

# **Hometown Biased Acquisitions**

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Table IA.1: Robustness to the CEO college state, board connections, and industry experience

This table reports coefficient estimates from linear probability regression on the role of CEO state of origin on acquisitions. The dependent variable is a dummy variable equals one if a firm ( $i$ ) acquires at least one firm in a state ( $s$ ) in year  $t$  and zero otherwise. The variable of interest is CEO\_HOME\_STATE equals one if a firm's CEO grew-up in state  $s$  and zero otherwise. In column 1, we exclude observations if CEO tenure is less than 3 years. In column 2, we repeat the analysis in Table 3 with the inclusion of a dummy variable that captures the CEO college state (CEOCOLLSTATE). In column 3, we include a dummy variable which equals one if a CEO holds a board seat in that state (CEOBOARDSTATE). In column 4, we first define a variable which captures the percentage of public firms in a state that match the industry experience of a CEO (% FIRMSSAMEIND), then we include a dummy variable that is greater than the median of % FIRMSSAMEIND. Robust standard errors are clustered at the firm level and robust t-statistics are in parentheses. Significance levels are denoted by \*, \*\*, and \*\*\*, which correspond to the 10%, 5%, and 1% levels, respectively.

VARIABLES	DEAL_DUMMY as dependent variable			
	(1)	(2)	(3)	(4)
CEO_HOME_STATE	0.00487*** (4.54)	0.00349*** (3.19)	0.00375*** (3.71)	0.00381*** (3.77)
CEOCOLLSTATE		0.00152* (1.77)		
CEOBOARDSTATE			0.00319** (2.28)	
% FIRMSSAMEINDGTMED				0.00045** (2.22)
Firm controls	Y	Y	Y	Y
Industry-year FE	Y	Y	Y	Y
HQ state-pair-year FE	Y	Y	Y	Y
Observations	863,300	691,500	849,900	849,900
R-squared	0.0601	0.0726	0.0602	0.0602

Table IA.2 – CEO overconfidence and the acquisition hometown bias

This table reports results on the impact of CEO overconfidence on the acquisition hometown bias. Columns 1 and 2 in Panel A report coefficient estimates from linear probability regressions using the cross-state private target sample and columns 3 and 4 in Panel A report coefficient estimates using the cross-state public target sample. The dependent variable is DEAL\_DUMMY. OVERCONFIDENT\_CEO is a dummy variable that equals one if the CEO postpones the exercise of vested options that are at least 67% in the money and 0 otherwise (Hirshleifer et al. (2012)). Panel B reports results on the impact of CEO overconfidence on the hometown acquisition performance. The dependent variable is the acquirer's three-day cumulative abnormal returns centered on the acquisition announcement. The variable of interest is HOMETOWN\_DEAL equals one if the deal is a cross-state home state acquisition and zero otherwise. Robust standard errors are clustered at the firm level. Robust t-statistics are in parentheses. Significance levels are denoted by \*, \*\*, and \*\*\*, which correspond to the 10%, 5%, and 1% levels, respectively.

Panel A: CEO overconfidence and acquisition propensity

VARIABLES	Private targets		Public targets	
	(1)	(2)	(3)	(4)
CEO_HOME_STATE	0.00363*** (4.75)	0.00262** (2.47)	0.00064* (1.68)	0.00034 (0.71)
CEO_HOME_STATE × OVERCONFIDENT CEO		0.00228 (1.43)		0.00059 (0.76)
OVERCONFIDENT CEO	0.00060*** (4.71)	0.00054*** (4.40)	0.00009* (1.70)	0.00009 (1.62)
Firm Controls	Y	Y	Y	Y
Industry-year FE	Y	Y	Y	Y
HQ state-pair-year FE	Y	Y	Y	Y
Observations	1,185,900	1,185,900	1,185,900	1,185,900
R-squared	0.0437	0.0437	0.0424	0.0424

Panel B: CEO overconfidence and hometown acquisition performance

VARIABLES	Private targets		Public targets	
	(1)	(2)	(3)	(4)
HOMETOWN_DEAL	-0.0148** (2.47)	-0.0172** (2.01)	0.0244*** (2.64)	0.0369** (2.35)
HOMETOWN_DEAL × OVERCONFIDENT CEO		0.0027 (0.22)		-0.0199 (1.05)
OVERCONFIDENT CEO	-0.0011 (0.39)	-0.0009 (0.32)	-0.0069 (1.61)	-0.0062 (1.32)
Controls	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Observations	4,376	4,376	1,129	1,129
R-squared	0.074	0.074	0.153	0.153

Table IA.3: Robustness to the exclusions of CEOs grew-up in NY, CA, and IL

This table reports coefficient estimates from linear probability regression on the role of CEO state of origin on acquisitions. The dependent variable is a dummy variable equals one if a firm ( $i$ ) acquires at least one firm in a state ( $s$ ) in year  $t$  and zero otherwise. The variable of interest is CEO\_HOME\_STATE equals one if a firm's CEO grew-up in state  $s$  and zero otherwise. In column 1, we repeat the analysis in Table 3 with the exclusion of CEOs grew-up in NY. In column 2, we exclude CEOs grew-up in CA. In column 3, we exclude CEOs grew-up in IL. In column 4, we exclude CEOs if they grew up in NY, CA, or IL. Robust standard errors are clustered at the firm level and robust t-statistics are in parentheses. Significance levels are denoted by \*, \*\*, and \*\*\*, which correspond to the 10%, 5%, and 1% levels, respectively.

VARIABLES	DEAL_DUMMY as dependent variable			
	Excluding NY (1)	Excluding CA (2)	Excluding IL (3)	Excluding NY, CA, and IL (4)
CEO_HOME_STATE	0.00489*** (5.15)	0.00299*** (4.07)	0.00400*** (4.51)	0.00286*** (3.65)
Firm controls	Y	Y	Y	Y
Industry-year FE	Y	Y	Y	Y
HQ state-pair-year FE	Y	Y	Y	Y
Observations	1,009,800	1,076,000	1,097,850	824,650
R-squared	0.0523	0.0486	0.0489	0.0595

Table IA.4: Acquisitions and the CFO hometown bias

This table reports coefficient estimates from linear probability regression on the role of CFO state of origin on acquisitions. Among 23,718 original firm-year observations, we are able to identify 14,591 observations with CFO state of origin information. Of these observations there are 1,951 unique firms and 3,220 unique CFOs. The dependent variable is a dummy variable equals one if a firm (*i*) acquires at least one firm in a state (*s*) in year *t* and zero otherwise. The variable of interest is CFO\_HOME\_STATE equals one if a firm's CFO grew-up in state *s* and zero otherwise. Definitions of the independent variables are described in the Appendix. Robust standard errors are clustered at the firm level and robust t-statistics are in parentheses. Significance levels are denoted by \*, \*\*, and \*\*\*, which correspond to the 10%, 5%, and 1% levels, respectively.

VARIABLES	DEAL_DUMMY as dependent variable				
	(1)	(2)	(3)	(4)	(5)
CEO_HOME_STATE	0.00795*** (6.97)	0.00412*** (3.81)	0.00383*** (3.52)	0.00374*** (3.45)	0.00279* (1.82)
CFO_HOME_STATE	0.00548*** (5.36)	0.00201** (2.01)	0.00213** (2.09)	0.00220** (2.17)	0.00107 (0.57)
Firm controls	Y	Y	Y	Y	Y
Industry-year FE	Y	Y	Y	Y	Y
HQ state-pair FE	N	Y	N	N	N
HQ State-pair-year FE	N	N	Y	Y	Y
Firm FE	N	N	N	Y	N
Firm-state FE	N	N	N	N	Y
Observations	729,550	729,550	729,550	729,550	729,550
R-squared	0.0028	0.0138	0.0656	0.0713	0.2066

Table IA.5: Robustness to the CEO birth county

This table reports coefficient estimates from linear probability regression on the role of CEO County of birth on acquisitions. Following the method in Bernile, Bhagwat, and Rau (2017), we manually collect a subsample of CEOs which we can identify their birth county. There are 992 unique firms and 1,300 unique CEOs. The dependent variable is a dummy variable equals one if a firm ( $i$ ) acquires at least one firm in a state ( $s$ ) in year  $t$  and zero otherwise. The variable of interest is  $\log(\text{distance to CEO birth county})$ . Definitions of the independent variables are described in the Appendix. Robust standard errors are clustered at the firm level and robust t-statistics are in parentheses. Significance levels are denoted by \*, \*\*, and \*\*\*, which correspond to the 10%, 5%, and 1% levels, respectively.

VARIABLES	DEAL_DUMMY as dependent variable				
	(1)	(2)	(3)	(4)	(5)
Log(Distance to CEO birth county)	-0.00053*** (4.27)	-0.00052*** (3.03)	-0.00049*** (2.61)	-0.00051*** (2.58)	-0.00030 (1.00)
Firm controls	Y	Y	Y	Y	Y
Industry-year FE	Y	Y	Y	Y	Y
HQ state-pair FE	N	Y	N	N	N
HQ state-pair-year FE	N	N	Y	Y	Y
Firm FE	N	N	N	Y	N
Firm-state FE	N	N	N	N	Y
Observations	442,200	442,200	442,200	442,200	442,200
R-squared	0.0041	0.0168	0.1026	0.1083	0.2348

Table IA.6: Robustness to the inclusion of financial and utility firms

This table reports coefficient estimates from linear probability regression on the role of CEO state of origin on acquisitions. We are able to identify 28,591 observations with CEO state of origin information. Of these observations there are 2,828 unique firms and 5,114 unique CEOs. The dependent variable is a dummy variable equals one if a firm ( $i$ ) acquires at least one firm in a state ( $s$ ) in year  $t$  and zero otherwise. The variable of interest is CEO\_HOME\_STATE equals one if a firm's CEO grew-up in state  $s$  and zero otherwise. Definitions of the independent variables are described in the Appendix. Robust standard errors are clustered at the firm level and robust t-statistics are in parentheses. Significance levels are denoted by \*, \*\*, and \*\*\*, which correspond to the 10%, 5%, and 1% levels, respectively.

VARIABLES	DEAL_DUMMY as dependent variable				
	(1)	(2)	(3)	(4)	(5)
CEO_HOME_STATE	0.00839*** (9.76)	0.00422*** (5.26)	0.00417*** (5.18)	0.00411*** (5.12)	0.00243** (2.04)
Firm controls	Y	Y	Y	Y	Y
Industry-year FE	Y	Y	Y	Y	Y
HQ state-pair FE	N	Y	N	N	N
HQ state-pair-year FE	N	N	Y	Y	Y
Firm FE	N	N	N	Y	N
Firm-state FE	N	N	N	N	Y
Observations	1,429,550	1,429,550	1,429,550	1,429,550	1,429,550
R-squared	0.0023	0.0102	0.0431	0.0482	0.1616

Table IA.7: CEO age and gender and the acquisition hometown bias

This table reports results of the impact of CEO characteristics on the acquisition home bias. The table reports coefficient estimates on CEO\_HOME\_STATE as well as its interactions with various CEO characteristics using the models outlined in Table 2 and the sample of cross-state acquisitions used in Table 3. The dependent variable is a dummy variable is DEAL\_DUMMY. YOUNG\_CEO is a dummy variable equal to one if the CEO is in the bottom quartile of the sample by age and zero otherwise. OLD\_CEO is a dummy variable equal to one if the CEO is in the top quartile of the sample by age and zero otherwise. FEMALE\_CEO is a dummy variable equal to one if the CEO is female and zero otherwise. Robust standard errors are clustered at the firm level. Robust t-statistics are in parentheses. Significance levels are denoted by \*, \*\*, and \*\*\*, which correspond to the 10%, 5%, and 1% levels, respectively.

VARIABLES	(1)	(2)	(3)
CEO_HOME_STATE	0.0041*** (4.20)	0.0040*** (3.98)	0.0043*** (4.90)
CEO_HOME_STATE $\times$ YOUNG_CEO	-0.0005 (0.25)		
YOUNG_CEO	0.0004** (2.48)		
CEO_HOME_STATE $\times$ OLD_CEO		0.0008 (0.40)	
OLD_CEO		-0.0003* (1.66)	
CEO_HOME_STATE $\times$ FEMALE_CEO			0.0023 (0.45)
FEMALE_CEO			-0.0004 (1.21)
Firm controls	Y	Y	Y
Industry-year FE	Y	Y	Y
HQ state-pair-year FE	Y	Y	Y
Observations	1,128,550	1,128,550	1,185,900
R-squared	0.0475	0.0475	0.0462



Table IA.8 – Corporate governance and the acquisition hometown bias

This table reports results on the impact of corporate governance on the acquisition hometown bias. Panel A reports coefficient estimates from linear probability regressions using the cross-state private target deals. The dependent variable is DEAL\_DUMMY. Governance variables include the Gompers, Ishii, and Metrick (2003) governance index (Column 1), the fraction of shares held by the top managers (Column 2), the percentage of shares held by institutional investors (Column 3), and the Bebchuk, Cohen, and Ferrell (2009) governance index (Column 4). Panel B reports results on the impact of corporate governance on the hometown acquisition performance in private target deals. The dependent variable is the acquirer's three-day cumulative abnormal returns centered on the acquisition announcement. The variable of interest is HOMETOWN\_DEAL equals one if the deal is a cross-state home state acquisition and zero otherwise. Robust standard errors are clustered at the firm level. Robust t-statistics are in parentheses. Significance levels are denoted by \*, \*\*, and \*\*\*, which correspond to the 10%, 5%, and 1% levels, respectively.

Panel A: corporate governance and acquisition propensity				
VARIABLES	(1)	(2)	(3)	(4)
CEO_HOME_STATE	-0.00494 (1.17)	0.00384*** (4.11)	0.00351*** (3.78)	-0.00011 (0.03)
CEO_HOME_STATE × G_INDEX	0.00104** (2.20)			
G_INDEX	0.00006 (1.56)			
CEO_HOME_STATE × CEO_OWNERSHIP		-0.02413 (0.76)		
CEO_OWNERSHIP		0.00061 (0.35)		
CEO_HOME_STATE × INSTITUTIONAL_OWNERSHIP			-0.00223 (0.53)	
INSTITUTIONAL_OWNERSHIP			0.00026 (0.61)	
CEO_HOME_STATE × E_INDEX				0.00188* (1.82)
E_INDEX				0.00013 (1.48)
Firm controls	Y	Y	Y	Y
Industry-year FE	Y	Y	Y	Y
HQ state-pair-year FE	Y	Y	Y	Y
Observations	640,150	1,185,900	1,006,850	580,600
R-squared	0.0574	0.0438	0.0523	0.0583

Panel B: Corporate governance and hometown acquisition performance				
VARIABLES	(1)	(2)	(3)	(4)
HOMETOWN_DEAL	0.0131 (0.39)	-0.0231*** (3.07)	-0.0619* (1.89)	0.0032 (0.18)
HOMETOWN_DEAL $\times$ G_INDEX	-0.0028 (1.15)			
G_INDEX	-0.0006 (1.22)			
HOMETOWN_DEAL $\times$ CEO_OWNERSHIP		0.1566* (1.90)		
CEO_OWNERSHIP		0.0328 (1.18)		
HOMETOWN_DEAL $\times$ INSTITUTIONAL_OWNERSHIP			0.0791** (2.02)	
INSTITUTIONAL_OWNERSHIP			-0.0104 (0.51)	
HOMETOWN_DEAL $\times$ E_INDEX				-0.0076* (1.70)
E_INDEX				-0.0010 (0.82)
Controls	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Observations	2,223	4,376	3,496	2,031
R-squared	0.074	0.085	0.095	0.063

Table IA.9: Robustness: bidder announcement returns and the acquisition hometown bias

The table reports several robustness results. The dependent variable is the acquirer's three-day cumulative abnormal returns centered on the acquisition announcement. The variable of interest is HOMETOWN\_DEAL equals one if the deal is a cross-state home state acquisition and zero otherwise. The model specification is similar to that in Table 7 (Panel B, column 3). In column 1, we repeat our analysis within the subsample of CEOs who make *both* hometown and non-hometown deals. In column 2, we repeat the analysis by removing deals conducted by CEOs grew-up in New York (NY), California (CA), or Illinois (IL). In column 3, we first match hometown deals to non-hometown deals based on target state, deal announcement year, public status, and deal size and then repeat the analysis within the matched sample. All regressions control for year fixed effects and industry (Fama and French 48 industry) fixed effects. T-statistics based on standard errors adjusted for firm clustering are reported in brackets. Significance levels are denoted by \*, \*\*, and \*\*\*, which correspond to the 10%, 5%, and 1% levels, respectively.

VARIABLES	(1)	(2)	(3)
HOMETOWN_DEAL	-0.0183** (2.22)	-0.0325*** (3.79)	-0.0121* (1.81)
PUBLIC	-0.0404*** (3.98)	-0.0321*** (7.19)	-0.0313*** (3.30)
HOMETOWN_DEAL × PUBLIC	0.0344** (2.23)	0.0529*** (3.38)	0.0374*** (2.62)
Controls	Y	Y	Y
Industry FE	Y	Y	Y
Year FE	Y	Y	Y
Observations	601	3,858	1,252
R-squared	0.188	0.0753	0.0725

Table IA.10: Deal size and the bidder announcement returns

This table reports univariate analysis of the bidder market reactions (three-day cumulative abnormal returns) by sorting deals into quartiles based on the deal size. Panel A reports the average market reactions for private target deals and panel B reports the market reactions for public target deals. The sample of acquisitions consists of 5,505 completed US mergers and acquisitions between 1992 and 2014 as described in Table 1. HOMETOWN\_DEAL is a cross-state home state acquisition. The mean difference in three-day cumulative abnormal returns between hometown deal and non-hometown deal is reported in last column. Significance levels are denoted by \*, \*\*, and \*\*\*, which correspond to the 10%, 5%, and 1% levels, respectively.

Panel A: Private targets

	Non-hometown deal			Hometown deal			Difference
	N	CAR		N	CAR		
1 (Bottom quartile)	1,296	1.65%	***	42	-0.03%		-1.68% *
2	1,208	1.50%	***	49	-0.63%		-2.13% **
3	1,071	1.92%	***	42	-0.91%		-2.84% **
4 (Top quartile)	643	2.33%	***	25	3.08%	*	0.75%

Panel B: Public targets

	Non-hometown deal			Hometown deal			Difference
	N	CAR		N	CAR		
1 (Bottom quartile)	39	0.80%		0			
2	116	-0.85%		4	1.44%		2.29%
3	253	-0.56%		9	-0.19%		0.37%
4 (Top quartile)	680	-1.72%	***	28	1.21%		2.94% **

Table IA.11: Large loss deals: full sample analysis

This table reports full sample regression analysis of the probability that a bidder makes a large loss deal. The table reports coefficient estimates from linear probability model regressions. LARGE\_LOSS\_DEAL1 (Column 1) is a dummy variable equal to one if the bidder's three-day cumulative abnormal return is in the bottom decile of the sample and zero otherwise. LARGE\_LOSS\_DEAL2 (Column 2) is a dummy variable equal to one if the bidder experiences at least a \$1 billion loss based on three-day cumulative abnormal returns. LARGE\_LOSS\_DEAL3 (Column 3) is a dummy variable equal to one if the bidder experiences at least a \$500 million loss based on three-day cumulative abnormal returns. The variable of interest is HOMETOWN\_DEAL and the interaction term between HOMETOWN\_DEAL and *PUBLIC*. All regressions control for year fixed effects and industry (Fama and French 48 industry) fixed effects. T-statistics based on standard errors adjusted for firm clustering are reported in brackets. Significance levels are denoted by \*, \*\*, and \*\*\*, which correspond to the 10%, 5%, and 1% levels, respectively.

VARIABLES	All deals		
	(1)	(2)	(3)
HOMETOWN_DEAL	0.0655** (2.33)	0.01728 (1.00)	0.0082 (0.60)
PUBLIC	0.1007*** (7.54)	0.0582*** (5.45)	0.0458*** (5.78)
HOMETOWN_DEAL $\times$ PUBLIC	-0.1816*** (3.59)	-0.1431*** (4.27)	-0.1046*** (5.99)
Controls (Table 9)	Y	Y	Y
Industry FE	Y	Y	Y
Year FE	Y	Y	Y
Observations	5,505	5,505	5,505
R-squared	0.1083	0.1955	0.1473