Stock vs Cash Deals and M&A Performance: A Comparative study of India and USA

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ABSTRACT

This study aims to understand the M&A structure, pattern and firm performance in terms of mode of payment involved in the deal. The study aims to analyze the main characteristic of M&A payment mode in India and then compare it with USA. it is quite evident that deal size plays a part in the selection for the mode of payment, with the bigger deals opting for stock and smaller ones for cash, and the mix of two slotting in between the two, this has to do with the funding availability, where it is progressively difficult to obtain cash for funding for larger and larger deals. For the relation between mode of payment and deal geography, cash is the undisputed leader for inbound and outbound deals leader because of the complexities involved with cross country stock deals. For both US and India, with respect to stock price performance, on an average the cash acquirers performed better than stock acquirers and the mix of the two was on most occasions slotted between the two, and the prime reason for this was cash acquirers being fundamentally strong and more confident of the target valuation for the consideration being paid for the acquisition. As far as comparison on the basis of domestic, inbound and outbound deals goes, no clear trend was obtained for the US market, though in case of India, domestic and outbound acquirers appeared to have an edge over the foreign inbound acquirers.

Keywords: Merger & Acquisition, inbound deals, outbound deals, stock vs cash deals.

1. Introduction

Mergers or Amalgamations are regarded as the combination of two companies to become one with the creation of a new combined entity while an acquisition or a buyout is the takeover of one company by another, where the acquired company may cease to exist. A Joint Venture (JV) between the two companies that involves creation of a new entity through equity stakes or investments by the two companies is also regarded as a type of Merger and Acquisition (M&A). The most often reported reason for M&A, is the synergistic gains obtained by change in the EBITDA of the combined companies due to increase in revenues or decrease in costs or any other savings.

To finance an M&A deal, a company has several financing options, the deal can be paid by using cash or the stock of itself, there also can be mix of the two. The decision may be based on the future prospects, current financial aspects of the company etc.

Cash Deals: In such a deal the company uses its current cash holdings or raises debt to acquire a company. The deal is represented on basis of the cash consideration to be paid per share of the company. While cash holdings of the company may represent usage of its excess funds but raising new debt from the market increases the future obligations and may seem to be risky if the company is not able to offset the debt obligation with the proposed returns or gains from the acquisition. Additionally, factors like existing debt of the acquired company may also need to be looked upon, in order to avoid excessive debt of the combined entity post the merger or acquisition. So, all the factors need to be looked upon before making any such financing decisions.

Stock Deals: In such transactions, the existing shareholders of the target company are given shares of the company that is acquiring the target, they are given shares according to a negotiated exchange ratio, that is usually a factor of the closing prices of the two companies before the deal announcement and the premium that is decided or negotiated. Alternatively in case of a merger, the shareholders of the two firms may be given the shares of the new merged entity. After the deal is given the green light by the regulators and shareholders, the shares of the target cease to trade and only the shares of the acquirer or the newly formed merged entity trade

Cash and Stock Deals : Another kind of deal is the payment through a mixture of stock and cash, usually in such a case for each share of the acquired company, a part of the share value as specified in the deal is given in the form of cash while the remaining can be given in the form of shares of the acquiring company. This division of cash and stock may depend on the financial capacity, nature of the deal & future prospects of the companies.

Here, we will also be dealing with inbound and outbound deals; such deals are cross border acquisitions where in general terms, outbound deals mean acquisition of a foreign entity by a domestic firm, while inbound deals mean the acquisition of a domestic firm in a country by a foreign firm or entity.

In the Indian context, the old companies act of 1956 and the income tax act do not recognize the term merger, but the newly introduced companies act of 2013 loosely defines the concept of mergers, while the income tax act

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does define the term Amalgamation in terms of merger of a certain number of companies to form a single entity or a company. It also encompasses the various requirements and the various combinations possible for the companies planning to go for an M&A deal. Table 1 discusses the main differences between cash and stock payment.

2. Objectives of the paper

The paper aims to

- Identify and study the structure and pattern of M&A mode of payments.
- ☒To study the M&A mode of payment in terms of cash versus stock for Indian market.
- To compare company performance variables for US and India M&A markets, before (pre), during and after(post) the financial crisis with respect to Domestic, Inbound and Outbound deals.

3. Literature Review

Kohli (2015) provides a good summary regarding the general perceptions of stock and cash deals. She states that in general terms stock deals are generally perceived as a negative step by stock markets as it is perceived that the acquirer has less confidence on the valuation of the target and it wishes to safeguard any miss-valuation risk by sharing the risk with the target, while cash deals are generally perceived positively by stock markets as it perceived that the acquirer has full confidence in the valuation and the abilities of the target and thus is willing to take more risk.

Thus, the general consensus is that Stock deals are a risk mitigation strategy, but Madhok and Keyhani (2012) point out that this is always not possible, like for cross border acquisitions by emerging economies, where the target in the developed economy may not be willing to take the share of the developing country company where the markets are still not developed and there may be internal shocks etc. Mathew and Jain3 (2006) also point another reason of regulatory hassles for stock transactions in cross border acquisitions, which may be multiplied in the case of emerging economies, where rules are complex and the clearances are not easy to obtain and are slow.

Though, Huang, Officer and Powell (2016) point out the recent trend of a greater use of stock as the method of payment in cross border acquisitions involving targets from countries having high overall risk than acquiring company's country. This increased use of stock in cross border deals having higher risk considered by the acquirer to avoid overpayment, though they point out that deals involving stock are less likely to be completed. Such risk in cross border acquisitions also amplifies due to increased information asymmetry due to involvement of two companies from two different countries having different systems and cultures.

Gregory and Wang (2013), see the likely reasons for cash based acquisitions and their long term performance. They find that high monetary benefits to the executives sometimes may lead to cash deals, and thus shareholder oversight is important in such cases. They also compare the long run performance of cash acquisitions with respect to their free cash flow (FCF), where they realize that companies having large FCF and other regular cash resources perform better in the long run because of their ability to finance the deal and fulfil any debt obligation that may have been taken to finance the cash deal.

Erickson and Wang (1999) found that prior to any merger, acquiring firms show a trend of increasing operating earnings. The same trend was recognized by Heron and Lie (2002) also for deals conducted between 1985 and 1997. Yung, Sun and Rehman (2013) also point out a similar trend in terms of the relation of the earnings quality of an acquirer and the mode of payment, where they conclude that acquirers with low earnings quality tend to go for a lower cash component in the acquisition and consequently acquirers with higher earnings quality prefer a bigger cash component.

Abdou and Ghosh (2011) point to some interesting concepts like prominence of cash deals in environment of cash popularity, where the investors of the target push the acquirers to pay in cash to get cash dividends and return immediately. They also note the impact of financial strength of the acquirer on making the decision to go for cash or stock financing in the acquisition.

Ulrike, Marcus and Farzad (2016) reinforce the valuation consensus for stock and cash deals. By compiling the data of failed deals of both cash and stock offers they observed that on an average cash offer targets were re-valued +15% in the coming months while stock offer targets return to their previous pre offer valuations. Thus reinforcing the consensus that cash deals are generally made when the acquirer is confident on the company valuation, even undervalued in some cases as reported in this case.

Dube and Glasock (2006), found out the relation between Mergers, especially cash transactions, and the added risk, with simultaneous decline in operating leverage and a small decoration in operating performance. While Deng (2014) in a thesis finds differences in the stock returns of cash and stock deals, with cash acquirers outperforming stock acquirers over a five-year period post the completion of the deal. Lei and Li (2015) show the effect of increasing shareholder base on the acquirer for a pure stock acquisition, which may lead to dilution of advantage accrued through the acquisition.

Koutmos, Song and Zhou (2014) also reinforce the information asymmetry concept though not through countries but by comparison in deals of Rural and Urban areas, where they point that the most rural deals are completed by stock transaction due to less details and information availability in rural areas which results in information asymmetry, which we may assume is similar to information asymmetry in cross border acquisitions and thus as a risk reduction, the acquirer pushes for stock deal.

David Harding, Karen Harris, Richard Jackson and Phil Leung through a report of Bain & Company 2014, highlight the point of acquisitions as the best means to achieve growth and the best way to use the cash of the company, thus partly explaining the pressure on companies post the crisis to use excess cash and achieve growth, and in a way they explain that companies which had abundant capital during and post the crisis tend to get the best deals. Smith (2014) notices the prominence of cash accumulation by firms post any crisis period, as he relates it with the increased precautionary value of cash during and post any crisis.

James Woolery in a JP Morgan & Chase report (2011) notices and further predicts more cash transactions post the financial crisis and the two factors he singles out for the same are: Cash rich balance sheets of companies post the crisis, as a precautionary measure after the credit squeeze in the financial crisis, as noted before also, there is an increasing pressure by shareholders now to make use this excess cash, secondly he also highlights the low borrowing rates prevalent in almost all major markets of the world post the crisis, which makes incremental capital for such acquisitions cheap. As an additional reason for the US market, he also highlights the presence of large offshore capital of some firms, which have not been brought back to the US because of taxation issues and thus may be used further to fund cash acquisitions in foreign markets.

An HBR report by Rappaport and Sirower in 1999 showed the transition of preference of mode of payment for large deals from cash till the late eighties to stock in the late nineties as the size of deals ballooned. They also discuss other factors like risk and synergy sharing differences between Stock and Cash deals.

A Fox Business article by Matt Egan in 2012 discussed some other factors that are responsible for the stock or cash decision in terms of capital gain taxes for the shareholders of the cash acquired target, greater execution speed in cash transactions and the prevalence of Stock deals in highly inflated stock environment like during the Dot com bubble of the early 2000s.

Thus, we understand the basic premise and general consensus of why stock deals are taken as risk reduction strategy while cash deals show confidence in the valuation and the company, which in a way translates to confidence to the performance of the company or the combined entity post acquisition and thus through our analysis we will find if there is any basis for this consensus of performance difference between deals financed by cash, stock or a mixture of both.

4. Research Design

Selected Variables: Through literature review, the following company financial variables have been selected: Stock price performance, which would help to gauge the stock market performance of the acquirer companies, Operating profit growth change and Return on Capital (ROC) would help to compare the operational profitability (financial) performance, additionally these variables are not affected by the size of the deal or the target, which may be in the case if operating profit of a company is compared directly pre and post the deal.

Time Periods: The objective is to have an analysis centred around the Global Financial Crisis, defined as the period 2008-09 by the US Department of Treasury, thus the time frame has been divided into three parts: before the crisis (pre) 2004-05, the crisis itself (crisis) and after the crisis (post): 2012-13. This classification was verified through the number of deals in the years surrounding the crisis, with the crisis period being identified with a large change in the number of deals. The periods were not taken continuously in order to avoid the deal parameters in the pre and post categories to get skewed by the financial crisis. The variables under study have been compared one year after and one year before the completion of the deal, any measurement post these time periods appeared to be affected by other long run non M&A factors.

Data Description: In order to take only deals that would have a realistic impact on the operation and finances of the acquirer, deals which are greater than $100mn in size have been taken. The deals have been further divided into inbound, outbound and domestic categories in order to have a comprehensive analysis. Finally, the data has been segregated according to the mode of payment. All the M&A data was obtained from Bloomberg M&A database. Data for the variables were obtained by using the Bloomberg API functions in excel available on the Bloomberg terminal.

Data Analysis: Post filtering and removing any anomalies in the data, the data was analysed using Charts and Graphs to look for various trends and the reasons for the same were studied for both the US and India M&A market, through the above defined time periods and categories.

For the Indian Scenario, due to the lesser number of deals, the minimum deal size was relaxed to $5mn and the time periods were extended by 6 months on each side to make each time period 3 year long in order to increase the number of deals under study.

5. Analysis

5.1 Analysis of Indian M&A Deals

5.1.1. Number of Deals and Averages

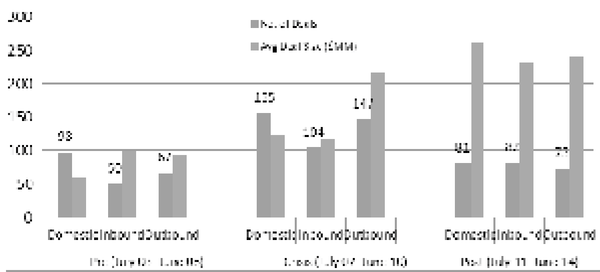

Figure 1: Number of Deals and Average Size for Domestic, Inbound and Outbound market as a whole for Indian M & A market

The maximum number of deals were in the crisis period, with number of domestic deals increasing by more than fifty percent while the inbound and outbound deals doubled from the pre-crisis time period, though the total number of deals decreased again post the crisis period (with reference to Figure 1). Thus, the Indian M&A market was not affected by the crisis period and actually the deals decreased in the post crisis period. In the crisis period, many of the deals could have been distress type sales, especially in the case of outbound deals, with established markets like the US and EU struggling for liquidity, Indian firms found the foreign firms with reduced valuations within their reach. While in the post crisis period the deal averages are the highest, but as mentioned before the deals are less in number than the crisis period.

5.1.2 Deal Size Cash vs Stock Characteristics

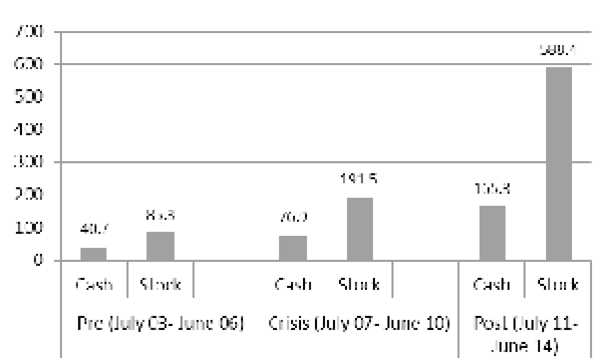

Figure 2: Average Deal Size in Stock and Cash transactions across different Time Periods.

On an average the deal size of Stock deals is greater than Cash deals signifying the fact that it is difficult to fund large deals by cash due to difficulty in obtaining the credit for such large transactions and thus in such transactions Acquirer stock is the preferred mode of payment(with reference to Figure 2).

5.1.3 Deal Distribution

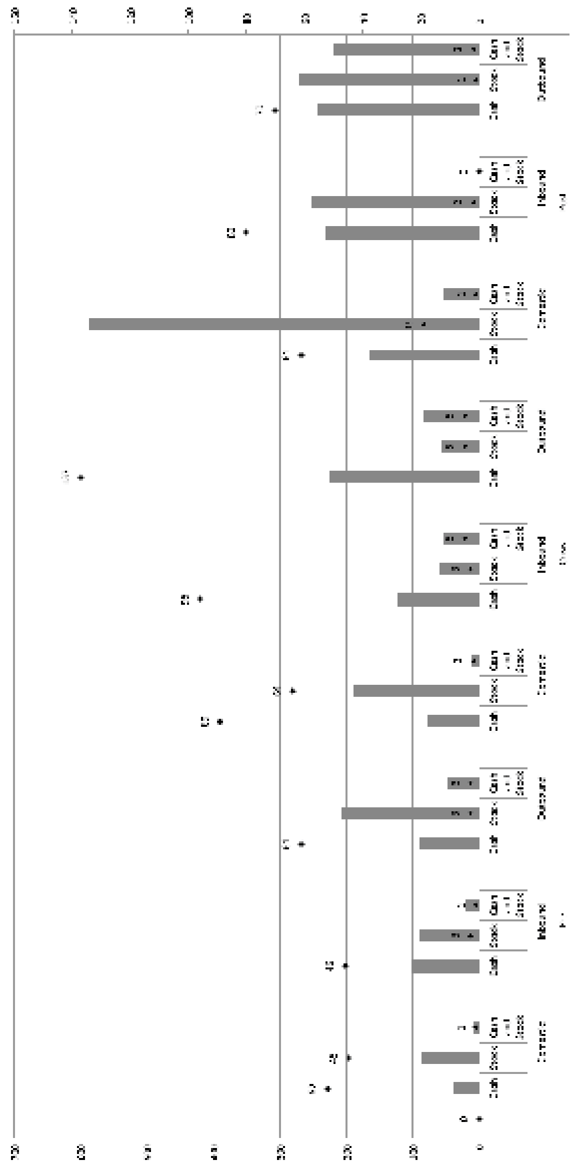

Figure 3: Number of Deals and Deal Averages across different Categories and Time Periods for the Indian M&A market

It is quite evident that while in Domestic deals (with reference to Figure 3), the share of stock deals is substantial, but both in inbound and outbound deals, the quantum of share backed deals is very less due to the complexities involving in share allocation listing etc. for cross country transactions, which are multiplied for a developing country like India, including the bureaucratic hurdles involved in such countries for such transactions. It is also visible that for similar reasons, the preference of a mix of shares and stock as a mode of payment is almost negligible.

For Domestic Deals, (with reference to Figure 3) it can be observed that with the onset of the financial crisis, there is an increasing trend of cash deals which continues even after the financial crisis.

This is due to two reasons, firstly as a result of the easy availability of credit for Indian firms as known during that period from eased lending norms from Indian PSU's etc. and secondly, Indian firms not being affected by the financial crisis as much, as this shows availability of liquidity and confidence in future cash flow of the target company and consequently still pursuing acquisitions during the crisis period. Due to lack of meaningful data in inbound and outbound deals, it is not meaningful to do an analysis comparing Cash and Stock deals for both Inbound and Outbound deals, and the only meaningful comparison would be Stock and Cash deals for Domestic deals.

5.1.4 Acquirer Stock Price Performance: Cash Vs Stock

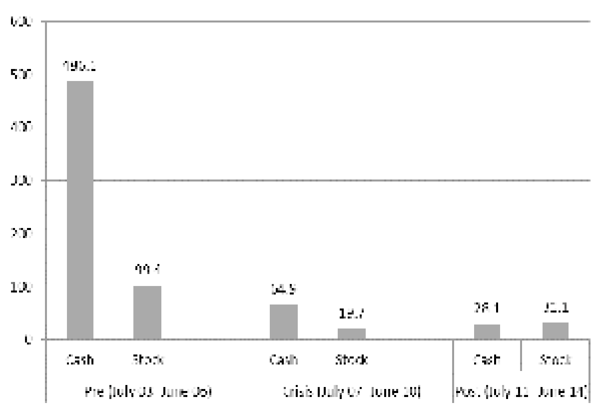

Figure 4: Average Stock Performance One Year after the completion of the Deal, relative to One Year before Deal Completion

The Stock performance of the acquirer companies has been compared one year before and one year after the completion of the deal (with reference to Figure 4). Looking at the Pre crisis performance, this coincided with the boom years of the Indian Market, and consequently cash acquirers were trading at more than 400 percent premium on an average over their two year trailing price, whereas Stock acquirers were trading at around 100 percent premium. Even in the crisis period, Indian stocks showed resilience, where the cash acquirers were trading at more than 60 percent premium, while stock acquirers were trading at near 20 percent premium to their two year trailing values. During the post crisis period both were trading at around the 30 percent premium mark.

During all the three time periods, the stock of the acquirers performed well in the Indian market, and on an average Cash acquirers performed better than Stock acquirers corroborating the often stated belief that Cash acquirers have stronger cash flows and fundamentals and they also have confidence in the valuation of the target, which leads to unlocking value from the target later and consequently better stock performance in the long run as compared to Stock acquirers.

5.1.5 Domestic and Outbound vs Inbound

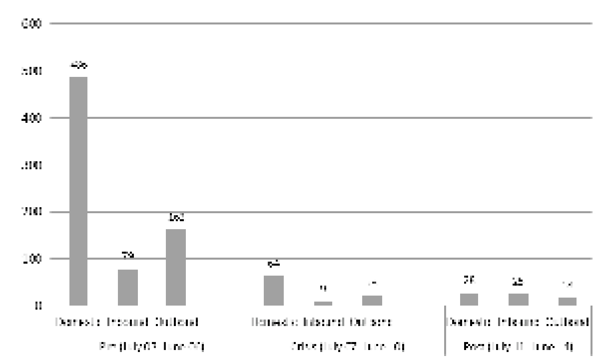

Figure 5: Stock Performance for Cash Acquirers across different categories across the defined Time Periods

On comparing cash acquirers in Domestic, Inbound and Outbound categories (with reference to Figure 5), it is observed that, inbound acquirers i.e., Non-Indian foreign acquirers, have inferior performance as compared to Indian acquirers in Domestic and Outbound deals even till the crisis period, and it is only in the post crisis period that the performance reaches a similar level, again raising the point of impressive performance by Indian firms especially during the pre-crisis and crisis period and not being affected much by the crisis during the years of 2008-09, during which major markets like the US and EU struggled.

5.1.6 Acquirer Operating Profit Growth Rate

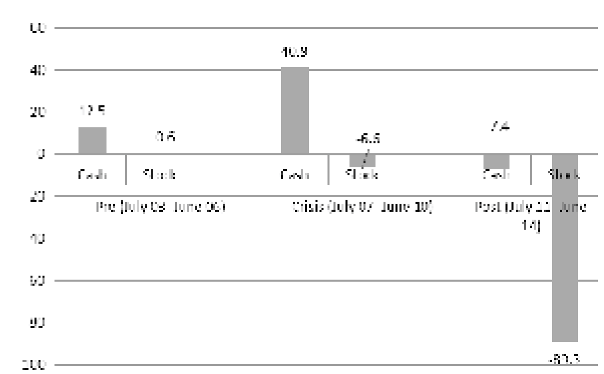

Figure 6: Average change in Growth of Quarterly Operating Profit, One Year after and before the completion of the deal

The quarterly operating profit growth difference one year pre and post the completion of the deal with respect to their nearest announced quarter is used in order to see the impact of the deal on the operating metrics of the acquiring company (with reference to Figure 6).

Here a similar trend is seen where, cash acquirers on an average register a better growth difference as compared to Stock acquirers due to the reasons mentioned previously, and even in the case of post crisis period of negative growth difference, cash acquirers perform relatively much better than Stock acquirers.

5. 2 Analysis of US M&A Deals

5.2.1 Number of Deals and Averages

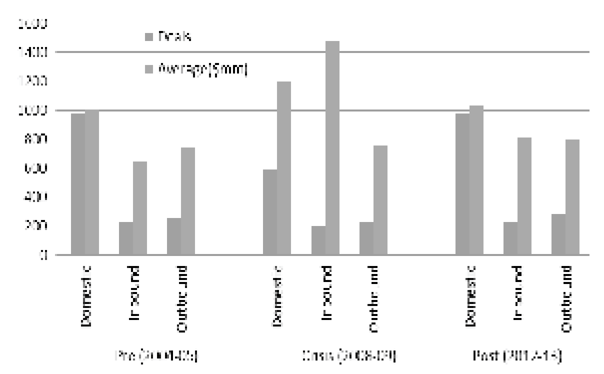

Figure 7: Number of Deals and Average Size for Domestic, Inbound and Outbound market as a whole for Indian M&A market

From the onset it is quite evident that the US market is in much more advanced stage of the M&A cycle as compared to the Indian market, despite filtering out deals below the much higher value of $100mm as compared to $5mm for the Indian analysis and using the originally proposed time periods of two years without any extensions, the number of deals are much more in number in the US than India even with such restrictive filtration.

A trend opposite to that of the Indian market is seen, where the number of deals decreased in the crisis period and the averages increased during the same period only to revert back to the pre-crisis range post the crisis (with reference to Figure 8). On closer inspection, it is observed that the inbound average increases due to the increase in average deal size of its primary driver of cash deals, thus highlighting the point of opportune acquisitions by foreign firms even involving countries like Mexico, of big struggling US firms due to unavailability of credit. While the average in domestic deals increased by some amount due to increase in average in almost all modes of payment but a decrease in number of deals again highlights the shortage of credit in the market.

5.2.2 Deal Distribution: Cash vs Stock Characteristics

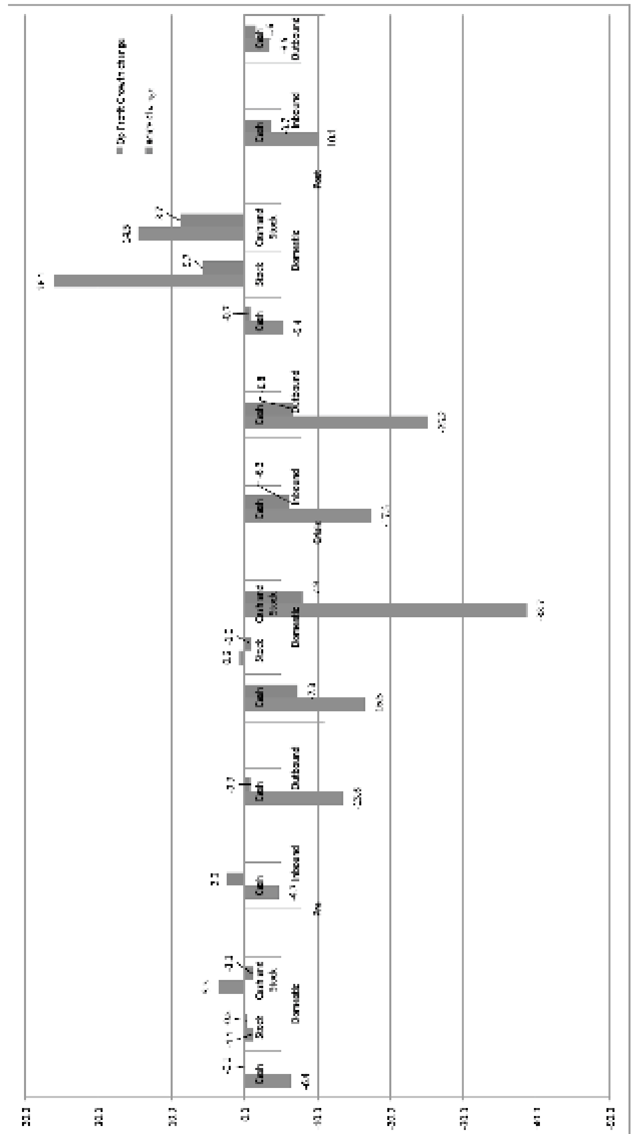

Figure 8: Number of Deals and Deal averages across different Categories and Time Periods for the US M&A market

A trend similar to the Indian analysis is seen in the form of low number of Stock deals in Inbound and Outbound categories, which is even lower than deals financed by a mix of Cash and Stock (with reference to Figure 8). In the case of outbound deals, there has been a noticeable increase in preference for cash deals during the crisis and the post crisis period following stricter regulations and increased complexities of such cross country holdings for stock deals.

It is evident that with the change in the number of deals across the time periods, although there has not been much deviation in the percentage distribution of the mode of payment across the most of the respective categories, but still there is a slight increase in preference for cash deals for the market as a whole (with reference to Figure 7).

It is observed that for categories with substantial number of deals for analysis like all domestic time periods, pre crisis inbound and pre crisis outbound (with reference to Figure 8), the relation of preference of mode of payment with deal size is quite visible, for large deals, similar to the Indian analysis, the preferred mode of payment is stock and for smaller deals the preferred mode is cash, here in addition, the slotting of the mix of cash and stock as a mode of payment is also observed, which quite logically fits between the other two modes of payment.

5.2.3 Acquirer Stock Price Performance

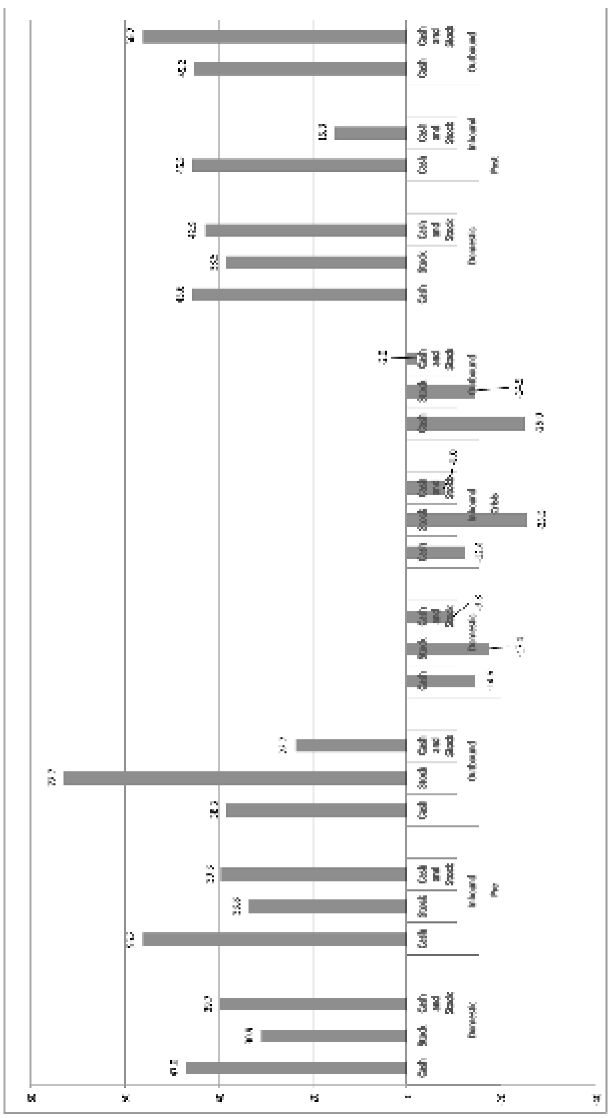

Figure 9: Average Stock Performance One Year after the completion of the Deal, relative to One Year before Deal completion

On the basis of average Stock performance over the two-year period bifurcated equally by the completion date, Cash acquirers on average perform better than Stock performers. In this analysis a new observation is the performance of the Stock and Cash mix deals, which on an average perform in between the two modes of payment. Thus, the general understanding, of cash acquirers being more confident on valuations of targets, and are generally fundamentally stronger companies is true in this case also. As the confidence decreases from cash to stock with the stock and cash mix in between the two, the performance also consequently decreases and the shareholders are not able to unlock much advantage from the acquisition or in a way it can be said that whatever advantage is obtained is shared between a bigger shareholder base due to the issuance of new shares for share backed deals.

5.2.4 Domestic, Inbound and Outbound

5.2.4.1 Pre Crisis Period

During the pre-crisis period, in all the categories, the above trend holds true baring outbound deals where Stock deals perform better than other mode of payments but that could be tracked down to fewer deals, which allows the data to be affected by only a few handful of big and better performing companies. In both, Domestic and Inbound deals, cash acquirers trade at a premium of around fifty percent, cash and stock acquirers at forty percent while Stock acquirers near thirty percent. While in outbound deals, cash acquirers trade at around forty percent while cash and stock acquirers somewhat above twenty percent.

5.2.4.2 Crisis Period

An analysis during the crisis period shows the condition of the market as whole in the form of negative premiums across all categories, but still the earlier defined trend works in the case of Domestic and inbound deals in the form better performing cash acquirers relative to stock acquirers, though the best performers are the cash and stock across all the three categories.

This may be explained by a assumption that though cash acquirers may be the above stated fundamentally strong companies, but they may have struggled during the crisis due to large debts accumulated to fund the deals just before or at the onset of the crisis, while those choosing the cash and stock route having strong fundamentals benefitted from decreased debt accumulation due to usage of stock as payments, or another point can be fundamentally strong companies going for the mix mode during the crisis in order to partially offset the shortage of credit for funding wholly cash transactions.

For the inbound cash acquirers, an interesting point is the substantially bad performance of stock acquirers as compared to other modes of payment; this may be due to their involvement in the struggling US market post the acquisition due to substantial crossholding in the wholly stock deal. For the outbound deals, the performance of cash acquirers may be again explained by the point of difficulty during the crisis due to debts accumulated to fund extravagant foreign deals just before or at the onset of the crisis.

5.2.4.3 Post Crisis Period

In the post crisis period it is seen that the market has recovered from the lows of the crisis period as seen through the positive premiums. Cash acquirers across all the three categories performed well in the above forty percent premium region. Owing to the number of deals, the domestic category is the most representative and here again we see the trend of cash acquirers performing well followed by cash and stock mix and then stock.

In the analysis, certain trends in Inbound and Outbound categories may not be completely representative due to less number of deals in the non-cash payment category, and thus these categories have not been discussed in detail.

5.2.5 Acquirer Operating Profit Growth and ROC Change

In order to check the profitability performance, the Return on Capital and the quarterly Operating Profit Growth change one year pre and post the completion date of the deal is seen. Despite having highly variable values in both categories, the trend for both the variables generally agrees with each other (with reference to Figure 10) . For the domestic category, Stock Acquirers seem to have better performance than Cash Acquirers in all the time periods, even in the case of crisis with negative differences, the relative performance of stock acquirers is better than cash acquirers.

This seems to be not in sync in the observations till now, but one possible explanation may be as follows: as far as ROC is concerned, the denominator consists of debt as well as the issued share capital, so when undergoing a cash transaction, the debt may increase by a large margin, especially in the US scenario as compared to the Indian scenario because of larger deals selected here, while in stock deals the share capital issued as mentioned in the balance sheet is less than the actual market value thus leading to higher ROC post the deal relative to the cash acquirers.

While for Operating profit growth (and ROC as well), it could be explained by the base effect, where the cash acquirers are high performing companies with high growth rates before the acquisition and post the acquisition it may be dragged down by the target which may not be performing relatively well or may be struggling (specially the bad performance in the crisis period), while stock acquirers may already be low on growth

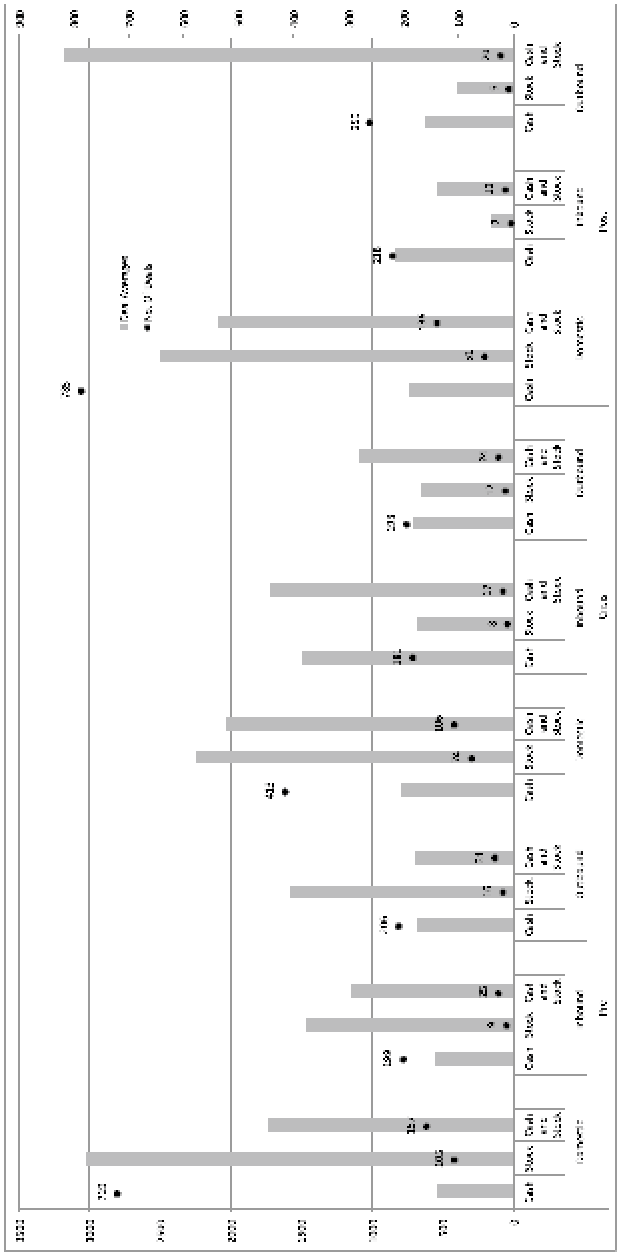

Figure 10: Average change in growth of quarterly Operating Profit and Return on Capital employed One Year after and before the completion of the deal

(consequently not having much capital and hence going for stock acquisition) and thus combined with the target do not show such large decreases, while the deal size difference explains the divergence from the Indian trend as deal size in India on an average was small ($5mm filter relative to $100mm for the US) and thus did not impact the operating profit of the acquirer so strongly.

The trends as a whole show expected performance with respect to the time periods, with the performance dipping substantially during the crisis, only to revert back post the crisis as seen for the US market earlier too. We have only looked at trends for the domestic category, as the data for other categories is not representative because of lesser number of deals.

5.3 India vs US M&A Deals

5.3.1 Payment Mode Comparison

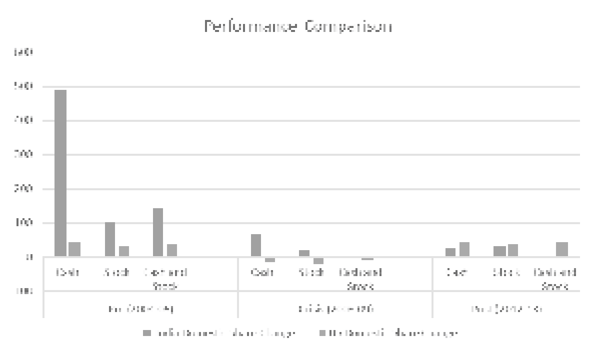

Figure 11: Percentage of deals according to different mode of Payment during the different Time Periods

In both the markets Cash is the most preferred mode of payment, which is increasing further through the crisis and post crisis period, which was noted in some earlier studies. A direct comparison of the percentages would not be much meaningful due to the two markets being at different level of M&A activity, but it is evident from empirical analysis that there are very less cash and stock deals in India relative to the US, though that is slightly balanced by greater percentage of stock deals in India. The overall percentages are still not too much different and any differences would be difficult to comment, as stated before, because of different level of M&A activity in the two markets.

5.3.2 Domestic Acquirers Performance Comparison

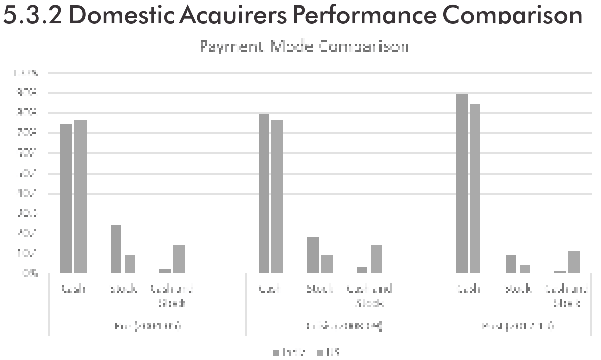

Figure 12: Average Stock Performance One Year after the completion of the deal, relative to one year before deal completion of the Domestic Acquirers in the Indian and the US market.

Comparison of the stock performance of domestic acquirers in the two markets shows how the crisis affected both the markets differently. While the general consensus on the relative performance of cash and stock performers holds true largely, the US acquirers showed negative premiums during the financial crisis , on the other hand Indian acquirers showed moderate growth during the same period. It appears that the crisis had an impact at later stages for markets like India, as Indian stocks showed the lowest growth during the post crisis period, while the US stock rebounded a bit during the same period. Another thing to see is the strong performance of Indian cash acquirers in the pre-crisis and crisis period relative to other mode of payments and US acquirer's performance.

6. Conclusion

From the study, it is quite evident that deal size plays a part in the selection for the mode of payment, with the bigger deals opting for stock and smaller ones for cash, and the mix of two slotting in between the two, this has to do with the funding availability, where it is progressively difficult to obtain cash for funding for larger and larger deals. For the relation between mode of payment and deal geography, cash is the undisputed leader for inbound and outbound deals leader because of the complexities involved with cross country stock deals.

For both US and India, with respect to stock price performance, on an average the cash acquirers performed better than stock acquirers and the mix of the two was on most occasions slotted between the two, and the prime reason for this was cash acquirers being fundamentally strong and more confident of the target valuation for the consideration being paid for the acquisition. As far as comparison on the basis of domestic, inbound and outbound deals goes, no clear trend was obtained for the US market, though in case of India, domestic and outbound acquirers appeared to have an edge over the foreign inbound acquirers.

In all the three periods, and the crisis period (2008-09) in particular, the two markets experienced different levels of activity and performance, while the US market showed a substantial dip in the crisis period in all parameters of activity and performance, the Indian market still showed positive growth in the same period, chiefly due to the financial crisis affecting the two markets differently and at different times due to the markets being at different stages of the M&A process. The parameters of Operating profit growth and ROC change, though limited by data availability, also corroborated the above findings to some extent.

Table 1 Cash versus Stock deals (author compilation)

Mode of Payment	Cash	Stock
Debt Requirement	Yes (Depends on Acquirer)	No
Issuance of New shares	No	Yes
Market Share	High and rising	Low and decreasing
Deal Size Preference	Small (Difficult to obtain funding for large deals)	Large (Average deal size is generally high)
Speed Of Execution	High (Quick cash exit for existing shareholders)	Slow (May take time due to negotiations, regulations etc.)
Completion Probability	High (Quick execution)	Low (High probability of delays)
Cross Country Deals	Preferred (Less regulatory hurdles)	Avoided because of regulation complexities
Acquirer Valuation	No major effect, but acquirer may prefer cash if it's share is under priced	Overpricing beneficial for acquirer and will prefer stock payment
Industry Preference	Not specific apart from PE/VC tendency for cash(debt) based acquisitions	In current scenario, overpriced technology and other related industries
Premiums	Mid-Low (Quick cash exit for target company shareholders)	High (Lengthy negotiations for stock exchange ratio)
Immediate Sentiment	Mostly Positive (Signifies confidence in Target and its valuation)	Mostly Negative (Signifies risk sharing with the target because of uncertainty)
Long Run Performance	Generally Superior	Generally Inferior

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