

## **Internet Appendix**

### **Assimilation Effects in Financial Markets**

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**Table A1. Pure Salience, Bid Competition, and Price Revision**

This table reports the robustness tests of salience effects on bid competition and bid price revision. The main independent variable is  $PURE\_SALIENCE_{t-1}$  (value-weighted average earnings surprises from firms that can only be matched to the takeover firm's 1-digit SIC but not to 2-digit or higher SIC codes). The dependent variable in Columns 1 and 2 is a dummy variable that flags competing bids over [0,7]. The dependent variable in Columns 3 and 4 is a dummy variable that indicates upward bid revisions. We use probit regressions in these models and report marginal effects. The dependent variable in Columns 5 and 6 is the bid price revision percentage. We use OLS regressions. The even-numbered regressions add control variables as in Table 2. All regressions include announcement year and industry dummies. The standard errors, which are in parentheses, are double-clustered by deal year-month and by industry. We use \*\*\*, \*\*, and \* to denote statistical significance at the 1%, 5%, and 10% level, respectively.

	<b>Competing bids over [0,7]</b>		<b>Bid revision</b>		<b>% Bid revision</b>	
	1	2	3	4	5	6
$PURE\_SALIENCE_{t-1}$	0.176** (0.077)	0.173*** (0.064)	4.804** (1.906)	4.064* (2.296)	0.370*** (0.086)	0.187** (0.073)
Controls as in T.2	NO	YES	NO	YES	NO	YES
Observations	7,882	7,882	1,463	1,463	1,463	1,463
R <sup>2</sup>	0.047	0.198	0.096	0.240	0.056	0.199
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES

**Table A2. Robustness Test: Removing M&A Deals with Competing Offers**

This table reports OLS regressions of bidders' cumulative abnormal returns (CAR). We use the subsample of M&A deals that do not receive a competing offer after the initial deal is announced. Otherwise, the tests resemble those reported in Table 3. Announcement year and industry dummies are included in all regressions. We double-cluster the standard errors by deal year-month and by industry and report them in parentheses. The symbols \*\*\*, \*, and \* show statistical significance at the 1%, 5%, and 10% level, respectively.

	CAR[0,1]		CAR[2,7]		CAR[0,7]	
	1	2	3	4	5	6
SURPRISE <sub>t-1</sub>	0.357*** (0.110)	0.335*** (0.112)	-0.282** (0.115)	-0.280** (0.116)	0.072 (0.171)	0.049 (0.170)
Controls as in Table 2	NO	YES	NO	YES	NO	YES
Observations	7,858	7,858	7,858	7,858	7,858	7,858
R <sup>2</sup>	0.070	0.109	0.056	0.059	0.059	0.079
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES

**Table A3. Additional Robustness Tests**

Robustness tests of OLS regressions of bidders' reaction to the M&A announcement. The sample is the M&A announcements where the acquirer and the target are in the same 1-digit SIC industry. The dependent variable in the regressions is the bidder's CAR [0,1] unless otherwise stated. In Panel A, we use alternative measures of SURPRISE<sub>t-1</sub>. In columns 1 and 2, the average industry earnings surprise is calculated with equal weights, using analysts' forecast earnings. In columns 3 through 6, earnings surprises are calculated as the stock returns to the firms releasing earnings on t-1. Columns 3 and 4 use value-weighted return surprise, defined as:

$$Return\ surprise_{jt} = \frac{\sum_{i \in j} (Mkt\ cap_{i,t-3} \times Return_{i,[t-1,t+1]})}{\sum_{i \in j} Mkt\ cap_{i,t-3}}$$

where *Mkt cap* is the market capitalization (weight) three days prior to the earnings announcement. Columns 5 and 6 use equally weighted return surprise. In columns 7 through 10, earnings surprises are calculated using analysts' forecast earnings for only those firms coded as industry leaders. Panel B controls for unobserved industry heterogeneity with various multiplicative industry fixed effects. Columns 1 and 2 include bidder-target pair (2-digit SIC) industry fixed effects and year fixed effects. Columns 3 and 4 include bidder industry-year fixed effects and target industry-year fixed effects. In Panel C, columns 1 and 2 control for the actual target's most recent earnings surprise calculated with equation (1). Columns 3 and 4 examine the subsample of non-public targets, which have no earnings surprises. In Panel D, we use an alternative industry classification of Fama-French five (FF5) industries. We require the acquirer and the target to belong to the same FF5 industry and that the earnings surprises (calculated based on FF5) are non-zero. The even-numbered regressions add control variables as in Table 2. Unless otherwise indicated, all regressions include announcement year and industry dummies. Our standard errors, which are in parentheses, are double-clustered by year-month and by industry. We use \*\*\*, \*\*, and \* to denote statistical significance at the 1%, 5%, and 10% level, respectively.

**Panel A. Alternative measures of surprise**

	Equally-weighted SURPRISE <sub>t-1</sub>		Value-weighted RETURN_SURPRISE		Equally-weighted RETURN_SURPRISE		Value-weighted leader SURPRISE <sub>t-1</sub>		Equally-weighted leader SURPRISE <sub>t-1</sub>	
	1	2	3	4	5	6	7	8	9	10
SURPRISE <sub>t-1</sub>	0.129** (0.061)	0.117* (0.065)	0.035* (0.018)	0.041** (0.017)	0.046* (0.027)	0.056** (0.026)	1.129** (0.472)	0.991* (0.510)	0.987* (0.565)	0.942* (0.556)
Controls as in Table 2	NO	YES	NO	YES	NO	YES	NO	YES	NO	YES
Observations	7,882	7,882	7,882	7,882	7,882	7,882	7,882	7,882	7,882	7,882
R <sup>2</sup>	0.069	0.109	0.069	0.109	0.069	0.109	0.069	0.109	0.069	0.109
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES

<b>Panel B. Controls for unobserved heterogeneity</b>						
	1	2	3	4		
SURPRISE <sub>t-1</sub>	0.326*** (0.099)	0.317*** (0.107)	0.285** (0.112)	0.289** (0.111)		
Controls as in Table 2	NO	YES	NO	YES		
Observations	7,882	7,882	7,882	7,882		
R <sup>2</sup>	0.041	0.085	0.031	0.078		
Bidder-Target industry FE	YES	YES	-	-		
Industry × Year FE	-	-	YES	YES		
Year FE	YES	YES	-	-		
<b>Panel C. Target earnings surprises and non-public targets</b>						
	All M&As in the same 1-digit SIC		Subsample of non-public targets			
	1	2	3	4		
SURPRISE <sub>t-1</sub>	0.353*** (0.111)	0.332*** (0.114)	0.242*** (0.088)	0.212** (0.100)		
Target's own surprise	0.116 (0.110)	0.078 (0.106)	- -	- -		
Controls as in Table 2	NO	YES	NO	YES		
Observations	7,882	7,882	6,275	6,275		
R <sup>2</sup>	0.070	0.109	0.073	0.106		
Year FE	YES	YES	YES	YES		
Industry FE	YES	YES	YES	YES		
<b>Panel D. Alternative industry definition: Fama-French five industries</b>						
	CAR[0,1]		CAR[2,7]		CAR[0,7]	
	1	2	3	4	5	6
FF5_SURPRISE <sub>t-1</sub>	0.305** (0.123)	0.305** (0.149)	-0.498*** (0.176)	-0.477** (0.182)	-0.223 (0.256)	-0.204 (0.261)
Controls as in Table 2	NO	YES	NO	YES	NO	YES
Observations	3,063	3,063	3,063	3,063	3,063	3,063
R <sup>2</sup>	0.114	0.149	0.104	0.107	0.104	0.123
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES

**Table A4. Experimental Design Validation**

Panel A reports OLS regressions of bidder/target peer firms' stock response to earnings surprises by firms in the same 1-digit SIC. Industry peers are all CRSP firms in the same 4-digit SIC as the actual bidder (or target). The real bidder and target, as well as peer firms that announce earnings within the event window are excluded. Panel B reports actual bidders' stock reaction to earnings surprises by firms that do not operate in the bidder's 1-digit SIC. Panel C reports the actual bidders' CAR response to earnings surprises of all firms in the market. Fixed effects are indicated at the bottom of each panel. Reported in parentheses are standard errors which are double-clustered by deal year-month and by industry. The symbols \*\*\*, \*, and \* denote statistical significance at the 1%, 5%, and 10% level, respectively.

**Panel A. Industry peers' reactions to earnings surprises**

	Target Peer				Bidder Peer			
	CAR[0,1]	AR[-1]	AR[0]	AR[1]	CAR[0,1]	AR[-1]	AR[0]	AR[1]
	1	2	3	4	5	6	7	8
SURPRISE <sub>t-1</sub>	0.010 (0.008)	0.029 (0.018)	0.018 (0.013)	-0.005 (0.006)	0.029 (0.025)	0.020 (0.014)	0.019 (0.019)	0.007 (0.011)
Observations	157,264	157,264	157,264	157,264	153,205	153,205	153,205	153,205
R <sup>2</sup>	0.004	0.004	0.003	0.004	0.003	0.004	0.004	0.003
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year-month FE	YES	YES	YES	YES	YES	YES	YES	YES

**Panel B. Bidders' reactions to unrelated earnings surprises**

	CAR[0,1]		AR[-1]		AR[0]		AR[1]	
	1	2	3	4	5	6	7	8
	UNRELATED_ SURPRISE <sub>t-1</sub>	-0.008 (0.087)	-0.004 (0.101)	-0.040 (0.036)	-0.039 (0.035)	0.036 (0.059)	0.038 (0.071)	-0.022 (0.071)
Observations	7,882	7,882	7,882	7,882	7,882	7,882	7,882	7,882
R <sup>2</sup>	0.069	0.108	0.053	0.058	0.066	0.105	0.057	0.069
Controls as in T.2	NO	YES	NO	YES	NO	YES	NO	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES

**Panel C. Acquirers' reactions to overall market earnings surprises**

	Bidders' CAR[0,1]			
	All M&As in the same 1-digit SIC		Non-zero market surprises	
	1	2	3	4
MARKET_ SURPRISE <sub>t-1</sub>	0.055 (0.074)	0.056 (0.084)	0.047 (0.079)	0.052 (0.093)
Observations	7,882	7,882	5,023	5,023
Controls as in T.2	NO	YES	NO	YES
R <sup>2</sup>	0.069	0.108	0.089	0.126
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES