Do Acquirers in Stock Swap Acquisitions Disclose Good News or Withhold Bad News?

Rui Ge*

acge@ust.hk

Department of Accounting

Hong Kong University of Science and Technology

Clear Water Bay, Hong Kong

* I thank my advisor Clive Lennox for his advice and encouragement. I have also benefitted from comments by accounting workshop participants at Hong Kong University of Science and Technology.

Do Acquirers in Stock Swap Acquisitions Disclose Good News or Withhold Bad News?

Abstract

Companies that use their own stock to finance acquisitions have incentives to increase their market values prior to the acquisition date. This study examines whether such companies strategically disclose good news or withhold bad news in order to boost their high stock prices. I find that stock swap acquirers are not more likely to issue favorable management forecasts during the period before the acquisition compared to the period after. On the other hand, I find strong evidence that stock swap acquirers are less likely to issue unfavorable management forecasts. The results suggest that forecasting good earnings news is perceived to be more costly than is remaining silent when the company has bad news. I also examine revisions to analysts' earnings forecasts in order to capture any disclosures that companies make other than through management forecasts of earnings. I find that analysts' forecasts of stock swap acquirers are not revised up but they are revised down less during the period before the acquisition. Consistent with the evidence from management forecasts, these findings suggest that stock swap acquirers do not disclose good news but they do withhold bad news in order to maintain higher stock prices.

1. Introduction

When an acquisition is financed using stock, the cost of the purchase is inversely proportional to the acquirer's stock price. Consequently, the acquirers in stock swap purchases have strong incentives to boost their market valuations before the acquisition takes place. Prior studies find that these "stock swap acquirers" overstate reported earnings prior to the acquisition (Erickson and Wang 1999; Louis 2004; Botsari and Meeks 2008). Another way for stock swap acquirers to boost their market valuations is to withhold bad news or disclose good news. The goal of this study is to examine the voluntary disclosures of companies that finance acquisitions using their own stock.

Theoretical studies of voluntary disclosure suggest that the withholding of bad news is not the exact opposite of positively disclosing good news. In Dye (1985) and Jung and Kwon (1988), non-disclosure occurs either because the company has no news or because the company is withholding bad news. In Verrecchia (1983), non-disclosure is an equilibrium outcome because remaining silent does not perfectly signal whether the companies has bad news or it is choosing not to disclose due to proprietary costs. These studies imply that it is difficult for uninformed parties to draw strong inferences when a company does not make a disclosure because the non-disclosure decision does not perfectly signal the company's private information.

An earnings forecast by management can later be verified at the earnings announcement date. If a manager forecasts high earnings and (s)he subsequently fails to meet the forecast, questions are likely to be raised about the manager's integrity or competence (Graham et al., 2005). The issuance of overly optimistic earnings forecasts before stock swap acquisitions could also result litigation. Gong et al. (2008) note that acquirers "often face lawsuits after stock-for-stock mergers […] the most

common complaint in these lawsuits is that managers have misguided investors by issuing false and misleading statements." In contrast, it is uncommon for managers to be sued for not disclosing bad news prior to a stock-for-stock acquisition. This makes sense given that it can be difficult for a plaintiff to identify the date at which management should have disclosed the bad news.

Overall, I expect that stock swap acquirers have asymmetric incentives with respect to remaining silent about bad news versus positively disclosing good news. Specifically, I predict that stock swap acquirers are less likely to disclose bad news during the period before the merger compared to the period after. In contrast, I expect that stock swap acquirers have relatively weak incentives to disclose good news during the pre-merger period, compared to afterwards.

The treatment group in this study comprises 493 stock swap acquisitions in the period from 1995 to 2006. Acquiring and non-acquiring companies have vastly different characteristics such as regulatory environment, industry composition, and management overconfidence (Mitchell and Mulherin1996; Andrade et al., 2001; Malmendier and Tate 2008). Rather than comparing the stock swap acquirers to non-acquiring companies, I follow the studies by Erickson and Wang (1999) and Louis (2004) which use acquisitions financed with cash as the control group (henceforth "cash acquisitions"). The control sample comprises 1,144 cash acquisitions during the period from 1995 to 2006.

I first examine the issuance of management forecasts by the two sets of acquiring companies. Specifically, I investigate whether stock swap acquirers are less likely to issue unfavorable management forecasts and more likely to issue favorable management forecasts prior to the merger date compared to after. Following Noe (1999), Cheng and Lo (2006) and Brockman et al. (2008), I classify a management

forecast as unfavorable (favorable) if the abnormal return in the three-day window around the management forecast is negative (positive). I find strong evidence that the stock swap acquirers issue fewer unfavorable management forecasts before the merger compared to after the merger, relative to the cash acquirers. This result is consistent with my conjecture that stock swap acquirers are reluctant to disclose bad news before the acquisition because they wish to maintain a high stock price. In contrast, I find that the stock swap acquirers are not more inclined to issue favorable management forecasts before the acquisitions.

Management forecasts comprise only a subset of all the earnings guidance that companies provide to the market. Consequently, the results from management forecasts may not generalize to other forms of voluntary disclosures (Healy and Palepu, 2001). To address this issue, I provide additional evidence using a more comprehensive measure of earnings guidance. Specifically, I examine the revision in analysts' forecasts of earnings because analysts' forecasts are influenced by all kinds of management guidance (Lees 1981; Jennings 1987; Baginski and Hassell 1990; Frankel et al., 1999). If stock swap acquirers maintain a high stock price by withholding bad news, analysts' forecasts are less likely to be revised down (or they would be revised down to a lesser extent) before the acquisition compared to after. Likewise, if stock swap acquirers inflate the stock price by disclosing good news, analysts' forecasts are more likely to be revised up (and they would be revised up to a greater extent) during the pre-acquisition period compared to the post-acquisition period.

I find strong evidence that analyst forecasts are less likely to be adjusted down and they are revised down with a smaller magnitude before the stock swap acquisition. On the other hand, analyst forecasts are not more likely to be revised up and they are

not revised upwards to a greater extent before the stock swap acquisition. These findings are consistent with the results obtained using management forecasts. Specifically, stock swap acquirers are reluctant to disclose bad news before the acquisition date but they are not more inclined to disclose good news.

This study provides several contributions to the existing literature. First, it provides new evidence as to the way in which stock swap acquirers manipulate their market values prior to the acquisition date. Prior studies examine whether stock swap acquirers manage their reported earnings upwards (Erickson and Wang, 1999; Louis, 2004; Botsari and Meeks, 2008). This study identifies another method by which the stock swap acquirers maintain high stock prices, namely the withholding of bad news. In contrast, it is shown that the stock swap acquirers do not boost their market valuations by strategically disclosing good news.

This study is closely related with concurrent and independent research by Brockman and Martin (2008). Their study concludes that stock swap acquirers accelerate (delay) the release of good (bad) news before the acquisition. There is one very important difference between their study and this paper. Their dependent variable takes the value one (zero) if the acquirer issues a good news (bad news) earnings forecast. Accordingly, they are measuring the *relative* frequency with which companies disclose good or bad news. Their study fails to identify whether stock swap acquirers boost stock prices by disclosing good news or by withholding bad news. In contrast, this study argues that the costs and benefits of withholding bad news are different from positively disclosing good news. Specifically, this study investigates three possible disclosure choices: 1) disclose good news, 2) disclose bad news, or 3) do not disclose. The Brockman and Martin (2008) study considers the first two choices, but not the third. By accounting for the option not to disclose, it is shown

that stock swap acquirers withhold bad news by not issuing management forecasts. Further, it is shown that stock swap acquirers do *not* boost the stock price by positively disclosing good news. That is, there is an important asymmetry between the incentives to disclose good news as opposed to remaining silent about bad news.

The rest of the paper is as follows. Section 2 reviews the literature, develops the hypotheses, and describes the research design. Section 3 outlines the sample. Section 4 presents the results and section 5 concludes.

2. Hypothesis development and research design

2.1 Strategically withholding bad news

In a stock swap acquisition, the acquiring company exchanges its stock in return for the stock of the target company. The exchange ratio determines how many shares need to be exchanged and it is influenced by the stock price or appraised stock price of the acquirer. The higher the (actual or appraised) stock price the fewer shares need to be issued by the acquirer in order to purchase the target. In addition to reducing the cost of purchasing the target, acquirers have incentives to pay out fewer shares in order to reduce the dilution of the acquirers' reported earnings per share and the dilution of voting power of the acquirer's incumbent shareholders (Erickson and Wang, 1999).

Since the exchange ratio is affected by the acquirer's stock price, the acquirer has an incentive to inflate its stock price when the purchase is paid using its own stock. This is true even if the exchange ratio is based on the appraised stock price, since the actual stock price is an important benchmark used in calculating the appraised price.

Several studies document that managers strategically disclose information. Lang et al. (2000) find that companies increase their disclosure activity before

seasoned equity offerings in order to hype their stock prices. Aboody and Kasznik (2000) report that managers disclose bad news around stock option awards in order to depress the stock price, which enables them to purchase stock in the future at lower cost. Similarly, Cheng and Lo (2006) demonstrate that managers disclose more bad news before they purchase shares. Finally, Brockman et al. (2008) show that the frequency and magnitude of bad news (good news) disclosures are higher (lower) before share repurchases compared to after. Stock swap acquisitions provide another situation in which managers have strong incentives to disclose information strategically. However, little research investigates the strategic disclosure behavior of stock swap acquirers.

The disclosure of lower-than-expected earnings tends to decrease the stock price. Therefore, the acquirers in stock swap acquisitions have incentives to withhold bad news prior to the acquisition date. After the acquisition, the stock swap acquirer has less incentive to maintain a high stock price, implying that any bad news is more likely to be released during the post acquisition period (e.g., on the subsequent earnings announcement date). Accordingly, I expect that an acquiring company has an incentive to withhold bad news prior to the acquisition date if the purchase is financed using the acquiring company's stock.

Several theoretical papers explain why companies can strategically withhold unfavorable information even though outsiders have rational expectations about the companies' incentives to withhold such information. Verrecchia (1983) provides a model in which the non-disclosing companies that have unfavorable private information are pooled with other companies that choose not to disclose due to a proprietary cost (e.g., the disclosure of information to competitors). This pooling implies that investors cannot perfectly infer whether a non-disclosing company is

withholding bad news. In Dye (1985) and Jung and Kwon (1988), the companies with unfavorable information are pooled with companies that do not disclose because they are not privately informed. The implication is that outsiders can not determine whether a company keeps silent because it does not have information or because it has unfavorable information. Given that companies can successfully withhold unfavorable news, and stock swap acquirers have strong incentives to withhold unfavorable news prior to the acquisition date, I expect that stock swap acquirers are less likely to disclose bad news during the pre-acquisition period compared to after.

To test whether the stock acquirers delay the issuance of bad news in this manner, I compare their voluntary disclosures with those made when acquisitions are financed using cash.

H1: Compared to cash acquirers, stock swap acquirers disclose less bad news before the acquisition rather than after.

2.2 Strategically disclosing good news

There is limited research on whether stock swap acquirers strategically increase their stock market values by disclosing positive earnings news prior to the acquisition date. Some studies find that the stock swap acquirers inflate their stock values by managing their reported earnings upwards. Using the Jones model to identify earnings management, Erickson and Wang (1999) find that stock swap acquirers have significant positive discretionary accruals during the pre-acquisition period. Using a larger sample, Louis (2004) confirms that stock swap acquirers manage earnings upwards and he also documents a partial reversal in the stock price in the days leading up to the acquisition announcement. This reversal is consistent with the idea that investors are able to rationally infer that the good news disclosures are not fully

credible. To the extent that investors are able to unravel such opportunistic disclosures of good news, managers would have less incentive to make these good news disclosures in the first place.

A stock swap acquirer also has an incentive to inflate the stock price by disclosing good news prior to the acquisition date. However, this incentive is likely to be weaker than its incentive to withhold any bad news. When a company chooses not to disclose, it is difficult for uninformed parties to draw strong inferences about any private information held by the company. This is because the company may not have any information needing to be disclosed (Dye, 1985; Jung and Kwon, 1988) or because the absence of disclosure is attributable to proprietary costs (Verrecchia, 1983). In either case, the non-disclosure of information would not be a strong signal that the company is attempting to withhold bad news.

In terms of litigation, the existence of multiple explanations for non-disclosure would make it difficult for plaintiffs to prove that a company was opportunistically withholding bad news in order to maintain an overvalued stock price. In contrast, it would be hard for a defendant company to claim that it had been uninformed at the time that it issued a good news forecast. Companies that finance acquisitions by issuing stock are governed by Section 11 of the Securities Act of 1933. Under Section 11, a defendant company must prove that it did not issue an opportunistic statement that subsequently led to a decline in the stock price (Frankel et al., 1995; DuCharme et al., 2004).

Consistent with these arguments, it is rare for stock acquirers to be sued for failing to disclose bad news prior to the acquisition date. Rather, stock acquirers are typically sued for opportunistically boosting the stock price by falsely disclosing good news (Gong et al., 2008). The threat of litigation would dampen the incentives of

stock acquirers to disclose good news prior to the acquisition date. Nevertheless, there could still be an incentive for stock swap acquirers to disclose good news, so the following hypothesis is expressed in the alternative form.

> *H2: Compared to cash acquirers, stock swap acquirers disclose more good news before the acquisition rather than after.*

2.4 Research design

2.4.1 Management's issuance of earnings forecasts

I test H1 by estimating the following equation:

$$MFBAD = \alpha_0 + \alpha_1 STOCK + \alpha_2 PRE + \alpha_3 STOCK \times PRE + \alpha_4 FE + \alpha_5 SIZE + \alpha_6 MB + u \quad (1)$$

The *MFBAD* variable takes the value one if the acquiring company issues a bad news earnings forecast (zero otherwise). A management forecast is classified as bad if the abnormal return in the three-day window [-1, 1] around the management forecast date is negative. In the case of multiple management forecasts, I code *MFBAD* as equal to one if at least one earnings forecast is bad news (zero otherwise). In an untabulated test, I instead code *MFBAD* as one when the number of bad news forecasts exceeds the number of good news forecasts and the results are qualitatively the same.

The *STOCK* variable equals one if the acquisition is financed through stock, and zero if it is financed through cash. The *PRE* variable equals one for the pre-acquisition period, and zero for the post acquisition period. Under H1, the stock swap acquirers are less likely to disclose bad news before the acquisition date compared to the cash acquirers (i.e., $\alpha_3 < 0$). Notably, I do not form a hypothesis for the sensitivity of bad news management forecasts to the method of financing during the post-acquisition period (i.e., α_1). Similarly, I do not make a prediction as to the

relative frequency with which cash acquirers issue bad news forecasts during the pre-acquisition period (i.e., α_2).

Managers are more likely to issue an earnings forecast if there is a large difference between the prevailing analyst forecast and future reported earnings (Kasznik and Lev, 1995; Lennox and Park, 2006). I therefore control for the analyst forecast error (*FE*) which is defined to be the company's reported earnings minus the consensus analyst forecast. I expect that managers are more likely to issue bad news forecasts if reported earnings will be below the prevailing consensus ($\alpha_4 < 0$). The *FE* variable is important as it controls for the forecasts that managers would issue on average if they attempt to accurately forecast future reported earnings (i.e., the *FE* variable controls for non-strategic forecasts).

Previous studies document that larger companies are more likely to issue voluntary disclosures (Lang and Lundholm 1993; Kasznik and Lev 1995; Frankel et al., 1995). I control for size using the log of the company's market value (*SIZE*). In addition, I control for growth opportunities using the market to book ratio (*MB*).

I test H2 by estimating the following equation:

$$MFGOOD = \beta_0 + \beta_1 STOCK + \beta_2 PRE + \beta_3 STOCK \times PRE + \beta_4 FE + \beta_5 SIZE + \beta_6 MB + u \quad (2)$$

The *MFGOOD* variable takes the value one if the company issues a good news earnings forecast (zero otherwise). The forecast is classified as good if the three-day abnormal return is positive around the forecast date.[1] Under H2, the stock swap acquirers are more likely to disclose good news before the acquisition date (i.e., $\beta_3 > 0$).

[1] Like my treatment of *MFBAD*, I code *MFGOOD* as equal to one if at least one earnings forecast is good news (zero otherwise). In an untabulated test, I instead code *MFGOOD* as one when the number of good news forecasts exceeds the number of bad news forecasts and the results are qualitatively the same.

As in the model for bad news forecasts, I do not predict the signs of the coefficients on the *STOCK* and *PRE* variables. I expect that managers are more likely to issue good news forecasts if reported earnings will be above the prevailing consensus analyst forecast ($\beta_4 > 0$). I also expect that larger companies are more likely to issue good news forecasts ($\beta_5 > 0$).

It is important to note that my research design is different from that of Brockman and Martin (2008). In my study, the *MFGOOD* and *MFBAD* dependent variables capture all three possible choices: 1) disclose good news, 2) disclose bad news, 3) no disclosure. In their study, the dependent variable equals one if the company discloses good news and zero if the company discloses bad news, implying that they measure the *relative* frequency of good news and bad news disclosures. Accordingly, they do not consider the case where a company withholds bad news by making no disclosure.[2]

2.4.2 Revisions to the consensus analyst forecast

I measure companies' voluntary disclosures using the revision to the analyst consensus forecast as well as the management earnings forecast. Each measure has its own advantages and disadvantages. The advantage of using management forecasts is they can be identified directly and it is straightforward to identify the timing of the disclosure. The disadvantage is that management forecasts is just one channel through which companies communicate with investors. For example, managers can disclose information about new patents, new markets, etc. The advantage of analyzing the revisions to analyst forecasts is that they reflect any disclosures by the company that are perceived by analysts as being relevant to the company's future earnings. The

[2] In an untabulated test, I also estimated multinomial logit models in order to analyze the three choices (disclosure of good news, disclosure of bad news and no disclosure) simultaneously. The results are qualitatively the same as those tabulated.

main disadvantage is that analysts may revise their forecasts in response to private information collection even in the absence of a disclosure by the company. Given this major disadvantage, the results for analyst forecasts should be seen as supplementary to the evidence from management forecasts.

I first examine the direction in which analysts revise their forecasts.

$$REVDOWN = \delta_0 + \delta_1 STOCK + \delta_2 PRE + \delta_3 STOCK \times PRE + \delta_4 FE + \delta_5 SIZE + \delta_6 MB + \delta_7 MFBAD + \delta_8 MFGOOD + u \quad (3)$$

$$REVUP = \lambda_0 + \lambda_1 STOCK + \lambda_2 PRE + \lambda_3 STOCK \times PRE + \lambda_4 FE + \lambda_5 SIZE + \lambda_6 MB + \lambda_7 MFBAD + \lambda_8 MFGOOD + u \quad (4)$$

The *REVDOWN* variable takes the value one if the consensus analyst earnings forecast is revised down, and zero otherwise. Under H1, stock swap acquirers are less likely to disclose bad news before the acquisition date and, so, analysts are less likely to revise their earnings forecasts downwards (i.e., $\delta_3 < 0$). The *REVUP* variable equals one if the consensus analyst earnings forecast is revised upwards, and zero otherwise. Under H2, I expect that analysts are more likely to revise their earnings forecasts upwards prior to stock acquisitions ($\lambda_3 > 0$).

The consensus forecast is less (more) likely to be revised down (up) if reported earnings exceed the prior consensus. Thus, eqs. (3) and (4) control for the analyst forecast error (*FE*) and it is expected that $\delta_4 < 0$ and $\lambda_4 > 0$. Analysts are more likely to revise their forecasts upwards (downwards) when managers issue good news (bad news) forecasts. This is controlled for by including the *MFBAD* and *MFGOOD* variables in eqs. (3) and (4). Consequently, the results reflect the effects of any voluntary disclosures *beyond management earnings forecasts*.

Finally, I estimate a model in which the dependent variable (*REV*) captures the magnitude of the revision to the consensus analyst earnings forecast.

$$REV = \theta_0 + \theta_1 STOCK + \theta_2 PRE + \theta_3 STOCK \times PRE + \theta_4 FE + \theta_5 SIZE + \theta_6 MB + \theta_7 MFBAD + \theta_8 MFGOOD + u \quad (5)$$

Eq. (5) is estimated separately on the observations in which the consensus forecast is not revised up (*REVUP* = 0) or not revised down (*REVDOWN* = 0). Since these samples are truncated at zero, the models are estimated using tobit regression rather than OLS.

Under H1, stock swap acquirers would disclose less bad news before the acquisition date compared to the cash acquirers and, so, analysts would revise their earnings forecasts downwards to a smaller extent (i.e., $\theta_3 > 0$ in the *REVUP* = 0 sub-sample). Under H2, stock swap acquirers would disclose more good news before the acquisition date compared to the cash acquirers and, so, analysts would revise their earnings forecasts upwards to a greater extent (i.e., $\theta_3 > 0$ in the *REVDOWN* = 0 sub-sample).

2.5 Time line for management forecasts and analyst forecasts

In order to clarify how the variables are measured, Figure 1 illustrates a time line for management forecasts and analyst forecasts around the acquisition announcement date (*DA*). E_1 is the acquirer's most recent annual earnings announced after the acquisition announcement. AF_{-90} (AF_{-30}) is the consensus analyst forecast of these earnings, calculated 90 (30) days before the acquisition announcement date. The revision in the consensus analyst forecast (*REV*) for the pre-acquisition period is defined to be AF_{-30} minus AF_{-90} scaled by the absolute value of earnings per share.[3] Similarly, the revision in the consensus analyst forecast during the post-acquisition

[3] The consensus is measured from 90 days before the acquisition announcement day because Erickson and Wang (1999) and Louis (2004) show that stock swap acquirers manage earnings during the quarter prior to the acquisition. Schwert (1996) and Louis (2004) find that acquisition news leaks about one month before the acquisition announcement, so the window for the forecast revision ends 30 days before the acquisition announcement date.

period is calculated as AF_{90} minus AF_{30} scaled by the absolute value of earnings per share. E_2 is the acquirer's most recent annual earnings announced 120 days after the acquisition effective date (*DE*).[4] This timeline ensures that the interval between AF_{-90} and E_1 is comparable to the interval between AF_{30} and E_2. AF_{90} (AF_{30}) is the consensus analyst forecast of the E_2 earnings, calculated 90 (30) days after the acquisition effective date.

For each acquiring company, I investigate whether a management earnings forecast is issued during pre-acquisition and post-acquisition windows. To ensure consistency with the measurement of *REV*, the pre-acquisition window is defined to be the period from 90 days before the acquisition announcement date to 30 days before. Similarly, the post-acquisition window is the period from 30 days after the acquisition effective date to 90 days after.

The definitions for each variable are summarized in Table 1.

3. Sample selection

The sample is constructed from the intersection of the Security Data Company (SDC), First Call Company Issued Guidelines, and I/B/E/S databases over the period 1995–2006. The sample period starts from 1995 because this is when First Call began to comprehensively cover management forecasts. An acquisition is included in the sample if it satisfies the following criteria:

(1) The acquisition was successfully completed.

(2) The acquisition is either a pure stock swap or a pure cash purchase.

(3) The acquirer's annual earnings announcement date is available in I/B/E/S.

(4) The acquirer's reported earnings are available in I/B/E/S.

[4] The Security Data Company dataset defines the effective date as the date when the entire transaction is completed and effective.

(5) The acquirer's book value of common equity, stock price, and shares outstanding are available in COMPUSTAT.

(6) The acquirer issues at least one management forecast within the period from one year before the acquisition announcement date to one year after the acquisition effective date. I impose this final restriction in order to exclude acquirers that have a consistent policy of not issuing management forecasts. (In untabulated tests, I find qualitatively similar results if I do not drop these companies from the sample.)

The final sample comprises 493 stock swap acquisitions and 1144 cash acquisitions. Panel A of Table 2 partitions the sample according to the Fama and French industry classifications. There is some evidence of industry clustering with more than one third of acquisitions occurring in the Business Equipment sector (the clustering exists for both stock swap acquisitions and the control group of cash purchases). Panel B shows the distribution of the sample by the year of the acquisition announcement. To control for any industry and year effects, the multiple regressions include industry and year dummy variables.

4. Results

4.1 Univariate analysis of management forecasts

Table 3 reports the frequency of management forecast issuance during the pre-acquisition and post-acquisition windows. For the stock swap acquirers, the frequency of a bad news forecast is just 9.7% during the pre-acquisition period compared to 15.0% during the post-acquisition period. The difference (5.3% = 15.0% minus 9.7%) is statistically significant at the 5% level (t-stat. = 2.52). For the cash acquirers, the frequency of a bad news forecast is 21.1% during the pre-acquisition period and 18.6% during the post-acquisition period, with the difference (-2.5%) being

statistically insignificant. Comparing the post-pre difference between stock swap acquirers and cash acquirers (i.e., 5.3% vs. -2.5%), the difference-in-differences is statistically significant at the 1% level (t-stat. = 2.89). This finding is consistent with hypothesis H1 that stock swap acquirers tend to withhold bad news during the pre-acquisition period.

Interestingly, the results are not statistically significant for H2. For the stock swap acquirers, the frequency of a good news forecast is 10.8% (11.8%) during the pre-acquisition (post-acquisition) period and the difference is insignificant (t-stat. = 0.50). When this difference is compared with that of the cash acquirers, the difference-in-differences (i.e., 1.0% vs. 3.5%) is also found to be statistically insignificant (t-stat. = -0.59). Therefore, the results do not support the argument that stock swap acquirers issue more good news forecasts during the pre-acquisition period in order to boost their stock prices.

In sum, the univariate tests provide evidence consistent with H1 that stock swap acquirers are reluctant to forecast bad earnings news during the pre-acquisition period. In contrast, the evidence does not support H2 that stock swap acquirers are more likely to issue good news forecasts.

4.2 Revisions to the consensus analyst forecast

Panel A of Table 4 reports univariate results for the direction of the revisions to the consensus analyst forecast. The consensus is revised down for 28.6% of the stock swap acquirers during the pre-acquisition window compared to 39.1% during the post-acquisition period. The difference between these frequencies is statistically significant (t-stat. = 3.52). For the cash acquirers, the frequency of a downward revision is 35.2% during the pre-acquisition period compared to 37.6% during the

post-acquisition window, and the difference is not significant (t-stat. = 1.22). The change in frequencies from the pre-acquisition period to the post-acquisition period is significantly larger for stock swap acquirers than for the cash acquirers (t-stat. = 2.28). Consistent with H1, this is consistent with the stock swap acquirers withholding bad news during the pre-acquisition window. With respect to upward revisions in the consensus, the difference-in-differences test does not support the prediction in H2 that stock swap acquirers are more likely to disclose good news during the pre-acquisition period (t-stat. = -1.14).

Panel B reports results for the magnitudes of the revisions to the consensus (*REV*). Among the stock swap acquirers whose analyst forecasts are not revised up ($REV \leq 0$), the mean value of *REV* is -0.128 in the pre-acquisition period compared to -0.185 during the post acquisition period. The difference between these magnitudes is -0.057 (-0.057 = -0.185 minus -0.128) and is statistically significant, albeit at only the 10% level (t-stat. = -1.83). Comparing the change in the magnitude of the downward revision to that of cash acquirers, the difference-in-differences test is also significant at the 10% level (t-stat. = -1.83). Overall, the results in Panels A and B indicate that, prior to stock swap acquisitions, the consensus is less likely to be revised down; further, when the consensus is revised down, the magnitude of the revision is smaller. Both results are consistent with the stock swap acquirers withholding bad news until after the acquisition is completed.

Among the stock swap acquirers whose analyst forecasts are not revised down ($REV \geq 0$), the mean value of *REV* is 0.031 in the pre-acquisition period compared to 0.023 during the post acquisition period. Although the difference (-0.008 = 0.023 – 0.031) is significant at the 10% level (t-stat. = -1.74), the difference-in-differences test for these upward revisions is not significant (t-stat. = -0.89). These results are not

consistent with the stock swap acquirers disclosing more good news during the pre-acquisition period.

4.3 Multivariate results for the issuance of management forecasts

In the multivariate analysis, I control for the earnings surprise (*FE*), company size (*SIZE*), growth opportunities (*MB*), industry effects, and year effects. Descriptive statistics for the control variables are reported in Table 5. The market values of the stock swap acquirers are slightly higher than those of the cash acquirers (t-stat. = 1.67). The stock swap acquirers have higher market-to-book ratios (*MB*) than the cash acquirers, consistent with the market perceiving that the stock swap acquirers have superior future growth opportunities (t-stat. = 13.08). However, the *FE* variable reveals that the stock swap acquirers report significantly worse earnings news subsequent to the acquisition announcement (t-stat. = -2.76).[5]

The estimation sample comprises 1,637 acquiring companies (493 are financed through stock while 1,144 are financed using cash), but each company has two observations, one relating to the pre-acquisition period and one for the post-acquisition period. Accordingly, there are 3,274 observations for the regression models. Given that the two observations per company are not independent, I adjust the standard errors by clustering on each company (Petersen, 2009).

Column (1) of Table 6 presents the results for Eq. (1) where the dependent variable (*MFBAD*) indicates the acquirer's issuance of a bad news earnings forecast. Column (2) presents the results explaining the issuance of good news earnings forecasts (*MFGOOD*). The *STOCK* x *PRE* interaction variable captures the incremental effect of stock swap acquisitions relative to cash purchases during the

[5] The multivariate results are qualitatively the same if I rank transform the control variables in order to account for potential problems of outliers.

pre-acquisition period, as compared with the post-acquisition period.

The *STOCK* x *PRE* coefficients are significantly negative for the bad news models in Column (1). Consistent with H1, this means that stock swap acquirers are more reluctant than cash acquirers to issue unfavorable management forecasts before the acquisition rather than after. The *STOCK* x *PRE* coefficients are positive but insignificant for the good news models in Column (2). Inconsistent with H2, this result suggests that the stock swap acquirers are not more likely to issue favorable management forecasts during the pre-acquisition period.

The results for the control variables are as expected. The analyst forecast error (*FE*) variable has significant negative coefficients in Column (1), implying that companies are less likely to issue unfavorable management forecasts when the prevailing consensus forecast is below future reported earnings. The *FE* coefficients are significantly positive in Column (2), implying that companies are more likely to issue upward earnings guidance when the consensus is below future reported earnings. Company size (*SIZE*) is positively correlated with the issuance of both favorable and unfavorable management forecasts. Overall, the results for the control variables are generally consistent with the prior literature on the determinants of management forecast issuance (Kasznik and Lev 1995; Lennox and Park 2006).

4.4 Multivariate results for the revisions to analysts' forecasts

Panel A of Table 7 reports the results for the direction of analyst forecast revisions. The dependent variables (*REVDOWN*, *REVUP*) indicate whether the consensus is revised down or up. In the models for downward revisions, the *STOCK* x *PRE* coefficients are negative and statistically significant. Consistent with H1, this implies that the analyst forecasts for stock swap acquirers are less likely to be revised down

during the pre-acquisition period. This finding is significant at the 1% level in the models where I do not control for the acquirer's issuance of earnings forecasts (t-stats. = -2.82).

The *MFBAD* coefficient is significantly positive, implying that the consensus is more likely to be revised down if the acquiring company issued a bad news forecast. Likewise, the significant negative coefficient on *MFGOOD* implies that the consensus is less likely to be revised down if the acquiring company issued a good news forecast. These results are consistent with Baginski and Hassell (1990), who show that the company's issuance of an earnings forecast can cause analysts to revise their own forecasts. Interestingly, the negative *STOCK* x *PRE* coefficient is smaller (-0.345) after controlling for *MFBAD* and *MFGOOD*, but it is still statistically significant (t-stat. = -2.16). This is consistent with the idea that the consensus analyst forecasts is guided by managerial disclosures other than earnings forecasts.

In the models for upward revisions to the consensus, the coefficients on *STOCK* x *PRE* are positive but statistically insignificant. Inconsistent with H2, this means that the analyst forecasts for stock swap acquirers are not more likely to be revised up during the pre-acquisition period. Although this is inconsistent with H2, it is consistent with the evidence on good news management forecasts (Table 6).

The *FE* coefficients are significantly negative for the downward revision models. Therefore, analysts are more likely to revise their forecasts downwards if their forecasts are overly optimistic relative to future reported earnings (i.e., if *FE* is more negative). As expected, the *FE* coefficients are significantly positive for the upward revision models. That is, analysts are more likely to revise their forecasts upwards if their forecasts are overly pessimistic.

Panel B of Table 7 reports results where the dependent variable (*REV*)

indicates the magnitude of the revisions to the consensus analyst forecast. The models are estimated for observations in which the consensus is not revised up ($REV \leq 0$) or not revised down ($REV \geq 0$). When the consensus is not revised up, the coefficient of *STOCK* x *PRE* is found to be significantly positive (t-stats. = 3.09, 3.05, 2.63). This implies that downward revisions to the consensus are significantly smaller during the pre-acquisition period when acquisitions are financed with stock. This is consistent with the argument that stock swap acquirers have incentives to withhold bad news from analysts during the pre-acquisition period. When the consensus is not revised down, the coefficient of *STOCK* x *PRE* is statistically insignificant. Therefore, upward revisions to the consensus are not significantly larger during the pre-acquisition period when acquisitions are financed with stock. Again, this is consistent with the other evidence in this paper that stock swap acquirers do not guide the consensus forecast upwards during the pre-acquisition window. Overall, the evidence clearly points to stock swap acquirers withholding bad news before the acquisition date, but they do not appear to be boosting the stock price by disclosing good news.

The *FE* coefficients are significantly positive in the models explaining the magnitude of downward revisions. This implies that the consensus is revised down to a greater extent if the consensus is overly optimistic (i.e., if *FE* is more negative). However, the *FE* coefficients are insignificant in explaining the magnitude of upward revisions to the consensus. The *MFBAD* coefficient is significantly negative in the downward revision sample, implying that the consensus is revised down to a greater extent if the acquiring company issues a bad news forecast. Conversely, the *MFGOOD* coefficient is significantly positive in the upward revision sample, which means that the consensus is revised up by a larger magnitude if the acquiring company issues a good news forecast.

5. Conclusion

When companies finance their acquisitions using their own stock, they have incentives to inflate the stock price prior to the acquisition date. Managers can boost their companies' market values by disclosing good earnings news or remaining silent about bad news. However, the risk of litigation may deter stock swap acquirers from positively disclosing good news. Remaining silent about bad news may be a more attractive strategy given the difficulty that plaintiffs face in proving that managers were deliberately suppressing the bad news.

To test whether stock swap acquirers opportunistically disclose good news or remain silent about bad news, I examine their issuance of management forecasts. I control for the magnitude of the deviation between the prevailing consensus and future reported earnings because management forecasts may be issued in a non-opportunistic way, to correct the market's inaccurate expectations. After controlling for this benign motive, I find strong evidence that companies are less likely to issue unfavorable management forecasts before stock swap acquisitions. Consistent with stock swap acquirers withholding bad news, I also find that the consensus is less likely to be revised down during the pre-acquisition period. Further, the average magnitude of downward revisions to the consensus is significantly smaller prior to stock swap acquisitions. Overall, these findings are consistent with stock swap acquirers opportunistically withholding bad news in order to maintain high stock market valuations. These findings are consistent with it being difficult for plaintiffs to identify which acquirers withhold bad news for opportunistic reasons and which are silent because they are not privately informed.

On the other hand, the evidence does not support the prediction that

companies are more likely to issue favorable management forecasts before stock swap acquisitions. Consistent with stock swap acquirers not opportunistically disclosing good news, the consensus analyst forecast is not more likely to be revised up during the pre-acquisition period. Further, the average magnitude of upward revisions to the consensus is not significantly affected by the way in which the acquisition is financed.

Overall, the results are consistent with stock swap acquirers strategically withholding bad news to avoid stock price declines. In contrast, they do not seem to disclose good news in order to increase their stock market valuations. That is, remaining silent about bad news is fundamentally different from making positive disclosures about good news.

References

Aboody, D., and R. Kasznik. 2000. CEO stock option awards and the timing of corporate voluntary disclosures. *Journal of Accounting and Economics* 29 (1):73-100.

Ajinkya, B., and M. Gift. 1984. Corporate managers' earnings forecasts and symmetrical adjustments of market expectations. *Journal of Accounting Research* 22 (2):425-444.

Andrade, G., M. Mitchell, and S. E. 2001. New evidence and perspectives on mergers. *Journal of Economic Perspectives* 15 (2):103-120.

Baginski, S., and J. Hassell. 1990. The market interpretation of management earnings forecasts as a predictor of subsequent financial analyst forecast revision. *The Accounting Review* 65 (1):175-190.

Ball, R., and L. Shivakumar. 2008. Earnings quality at initial public offerings. *Journal of Accounting and Economics* 45 (2-3):324-349.

Botsari, A., and G. Meeks. 2008. Do acquirers manage earnings prior to a share for share bid? *Journal of Business Finance & Accounting* 35 (5-6):633-670.

Brockman, P., I. Khurana, and X. Martin. 2008. Voluntary disclosures around share repurchases. *Journal of Financial Economics* Forthcoming.

Brockman, P., and X. Martin. 2008. Voluntary disclosures around corporate acquisitions. *Working paper, University of Missouri*.

Burgstahler, D., and M. Eames. 2006. Management of earnings and analysts' forecasts to achieve zero and small positive earnings surprises *Journal of Business Finance & Accounting* 33 (5-6):633-652.

Cai, J., and A. Vijh. 2007. Incentive Effects of Stock and Option Holdings of Target and Acquirer CEOs. *The Journal of Finance* 62 (4):1891-1933.

Chen, S., and D. Matsumoto. 2006. Favorable versus unfavorable recommendations: the impact on analyst access to management-provided information. *Journal of Accounting Research* 44 (4):657-689.

Cheng, Q., and K. Lo. 2006. Insider trading and voluntary disclosures. *Journal of Accounting Research* 44 (4):815-848.

Cotter, J., I. Tuna, and P. Wysocki. 2006. Expectations Management and Beatable Targets: How Do Analysts React to Explicit Earnings Guidance? *Contemporary Accounting Research* 23 (3):593-628.

DuCharme, L., P. Malatesta, and S. Sefcik. 2004. Earnings management, stock issues, and shareholder lawsuits. *Journal of Financial Economics* 71 (1):27-49.

Dye, R. 1985. Disclosure of nonproprietary information. *Journal of Accounting Research* 23 (1):123-145.

Erickson, M., and S. Wang. 1999. Earnings management by acquiring firms in stock for stock mergers. *Journal of Accounting and Economics* 27:149-176.

Francis, J., J. Douglas Hanna, and D. Philbrick. 1997. Management communications with securities analysts. *Journal of Accounting and Economics* 24 (3):363-394.

Francis, J., D. Philbrick, and K. Schipper. 1994. Shareholder litigation and corporate disclosures. *Journal of Accounting Research* 32 (2):137-164.

Frankel, R., M. Johnson, and D. J. Skinner. 1999. An Empirical Examination of Conference Calls as a Voluntary Disclosure Medium *Journal of Accounting Research* 37 (1):133-150.

Frankel, R., M. McNichols, and G. Wilson. 1995. Discretionary disclosure and external financing. *The Accounting Review* 70 (1):135-150.

Gintschel, A., and S. Markov. 2004. The effectiveness of Regulation FD. *Journal of Accounting and Economics* 37 (3):293-314.
Givoly, D., and J. Lakonishok. 1979. The information content of financial analysts' earnings forecasts. *Journal of Accounting and Economics* 2 (1):165-185.
Gong, G., H. Louis, and A. Sun. 2008. Earnings management, lawsuits, and stock-for-stock acquirers' market performance. *Journal of Accounting and Economics* 46 (1):62-77.
Graham, J., C. Harvey, and S. Rajgopal. 2005. The economic implications of corporate financial reporting. *Journal of Accounting and Economics* 40 (1-3):3-73.
Griffin, P. 1976. Competitive information in the stock market: An empirical study of earnings, dividends, and analysts' forecasts. *Journal of Finance* 31 (2):631–650.
Healy, P., and K. Palepu. 2001. Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics* 31 (1-3):405-440.
Hribar, P., and D. Collins. 2002. Errors in estimating accruals: implications for empirical research. *Journal of Accounting Research* 40 (1):105-134.
Imhoff, E., and G. Lobo. 1984. Information content of analysts' composite forecast revisions. *Journal of Accounting Research* 22 (2):541-554.
Jung, W., and Y. Kwon. 1988. Disclosure when the market is unsure of information endowment of managers. *Journal of Accounting Research* 26 (1):146-153.
Kane, G. D., and N. L. Meade. 1998. Ratio analysis using rank transformation. *Review of Quantitative Finance and Accounting* 10 (1):59-74.
Kasznik, R., and B. Lev. 1995. To warn or not to warn: management disclosures in the face of an earnings surprise. *The Accounting Review* 70 (1):113-134.
Ke, B., and Y. Yu. 2006. The effect of issuing biased earnings forecasts on analysts' access to management and survival *Journal of Accounting Research* 44 (5):965-999.
Kothari, S., J. Sabino, and T. Zach. 2005. Implications of survival and data trimming for tests of market efficiency. *Journal of Accounting and Economics* 39 (1):129-161.
Lang, M., U. Carolina, and R. Lundholm. 2000. Voluntary Disclosure and Equity Offerings: Reducing Information Asymmetry or Hyping the Stock? *Contemporary Accounting Research* 17 (4):623-662.
Lang, M., and R. Lundholm. 1993. Cross-sectional determinants of analyst ratings of corporate disclosures. *Journal of Accounting Research* 31:246-246.
Lennox, C., and C. Park. 2006. The informativeness of earnings and management's issuance of earnings forecasts. *Journal of Accounting and Economics* 42 (3):439-458.
Louis, H. 2004. Earnings management and the market performance of acquiring firms. *Journal of Financial Economics* 74 (1):121-148.
Malmendier, U., and G. Tate. 2008. Who makes acquisitions? CEO overconfidence and the market's reaction. *Journal of Financial Economics*.
Matsumoto, D. 2002. Management's Incentives to Avoid Negative Earnings Surprises. *The Accounting Review* 77 (3):483-514.
Mitchell, M., and J. Mulherin. 1996. The impact of industry shocks on takeover and restructuring activity. *Journal of Financial Economics* 41 (2):193-229.
Mohanram, P., and S. Sunder. 2006. How has Regulation FD affected the operations of financial analysts? *Contemporary Accounting Research* 23 (2):491-525.

Noe, C. 1999. Voluntary disclosures and insider transactions. *Journal of Accounting and Economics* 27 (3):305-326.
Petersen, M. 2009. Estimating Standard Errors in Finance Panel Data Sets: Comparing Approaches. *Review of Financial Studies* 22 (1):435 - 480.
Richardson, S., S. Teoh, and P. Wysocki. 2004. The walk-down to beatable analyst forecasts: the role of equity issuance and insider trading incentives. *Contemporary Accounting Research* 21 (4):885-924.
Schwert, G. 1996. Markup pricing in mergers and acquisitions. *Journal of Financial Economics* 41 (2):153-192.
Shleifer, A., and R. Vishny. 2003. Stock market driven acquisitions. *Journal of Financial Economics* 70 (3):295-311.
Skinner, D. 1997. Earnings disclosures and stockholder lawsuits. *Journal of Accounting and Economics* 23 (3):249-282.
Skinner, D., and R. Sloan. 2002. Earnings Surprises, Growth Expectations, and Stock Returns or Don't Let an Earnings Torpedo Sink Your Portfolio. *Review of Accounting Studies* 7 (2):289-312.
Verrecchia, R. 1983. Discretionary disclosure. *Journal of Accounting and Economics* 5:179-194.
Waymire, G. 1985. Earnings volatility and voluntary management forecast disclosure. *Journal of Accounting Research* 1985 (1):268-295.
Zhang, X. 2006. Information uncertainty and analyst forecast behavior. *Contemporary Accounting Research* 23 (2):565-590.

Figure 1: Time line of management forecasts and analyst forecasts

Figure 1.1: Pre acquisition

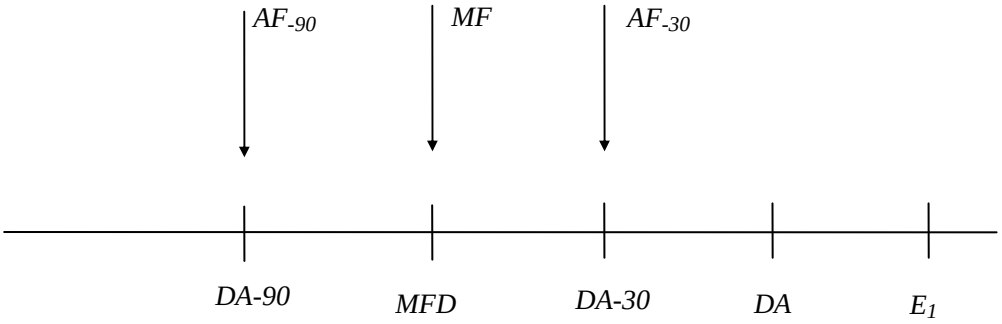
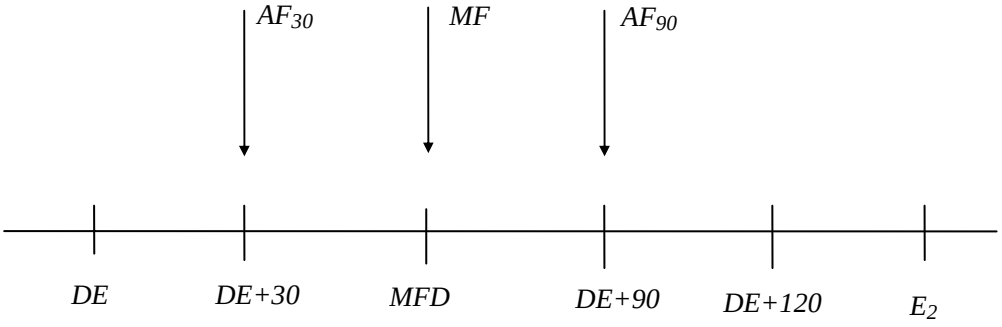


Figure 1.2: Post acquisition



DA: acquisition announcement date.
DA-90: 90 days before the acquisition announcement date.
DA-30: 30 days before the acquisition announcement date.
E_1 : the acquirer's annual earnings announced immediately after the acquisition announcement date.
AF_{-90} : the consensus analyst forecast of annual earnings E_1, calculated 90 days before the acquisition announcement day.
AF_{-30} : the consensus analyst forecast of annual earnings E_1, calculated 30 days before the acquisition announcement day.
DE: acquisition effective (completion) date.
DE+30: 30 days after the acquisition effective date.
DE+90: 90 days after the acquisition effective date.
DE+120: 120 days after the acquisition effective date.
E_2 : the acquirer's most recent annual earnings announced 120 days after the acquisition effective date.
AF_{30} : the consensus analyst forecast of annual earnings E_2, calculated 30 days after the acquisition effective day.
AF_{90} : the consensus analyst forecast of annual earnings E_2, calculated 90 days after the acquisition effective day.
MF: management earnings forecast issued within the [DA-90, DA-30] window or the [DE+30, DE+90] window.
MFD: management forecast date.

Table 1
Variable definitions

SIZE	= natural logarithm of the acquirer's market value of common equity at the end of the prior fiscal year.
MB	= market-to-book value of common equity for the acquirer at the end of prior fiscal year.
E_1	= the acquirer's most recent annual earnings per share announced after the acquisition announcement date.
E_2	= the acquirer's most recent annual earnings per share announced 120 days after the acquisition effective date.
AF_{-90}	= the consensus analyst forecast of E_1, calculated 90 days before the acquisition announcement day.
AF_{-30}	= the consensus analyst forecast of E_1, calculated 30 days before the acquisition announcement day.
AF_{30}	= the consensus analyst forecast of E_2, calculated 30 days after the acquisition effective day.
AF_{90}	= the consensus analyst forecast of E_2, calculated 90 days after the acquisition effective day.
STOCK	= one if the acquisition is financed with stock, = 0 if the acquisition is financed with cash.
REV	= AF_{-30} minus AF_{-90} scaled by the absolute value of actual earnings (pre-acquisition period); = AF_{90} minus AF_{30} scaled by the absolute value of actual earnings (post-acquisition period).
REVDOWN	= one if $REV < 0$, = zero otherwise.
REVUP	= one if $REV > 0$, = zero otherwise.
FE	= E_1 minus AF_{-90} scaled by the absolute value of actual earnings (pre-acquisition period); = E_2 minus AF_{30} scaled by the absolute value of actual earnings (post-acquisition period).
PRE	= one for the pre-acquisition period (the [DA-90, DA-30] window); = zero for the post-acquisition period (the [DE+30, DE+90] window).
MFBAD	= one if the company issues a bad news earnings forecast within the pre-acquisition or post-acquisition window, = zero otherwise. A management forecast is classified as bad news if the abnormal return in the three-day window [-1, 1] around the management forecast date is negative.
MFGOOD	= one if the company issues a good news earnings forecast within the pre-acquisition or post-acquisition window, = zero otherwise. A management forecast is classified as good news if the abnormal return in the three-day window [-1, 1] around the management forecast date is positive.

Table 2
Industry and year distribution of the acquiring companies

Panel A. Sample distribution by industry (Fama and French 12 industry classifications)

	Stock swaps		Cash purchases		Total	
Industry	N	%	N	%	N	%
Consumer Non-durables	7	(0.43%)	74	(4.52%)	81	(4.95%)
Consumer Durables	6	(0.37%)	32	(1.95%)	38	(2.32%)
Manufacturing	24	(1.47%)	158	(9.65%)	182	(11.12%)
Oil, Gas, and Coal Extraction and Products	7	(0.43%)	22	(1.34%)	29	(1.77%)
Chemicals and Allied Products	8	(0.49%)	27	(1.65%)	35	(2.14%)
Business Equipment	242	(14.78%)	338	(20.65%)	580	(35.43%)
Telephone and Television Transmission	7	(0.43%)	14	(0.86%)	21	(1.28%)
Utilities	5	(0.31%)	12	(0.73%)	17	(1.04%)
Wholesale, Retail, and Some Services	33	(2.02%)	121	(7.39%)	154	(9.41%)
Healthcare, Medical Equipment, and Drugs	41	(2.50%)	104	(6.35%)	145	(8.86%)
Finance	64	(3.91%)	100	(6.11%)	164	(10.02%)
Other	49	(2.99%)	142	(8.67%)	191	(11.67%)
Total	493	(30.12%)	1144	(69.88%)	1637	(100%)

Table 2 (cont.)
Industry and year distribution of the acquiring companies

Panel B. Sample distribution by year

	Stock swaps		Cash purchases		Total	
Year	N	%	N	%	N	%
1995	29	(1.77%)	33	(2.02%)	62	(3.79%)
1996	49	(2.99%)	66	(4.03%)	115	(7.03%)
1997	72	(4.40%)	67	(4.09%)	139	(8.49%)
1998	74	(4.52%)	106	(6.48%)	180	(11.00%)
1999	73	(4.46%)	93	(5.68%)	166	(10.14%)
2000	81	(4.95%)	93	(5.68%)	174	(10.63%)
2001	52	(3.18%)	88	(5.38%)	140	(8.55%)
2002	21	(1.28%)	108	(6.60%)	129	(7.88%)
2003	10	(0.61%)	110	(6.72%)	120	(7.33%)
2004	17	(1.04%)	136	(8.31%)	153	(9.35%)
2005	10	(0.61%)	128	(7.82%)	138	(8.43%)
2006	5	(0.31%)	116	(7.09%)	121	(7.39%)
Total	493	(30.12%)	1144	(69.88%)	1637	(100%)

Table 3
Univariate results for the management forecast and financing variables
See Fig. 1 for definitions of the pre-acquisition and post-acquisition windows.

Stock swaps (*STOCK* = 1)			
	Pre-acquisition period (frequency)	Post-acquisition period (frequency)	Test for difference (t-stat.)
MFBAD	0.097	0.150	2.52**
MFGOOD	0.108	0.118	0.50

Cash purchases (*STOCK* = 0)			
	Pre-acquisition period (frequency)	Post-acquisition period (frequency)	Test for difference (t-stat.)
MFBAD	0.211	0.186	-1.47
MFGOOD	0.163	0.198	2.17**

	Test for difference between stock swaps and cash purchases (t-stat)
MFBAD post-pre difference	2.89***
MFGOOD post-pre difference	-0.59

Notes:

STOCK = one if the acquisition is financed with stock, = 0 if the acquisition is financed with cash.

MFBAD = one if the company issues a bad news earnings forecast, = zero otherwise. A management forecast is classified as bad news if the abnormal return in the three-day window [-1, 1] around the management forecast date is negative.

MFGOOD = one if the company issues a good news earnings forecast, = zero otherwise. A management forecast is classified as good news if the abnormal return in the three-day window [-1, 1] around the management forecast date is positive.

*** Significant at 1% level (two-tail test).
** Significant at 5% level (two-tail test).
* Significant at 10% level (two-tail test).

Table 4
Univariate results for the analyst forecast revision and financing variables
See Fig. 1 for definitions of the pre-acquisition and post-acquisition windows.

Panel A: Revision direction

Stock swaps (*STOCK* = 1)

	Pre-acquisition period (frequency)	Post-acquisition period (frequency)	Test for difference (t-stat.)
REVDOWN	0.286	0.391	3.52***
REVUP	0.363	0.306	-1.89*

Cash purchases (*STOCK* = 0)

	Pre-acquisition period (frequency)	Post-acquisition period (frequency)	Test for difference (t-stat.)
REVDOWN	0.352	0.376	1.22
REVUP	0.339	0.323	-0.80

	Test for difference between stock swaps and cash purchases (t-stat)
REVDOWN post-pre difference	2.28**
REVUP post-pre difference	-1.14

Panel B: Mean value of the revision magnitude (*REV*)

Stock swaps (*STOCK* = 1)

	Pre-acquisition period (mean of *REV*)	Post-acquisition period (mean of *REV*)	Test for difference (t-stat.)
$REV \leq 0$	-0.128	-0.185	-1.83*
$REV \geq 0$	0.031	0.023	-1.74*

Cash purchases (*STOCK* = 0)

	Pre-acquisition period (mean of *REV*)	Post-acquisition period (mean of *REV*)	Test for difference (t-stat.)
$REV \leq 0$	-0.124	-0.121	0.16
$REV \geq 0$	0.028	0.025	-1.17

	Test for difference between stock swaps and cash purchases (t-stat)
REV post-pre difference for $REV \leq 0$	-1.83*
REV post-pre difference for $REV \leq 0$	-0.89

Table 4 (cont.)

STOCK = one if the acquisition is financed with stock, = 0 if the acquisition is financed with cash.

REV = AF_{-30} minus AF_{-90} scaled by the absolute value of actual earnings (pre-acquisition period); = AF_{90} minus AF_{30} scaled by the absolute value of actual earnings (post-acquisition period).

REVDOWN = one if $REV < 0$, = zero otherwise.

REVUP = one if $REV > 0$, = zero otherwise.

*** Significant at 1% level (two-tail test).

** Significant at 5% level (two-tail test).

* Significant at 10% level (two-tail test).

Table 5
Descriptive statistics and tests of differences in means for the control variables

Panel A: Descriptive statistics

	Median	Mean	Std.Dev.	Minimum	Maximum
SIZE	6.702	6.865	1.790	2.429	13.041
MB	2.919	4.098	4.014	-4.776	33.561
FE	-0.021	-0.448	1.341	-13.750	0.957

Panel B: Differences in means

	Stock swaps (*STOCK* = 1)	Cash purchases (*STOCK* = 0)	Test for difference (t-stat.)
SIZE	6.945	6.831	1.67*
MB	5.660	3.426	13.08***
FE	-0.551	-0.403	-2.76***

Notes:

STOCK = one if the acquisition is financed with stock, = 0 if the acquisition is financed with cash.

SIZE = natural logarithm of the acquirer's market value of common equity at the end of the prior fiscal year.

MB = market-to-book value of common equity for the acquirer at the end of prior fiscal year.

FE = E_1 minus AF_{-90} scaled by the absolute value of actual earnings (pre-acquisition period); = E_2 minus AF_{30} scaled by the absolute value of actual earnings (post-acquisition period).

E_1 = the acquirer's most recent annual earnings per share announced after the acquisition announcement date.

E_2 = the acquirer's most recent annual earnings per share announced 120 days after the acquisition effective date.

AF_{-90} = the consensus analyst forecast of E_1, calculated 90 days before the acquisition announcement day.

AF_{-30} = the consensus analyst forecast of E_1, calculated 30 days before the acquisition announcement day.

AF_{30} = the consensus analyst forecast of E_2, calculated 30 days after the acquisition effective day.

AF_{90} = the consensus analyst forecast of E_2, calculated 90 days after the acquisition effective day.

*** Significant at 1% level (two-tail test).
** Significant at 5% level (two-tail test).
* Significant at 10% level (two-tail test).

Table 6
Logit models explaining the acquirer's issuance of bad news and good news management forecasts

$$MFBAD = \alpha_0 + \alpha_1 STOCK + \alpha_2 PRE + \alpha_3 STOCK \times PRE + \alpha_4 FE + \alpha_5 SIZE + \alpha_6 MB + u$$

$$MFGOOD = \beta_0 + \beta_1 STOCK + \beta_2 PRE + \beta_3 STOCK \times PRE + \beta_4 FE + \beta_5 SIZE + \beta_6 MB + u$$

		(1) Unfavorable management forecasts (dependent variable = *MFBAD*)			(2) Favorable management forecasts (dependent variable = *MFGOOD*)	
	Predicted sign	Model 1	Model 2	Predicted sign	Model 3	Model 4
Intercept	?	-3.167***	-3.889***	?	-2.452***	-3.183***
		(-6.84)	(-7.96)		(-6.72)	(-7.64)
STOCK	?	0.156	0.113	?	-0.028	-0.092
		(0.90)	(0.65)		(-0.17)	(-0.54)
PRE	?	0.139	0.136	?	-0.232**	-0.238**
		(1.26)	(1.22)		(-2.17)	(-2.20)
STOCK* x *PRE	***<0***	***-0.693******	***-0.701******	***>0***	***0.159***	***0.158***
		(-3.02)	(-3.03)		(0.68)	(0.67)
FE	<0	-0.117***	-0.142***	>0	0.194***	0.156**
		(-3.31)	(-3.98)		(2.72)	(2.34)
SIZE	>0		0.125***	>0		0.116***
			(4.34)			(3.65)
MB	?		0.001	?		0.017
			(0.08)			(1.36)
Year Dummies		Yes	Yes		Yes	Yes
Industry		Yes	Yes		Yes	Yes

N	3274	3274	3274	3274
Pseudo R^2	6.35%	7.01%	9.02%	9.71%

Notes:
The standard errors are adjusted for clustering on each company.
See Table 2 for variable definitions.
z values are reported in parentheses.
*** Significant at 1% level (two-tail test).
** Significant at 5% level (two-tail test).
* Significant at 10% level (two-tail test).

Table 7
Multivariate analysis of the signs (magnitudes) of the revisions to the consensus analyst forecast
Panel A: Revision direction

		(1) Revision Down (dep. var. = *REVDOWN*)				(2) Revision Up (dep. var. = *REVUP*)		
	Predicted sign	(1)	(2)	(3)	Predicted sign	(4)	(5)	(6)
Intercept	?	-0.736***	-0.787**	-0.684**	?	-1.101***	-1.405***	-1.462***
		(-2.62)	(-2.40)	(-2.05)		(-3.45)	(-4.10)	(-4.19)
STOCK	?	0.080	0.113	0.095	?	0.003	-0.053	-0.032
		(0.65)	(0.91)	(0.74)		(0.02)	(-0.43)	(-0.25)
PRE	?	-0.176**	-0.176**	-0.214**	?	0.138	0.136	0.177*
		(-2.18)	(-2.17)	(-2.55)		(1.56)	(1.53)	(1.96)
STOCK x PRE	***<0***	***-0.438******	***-0.438******	***-0.345****	***>0***	***0.217***	***0.219***	***0.171***
		(-2.82)	(-2.82)	(-2.16)		(1.39)	(1.40)	(1.06)
FE	<0	-0.439***	-0.437***	-0.407***	>0	1.021***	0.984***	0.921***
		(-6.24)	(-6.11)	(-5.93)		(5.29)	(5.08)	(4.99)
SIZE	?		0.017	0.002	?		0.046*	0.040
			(0.62)	(0.08)			(1.75)	(1.49)
MB	?		-0.023*	-0.023*	?		0.021**	0.020*
			(-1.83)	(-1.82)			(2.10)	(1.91)
MFBAD	>0			1.080***	<0			-0.358***
				(10.41)				(-3.25)
MFGOOD	<0			-0.336***	>0			0.882***
				(-2.86)				(8.29)

Year Dummies		Yes	Yes	Yes		Yes	Yes	Yes
Industry Dummies		Yes	Yes	Yes		Yes	Yes	Yes
N		3274	3274	3274		3274	3274	3274
Pseudo R^2		6.86%	6.96%	10.04%		7.88%	8.12%	10.17%

Panel B: Revision magnitude (dep. var. = *REV*)

		(3) Forecasts are not revised up (*REV* ≤ 0)				(4) Forecasts are not revised down (*REV* ≥ 0)		
	Predicted sign	(1)	(2)	(3)	Predicted sign	(4)	(5)	(6)
Intercept	?	0.227***	0.286***	0.259***	?	-0.049***	-0.049***	-0.047**
		(3.57)	(3.56)	(3.30)		(-2.87)	(-2.68)	(-2.51)
STOCK	?	-0.054*	-0.051	-0.052*	?	0.001	-0.000	0.000
		(-1.76)	(-1.62)	(-1.70)		(0.08)	(-0.05)	(0.05)
PRE	?	0.040*	0.041	0.045**	?	0.006	0.006	0.007
		(1.90)	(1.93)	(2.13)		(1.25)	(1.24)	(1.48)
STOCK* x *PRE	***>0***	***0.137******	***0.135******	***0.114******	***>0***	***0.007***	***0.007***	***0.006***
		(3.09)	(3.05)	(2.63)		(0.79)	(0.79)	(0.76)
FE	>0	0.150***	0.152***	0.147***	>0	0.009*	0.009*	0.008
		(11.32)	(11.44)	(11.61)		(1.71)	(1.67)	(1.51)
SIZE	?		-0.011	-0.005	?		-0.000	-0.001
			(-1.53)	(-0.78)			(-0.11)	(-0.71)
MB	?		0.000	-0.000	?		0.000	0.000

			(0.09)	(-0.01)			(0.90)	(0.61)
MFBAD	<0			-0.256***	?			0.011
				(-9.05)				(1.56)
MFGOOD	?			-0.057*	>0			0.036***
				(-1.82)				(6.28)
Year Dummies		Yes	Yes	Yes		Yes	Yes	Yes
Industry Dummies		Yes	Yes	Yes		Yes	Yes	Yes
N		2186	2186	2186		2106	2106	2106

The standard errors are adjusted for clustering on each company. The models in Panel A are estimated using logit. The models in Panel B are estimated using tobit.
z-statistics are reported in parentheses.
See Table 2 for variable definitions.
*** Significant at 1% level (two-tail test).
** Significant at 5% level (two-tail test).
* Significant at 10% level (two-tail test).