# Bordeaux 2016 Abstract Submission

## Title
DETERMINANTS OF PAYMENT METHODS IN MERGERS AND ACQUISITIONS IN THE INTERNATIONAL WINE INDUSTRY

## I want to submit an abstract for:
Conference Presentation

## Corresponding Author
Alfredo Coelho

## E-Mail
alfredo.coelho@agro-bordeaux.fr

## Affiliation
Bordeaux Sciences Agro, France

## Co-Author/s
<table>
<thead>
<tr>
<th>Name</th>
<th>E-Mail</th>
<th>Affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federica Demaria</td>
<td><a href="mailto:demaria.federica@gmail.com">demaria.federica@gmail.com</a></td>
<td>UMR Moisa INRA Montpellier, France &amp; University of Calabria, Italy</td>
</tr>
<tr>
<td>Etienne Montaigne</td>
<td><a href="mailto:etienne.montaigne@supagro.fr">etienne.montaigne@supagro.fr</a></td>
<td>UMR Moisa INRA Montpellier, France</td>
</tr>
<tr>
<td>Victor Castillo-Giron</td>
<td><a href="mailto:victorm@cucea.udg.mx">victorm@cucea.udg.mx</a></td>
<td>CUCEA – University of Guadalajara, Jalisco, Mexico</td>
</tr>
</tbody>
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## Keywords
Payment Methods, Mergers and Acquisitions, Financing, International Wineries

## Research Question
What are the determinants of the payment methods, cash versus other methods, in the international wine industry?

## Methods
We model the payment method as a set of binary choices (cash or other in any operation) of M&A through a Multinomial Logit Model (MLM). (sample of 1900 deals).

## Results
The first results show a dominance of ‘cash’ as a method of payment in M&A. The motives for the dominance of ‘cash’ are discussed.

## Abstract
A large stream of literature on international business (IB) focuses on the motivations to merge or acquire (M&A) companies, such as the achievement of economies of scale and international expansion in emerging markets. However, only few studies addressed the choice of payment methods in M&A as a strategic decision (see, for example, Hansen, 1987; Faccio and Masulis, 2005). The explanation of the decision to finance M&A with ‘cash’ or ‘shares’ may be specific to an industry (Garcia-Feijo et al., 2013). We explore the choice of payment methods
across different institutional environments to structure M&A deals in selected international markets. Also, another research question arising from the finance literature is to what extent managers prioritize their sources of financing. For example, Myers and Majluf (1984) suggest a financial ‘pecking order hypothesis’ as follows: internal cash, then debt, and then equity.

In this paper we investigate the following questions:

What are the determinants of the payment methods, cash versus other methods, in the international wine industry?

Is there any hierarchy between the choices of the different payment methods?

This work uses a large sample of M&A deals in the international wine industry by firm acquirers of publicly and privately held targets. Our sample includes approximately 1,900 M&A completed deals for the period 2000-2015. The wine industry is an ideal venue for assessing the importance of ownership and control issues in making M&A financing choices, given the large number of closely held firms and the differences in legal and institutional environments.

Consider a firm i located in country j, which desires acquire another firm located in country k; cash, stock and combination of cash and stock are the utilized methods. This implies that our dependent variables (DV) is multinomial and therefore apply a Multinomial Logit Model (MLM).

We model the payment method as a set of binary choices that each firm makes on whether or not to use cash in any operation of M&A.

In the MLM we estimate a separate binary logit for each pair of outcome categories. MLM requires the estimation of N-1 equations, where N represents the number of categories need to be estimated. Each multinomial model will therefore require the estimation of two equations, if the cash is the base reference category for the other groups, then Stock versus Cash and Combination versus Cash will be the estimated equation. A third equation examines whether any significant differences exist between payment methods.

Our estimation can be stated as follow:

υ_{ij} as the dependent variable, is the payment method used in the transaction between firm i in country j and host country k at time t;

The independent variables include the following:

Distance is the geographic distance in km between capitals of two countries’ jk. This variable accounts for the degree of economic integration between two counties. We assume that costs are lower if countries share the same border.

legal_rules is a variable describing the similarity on legal rules between firm i country j and target country k. Institutional aspects are important in explaining the location of subsidiary; industry is an indicator equal to 1 if merging firms are in same 3 digit SIC code and 0 otherwise. We identify cross-border deals in SIC codes following Fama & French (1997);

friendly is a dummy variable equal to 1 if the bid is hostile, and unsolicited, or a with knight, and equal to 0 otherwise;

cross-border is a dummy variable equal to 1 if bidder i and target j countries differ and 0 otherwise;

ultimate is the acquirer ultimate owner. It takes the value 1 if the ultimate owner is a public listed company and 0 otherwise;

Subsidiary is a variable equal to 1 if the target is subsidiary of another firm and 0 otherwise;

targetpub is a dummy variable indicating if the target company is a public listed company or not;

control is the percentage of shares acquired in deal of the target company;

Profit_taxes is the differences in profit taxes between acquirer home country j and the target home country k;

GDPPC is the Gross Domestic Product per capita in the acquirer country j and in the target country k. GDP per capita is a proxy for having some opportunities in the foreign market k. Indeed a country would prefer to expand their activities in a country where the economic growth is higher.

Finally ε_{ijkt} is the error term.
One interesting question to address is whether similar differences are observed in the methods of payment in M&A in the different countries within the same region or if the same firms use different payment methods in different countries. Furthermore, our dataset allows for a wide range of institutional differences in regulations and taxes affecting the financing of M&A activity.

The first results show a dominance of ‘cash’ as a method of payment in M&A. The motives for the dominance of ‘cash’ are discussed.