dependent variable:</i>			
	<i>Premium</i>			
	(1)	(2)	(3)	(4)
Target_Initiated	-0.170** (0.023)	-0.170** (0.041)	-0.155* (0.073)	-0.145* (0.084)
Tender_Offer		0.160** (0.045)	0.163** (0.043)	0.167** (0.036)
Altman_Z		-0.014 (0.497)	-0.007 (0.796)	-0.004 (0.864)
Liquidity		0.027 (0.286)	0.023 (0.374)	0.019 (0.444)
Blockhold		-0.095 (0.214)	-0.108 (0.182)	-0.114 (0.140)
EBIT_Margin		0.001 (0.969)	-0.025 (0.630)	-0.001 (0.972)
CEO_Shares			0.170 (0.630)	0.178 (0.603)
Revenue_Growth_Mean			0.025* (0.094)	0.025* (0.089)
Tobins_Q			-0.021 (0.107)	-0.022* (0.052)
Same_Industry			-0.004 (0.959)	-0.009 (0.908)
Leverage			0.053 (0.832)	
ROA			0.248 (0.552)	
Constant	0.305*** (0.000)	0.236** (0.013)	0.212 (0.310)	0.250** (0.012)
Observations	80	80	80	80
R ²	0.065	0.132	0.226	0.221
Adjusted R ²	0.053	0.061	0.087	0.108
Residual Std. Error	0.310 (df = 78)	0.309 (df = 73)	0.304 (df = 67)	0.301 (df = 69)
F Statistic	5.454** (df = 1; 78)	1.856 (df = 6; 73)	1.627 (df = 12; 67)	1.953* (df = 10; 69)

P-values indicated in parenthesis

*p<0.1; **p<0.05; ***p<0.01

The type of transaction structure might have some substance, as we have previously mentioned that acquirers use tender offer to reduce the chance of competing bids (Offenberg & Pirinsky, 2015). Additionally, we see that *Revenue Growth* is significant on the 10% level and its coefficient indicates that a 10% increase in revenue growth increases the premium by 2.5%. Companies in growth are generally viewed as more attractive to acquirers, given their upside potential. Consequently, targets with a positive average growth over a longer period is likely to demand a higher premium relative to their peers. However, this model might be over-specified or could suffer from multicollinearity.

To remove any variables of correlation, we introduce column 4 where *Leverage* and *ROA* have been removed. By creating a correlation matrix (see table 9.1 from Robustness), we found that *leverage* and *Altman Z* are negatively correlated by -0.5298. Additionally, *EBIT Margin* and *ROA* seemed to be correlated by 0.6518. In this case, we decided to omit the variables of the lowest significance (see table 7.3), which was *Leverage* and *ROA*. As a result, we have increased the adjusted R^2 from 0.087 to 0.108. Additionally, the significant variables from the previous model are very similar. However, Tobin's Q becomes statistically significant at the 10% level, indicating a one unit increase in Tobin's Q decreases the deal premium by 2.2%.

From the perspective of economic theory and prior research, some expectations are met, and some surprises occur. According to our results, target initiation reduces premium by 14,5 %. This is reflective of prior research, where Masulis and Simsir (2018) find the act of target initiation to reduce premium by 12.6%. Relative to their research, we do not find target initiation to be as strong an indicator of target premium, as target-initiation is significant on 10% level, with a p-value of 0.084. Additionally, our research attribute the differences in premium largely to transaction and company characteristics such as tender offer, Tobin's Q and revenue growth.

Tender offer is deemed as a significant determinant. As acquiring companies generally use tender offers to ensure no competition or auction takes place, the effect is correspondent with a significant positive effect on premium. With Tobin's Q being of significance as well, it looks as though companies undervalued relative to their book value receives the largest premium. However, the null hypothesis is accepted on a 10% significance level, meaning our results show a high likelihood of target initiation reducing the overall takeover premium.

9. Robustness

9.1 Sample Size and Outliers

As our sample size is relatively small, outliers could have overly predictive power in the models. This could lead to unstable and unreliable estimates in our regressions, and hence, we test for robustness of the regressions. Due to the time-consuming nature of data collection, and our conscious decision to exclude low-value deals or those lacking crucial historical data, our sample of deals ultimately proved to be smaller than expected. Furthermore, the level of M&A activity in the Norwegian market is limited as opposed to the US market, reducing the number of deals available.

To control for outliers, we conduct a robust regression model that is fitted by iterated re-weighted least squares. This makes the robustness model less sensitive to outliers from our data sample. The robust probit regressions indicate that our coefficients are more significant than the original test (see table A.2). The Altman Z score is deemed even more statistically significant, as its p-value decreases from 0.007 to 0.003. Additionally, we find liquidity almost significant at the 5% level, with a p-value of 0.055. CEO shares also improves significance to a 5% level. However, the most surprising finding is that EBIT Margin went from not being significant to becoming significant at the 5% level. This might indicate that some of our EBIT Margins have outliers that reduces the explanatory power of the variable.

The results from the robust OLS regression (see table A.3) indicate there might be some outliers present given a few variables lose significance. Target initiation is no longer a statistically significant variable for premium, with an increase in p-value from 0.084 to 0.131. Additionally, tender offer, revenue growth, and Tobin's Q loses some significance due to tests of robustness. However, as coefficients keep their current sign, the effect of variables on premium remains the same. Consequently, while the effect of variables remains the same, there might be an overqualification of the significance levels due to outliers in the sample.

9.2 Multicollinearity

The issue of multicollinearity occurs when two or more independent variables are highly correlated. This can lead to unstable and unreliable estimates of the regression coefficients and fail to properly interpret the relationship between the predictor variables and the dependent variable. To ensure that our explanatory variables do not suffer from multicollinearity, we first created a correlation matrix between all the independent variables used in our regressions.

Table 9. 1: Correlation Matrix

	Target	Altman Z	Leverage	Liquidity	ROA	Tobins Q	Sales Growth	EBIT Margin	% cash	Tender	Industry	Blockhold	Deal Value	CEO Shares
	1													
Target	-0.2885	1												
Leverage	0.2981	-0.5298	1											
Liquidity	-0.0057	0.4257	-0.2213	1										
ROA	-0.2534	0.4066	-0.1407	0.1716	1									
Tobins Q	0.0774	0.2931	0.2283	0.1114	0.0231	1								
Sales Growth	0.0481	0.0119	0.2858	0.0429	0.0658	0.0355	1							
EBIT Margin	-0.2802	0.1236	0.0978	0.1889	0.6518	0.0323	0.0755	1						
% cash	-0.1201	0.0454	0.0684	0.0928	0.0229	0.0731	0.0767	-0.0216	1					
Tender	-0.1704	0.1229	0.0610	-0.0885	0.2878	-0.0475	-0.0878	0.2101	0.2773	1				
Industry	0.2171	-0.2260	0.1506	0.0329	-0.2727	0.1871	0.2597	-0.0435	-0.0986	-0.1026	1			
Blockhold	-0.2382	-0.0970	-0.0904	0.1542	-0.0465	-0.2036	-0.0986	0.0713	0.2506	-0.0088	-0.1809	1		
Deal Value	0.0849	0.2303	-0.0572	0.0818	0.1330	-0.0174	0.0233	0.0866	-0.2819	-0.0674	-0.1000	-0.2889	1	
CEO Shares	0.1028	-0.1582	0.1775	-0.0326	0.0074	-0.1018	0.0852	0.0379	0.0668	0.1600	0.2223	0.1771	-0.1023	1

As highlighted in table 9.1, there is a relatively high correlation between *Altman Z* and *Leverage*, *Liquidity* and *ROA*. As the Altman Z score is the result of a series of variables, including all the previously mentioned, some correlation is expected. *Leverage* is omitted as it has the highest correlation, while providing the least significance on the dependent variable. Additionally, we see that *EBIT Margin* and *ROA* are highly correlated, with a correlation of 0.6518. This can cause multicollinearity issues, and hence, *ROA* is omitted as *EBIT Margin* provides the most significance according to our t-test (see table 6.3). We have also ran VIF-tests to check for multicollinearity, and these tests showed no sign of multicollinearity as the predictors were well under 10, which is the rule of thumb (see Table A.4). Our highest value in the VIF tests was 1.64, reflecting a good selection of variables in our models avoiding the potential issue of multicollinearity.

9.3 Heteroscedasticity

Heteroskedasticity refers to when the variance of the residuals is not constant across all values of the predictor variables. This could result in biased coefficient estimates and incorrect inference about the relationships between the predictor and response variables. To test for heteroscedasticity, we perform a Breusch-Pagan test on our regression models to determine whether the pattern of residuals is homoscedastic. To interpret the test results, a null hypothesis stating that the model is heteroscedastic is rejected at the 5% significance level. For our probit regression, the Breusch-Pagan test indicates a significance level of 0.6197, which implies heteroscedasticity is not present in our model. The same goes for our OLS regression, which has a p-value of 0.841, indicating that the problem of heteroscedasticity is not present (see table A.5).

9.4 Misspecification

To check for issues with misspecification and omitted variable bias, we run a Ramsey RESET test which assess whether a regression model is correctly specified. From our probit regression model, the test result in a p-value of 0.3402 (see table A.5), which is above the significance level of 5%. This indicates that our model is correctly specified and does not suffer from omitted variable bias. However, the OLS test provide a p-value of 0.0282, indicating that the model is not correctly specified. The model might suffer from omitted variable bias, as there are other factors such as industry-wide shocks or acquirer characteristics not included. These are factors we do not include, as the nature of acquirer characteristics do not provide the necessary number of observations for the analysis. Nevertheless, it is likely that these factors improves the specification of the OLS model.

10. Conclusion

From 2001 – 2021, 31.1% of the transactions in our sample were initiated by target companies. Prior research suggests that target initiation is driven by factors such as operating performance, financial distress, and potential risk of bankruptcy. Our study firstly aims to investigate differences between targets in self-initiated transactions and acquiror-initiated transactions. Secondly, we examine the potential motivation behind target-initiation and outcome of such transactions compared to those initiated by acquirer. The collection of an extensive data sample, including transaction- and target characteristics, has helped us quantify the results.

There are limited requirements in Norway to disclose information on how transactions have been initiated. However, offer documents, press releases, stock exchange announcements and articles, including direct quotes from management, are somewhat consistent in terminology and provide in many cases adequate basis to conclude on how a transaction was initiated. While information from target-initiators typically lead with “*the result of a strategic process by the company*”, acquirors are likely to present the deal as a reflection of years of work prior, targeting the company for a takeover.

The significant variables impacting the probability of target initiation are *Altman Z-Score*, *Liquidity*, *Owned Prior to Transaction*, and *CEO Shares*. The targets' degree of financial distress, proxied by Altman Z, seems to be a significant predictive variable for target initiation. A one unit decrease in Altman Z increases the probability of target initiation by 10,4%. Furthermore, given the significance of liquidity, companies struggling with short-term debt-obligations are more likely to initiate deals when the risk of bankruptcy is imminent. The ownership level of the CEO is an additional significant control variable to consider. In accordance with prior research, we observe CEO's ownership stake in the company to be an indicator of whether the company initiate a transaction or not. Our results suggest that a mere 0,1 unit increase in CEO shares, increases the probability of target initiation by 7,4%.

The observed effect of target initiation on premium is similar to the results documented by Masulis and Simsir (2018). Target initiation reduces the overall premium by 14.5%, which is considered a statistically significant determinant. This suggests that target initiation is a revealing signal of financial weakness in negotiations with a potential acquirer. Our results additionally attribute the low premiums to lack of tender offers in target-initiated transactions and market valuation relative to book value of the target companies. Structuring deals through

tender offers, predominantly used in acquirer-initiated deals, increases the premium by 16.7%. Additionally, a unit increase in Tobin's Q reduces the overall premium by 2.2%. While other variables have additional explanatory power on takeover premia, the act of initiation remains a significant determinant.

To conclude, target companies initiating transactions are in a significantly worse financial state relative to targets in acquirer-initiated transactions. Initiation of a sale of the company is more often used as a tool for solving financial distress and avoiding bankruptcy. Additionally, we find initiation to be a significant determinant in explaining the reduced premium received in target-initiated deals. This suggests that deal initiator have significant influence on M&A outcomes in the Norwegian market.

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A. Appendix

A.1 Marginal Effects of Probit Regression

Table A. 1: Regression of Target Initiation Marginal Effects

	<i>Dependent variable:</i> <i>Target-initiated</i>	
	(1)	(2)
Altman_Z	-0.1098*** (0.0013)	-0.1042*** (0.0015)
Liquidity	0.0292 (0.3429)	0.0636* (0.074)
EBIT_Margin	-0.0807* (0.0995)	-0.0595 (0.1958)
Tobins_Q	0.0255 (0.1494)	0.0268 (0.2010)
Revenue_Growth_1		-0.0411 (0.1865)
Owned_Prior_To_Transaction		-0,2858* (0.079)
Recession		-0.1151 (0.2356)
CEO_Shares		0.7418* (0.0739)
Observations	80	80

P-values are indicated in parenthesis

*p<0.1; **p<0.05; ***p<0.01

A.2 Robustness

Table A. 2: Robustness Probit Regression

	<i>Dependent variable:</i>	
	<i>Target Initiation</i>	
	<i>Probit</i>	<i>Robust</i>
	(1)	(2)
Altman_Z	-0.397*** (0.007)	-0.082*** (0.003)
Liquidity	0.242* (0.092)	0.069* (0.055)
EBIT_Margin	-0.227 (0.212)	-0.132** (0.012)
Tobins_Q	0.102 (0.212)	0.023 (0.161)
Revenue_Growth_1	-0.157 (0.200)	-0.022 (0.160)
Owned_Prior_To_Transaction	-1.090* (0.096)	-0.260 (0.165)
Recession	-0.439 (0.248)	-0.142 (0.204)
CEO_Shares	2.828* (0.092)	1.070** (0.034)
Constant	0.069 (0.857)	0.370*** (0.002)
Observations	80	80
Log Likelihood	-38.145	
Akaike Inf. Crit.	94.289	
Residual Std. Error		0.309 (df = 71)

P-values are indicated in parenthesis

*p<0.1; **p<0.05; ***p<0.01

Table A. 3: Robust Linear Regression

	<i>Dependent variable:</i>	
	<i>Premium</i>	
	<i>OLS</i> (1)	<i>Robust Linear</i> (2)
Target_Initiated	-0.145* (0.084)	-0.133 (0.131)
Tender_Offer	0.167** (0.036)	0.158* (0.056)
Altman_Z	-0.004 (0.864)	-0.004 (0.865)
Liquidity	0.019 (0.444)	0.016 (0.538)
Blockhold	-0.114 (0.140)	-0.071 (0.382)
EBIT_Margin	-0.001 (0.972)	-0.004 (0.907)
CEO_Shares	0.178 (0.603)	0.163 (0.654)
Revenue_Growth_Mean	0.025* (0.089)	0.023 (0.135)
Tobins_Q	-0.022* (0.052)	-0.017 (0.148)
Same_Industry	-0.009 (0.908)	-0.007 (0.935)
Constant	0.250** (0.012)	0.218** (0.034)
Observations	80	80
R ²	0.221	
Adjusted R ²	0.108	
Residual Std. Error (df = 69)	0.301	0.299
F Statistic	1.953* (df = 10; 69)	

P-values are indicated in parenthesis:

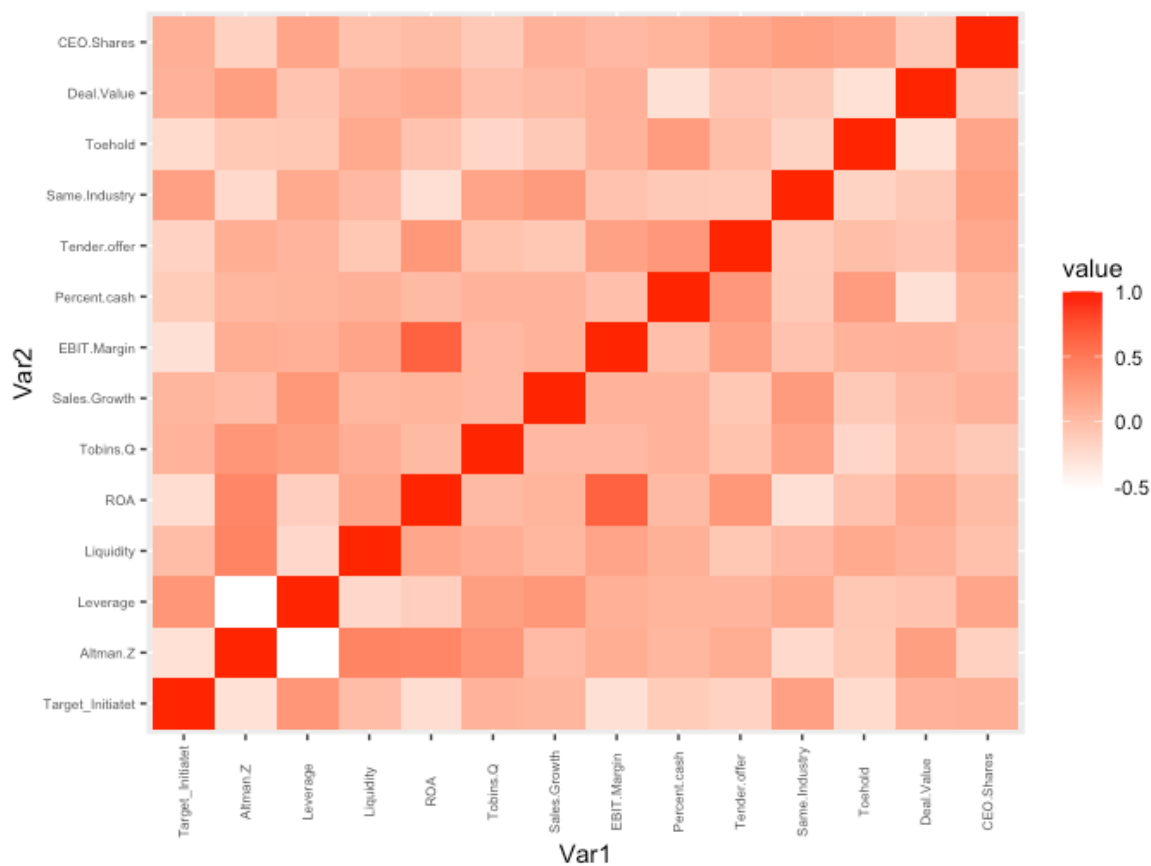
*p<0.1; **p<0.05; ***p<0.01

Table A. 4: VIF-Test

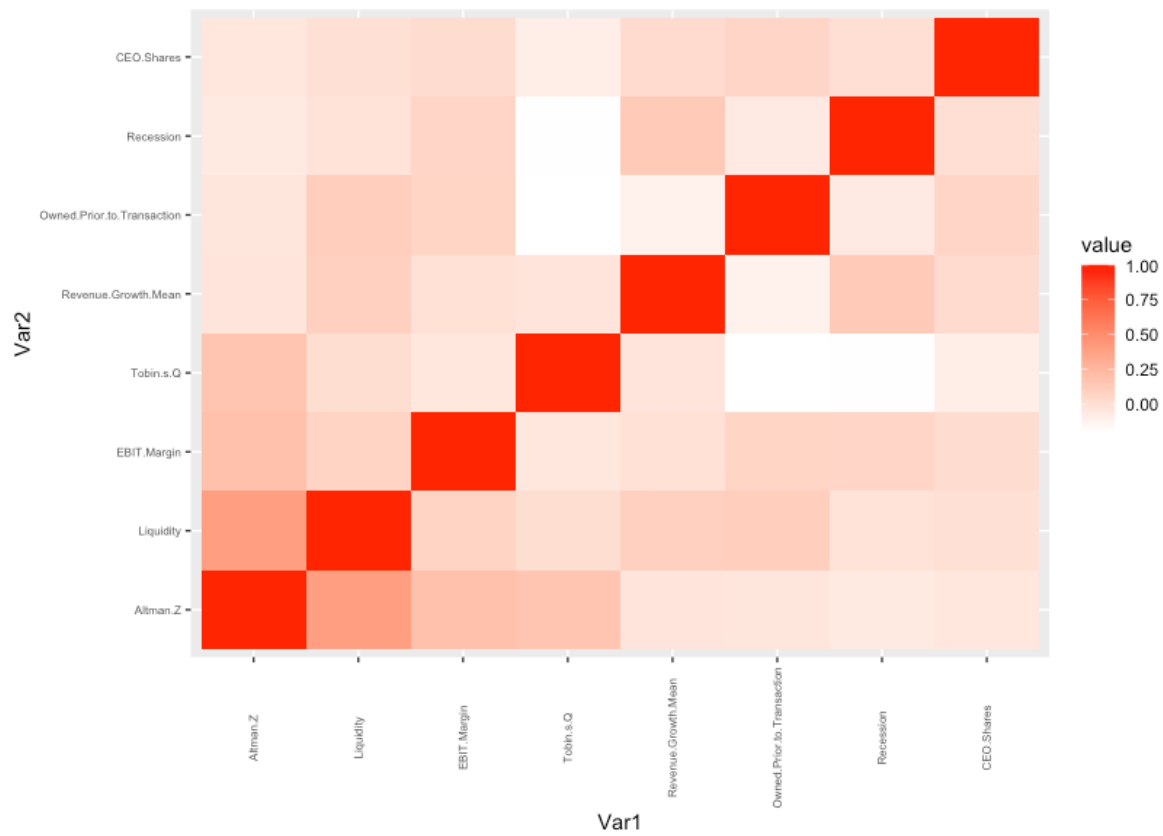
	Probit	OLS
Target-initiated		1.364052
Tender Offer		1.170586
Altman Z	1.138941	1.642312
Liquidity	1.164294	1.327751
Blockhold		1.225914
EBIT Margin	1.082388	1.121175
CEO Shares	1.025076	1.059511
Revenue Growth Mean	1.116526	1.059261
Tobins Q	1.116747	1.115170
Same Industry		1.163642
Owned Prior to Transaction	1.109843	
Recession	1.050309	

Table A. 5: Breusch-Pagan and Ramsey RESET Test

	Probit	OLS
Breusch-Pagan Test		
Breusch-Pagan	6.2462	5.6846
P-value	0.6197	0.841
RESET Test		
RESET	1.0952	3.7653
P-value	0.3402	0.0282

Table A. 6: Correlation Plot all variables**Table A. 7:** Correlation Matrix all variables

	Target	Altman Z	Leverage	Liquidity	ROA	Tobins Q	Sales Growth	EBIT Margin	% cash	Tender	Industry	Toehold	Deal Value	CEO Shares
Target	1	-0.2885												
Leverage	0.2981	-0.5298	1											
Liquidity	-0.0057	0.4257	-0.2213	1										
ROA	-0.2534	0.4066	-0.1407	0.1716	1									
Tobins Q	0.0774	0.2931	0.2283	0.1114	0.0231	1								
Sales Growth	0.0481	0.0119	0.2858	0.0429	0.0658	0.0355	1							
EBIT Margin	-0.2802	0.1236	0.0978	0.1889	0.6518	0.0323	0.0755	1						
% cash	-0.1201	0.0454	0.0684	0.0928	0.0229	0.0731	0.0767	-0.0216	1					
Tender	-0.1704	0.1229	0.0610	-0.0885	0.2878	-0.0475	-0.0878	0.2101	0.2773	1				
Industry	0.2171	-0.2260	0.1506	0.0329	-0.2727	0.1871	0.2597	-0.0435	-0.0986	-0.1026	1			
Toehold	-0.2382	-0.0970	-0.0904	0.1542	-0.0465	-0.2036	-0.0986	0.0713	0.2506	-0.0088	-0.1809	1		
Deal Value	0.0849	0.2303	-0.0572	0.0818	0.1330	-0.0174	0.0233	0.0866	-0.2819	-0.0674	-0.1000	-0.2889	1	
CEO Shares	0.1028	-0.1582	0.1775	-0.0326	0.0074	-0.1018	0.0852	0.0379	0.0668	0.1600	0.2223	0.1771	-0.1023	1

Table A. 8: Correlation Plot Probit Regression**Table A. 9:** Correlation Matrix Probit

	Altman Z	Liquidity	EBIT Margin	Tobin's Q	Revenue Growth Mean	Owned Prior to Transaction	Recession	CEO Shares
Altman Z	1.0000							
Liquidity	0.3973	1.0000						
EBIT Margin	0.1892	0.0697	1.0000					
Tobin's Q	0.1622	0.0029	-0.0519	1.0000				
Revenue Growth Mean	-0.0360	0.0900	-0.0143	-0.0350	1.0000			
Owned Prior to Transaction	-0.0489	0.1073	0.0624	-0.2042	-0.1214	1.0000		
Recession	-0.0693	-0.0221	0.0591	-0.1994	0.1316	-0.0679	1.0000	
CEO Shares	-0.0515	-0.0073	0.0138	-0.0978	0.0201	0.0583	-0.0027	1.0000

Table A. 10: Correlation Plot OLS Regression

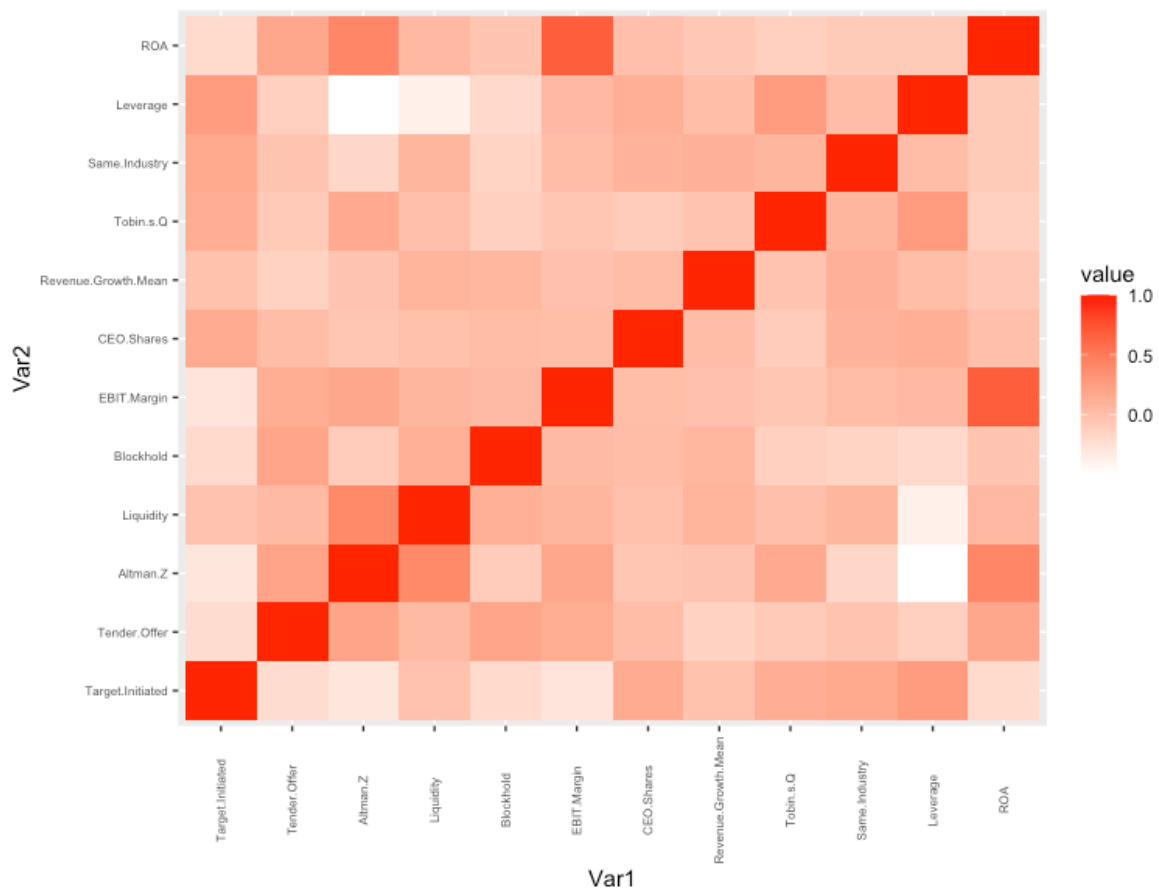
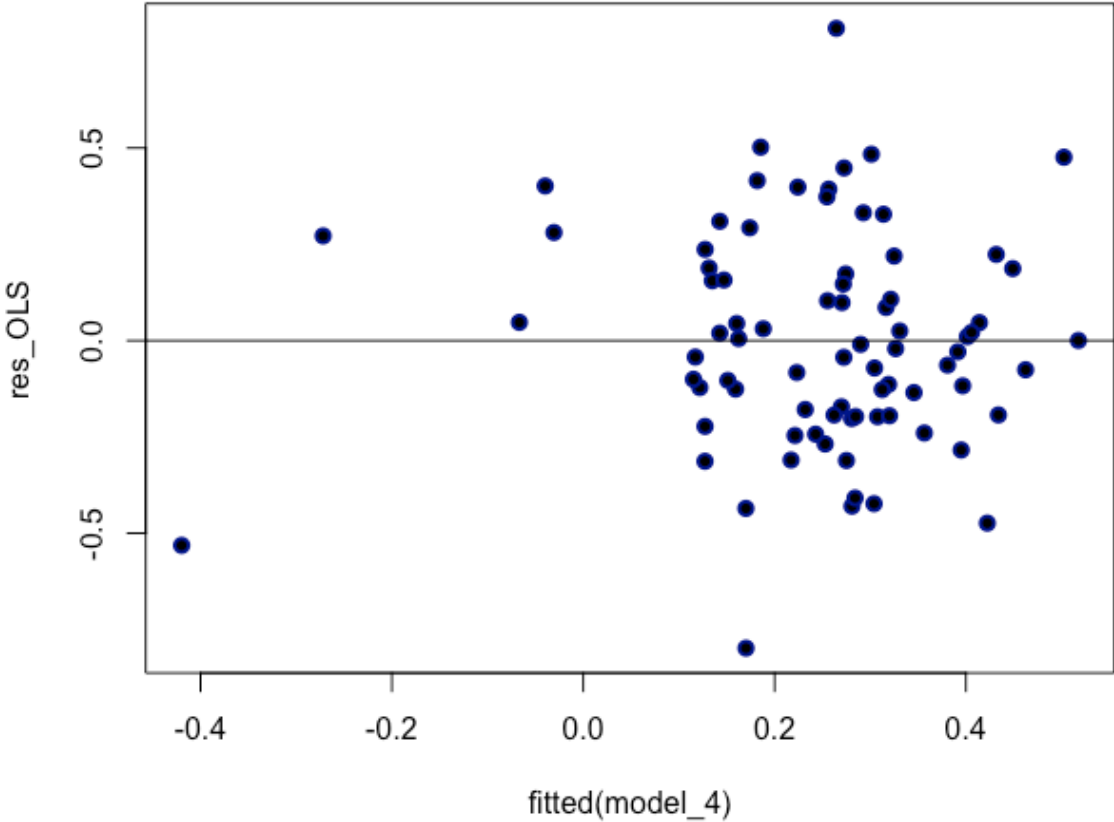


Table A. 11: Correlation Matrix OLS

	Target-initiated	Tender Offer	Altman Z	Liquidity	Blockhold	EBIT Margin	CEO Shares	Revenue Growth Mean	Tobin's Q	Same Industry	Leverage	ROA
Target-initiated	1.0000											
Tender Offer	-0.2182	1.0000										
Altman Z	-0.2949	0.2078	1.0000									
Liquidity	-0.0191	0.0436	0.3973	1.0000								
Blockhold	-0.2033	0.1961	-0.0911	0.1176	1.0000							
EBIT Margin	-0.2834	0.1420	0.1892	0.0697	0.0455	1.0000						
CEO Shares	0.1582	0.0287	-0.0515	-0.0073	0.0300	0.0138	1.0000					
Revenue Growth Mean	-0.0160	-0.1405	-0.0360	0.0900	0.0694	-0.0143	0.0201	1.0000				
Tobin's Q	0.1324	-0.0764	0.1622	0.0029	-0.1271	-0.0519	-0.0978	-0.0350	1.0000			
Same Industry	0.1708	-0.0310	-0.1781	0.0722	-0.1579	0.0208	0.0943	0.1150	0.0729	1.0000		
Leverage	0.2663	-0.1239	-0.4932	-0.3721	-0.1925	0.0517	0.1297	0.0155	0.2742	0.0298	1.0000	
ROA	-0.2114	0.1875	0.4250	0.0512	-0.0393	0.6841	0.0033	-0.0661	-0.1211	-0.0845	-0.0842	1.0000

Table A. 12: Residual Plot from OLS



A.3 Deal Overview with References to Initiator

Table A. 13: References for deal initiator

Date	Target Name	Acquiror Name	Reference for initiator
23/04/01	Mosvold Shipping A/S	Frontline Ltd	https://www.frontline.bm/tvangsinnlosning-i-mosvold-msl/
28/11/01	Data Respons ASA	Data Respons ASA	https://mypresswire.com/no/pressroom/32534/pressrelease/76017
20/12/02	Nordlandsbanken A/S	Den Norske Banken Corporate	https://no.wikipedia.org/wiki/Nordlandsbanken
28/02/03	Roxar ASA	Lisme AS	https://www.aftenbladet.no/okonomi/i/dBq7z/smedvig-vil-ha-roxar
18/06/03	Petroleum Geo-Services ASA	Creditors	https://www.globenewswire.com/news-release/2003/07/29/1776755/0/no/PGS-commences-U-S-chapter-11-case-with-support-of-major-creditors-and-certain-significant-shareholders.html
09/06/04	Industrifinans Naeringseiendom	Rasmussengruppen AS	https://www.fvn.no/norgeogverden/i/o82qj/rasmussengruppen-inn-i-styret-i-industrifinans-naeringseiendom
16/08/05	VIA Travel Group AS	FSN Capital Partners AS	https://www.investeurope.eu/about-private-equity/private-equity-in-action/via-travel/
01/09/05	Gresvig ASA	ONS Invest AS	https://www.dn.no/selger-voice-til-gresvig/1-1-688405
09/12/05	Opticom ASA	Fast Search & Transfer ASA	https://snl.no/Opticom_ASA
04/01/06	Smedvig ASA	SeaDrill Ltd	https://www.seadrill.com/application/files/1015/7295/8414/first-quarter-2006-report.pdf

13/02/06	TeleComputing ASA	Sabaro Investments Ltd	https://www.cw.no/storeier-vil-ta-over-hele-telecomputing/319935?fbclid=IwAR0xi9O1RpfJNZxOm7ZdXzU0LDdLoxM4QExJ_gBGXBx6XUri5LJoNoc0qMI
18/04/06	Visma ASA	Engel Holding AS	https://www.finansavisen.no/nyheter/boers-finans/2006/04/dette-er-selskapet-som-vil-sluke-visma
09/06/06	Active 24 ASA	Mamut ASA	https://www.nettavisen.no/mamut-byr-pa-active-24/s/12-95-1853484
07/09/06	Eastern Drilling ASA	SeaDrill Ltd	https://www.seadrill.com/application/files/2015/7607/8040/Offer_Document_Eastern_Drilling_ASA_exc_Australia.pdf
31/10/06	Polymoon ASA	Star AcquisitionsCo AS	https://www.dn.no/-begynner-a-se-fair-pris/1-1-835045?fbclid=IwAR00Df9rWbcFSLuNd8EWS_8Kfyw-7Nloj2TxYmxXuU9H053wHsY2te3DTe4
18/12/06	Norsk Hydro ASA	Statoil Asa	https://www.nettavisen.no/har-planlagt-fusjon-i-fem-ar/s/12-95-846316?fbclid=IwAR3OL2aKuKG7_zObpAqhlMAMf7kcfrbBw7DvGCRXPBCgE6ZnMxfrSitinA
30/12/06	Sinvest ASA	Aban International Norway AS	http://www.aban.com/pressnote29Dec06.htm
20/03/07	Fesil ASA	Fesil Holding AS	https://dagensperspektiv.no/nyheter/fesil-styret-anbefaler-tilbud-
21/06/07	Altinex ASA	Norwegian Energy Co	https://www.hitecvision.com/news/2007/noreco-seeks-merger-with-altinex
08/08/07	Steen & Strom ASA	Canica AS	https://prod.estatenyheter.no/2007/07/02/hagen-kjoper-steen-strom/
14/09/07	Norgani Hotels ASA	Oslo Properties AS	https://www.finansavisen.no/nyheter/boers-finans/2007/09/norwegian-property-blir-eier-i-oslo-properties
20/09/07	Tide ASA	Det Stavangerske	https://www.aftenbladet.no/okonomi/i/mvK60/stavangerske-vil-ikke-eie-mer-av-tide

12/11/07	Arrow Seismic ASA	Petroleum Geo-Services ASA	https://www.globenewswire.com/news-release/2007/11/12/369002/1825/en/Petroleum-Geo-Services-ASA-Mandatory-Offer-For-Arrow-Seismic-ASA.html
13/12/07	Aker Drilling ASA	Aker Capital AS	https://www.dn.no/rokke-og-fredriksen-er-sultne/1-1-990374
16/05/08	DeepOcean ASA	Trico Shipping AS	https://www.sec.gov/Archives/edgar/data/921549/000095012908003823/h57621ddef14a.htm?fbclid=IwAR1xwlvZEGFU0gkJSQlo1M8x_Qh2VSztpBCBom2TCVsZP9RmAlcrCMYSqFE
03/06/08	Exense Consulting AS	Inmeta ASA	https://www.digi.no/artikler/inmeta-byr-pa-selskap/206655
18/08/08	SuperOffice ASA	Superinvest AS	https://www.dn.no/teknologi/farkjope-superoffice/1-1-1228318
14/09/08	DOF Subsea ASA	DOF ASA	https://www.annualreports.com/HostedData/AnnualReportArchive/d/dof-asa_2008.pdf
14/10/08	Leroy Seafood Group ASA	Austevoll Seafood ASA	https://www.dn.no/kioper-leroy-seafood/1-1-1242075?fbclid=IwAR22CfC3z40rM1BhDxg_-3jM3gVpoZVdJbT10xFuWoFCHctebcyF4exfW8
07/11/08	Komplett ASA	Canica AS	https://www.nettavisen.no/hagen-vil-overta-komplett/s/12-95-2373758?fbclid=IwAR1luuTmLAGGFmINHalKeYFJOYN-QMRknSawIWIXaNzIB-ZOK7SHgLM48Zc
02/03/09	Roxar ASA	Aegir Norge Holding AS	https://www.yumpu.com/en/document/read/9559153/offer-document-roxar
04/05/09	Otrum ASA	OTER Invest AS	https://www.dn.no/vil-ha-90-prosent-av-otrum/1-1-1308543
13/07/09	Synnove Finden ASA	Scandza AS	https://www.nettavisen.no/synnove-finden/scandza/ian-bodd/budeie-takker-for-seg/s/12-95-2686858
25/08/09	Det norske oljeselskap ASA	Aker Exploration ASA	https://e24.no/boers-og-finans/i/a2RVgM/aker-styrker-sin-posisjon-i-det-norske?fbclid=IwAR0iily_xiU504_PejsFSpXqZqBRX7ChTwYISKmXmAmCbc-KVzUTRqDdXvr0

28/09/09	Bjorge ASA	Bokn Invest AS	https://www.hitecvision.com/news/2010/bj%C3%B8rge-to-demerge-into-two-oil-and-gas-service-companies
13/10/09	Grenland Group AS	HVS Invest AS	https://www.pd.no/lokale-nyheter/tar-grenland-group-av-bors/s/1-89-5566259
26/02/10	ODIM ASA	Rolls-Royce Marine AS	https://www.tu.no/artikler/industri-bekrefter-odim-oppkjop/253862?fbclid=IwAR29I7uwJWPB01FBR-hOMcRXp9p8gqxQT_Q_3zOLkIGXjaaHHA8EmK618s
25/06/10	Hjellegjerde ASA	Interstil AS	https://www.abcnheter.no/penger/2010/08/03/114655/hjellegjerde-reddet-fra-konkurs
12/07/10	Simtronics ASA	Autronica Fire & Security AS	https://newsweb.oslobors.no/message/236109
13/08/10	Komplett ASA	Canica Invest AS	https://www.nettavisen.no/hagen-vil-overta-komplett/s/12-95-2373758?fbclid=IwAR1luuTmLAGGFmINHalKeYFjOYN-QMRknSawIWIXaNzIB-ZOK7SHgLm48Zc
06/09/10	Green Reefers ASA	Caiano AS	https://www.nettavisen.no/rederi/ki-oleskip/na24/rederi-hentet-penger/s/12-95-2765536?fbclid=IwAR3Sqs-JOMvLhWlgJyED36I5LD8KcrOMi2SjwBL62bpV0RVzsoBHzdrBjyw
08/06/11	Mamut ASA	Visma AS	https://e24.no/boers-og-finans/i/qlvlg4/visma-i-maal-med-mamut-oppkjoep
15/08/11	Aker Drilling ASA	Transocean Services AS	https://docplayer.me/15991874-Aker-drilling-asa-transocean-services-as-transocean-ltd.html
17/08/11	Det norske oljeselskap ASA	Aker Capital AS	https://www.akerasa.com/en/news/other-news/article/25614-aker-kjoper-det-norske-aksjer-fra-dno-international
13/10/11	Eitzen Maritime Services ASA	Bondholders	https://m.marketscreener.com/quote/stock/EMS-SEVEN-SEAS-ASA-1413137/news/Eitzen-Maritime-Svcs-Eitzen-Maritime-Services-ASA-NOK-60-million-new-unsecured-bond-loan-13850358/
27/10/11	Komplett ASA	Canica Invest AS	https://www.nettavisen.no/hagen-vil-overta-komplett/s/12-95-2373758?fbclid=IwAR1luuTmLAGGFmINHalKeYFjOYN-QMRknSawIWIXaNzIB-ZOK7SHgLm48Zc

07/11/11	Aker Floating Production ASA	Aker Floating Holding AS	https://www.akerasa.com/en/news/stock-exchange-releases/article/29689-aker-asa-aker-purchases-the-shares-in-aker-floating-production
08/12/11	Inmeta Crayon ASA	Metallic Invest AS	https://www.cw.no/kapitalfond-frir-til-inmeta-crayon/232673
16/12/11	Kverneland ASA	Kubota Norway Holdings AS	https://www.dn.no/industri/kubota/kverneland-gruppen/olav-stangeland/japanere-kjoper-kvernelands-fabrikkeiendommer-sikrer-750-arbeidsplasser/2-1-245682
31/01/12	Fornebu Utvikling ASA	Oslo Bolig og Sparelag	https://www.estatenheter.no/aktuelt/mot-full-kontroll-pa-fornebu/169217?fbclid=IwAR1fk0nnOYTb0DctiCrkTACVATQkMYOQfZTiiyASbHr3BCZp8S3mDqDuMNI
18/04/12	Statoil Fuel & Retail ASA	Couche-Tard Norway AS	https://www.tu.no/artikler/statoil-selger-bensinstasjonene/235998?fbclid=IwAR3qaoKRY8Z7jC9AJ6H9oAyyvnrq-IGGpcHu6UZ4qg4azsWEjbbkKUCzCtdB
09/08/12	Saga Tankers ASA	Oystein Stray Spetalen	https://www.finansavisen.no/nyheter/boers-finans/2012/10/spetalen-og-blystad-kjemper-om-tomt-selskap
20/08/12	Rieber & Son ASA	Orkla Brands As	https://e24.no/naeringsliv/i/gP22x5/orkla-kjoeper-rieber-konsernet?fbclid=IwAR073XbmtFGFqOdm4v0BKY8qygp05m9Yg9btQTpT4Ft91Xk2b1TpMhnoBro
17/12/12	Morpol ASA	Marine Harvest ASA	https://mowi.com/wp-content/uploads/2019/03/morpol-asa-mandatory-offer-document_140113.pdf
20/06/13	Cermaq ASA	NHD	https://ilaks.no/reverse-dutch-auction-for-giske/
26/06/13	Sevan Drilling ASA	SeaDrill Ltd	https://www.fvn.no/nyheter/okonomi/i/jx5b9/fredriksen-kuppet-sevan-drilling?fbclid=IwAR0COxhT7xB45RA4RLyeFBWygdtUyJtb4PU_rGoXZ73ZdIkjR-470cCFuu4
30/07/13	Belships ASA	Sonata AS	https://www.belships.com/belships-asa-statement-of-the-board-of-directors-of-belships-asa-in-connection-with-the-mandatory-offer-put-forward-by-sonata-as/
16/09/13	Bridge Energy ASA	Spike Exploration Holding AS	https://www.offshore-energy.biz/spike-exploration-to-buy-bridge-energy/

26/11/13	Algeta ASA	Aviator Acquisition AS	https://www.globenewswire.com/en/news-release/2013/12/19/597996/27861/en/The-Board-of-Directors-of-Algeta-ASA-unanimously-recommends-voluntary-cash-offer-from-Bayer-to-acquire-the-entire-issued-share-capital-of-Algeta.html
02/12/13	Crudecorp ASA	Ymir Energy AS	https://www.finansavisen.no/nyheter/energi/2013/08/oliemygg-henter-penger?fbclid=IwAR3YUka53b3A5S7DjcK12sNeHMIzlwFXoicC5OpN0xqkgtsR7rJa-ql0VE0
20/01/14	Norwegian Car Carriers ASA	Car Carrier Investments AS	https://www.finansavisen.no/nyheter/naeringsliv/2014/01/vil-kjoepe-norwegian-car-carriers
12/05/14	BWG Homes ASA	Obos BBL	http://mb.cision.com/Public/5033/9591880/963a51b0f0affb06.pdf?fbclid=IwAR3exc8wB4qAJfRsO4xXcGHeCrK9oVfE AtCX1kWZuYg-HGaiYSOr Q1n9M
19/06/14	Domstein ASA	R Domstein & Co AS	https://www.fit.no/nyheter/i/5nni3W/domstein-brodrene-far-kjoep-familiebedriften
29/10/14	Hurtigruten ASA	Silk Bidco AS	https://www.nettavisen.no/ukjent-utlending-kjoep-hurtigruten/s/12-95-8503200?fbclid=IwAR3iLm-Z38cGVW02A2oWdS1pmCFYxvBSevJggJf3b4argruqwM5gv3QH0Hk
03/12/14	Rocksource ASA	EPSI AS	https://www.dn.no/olje-og-gass/rocksource/rgt/oppkjop/gior-seksgangen-pa-oljeknott/1-1-5246367?fbclid=IwAR1lr9BgeDvid7MlLTR1sjyeCLjcEM7I9fqQYBZwFzAuVbCJWWMPsLs5QQ
08/12/14	EVERY ASA	Lyngen Bidco AS	https://www.digi.no/artikler/evry-vurderer-salg/289439?fbclid=IwAR2cjWfnBam41gHNGD932rBnxnps8NfXtL84hpbNBQSkKbzNqGo9MqKLRGg
16/02/15	Norwegian Energy Co ASA	Creditors	https://news.cision.com/noreco/r/completion-of-restructuring---issuance-of-new-shares-and-execution-of-amended-bond-agreements,c9744498
02/06/16	HAVFISK ASA	Leroy Seafood Group ASA	https://ilaks.no/leroy-kjoep-opp-havfisk-og-norway-seafoods-for-32-milliarder/
31/01/17	SeaDrill Ltd	Creditors	https://www.reuters.com/article/sea-drill-buyout/seadrill-plans-asia-offshore-drilling-buyout-offer-idUKWEA587620121026

06/02/17	Farstad Shipping ASA	Solstad Offshore ASA	https://www.tu.no/artikler/farstad-shipping-blir-til-solstad-offshore/447604
26/04/17	Hafslund ASA	Oslo Kommune	https://mb.cision.com/Public/26/2301054/aa14350eeb303d07.pdf?fbclid=IwAR2iBbeNwnJC7Md9RPFkhuBNdylltu1nV_qMliVleX2aJNHwJZMJFe3dT-k
16/05/18	Saferoad Holding	WR Start Up 225 AS	https://www.veier24.no/artikler/nye-investorer-overtar-95-prosent-av-aksjene-i-saferoad-for-over-2-milliarder-kroner/444221?fbclid=IwAR0gQwBhN6UvhEwSnABl-MtpEalq17IcQInxeahCzCpPvFG2RMUy58ZxOXw
23/05/18	Ekornes ASA	Qumei Investment AS	https://newsweb.oslobors.no/message/451931
02/05/19	Spectrum ASA	TGS-NOPEC Geophysical Co ASA	https://news.cision.com/nextgentel-holding-asa/r/telecom-holding-3-as-commences-recommended-voluntary-cash-offer-to-acquire-the-entire-issued-share-c,c2756168
09/12/19	Fjord1 ASA	Havilafjord AS	https://www.vikebladet.no/naeringsliv/i/9Eeabl/havila-far-kjope-fjord1-aksjar?fbclid=IwAR1iYycQAdRp0Y6LwcY9LdMmINRWZN85cF9J-Wt_UY69ioohejKeWXBGg
26/05/20	Prosafe SE	Creditors	https://www.prosafe.com/first-quarter-2020-report-adapting-to-a-new-reality/
21/12/20	Storm Real Estate ASA	Investor Group	https://live.euronext.com/sites/default/files/company_press_releases/announcements/518196_201117%20Storm%20Real%20Estate%20k%C3%B8per%20KMC%20Properties.pdf
23/12/20	Torghatten ASA	HATI BidCo AS	https://eqtgroup.com/news/2020/eqt-infrastructure-v-fremsetter-tilbud-om-a-ervert-alle-utestaende-aksjer-i-torghatten-asa-gjennom-hati-bidco-as-med-anbefaling-fra-styret-i-torghatten-asa
16/07/21	Norway Royal Salmon ASA	NTS ASA	https://newsweb.oslobors.no/message/538242
13/09/21	Ocean Yield ASA	Octopus Bidco As	https://newsweb.oslobors.no/message/542130