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Active catering to dividend clienteles: Evidence from takeovers*

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Abstract

We use merger-induced changes to shareholder structure to test for active "catering" to dividend clienteles. Following mergers, acquirers adjust their dividend payout towards that of the target, but only when they inherit target shareholders through stock swaps. This adjustment is stronger when legacy shareholders are more influential and reveal a greater preference for dividends through portfolio holdings and trading behavior. Country-level differences in dividend taxes, governance quality, and population age further shape the extent of adjustment in ways consistent with dividend preferences. Pre-closing, differences in dividend payout discourage the use of stock as a payment method.

JEL classification: G34; G35

Keywords: Dividend policy, Mergers and acquisitions, Clientele effect

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1. Introduction

Why do firms pay dividends and what could explain payout differences across firms? These questions have attracted significant academic attention following the publication of the seminal Miller and Modigliani (1961) "dividend irrelevance" proposition. According to their theory, in the absence of capital market imperfections investors should be indifferent between a dollar in dividends and a dollar in capital gains. The key insight from their analysis is that capital market imperfections must hold the answers to the questions posed above. For example, if dividends are taxed at lower rates compared to capital gains, or not at all – as is the case for certain investor groups in many jurisdictions – then investors may have a preference for a particular dividend policy. Similarly, differences in the demand for dividends may arise due to investors' behavioral traits, such as viewing dividend and capital gain income differently in their mental accounts. Whatever the source of any such preferences, a firm would pay dividends when its investors demand dividend income and refrain from paying dividends when its investors prefer capital gains. This argument is known as the "dividend clientele" effect (e.g., Allen, Bernardo, and Welch, 2000; Shefrin and Statman, 1984). There is, however, limited evidence on the importance of such dividend clienteles; and if they do exist, it is not clear whether investors preferring dividends simply choose to invest in dividend-paying stocks or firms actually "cater"[1] to their investors (Grinstein and Michaely, 2005; Desai and Jin, 2011).

In this paper we use merger-induced changes to the shareholder structure of firms to test whether companies actively cater to dividend preferences of their investors. In a stock-swap

[1] We use the words "cater" and "catering" simply to refer to the notion of satisfying investors' preferences for a particular dividend policy. Our use of this term does not necessarily imply behavioral foundations for differences in the demand for dividends as in the catering theory of dividends by Baker and Wurgler (2004).

merger the acquirer inherits the shareholders of the target firm (see, e.g., Baker, Coval, and Stein, 2007). If the pre-merger dividend policies of the two firms are different, the newly acquired dividend clientele may compel the acquirer to adjust its dividend payout towards that of the target. To the extent that differences in the dividend policy of the merging firms can affect the combined firm's payout more broadly, cash-based acquisitions provide a control group for our analysis, because cash deals do not entail a change in the shareholder base.

We test these predictions using a global sample of mergers and acquisitions (M&A) of listed firms. In addition to increasing the size of our sample and the external validity of our findings, our global dataset offers cross-country variation in dividend tax regimes, investor protection rules, and investor age – characteristics we exploit to further corroborate the clientele interpretation. Specifically, if taxation, private benefits extraction by managers, or age-based considerations alter investors' preference for dividends, these characteristics should affect the extent of dividend policy adjustment towards preferences of the newly acquired clienteles (if any).

We find strong evidence of a dividend clientele effect in our global sample of 5,366 merger deals between publicly traded firms over the period 1990–2015. Acquirers adjust their dividend payout towards that of the target in the three post-merger years, but *only* when they inherit target firm shareholders through stock swaps. This is after we control for various ways in which the merger or the payment method can affect the combined firm payout through channels other than the clientele effect, such as changes in earnings and growth opportunities, past growth in dividends of the two firms, and a host of pre-merger financial characteristics.

We then turn to cross-sectional differences in the extent of this adjustment. First, using firm- and deal-level characteristics, we show that the clientele effect is stronger when the newly acquired shareholders are expected to be more influential and/or vocal. Specifically, we find that the extent

of adjustment is greater when legacy shareholders represent a larger part of the combined firm, when they hold concentrated portfolios with low turnover, and when acquisition currency (acquirer's stock) is illiquid. In addition, we show that the adjustment is stronger when the newly acquired clientele reveals a stronger preference for dividends through holdings of *other* high-yielding stocks and through further portfolio characteristics.

Second, we use country-level variables to capture differences in tax-based, agency-based, and age-based demand for dividends. Specifically, we show that the adjustment of the dividend policy of the merged firm towards that of the target in stock swaps is stronger when dividends are more tax-advantaged, and when the bidder comes from a weaker governance regime (consistent with the disciplining role of dividends (Easterbrook, 1984; La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 2000). Furthermore, motivated by the findings of Becker, Ivković, and Weisbenner (2011), who provide evidence of local dividend clienteles arising from the combination of age-based dividend preferences and home bias in stock holdings, we show that the extent of adjustment is greater for targets domiciled in countries with a higher proportion of senior citizens. Overall, the results of the various cross-sectional tests are consistent with ex-post catering to dividend clienteles.

Finally, we examine whether differences in dividend policy of the merging firms have an *ex-ante* influence on the payment method choice. To the extent that bidders cannot commit to adjust their dividend payout towards target firm levels, large differences in pre-merger dividend policy would make target firm shareholders prefer cash payment. Similarly, bidders may prefer cash payment in order to avoid having to make large changes to their dividend policy that may be costly and/or detrimental to them and their existing shareholders. This is exactly what we find: the

likelihood of an all-stock payment, as well as the fraction of the consideration in the form of stock, is strongly negatively associated with the difference between target and acquirer dividend yields.

Our paper contributes to the literature on dividend policy as well as to the literature on M&A. Recent papers most closely related to ours are Becker et al. (2011) and Desai and Jin (2011). Becker et al. (2011) use geographical differences in demographics that, coupled with local bias, allow them to identify a local dividend clientele effect. Desai and Jin (2011) use institutional investor clients' tax status to establish a dividend clientele effect, whereby institutions gravitate towards firms with preferred dividend policies, and firms adapt to accommodate the preferences of their investors. Other clientele studies focus on firms' responses to changes in dividend taxes (Chetty and Saez, 2004; Hanlon and Hoopes, 2014) and stock market valuations of dividend payers (Baker and Wurgler, 2004). We use takeovers as a setting that engenders large changes to the shareholder base and show that firms actively cater to their investors' revealed preference for dividends.[2] In terms of the M&A literature, we show that clientele considerations are a significant determinant of deal structure: acquirers avoid stock offers when target shareholders have a stronger preference for dividends.

The rest of the paper proceeds as follows. Section 2 discusses the relevant literature. We describe our data and methodological approach in Section 3. Section 4 presents the main results on the clientele effect. Section 5 explores cross-sectional differences in the extent of adjustment. We examine ex-ante effects on the method of payment and perform a number of auxiliary tests in Section 6. Finally, Section 7 concludes the paper.

[2] Dereeper and Turki (2016) also study dividend policy following takeovers. They find that the level of the acquirer's post-merger dividend payout is positively correlated with the payout level of the target prior to the merger, and more so in stock deals. They do not consider whether the target's pre-merger payout was any greater than that of the acquirer, or whether the acquirer has changed its payout from the pre-merger levels. This is critical for a clientele interpretation, as the theory makes predictions about the effect of *relative* dividend payout on the *change* in the acquirer's dividends.

2. Related literature

Black (1976) coined the term "dividend puzzle" to describe the fact that companies pay dividends even when this form of payout policy is tax-disadvantaged relative to share repurchases. The clientele theory of dividends was developed in an attempt to explain this dividend puzzle. According to the clientele explanation of dividend policy, investor clienteles with varying characteristics have different levels of preference for dividends. Some investors may favor high dividend paying firms, others may opt for low dividend paying firms, and still others may be indifferent to the given dividend policy (Shefrin and Statman, 1984). For instance, differences in the demand for dividends across investors could arise due to differential tax status (Allen, Bernardo, and Welch, 2000). Alternatively, certain investors may view dividends and capital gains as disconnected attributes because of mental accounting (Hartzmark and Solomon, 2019).[3] The empirical evidence on the ability of the clientele theory to explain dividend policy is mixed.

Lewellen, Stanley, Lease, and Schlarbaum (1978) report only a weak association between individual investors' tax rates and the level of dividend payout of the companies they hold. Del Guercio (1996) shows that the level of dividend payout does not exert a significant influence on portfolio selection decisions of mutual funds and banks. Similarly, Michaely, Thaler, and Womack (1995) find no evidence of significant shifts in institutional ownership following dividend

[3] For example, Baker, Nagel, and Wurgler (2007) and Di Maggio, Kermani, and Majlesi (2018) find that personal consumption responds more strongly to returns in the form of dividends than to returns in the form of capital gains. Further evidence on investors' demand for dividend income includes the dividend-month return premium (Hartzmark and Solomon, 2013), mutual fund purchases prior to dividend payments (Harris, Hartzmark, and Solomon, 2015), and lower returns of dividend paying-stocks in periods of low interest rates (Hartzmark and Solomon, 2019).

omissions. Grinstein and Michaely (2005) show that institutional investors prefer dividend-paying stocks; however among these stocks they favor those that pay lower dividends. Barclay, Holderness, and Sheehan (2009) find that firms do not increase dividends following trades of shares from individuals to corporations (the latter do not pay tax on almost all dividends received). In a survey analysis of companies' dividend policies, Brav, Graham, Harvey, and Michaely (2008) provide evidence that institutional investors are not characterised by a distinct preference for dividends over share repurchases.

On the other hand, Dhaliwal, Erickson, and Trezevant (1999) show that companies' institutional ownership shifts towards tax-deferred/tax-exempt and corporate institutions following dividend initiations. Using data from Sweden, Holmen, Knopf, and Peterson (2008) show that dividend payments are more likely to decrease when insiders with zero effective tax rates sell large blocks of their shares to other investors. Moreover, Desai and Jin (2011) differentiate institutional investors based on the types of their clients and find that institutions serving "dividend-averse" clients tend to hold stocks with lower dividend payout. They also show that dividend payout responds to changes in ownership by such institutions, consistent with active catering.

A related strand of literature analyzes firms' responses to changes in dividend-tax-related legislation. Bolster and Janjigian (1991) and Papaioannou and Savarese (1994) find little evidence that companies altered their dividends in response to the 1986 Tax Reform Act that increased the incentive to pay dividends. However, Chetty and Saez (2005) report a higher number of dividend initiations following the introduction of the 2003 Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) that decreased the tax rate on dividends for individuals.[4] Hanlon and Hoopes (2014) further find that the expected reversal of the JGTRRA tax cut led many firms to

[4] On the other hand, Floyd, Li, and Skinner (2015) argue that increases in dividends around the JGTRRA happened as part of a broader increase in payouts, suggesting that this tax change did not affect dividend policy of firms.

precipitate/accelerate their dividends at the end of 2012. Using Swedish data, Jacob and Michaely (2017) find that changes in dividend taxes significantly affect payouts for firms without separation of ownership and control, but less so for firms with dispersed ownership structure.

Few studies identify presence of dividend clienteles unrelated to taxes. Graham and Kumar (2006) document that retail investors' stock holdings are characterised by a preference for dividends that decreases with income and increases with age. Coupled with the tendency of investors to hold local stocks (the so-called local bias), Becker et al. (2011) show that the age-based preference results in geographically varying demand for dividends that is reflected in firms' payout decisions. In addition, Baker and Wurgler (2004) argue that managers observe valuation differences between firms that pay dividends and those that do not, and provide evidence that firms cater to investors by initiating dividends when investors place a premium on dividend paying firms. Li and Lie (2006) further show the dividend premium compels firms to cater not only on the extensive margin through initiations, but also on the intensive margin through dividend increases and decreases.

Our study contributes to this literature by investigating whether a substantial shift in the dividend clientele of a firm – resulting from (arguably exogenous) changes to the shareholder base in a stock swap merger – is associated with changes to the dividend payout. Our revealed preference approach requires fewer assumptions regarding the likely preferences of different investor types (i.e. in our baseline tests we make no assumptions about preferences of retail, institutional, or older investors). We assume only that the observed dividend policies of firms reflect dividend preferences of their shareholders.[5] Importantly, our setting allows us to study whether firms actively cater to their investors by altering their payout – as opposed to investors

[5] For example, Eckbo and Verma (1994) show both theoretically and empirically that the observed dividend policy of a firm represents a consensus between the preferences of its investors.

simply sorting into firms with dividend policies that correspond to their preferences. Our analysis of the effect of dividend clienteles on the choice of payment method in takeovers is also novel.

3. Sample and methodology

3.1. Sample

We collect a sample of global M&A deals announced between January 1, 1990 and December 31, 2015 from Thomson Reuters SDC Mergers and Acquisitions Database. The M&A sample period ends in 2015 to allow for three years' worth of post-merger observations. In order to increase the size of our sample (since all acquirers and targets must be public companies) the only geographical restriction we impose is that the acquirer comes from an OECD country. Given our focus on post-merger changes in dividend policy and changes in the shareholder base due to different payment method choices, we only include completed deals with available transaction value and method of payment information. We keep transactions that constitute a transfer of control, such that the acquirer owns less than 50% of the target before the bid and more than 50% upon completion. We exclude both acquirer and target companies operating in regulated industries, namely, financials (SIC codes 6000–6999) and utilities (SIC 4900–4949), because their dividend policies may be constrained by regulations. Financial statement information and stock market data come from Thomson Reuters Datastream, and we exclude observations with missing firm-specific or transaction-related information required for the construction of variables used in our analysis. Our final sample consists of 5,366 public-to-public M&A transactions that we can track for three years following completion. Panel A of Table 1 presents sample composition by acquirer and target country of domicile.

3.2. Methodology

If firms cater to their dividend clienteles, we would expect them to adjust their dividend payout when their dividend clientele changes. Our main outcome variable of interest is the change in the acquirer's dividends per share (DPS) around the merger event, scaled by the pre-merger book value of equity per share (BPS). We use the change in DPS as our outcome variable, because we are interested in actual changes in dividend payout: measures such as the dividend yield and the payout ratio can register a change simply because the denominator (share price or earnings) changes. We measure the change in DPS over periods starting one year before and ending one, two, and three years following the completion of the M&A deal:

$$\Delta\ DPS\ (-1\ to\ +j)\ =\ \frac{DPS_{+j}^{Acq.} - DPS_{-1}^{Acq.}}{BPS_{-1}^{Acq.}}, \qquad (1)$$

where *j=1,2,3*. According to this definition, cases where the acquirer does not change its dividend payout – including cases of no dividends paid – are coded as zero.

To capture differences in dividend preferences of the shareholders of the target and the acquirer prior to the acquisition we define a *Dividend Gap* variable as the difference between target and acquirer dividend yields. We use the stock price one day prior to the announcement of the deal to measure the dividend yield of both firms (our results are robust to using the offer price in the computation of the target firm dividend yield, which takes into account the premium offered). Specifically:

$$Dividend\ Gap = Dividend\ yield_{Tar.} - Dividend\ yield_{Acq.} \qquad (2)$$

This variable increases in the dividend yield of the target relative to that of the acquirer, with positive (negative) values indicating greater (smaller) preference for dividends by target shareholders as compared to those of the acquirer. According to this definition, *Dividend Gap*

takes the value of zero (i.e. there is no dividend gap) when the acquirer and the target exhibit the same dividend yield – including cases where both firms pay no dividends.

Of course, the difference in dividend preferences of the bidder and the target should matter only insofar as the acquirer inherits target shareholders. When the acquirer offers its own shares as payment, the shareholders of the target become the shareholders of the acquirer. If all target shareholders immediately sold their holdings, there would be no change in the dividend clientele of the acquirer. However, Baker et al. (2007) show that as much as 80% of individual investors and as much as 30% of institutions behave as "sleepers" – they simply accept the shares they are given. This can be due to investor inertia (no action is the default option) as argued by Baker et al. (2007), or reasons such as the desire to defer capital gains taxation or the desire to participate in the upside from the realization of synergies not immediately priced by the market, or simply due to frictions such as illiquidity of the acquirer's stock or lock-up agreements.

The change in the dividend clientele of the acquirer is therefore captured by interacting *Dividend Gap* with *Pct. Stock*, the fraction of deal value settled in the form of acquirer stock. Identifying the clientele effect from the interaction term has an important advantage – it raises the bar for alternative explanations for the relationship with ΔDPS (if any). Specifically, it would have to be the case that any omitted variable (e.g. change in the combined firm profitability) varies not only with the fraction of stock in the consideration and/or the *Dividend Gap*, but also exhibits an interaction effect. To strengthen the clientele interpretation, we also use *triple* interaction terms in order to test whether the extent of dividend adjustment in response to clientele shifts (if any) varies in the cross-section in a way that is consistent with shareholder preferences.

To further isolate the clientele effect from potential alternative explanations, we control for other known determinants of dividend policy. To control for the predictions of the signalling theory

of dividends (the idea of the "informational content of dividends" goes back to Miller and Modigliani, 1961; Bhattacharya (1979) derives a formal signalling model), we use the change in earnings per share over the corresponding period, i.e., starting one year before and ending one, two, or three years after deal completion (*Δ Earnings*).

The life cycle view of dividends suggests that a company begins to distribute funds to shareholders when it matures and its profitability and growth are diminishing (DeAngelo, DeAngelo, and Stulz, 2006; Grullon, Michaely, and Swaminathan, 2002; Fama and French, 2001). An acquisition could lead to a change in the maturity characteristics of the firm: the acquirer's growth profile could change following the deal as it inherits the growth opportunities of the target (in addition to potential synergies). To control for the predictions of the life cycle view of dividends, we measure the change in the acquirer's growth opportunities as the change in the acquirer's market-to-book ratio over the corresponding period, i.e., starting one year before and ending one, two, or three years after deal completion (*Δ Growth Opportunities*).

We include standard control variables which have been used by previous studies of corporate dividend policy (see, e.g., Alzahrani and Lasfer, 2012; Kale, Kini, and Payne, 2012; Li and Lie, 2006; Fama and French, 2001). Specifically, to account for the persistence of dividend policy we control for the prior change in dividends of both the acquirer and the target over a three-year period prior to the deal. We also control for the level of acquirer and target: i) growth opportunities, proxied by the market-to-book ratio prior to the deal; ii) cash holdings, measured as cash and liquid securities divided by total assets prior to the deal; iii) maturity, measured as firm age one year prior to the deal; iv) profitability, measured as the return on assets (ROA) one year prior to the deal; v) size, measured as total assets one year prior to the deal; vi) leverage, measured as the ratio of long-term debt to total assets one year prior to the deal; and vii) business risk (cash flow volatility),

captured by the standard deviation of operating cash flows calculated over a three-year period prior to the deal. A further control for the acquiring firm country's economic growth is also included. To control for time-invariant country, industry, and time effects, we include acquirer country, industry, and completion year fixed effects in our regressions. All acquirer and target financial characteristics are winsorized at the 1st and 99th percentiles.[6] Detailed definitions of all variables are provided in the Appendix.

Panel B of Table 1 presents descriptive statistics for our main variables of interest as well as key deal, target, and acquirer financial characteristics as of one year before the completion of the deal. We observe that our sample is similar to international M&A samples used in previous studies in terms of key characteristics of deals, acquirers, and targets (e.g., Rossi and Volpin, 2004; Lel and Miller, 2015; Dessaint, Golubov, and Volpin, 2017). Given our focus on public-to-public transactions, our sample deals and acquirers are large. The mean (median) deal value is $1,307 million ($199 million), acquirer size in terms of market capitalization is $11,494 million ($1,642 million), and acquirer market to book ratio is 3.42 (2.26).

[Please Insert Table 1 about Here]

4. Baseline results

4.1. Univariate analysis

We begin with a univariate analysis of post-merger dividend payout of acquiring firms. Table 2 presents the change in acquirer DPS during the first, second, and third year following the completion of the M&A deal for the full sample. Recall that the clientele effect implies an

[6] To ensure that large dividend changes (Δ DPS) due to close-to-zero denominator (pre-merger book value) do not drive our results, we verify that our conclusions hold when we winsorize the dependent variable more aggressively (5th and 95th percentiles), as well as when we exclude cases where acquirer book value per share (BPS) is below 0.1.

adjustment of the acquiring firm's dividend policy towards that of the target when the acquirer inherits target shareholders through a stock-swap deal. Therefore, this analysis is performed for the overall sample (Panel A), as well as separately for the subsamples of deals where the acquirer offers some positive amount of stock as part of the consideration (*Pct. Stock* > 0, Panel B) and pure cash deals (*Pct. Stock* = 0, Panel C). The analysis is further partitioned by whether the target exhibits a higher dividend yield than the acquirer prior to the deal (*Dividend Gap* > 0 vs. *Dividend Gap* <= 0).

The results in Panel A show that, when the target used to pay higher dividends than the acquirer (*Dividend Gap*>0), acquirer DPS increase by 14.22% (of pre-merger BPS) one year following the merger, while this increase is only 5.76% when the target paid either equal or lower amount of dividends than the acquirer (*Dividends Gap*<=0). The difference between the two figures is 8.46 percentage points and statistically significant at the 1% level. The same pattern is observed for years two and three following the deal. It appears that the acquirer increases its dividends by a larger amount when the target has a higher payout. If this is due to merger-induced changes in shareholder structure, we would expect that this effect comes primarily from deals containing some stock in deal consideration, whereby the acquirer inherits some of the target's shareholders and experiences a shift in its dividend clientele.

Results reported in Panels B and C confirm this conjecture. As predicted by the clientele hypothesis, we observe that the magnitude of the adjustment of the acquirer's dividend payout towards that of the target is higher when the method of payment includes some stock. Specifically, for deals containing some stock in the consideration (Panel B), the difference in acquirer Δ DPS between cases where the target pays higher dividends than the acquirer versus cases of equal or lower target payout is 14.23, 17.48, and 20.58 percentage points for years one, two, and three

following the deal, respectively. In contrast, the corresponding differences in the case of cash deals (Panel C) are only 4.11, 4.41, and 5.71 percentage points. Panel D reports that the wedge between these two differences across pure cash deals and deals containing stock (difference-in-differences) is statistically significant at the 1% level for all three post-merger years. That is, the acquirer adjusts its dividend policy towards that of the target predominantly in stock swap deals – when the M&A transaction results in a shift in the preferences of the dividend clientele of the newly formed company.

[Please Insert Table 2 about Here]

Table 3 repeats the analysis on a subsample of dividend payers, thereby isolating any adjustment to the intensive margin only (i.e. adjusting an otherwise positive amount of dividends paid, as opposed to initiating dividend payments). We find very similar results in this subsample: the difference-in-differences effect in Panel D is both economically and statistically significant across all three post-merger years.

[Please Insert Table 3 about Here]

4.2. Multivariate analysis

Next, we conduct a multivariate version of the same test, which allows us to fully utilize the variation in the *Dividend Gap* and *Pct. Stock* variables, as well as to control for other potential determinants of the change in acquirer dividend payout following the deal. Table 4 presents the results of our regression analysis of the change in acquirer dividend payout over three different time windows: Δ DPS (–1 to +1) in columns (1) and (2), Δ DPS (–1 to +2) in columns (3) and (4), and Δ DPS (–1 to +3) in columns (5) and (6). All regressions include controls for prior growth in dividends of both firms over the preceding 3-year period (*Prior DPS Growth* $_{Acq.}$ and *Prior DPS*

Growth $_{Tar.}$), contemporaneous change in earnings per share (Δ *Earnings*), and contemporaneous change in the market-to-book ratio (Δ *Growth Opportunities).* We include further controls for relative size and industry relatedness of the deal, as well as the pre-merger level of cash holdings, indebtedness, cash flow volatility, age, market-to-book, and return on assets of both the acquirer and the target. Finally, we control for the GDP growth rate in the acquirer country, as well as acquirer country, industry, and completion year fixed effects, whose coefficients are not shown. Standard errors are heteroscedasticity-robust.

Panel A reports the results estimated on the overall sample. In columns (1), (3), and (5) we include both *Dividend Gap* and *Pct. Stock,* but do not yet interact them. The results indicate that the *Dividend Gap* per se does not have an impact on the future evolution of dividend payouts. However, a different picture emerges when we condition the effect of differences in dividend payout on the amount of stock consideration by including the *Dividend Gap x Pct. Stock* interaction in models (2), (4), and (6). Recall that this interaction term captures the change in the acquirer's dividend clientele as a result of the deal. It increases with the fraction of stock in the consideration (target shareholder base inherited through the deal), and with the gap between target and acquirer dividend yields (dividend preferences of the new clientele). The interaction term obtains a positive and statistically significant coefficient: the greater the change in the dividend clientele of the acquirer, the greater the change in its post-acquisition dividend payout. In other words, the acquirer is more likely to increase dividend payments following the deal when the target's dividend clientele is inherited through a stock swap *and* was accustomed to receiving higher dividend payments than the acquirer's shareholders prior to the deal. Note that the main effect of *Dividend Gap*, which, in the presence of the interaction term captures the effect of differences in dividend policy in pure cash deals (*Pct. Stock* = 0), is not significant. That is, differences between target and

acquirer dividend payout do not affect the combined firm's payout in pure cash deals. This is comforting, because we do not expect target firm preferences to matter when no target shareholders are absorbed.

The signs and significance levels of the coefficients on control variables present some further interesting results. We find that dividend payments following the acquisition are higher when the acquirer experiences a greater change in profitability (Δ *Earnings*), consistent with the informational content of dividends. These M&A-specific findings complement the more general results on dividends and profitability (e.g., DeAngelo, DeAngelo, and Skinner, 1992; Brook, Charlton, and Hendershott, 1998; Nissim and Ziv, 2001; Ham, Kaplan, and Leary, 2019). We find no support for the life cycle theory of dividends. The coefficient on the Δ *Growth Opportunities* variable is positive and statistically significant in all specifications, whereas the life cycle view predicts lower payout when growth opportunities increase. In Panel B, we once again exclude any bidders and/or targets that paid zero dividends prior to the bid. We find that our results for dividend-payers are qualitatively and quantitatively similar to the full sample results.

[Please Insert Table 4 about Here]

Before proceeding with the rest of our analysis, we consider an alternative interpretation for our finding of higher growth in dividends following stock-based acquisitions of high-yielding targets vis-à-vis cash-based acquisitions. Specifically, it is possible that cash-paying acquirers have to tap into targets' cash flows – including their dividends – in order to support any new borrowing associated with a cash-based offer. In other words, acquirers paying with cash need to drain the target's cash flow to service and pay back acquisition-related debt, and the ability to do so is increasing with the amount of target's discretionary cash flow as represented by its dividend yield, resulting in a positive coefficient on the *Dividend Gap x Pct. Stock* interaction term.

In order to eliminate the possibility that the method of payment reflects the acquiring firm's need to divert target firm cash flow, we shut down the variation in payment method and focus on a subsample of pure stock-for-stock mergers. In pure stock deals, the acquirer necessarily absorbs target shareholders, and the resulting change in the dividend clientele is a function of pre-deal differences in dividend yields only, i.e. our *Dividend Gap* variable. If the positive association between future changes in dividends and pre-merger differences in payout continues to hold in this subsample, the underlying economic mechanism for this relationship is more likely to be due to shareholder preferences. We find that this is indeed the case: the coefficient on *Dividend Gap* is positive and statistically significant in the regressions run on the subsample of pure stock deals. For brevity, these results are reported in Table A1 of the Appendix.

Overall, our findings so far are consistent with active catering to dividend clienteles. When merger-induced changes to the shareholder base occur due to stock-based payment, the acquirer adjusts its dividend payout towards that of the target. We now turn to cross-sectional analysis of this association in order to further buttress the clientele interpretation.[7]

5. Cross-sectional differences in the clientele effect

5.1. Firm- and deal-level characteristics

In this section, we explore whether the extent of dividend adjustment documented above varies in the cross-section in ways consistent with dividend preferences of shareholders. Our first

[7] For instance, a potential concern is that the convergence in dividend policies following pure stock swaps is a mechanical cash flow effect rather than catering to shareholder preferences. In particular, if the combined firm simply allocates the same dollar amount of cash flows towards dividends, then stock swaps could result in an "adjustment" of the acquirer dividend yield towards that of the target. Note, however, that our regressions control for both the level of pre-merger profitability ($ROA_{Acq\ Y\text{-}1}$ and $ROA_{Tar\ Y\text{-}1}$) and the post-merger change in earnings (Δ *Earnings*). In the presence of these controls, the remaining variation in pre-merger dividend yields more likely reflects shareholder preferences. Our triple interaction tests below are designed to further address such concerns.

set of such cross-sectional tests makes use of firm- and deal-level characteristics. Specifically, we test whether the extent of dividend adjustment is greater when legacy shareholders are expected to be more influential and when the high dividend yield of the target is more indicative of shareholder preferences.

Intuitively, the newly acquired dividend clientele should be more influential when it represents a larger fraction of the merged firm, i.e. when the target is relatively large. We therefore test whether the clientele effect, captured by the positive coefficient on the *Dividend Gap x Pct. Stock* interaction, is stronger in deals where the target is large relative to the acquirer. To that effect, we interact the *Dividend Gap x Pct. Stock* term (as well as the two variables individually) with the variable capturing the relative size of the deal (*Rel. Size*). As the relative size variable never takes the value of zero, we use its demeaned version to facilitate the interpretation of the "direct" effect of the *Dividend Gap x Pct. Stock* interaction: its coefficient should be interpreted as the clientele effect for a deal of average relative size. The coefficient on the triple interaction term *Dividend Gap x Pct. Stock x Rel. Size* is the main coefficient of interest and represents the incremental effect of relative size to the baseline extent of dividend adjustment. Regression specifications are otherwise identical to models (2), (4), and (6) in Table 4. The results are reported in Panel A of Table 5. The estimation results confirm our intuition that the acquirer is more likely to accommodate preferences of target shareholders inherited through a stock swap when the newly acquired clientele is relatively large and, therefore, influential. The coefficient on the triple interaction term *Dividend Gap x Pct. Stock x Rel. Size* is positive and significant at the 1% level in the first two post-merger years, and at the 5% in year three.

Our second proxy for the influence of the newly acquired clientele is the liquidity of the stock consideration (acquiring firm stock). As noted above, frictions such as illiquidity of the

acquisition currency may compel the newly acquired clientele to exercise its voice more forcefully than would be the case when exiting the position is costless. Therefore, we conjecture that the extent of adjustment towards target shareholder preferences is greater when the acquiring firm's stock is less liquid. To test this proposition, we define a variable *Amihud Illiquidity*$_{Acq}$, which measures the illiquidity of the acquiring firm's stock, following Amihud (2002). Our main variable of interest in this test is the triple interaction term *Dividend Gap x Pct. Stock x Amihud Illiquidity*$_{Acq.}$, and all double interactions are also included. Once again, since *Amihud Illiquidity*$_{Acq.}$ never takes the value of zero by construction, we use its demeaned version to facilitate the interpretation of the coefficients. Specifically, in the presence of the triple interaction term, the coefficient on *Dividend Gap x Pct. Stock* represents the "baseline" clientele effect for an acquirer whose stock's illiquidity is equal to the sample mean. The results are reported in Panel B of Table 5. Consistent with our prediction, we find that, the triple interaction term obtains a positive coefficient that is significant at the 1% level across all three post-merger years. That is, the extent of adjustment is greater when the acquisition currency is less liquid.

[Please Insert Table 5 about Here]

To further capture the likely influence and preferences of target shareholders, we take advantage of actual ownership data. Detailed ownership information available to us comes from the Thomson Reuters 13f holdings dataset. Therefore, our remaining tests in this subsection focus on U.S. targets. Following the work of Bushee (1998, 2001) and Bushee and Noe (2000), we differentiate between the so-called dedicated institutions (hold concentrated portfolios and exhibit low turnover), quasi-indexers (hold highly diversified portfolios and exhibit low turnover), and transient institutions (exhibit highly diversified holdings and high turnover). Our conjecture is that the acquirer is more likely to cater to dedicated institutions, given their long-term investment

horizon and incentive to engage. To that end, we compute the percentage of the target firm shares held by institutional shareholders classified as dedicated as of the most recent quarter prior to the announcement of the deal (*Dedicated Clientele*) and use this variable as our third proxy for the influence of legacy shareholders.[8] Once again, the main variable of interest in these tests is the triple interaction term *Dividend Gap x Pct. Stock x Dedicated Clientele* and all direct effects and double interactions are also included. As in our triple interaction tests above, we demean the *Dedicated Clientele* variable, meaning that the coefficient on the double interaction *Dividend Gap x Pct. Stock* should be interpreted as the clientele effect when the fraction of target firm shares held by dedicated institutions is at its sample mean. Panel A of Table 6 reports the estimation results.

Consistent with our expectations, we find that the extent of dividend adjustment towards the target yield in stock swaps increases with the fraction of target shares held by dedicated institutions: the coefficient on the triple interaction terms is positive and significant at the 5% level. Overall, the results of our cross-sectional tests so far indicate that the extent of the clientele effect is stronger when legacy shareholders are likely to be more influential, consistent with the catering explanation.

We conduct two additional cross-sectional tests using ownership information, this time designed to capture actual preferences for dividends. First, we take our revealed preference approach one step further and proxy for the dividend preferences of target shareholders via the dividend yield of their overall portfolios (other than the target firm itself). To that end, we once again make use of Thomson Reuters 13f holdings data and merge them with information on common stock dividends from Compustat as of the most recent fiscal year-end. For each target in our sample, we identify all of its institutional shareholders as of the most recent quarter prior to

[8] We thank Brian Bushee for making this investor classification available on his website.

deal announcement. We then reconstruct the entire portfolio of each of these institutions in the same quarter and compute the portfolio dividend yield (weighted-average dividend yield of all stock holdings), purged of the target firm itself. The resulting variable represents the preference of a given institution as revealed by all of its holdings other than the target. We then average this value across all institutions holding the target, with ownership stakes as weights. The resulting variable represents the average preference of the target's institutional clientele, with preferences of larger institutions receiving greater weight. Finally, to account for the fact that this measure captures the preferences of only the firm's institutional holders, we multiply it by the overall institutional ownership of the target.[9] We label the resulting variable *Clientele Preference*.

Armed with this variable, we first validate the premise that the observed dividend yield of the target represents preferences of its shareholders. To that end, we regress the pre-merger dividend yield of the target on the *Clientele Preference* variable and our standard set of fixed effects. We find that the observed preference of a firm's investors indeed positively predicts the dividend yield of our targets.[10] Next, we use this variable for a triple interaction test. Our expectation is that the acquirer is more likely to adjust its dividend payout towards that of the target when legacy shareholders exhibit a greater preference for dividends as revealed by their portfolio holdings. As before, we demean the *Clientele Preference* variable to facilitate the interpretation of the coefficient on the *Dividend Gap x Pct. Stock* interaction, which will reflect the baseline clientele effect when *Clientele Preference* is at its sample mean. Panel B of Table 6 reports the

[9] We do not expect the revealed preference of institutional shareholders to affect the extent of adjustment when institutions hold only a small fraction of the target. An alternative way of "prioritizing" cases of high institutional ownership when estimating the relationship between the extent of adjustment and institutional shareholder preferences is to weight the regression estimation by the fraction of shares held by institutions. Our results are fairly robust to this alternative: we find that the triple interaction term is positive and statistically significant in years two and three following the deal, though not in year one.

[10] To conserve space, these results are reported in Table A2 (column 1) of the Appendix.

results. In line with our expectations, the coefficient on the triple interaction term *Dividend Gap x Pct. Stock x Clientele Preference* obtains a positive coefficient significant at the 5% level, implying that the extent of adjustment towards the target yield is greater when legacy shareholders reveal a stronger preference for dividends via their portfolio holdings.

Our final ownership-based test builds on the notion of tax-motivated dividend clienteles – the idea that the demand for dividends arises from investors with preferential tax status. To that end, we take advantage of a novel measure of tax-sensitivity of institutional investors from Blouin, Bushee, and Sikes (2017). Blouin et al. (2017) propose and validate a method of classifying institutional investors into tax-sensitive and tax-insensitive based on the institutions' tax-motivated end-of-year trading behavior and other portfolio characteristics, which they demonstrate to be superior to classifications based solely on investor type (e.g. pension funds, endowments, insurance companies, banks). We use this binary classification and compute the fraction of the target firm shares held by tax-*in*sensitive institutions, *Tax-Insensitive Clientele*.[11]

As above, we first validate this measure as a proxy for dividend preferences by regressing the target's pre-merger dividend yield on this variable and our standard set of fixed effects. The results (reported in column (2), Table A2 of the Appendix) show that targets with greater ownership by tax-insensitive institutions indeed exhibit higher pre-merger dividend yields. We then use this variable for a triple interaction test, with the prediction being that the extent of adjustment towards the target firm dividend yield should be greater when legacy shareholders are less sensitive to taxes. As before, we demean the *Clientele Tax-Insensitivity* variable, such that the coefficient on the double interaction *Dividend Gap x Pct. Stock* should be interpreted as the

[11] Once again, we thank Brian Bushee for making this classification available on his website.

clientele effect when target firm ownership by tax-insensitive institutions is at its sample mean. Panel C of Table 6 presents the results.

In line with our predictions, the triple interaction term *Dividend Gap x Pct. Stock x Tax-Insensitive Clientele* obtains a positive and statistically significant coefficient, implying that the extent of adjustment towards the target firm dividend yield is stronger when legacy shareholders are less sensitive to taxes. Overall, the results of the cross-sectional tests so far suggest that the clientele effect is stronger when the shareholders inherited through the stock swap are expected to be more influential and when they reveal a stronger preference for dividends via the characteristics of their portfolios.

[Please Insert Table 6 about Here]

5.2. Country-level characteristics

Our second set of cross-sectional tests exploits cross-country differences to identify likely variation in the demand for dividends. The first variable we focus on is governance quality. According to Easterbrook (1984), if managers extract private benefits of control, paying regular dividends reduces agency costs by lowering the amount of corporate resources available for misappropriation by managers. For example, John, Knyazeva, and Knyazeva (2011) argue that firms in remote locations (arguably more difficult to monitor) commit to higher dividend payments in order to reduce the potential for misuse of company funds. Similarly, John, Knyazeva, and Knyazeva (2015) show that poorly governed firms bind themselves to paying higher dividends as a pre-commitment device.[12] Consistent with the idea that dividend payments act to reduce agency costs, Pinkowitz, Stulz, and Williamson (2006) show that the relation between cash holdings and

[12] On the other hand, La Porta et al. (2000) show that firms in countries with weak minority shareholder rights pay lower dividends – a result they attribute to the inability of minority shareholders to pressure the firms to disgorge cash.

firm value is stronger – whereas the relation between dividend payments and firm value is weaker – in strong investor protection countries. Alzahrani and Lasfer (2012) show that, when investors are not protected, they tend to accept whatever dividends they can extract even when this entails high tax costs, but when they are protected they weigh the tax costs of dividends against the disciplining benefits.

We therefore test whether acquirers are less likely to cater to the newly acquired dividend clientele when the acquirer comes from a superior governance regime, where the need for dividends as a pre-commitment device is lower. To implement this test, we take advantage of cross-border deals in our sample, and measure the difference in the quality of corporate governance in acquirer and target countries using the anti-self-dealing index proposed by Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008). Higher values of the index indicate better governance quality, and therefore higher values of the difference between the acquirer and the target country's index (Δ *Anti-self-dealing* $_{(Acq.-Tar.)}$) are associated with greater improvements in the degree of protection afforded to target shareholders (who receive acquiring firm shares as payment). We include the demeaned version of this variable as well as its interactions with the *Dividend Gap, Pct. Stock,* and *Dividend Gap x Pct. Stock* variables in our regressions. Our main variable of interest in these tests is the triple interaction term *Dividend Gap x Pct. Stock x* Δ *Anti-self-dealing* $_{(Acq.-Tar.)}$. The results are reported in Panel A of Table 7.

We find that when the acquirer company is domiciled in a country with relatively stronger investor protection than that of the target, the clientele effect is reduced. This is evidenced by a negative and statistically significant coefficient on the triple interaction term *Dividend Gap x Pct. Stock x* Δ *Anti-self-dealing* $_{(Acq.-Tar.)}$. Thus, our results are consistent with the idea that dividend

payments act as a governance tool, such that the need to cater to newly acquired dividend clienteles is reduced when governance quality afforded to those investors is improved.

The second source of cross-country variation comes from dividend tax regimes. If dividend clienteles are tax-related, one would expect that the extent of adjustment towards target shareholder preferences should be related to the tax treatment of dividends. To capture cross-sectional differences in the degree of dividend tax (dis)advantage, we follow Alzahrani and Lasfer (2012) to classify countries into three different tax systems depending on the corporation tax rate and dividend tax credit. Specifically, acquirer countries are classified into: i) full imputation regime – whereby investors pay personal taxes on distributed earnings, but receive full tax credit for the corporate taxes paid on these earnings, ii) partial imputation regime – whereby investors pay personal taxes on distributed earnings, but receive partial tax credit for the corporate taxes paid on these earnings, and iii) classical regime – whereby investors pay personal taxes on distributed earnings in addition to the corporate taxes paid on these earnings.

We then create an indicator variable *Full/Partial Imputation*$_{Acq}$ which is equal to one when the acquirer is domiciled in a country with full or partial tax imputation system and zero otherwise. As in all previous triple interaction tests, we include the *Full/Partial Imputation*$_{Acq}$ variable as well as its interactions with the *Dividend Gap, Pct. Stock,* and *Dividend Gap x Pct. Stock* variables in our regressions. Our main variable of interest here is the triple interaction term *Dividend Gap x Pct. Stock x Full/Partial Imputation*$_{Acq}$. We expect a positive coefficient on this triple interaction term, with the prediction being that catering incentives are greater when dividends are relatively tax-advantaged (less tax-disadvantaged). The results of this analysis are presented in Panel B of Table 7.[13]

[13] As our tax regime variable exhibits no within-country variation, we omit acquirer country fixed effects from the regression specifications in this particular test.

Consistent with our predictions, we find that acquirers from countries with full or partial imputation systems are more likely to cater to their newly acquired dividend clienteles, i.e. the clientele effect is stronger when the tax cost associated with dividends is relatively lower. This is evidenced by the positive coefficient on the triple interaction term *Dividend Gap x Pct. Stock x Full/Partial Imputation*$_{Acq.}$, which is robustly statistically significant at the 1% level.

Finally, we build on the work of Becker et al. (2011) for our third country-level test. Becker et al. (2011) rely on two empirical observations to identify geographically-varying demand for dividends: local bias in stock holdings and the tendency of senior investors to hold dividend-paying stocks. Specifically, Becker et al. (2011) show that companies headquartered in locations with a higher proportion of senior citizens are more likely to pay dividends, initiate dividends, and have higher dividend yields. Motivated by their evidence, we use the fraction of senior citizens in the target firm country of domicile as a source of variation in age-based preferences for dividends. Note that, to the extent the notion of local dividend clienteles relies on home bias in stock holdings, such bias is likely to be even stronger across national borders. We collect information on the fraction of senior citizens (aged 65 and above) in the target firm's country of domicile as of the year of deal completion. These data come from the World Bank. To maximize the signal-to-noise ratio of the proxy, we define an indicator taking the value of one when the fraction of senior citizens in the target firm country is in the top tercile of the country-level distribution, and zero otherwise (*High (Fraction > 65 yrs.* $_{Tar.}$*)*).

We first validate that the fraction of senior citizens in the target firm's country of domicile indeed proxies for dividend preferences of the target's investors. To that end, we regress the pre-merger dividend yield of the target on the indicator for countries with a high proportion of senior citizens and our usual set of fixed effects. The results reported in Table A2 of the Appendix

(column (3)) confirm that there is a positive association between the size of the senior population and the dividend yield of our targets. We then use this variable in a triple interaction test as above. Our prediction is that the extent of adjustment should be increasing with the age-based demand for dividends. Panel C of Table 7 presents the results.

Consistent with our expectations, the triple interaction term obtains a positive coefficient that is statistically significant at the 1% level across the three post-merger years, implying that the extent of adjustment towards the target's yield is greater when the target comes from a country with a high proportion of senior citizens.

[Please Insert Table 7 about Here]

Overall, the results presented in this section lend further credibility to our main finding of active catering to dividend clienteles following stock-swap mergers. The extent of adjustment towards the target firm's dividend payout is greater when legacy shareholders are more influential and/or vocal, such as when they have a greater stake in the combined firm, hold concentrated portfolios with low turnover, and receive illiquid stock as consideration. The adjustment is also greater when the newly acquired clientele reveals a greater preference for dividends through holdings of other high-yielding stocks and exhibits tax-insensitive characteristics. At the country level, the extent of adjustment is greater when the demand for dividends is plausibly higher by the virtue of favorable tax treatment, poor investor protection, and age-based preferences of the local investor base.

6. Pre-closing effects and auxiliary tests

6.1. Ex-ante catering through payment method choice

Another dimension through which dividend clienteles may impact M&A deals is the payment method choice. Specifically, if acquirers have to cater to newly acquired dividend clienteles by adjusting post-merger dividend payout, the acquirer may choose to avoid inheriting target shareholders when the dividend policy of the target is sufficiently different (more generous) than that of the acquirer. This can be achieved by making a pure cash offer as opposed to an offer containing equity as part of the consideration. We therefore test for the existence of this ex-ante catering effect by investigating whether differences in the dividend payout of the merging firms (as captured by the *Dividend Gap* variable) influence the payment method choice. The results of this analysis are presented in Table 8.

We estimate two regressions where the dependent variable is either the fraction of deal consideration in the form of stock (*Pct. Stock*) or an indicator variable taking the value of one for pure stock swaps and zero otherwise (*All Stock Dummy*). Our main variable of interest is *Dividend Gap* and an ex-ante clientele effect implies a negative association of this variable with the propensity to pay with stock. We include firm-level controls for size, cash holdings, leverage, and market-to-book ratios of both acquirer and target, as well as deal-level controls for hostility (*Hostile Dummy*), acquisition technique (*Tender Offer Dummy*), same-industry deals (*Industry Relatedness*$_{(3\text{-digit SIC})}$), and relative size of the deal (*Rel. Size*). Acquirer country, industry, and year fixed effects are included. Note that the sample size in these tests is higher due to no requirement for the deal to be completed and for post-merger dividend data to be available.

Estimation results confirm our conjecture. The coefficient on the *Dividend Gap* variable is negative and highly statistically significant in both regressions. When acquirers are unwilling or

expect to be unable to adjust their dividend payout towards that of the target, they are less likely to structure deals as pure stock swaps and increase the cash component of the consideration. These results are consistent with ex-ante catering to dividend clienteles via the choice of deal structure.

[Please Insert Table 8 about Here]

6.2. Asymmetric adjustment

Considering firms' general tendency to avoid reductions in dividends, it is plausible that the extent of adjustment of acquirer dividend payout towards that of the target is not symmetric. Specifically, we could expect acquirers to be significantly less willing to adapt to the preferences of the inherited target shareholders when these preferences involve a reduction in dividend payments. We test this conjecture by interacting the *Dividend Gap* variable with an indicator taking the value of one when *Dividend Gap* is above zero (target dividend yield is higher), and zero otherwise. This indicator variable is denoted *Dummy (Dividend Gap>0)*. Our main variable of interest in this test is the triple interaction term *Dividend Gap x Pct. Stock x Dummy (Dividend Gap >0).* If our conjecture regarding asymmetric adjustment is correct, we expect a positive coefficient on this triple interaction term. The specifications are otherwise identical to those in Table 4. In the interests of exposition, these results are reported in Table A3 of the Appendix.

The results confirm our expectations: the triple interaction loads with a positive and significant coefficient. The coefficient on the double interaction *Dividend Gap x Pct. Stock*, which, in the presence of the triple interaction estimates the effect for cases when *Dividend Gap*<=0, is still statistically significant, but its magnitude is reduced dramatically. In other words, the adjustment of acquirer dividend payout towards the preferences of the newly acquired clientele is asymmetric and largely limited to cases where adjustment means increasing dividends. These

results are consistent with both active catering to dividend clienteles and general reluctance of firms to reduce dividend payments.

6.3. Is the clientele effect just an artefact of more profitable deals?

A potential concern is that our main explanatory variable of interest in the ex-post adjustment tests – the interaction effect *Dividend Gap x Pct. Stock* – is picking up more profitable merger deals, such that the positive effect of this interaction term is not evidence of a clientele effect, but simply an artefact of increased profitability of the combined firm. While we control for the change in earnings, as well as the prior level of profitability of both the acquirer and the target in our regressions, it is possible that combinations involving firms with a large *Dividend Gap* financed with stock are associated with greater synergies, thereby explaining the increases in dividends. To rule out this alternative explanation, we adopt two measures of long-term value creation used in the M&A literature, namely, the change in the combined firm profitability (*Δ ROA*) and the buy-and-hold abnormal return (*BHAR*) following the deal. If, for whatever reason, deals characterized by high values of the *Dividend Gap x Pct. Stock* interaction are more synergistic, this should be reflected in increased accounting profitability of the combined firm, as well as in the BHAR of the acquirer (assuming the acquirer captures at least some of these synergies). We rerun our main regression tests in Table 4 but replace *Δ DPS* with these two proxies for the profitability of the merger. We measure Δ ROA as the return on assets of the combined firm in years one, two, or three following the deal minus the asset-weighted-average return on assets of the acquirer and the target in the year prior to the deal. BHAR is measured as the buy-and-hold return on the acquirer stock for the period starting 1 month prior to the deal and ending 12, 24, or 36 months following the deal, minus the contemporaneous buy-and-hold return on the local stock market index. If this

alternative explanation is true, we would expect to find a positive coefficient on the *Dividend Gap x Pct. Stock* interaction in these regressions. Once again, to conserve space these results are reported in the Appendix (Tables A4 and A5). We find that the interaction obtains an insignificant coefficient in both Δ ROA and BHAR regressions for all windows. That is, high values of the *Dividend Gap x Pct. Stock* interaction are not associated with greater combined firm profitability as a result of the merger. Therefore, our findings are more likely to be attributed to a clientele effect.

6.4. Interaction with other corporate policies

Since the clientele effect is not picking up differences in combined firm profitability, it must be the other financial policies or even real operating decisions of the firm that are altered in order to finance the increased dividend payouts following stock-financed acquisitions of targets whose shareholders have a higher preference for dividends than those of the acquirer. We examine three potential sources of such funding, namely, a change in leverage (*Δ Leverage*), a change in cash holdings (*Δ Cash*), and a change in capital expenditures (*Δ CAPEX*) of the combined firm. We adopt the same methodology as above, namely, we replace the dependent variable in our main regressions in Table 4 and examine whether high values of the *Dividend Gap x Pct. Stock* interaction (which are associated with increased dividend payout) are associated with changes in these three policies. The results reported in Table A6 of the Appendix indicate that dividend increases are financed largely through increases in leverage, as evidenced by a positive and statistically significant coefficient *Dividend Gap x Pct. Stock* in the leverage regression. While the coefficients in the cash holdings and capital expenditures regressions are negative, they are not statistically significant at conventional levels with one exception. Thus, catering to preferences of

newly acquired dividend clienteles has real implications as it impacts other policies of the firm, and in particular its capital structure.

7. Conclusion

We show that firms actively manage their dividend policy towards the preferences of their investors: acquiring firms adjust their dividend payout towards that of the target when they inherit target firm shareholders through a stock-swap transaction. Using firm- and deal-level characteristics, we show that this adjustment is more pronounced when legacy shareholders are more influential and/or vocal, such as when they represent a larger part of the combined firm, hold concentrated portfolios with low turnover, and receive illiquid stock consideration. We also find that the adjustment is greater when the target firm's shareholders reveal a greater preference for dividends via their portfolio holdings and trading behavior. Using country-level variation, we also find that the clientele effect is stronger when dividends are tax-advantaged, when the acquirer comes from a weaker governance regime, and when the local investor base is characterized by a greater fraction of senior citizens. Finally, our analysis also points to an ex-ante catering effect whereby acquirers are less likely to pay for the target company in the form of stock when the target exhibits a higher dividend yield than the acquirer. In light of our findings, the effect of shareholder preferences on other corporate policies, such as capital structure, investment, and governance mechanisms may prove to be a fruitful avenue for future research.

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Table 1
Sample characteristics

This table provides the breakdown of the sample by acquirer and target firm countries (Panel A) as well as descriptive statistics of the variables used in the analysis (Panel B). The sample contains public-to-public M&A deals completed by acquirers from OECD countries during the period 1990–2015 from Thomson Reuters SDC. Definitions of all variables and their sources are provided in the Appendix. Subscripts "*Acq.*" and "*Tar.*" denote characteristics of the acquirer and target, respectively. Unless otherwise stated in variable definitions, all company financials are measured as of one year before the completion of the deal. All continuous variables are winsorized at the 1st and 99th percentiles.

Table 1 (continued)

Panel A: Sample composition by country

Country Name	Acquirers	Targets
United States	2,763	2,378
Japan	714	642
United Kingdom	433	418
Canada	269	325
France	216	152
Australia	200	263
Germany	117	106
South Korea	87	91
Netherlands	83	53
Sweden	80	59
Switzerland	70	32
Italy	46	28
Spain	44	28
Finland	35	20
Norway	34	53
Poland	28	34
Denmark	20	21
Greece	19	19
Ireland	19	8
Mexico	19	11
Austria	16	15
Belgium	14	15
Israel	10	22
Turkey	9	13
Chile	8	13
New Zealand	6	18
Luxembourg	5	6
Portugal	2	5
China	0	107
India	0	77
South Africa	0	58
Brazil	0	52
Singapore	0	48
Malaysia	0	35
Russia	0	26
Thailand	0	25
Philippines	0	19
Indonesia	0	14
Colombia	0	8
Peru	0	8
Argentina	0	7
Czech Republic	0	7
Sri Lanka	0	5
Jordan	0	5
Egypt	0	3
Lithuania	0	2
Hungary	0	2
Morocco	0	2
Nigeria	0	2
Pakistan	0	2
Other (1 each)	0	4
Total	**5,366**	**5,366**

Table 1 (continued)

Panel B: Sample descriptive statistics

N = 5,366	Mean	SD	Min	10th pct.	25th pct.	50th pct.	75th pct.	90th pct.	Max
Main dividend-related variables									
Δ DPS (–1 to +1)	0.078	0.351	-1.146	-0.106	0.000	0.000	0.120	0.351	1.904
Δ DPS (–1 to +2)	0.100	0.428	-1.343	-0.163	0.000	0.000	0.167	0.462	2.315
Δ DPS (–1 to +3)	0.134	0.540	-1.550	-0.217	0.000	0.000	0.217	0.598	2.946
Dividend Yield $_{Acq.}$	0.018	0.025	0.000	0.000	0.000	0.010	0.027	0.049	0.135
Dividend Yield $_{Tar.}$	0.013	0.023	0.000	0.000	0.000	0.000	0.019	0.044	0.148
Dividend Gap	-0.005	0.100	-0.102	-0.031	-0.013	0.000	0.016	0.029	0.133
Deal characteristics									
Deal Value	1,307	4,314	2	15	48	199	829	2,866	202,785
Pct. Stock	0.367	0.451	0.000	0.000	0.000	0.000	1.000	1.000	1.000
Rel. Size	0.179	0.184	0.001	0.010	0.031	0.112	0.281	0.458	0.998
Hostile Dummy	0.016	0.126	0	0	0	0	0	0	1
Tender Offer Dummy	0.338	0.473	0	0	0	0	1	1	1
Industry Relatedness	0.479	0.500	0	0	0	0	1	1	1
Acquirer characteristics									
Prior DPS Growth $_{Acq.}$	0.072	0.286	-0.877	-0.015	0.000	0.000	0.069	0.240	1.774
Size $_{Acq.\ Y\text{-}1\ (Total\ Assets)}$	10,256	29,655	39	97	384	1,756	7,555	26,715	114,483
Size $_{Acq.\ Y\text{-}1\ (Market\ Value)}$	11,494	32,483	6	91	365	1,642	7,328	26,505	602,432
ROA $_{Acq.\ Y\text{-}1}$	0.026	0.148	-0.936	-0.047	0.013	0.045	0.083	0.125	0.285
Cash $_{Acq.\ Y\text{-}1}$	0.157	0.170	0.004	0.012	0.037	0.099	0.209	0.395	0.798
Leverage $_{Acq.\ Y\text{-}1}$	0.240	0.506	0.000	0.000	0.025	0.189	0.361	0.526	1.014
M/B $_{Acq.\ Y\text{-}1}$	3.417	3.232	0.132	0.804	1.332	2.263	4.123	7.872	17.322
Business Risk $_{Acq.\ (3\text{-}year)}$	1.664	0.763	0.004	0.038	0.081	0.193	0.507	1.546	3.522
Age $_{Acq.Y\text{-}1}$	16.438	11.228	1	3	7	14	26	34	42
Δ Earnings	0.036	0.149	-0.508	-0.081	-0.013	0.014	0.073	0.167	0.771
Δ Growth Opportunities	0.200	1.079	-0.811	-0.625	-0.357	-0.025	0.377	1.123	1.966
Amihud Illiquidity $_{Acq.}$	0.306	0.491	0.041	0.119	0.210	0.295	0.621	0.835	0.998
Target characteristics									
Prior DPS Growth $_{Tar.}$	0.006	0.337	-1.117	-0.025	0.000	0.000	0.005	0.080	1.650
Size $_{Tar.\ Y\text{-}1\ (Total\ Assets)}$	1,211	5,735	13	24	64	197	689	2,226	48,307
Size $_{Tar.\ Y\text{-}1\ (Market\ Value)}$	929	3,161	2	14	41	150	572	1,933	65,632
ROA $_{Tar.\ Y\text{-}1}$	-0.037	0.234	-1.363	-0.250	-0.038	0.024	0.064	0.114	1.662
Cash $_{Tar.\ Y\text{-}1}$	0.184	0.207	0.002	0.008	0.031	0.104	0.258	0.508	0.869
Leverage $_{Tar.\ Y\text{-}1}$	0.225	0.202	0.000	0.004	0.088	0.212	0.343	0.480	1.503
M/B $_{Tar.\ Y\text{-}1}$	2.787	2.733	0.025	0.530	0.986	1.847	3.378	6.558	19.129
Business Risk $_{Tar.\ (3\text{-}year)}$	1.702	0.753	0.001	0.053	0.126	0.323	0.936	1.172	4.461
Age $_{Tar..Y\text{-}1}$	12.236	9.334	1	3	10	10	17	26	39
Country (country-pair) characteristics									
Δ Anti-self-dealing $_{(Acq.\text{-}Tar.)}$	-0.011	0.143	-0.571	-0.012	0.000	0.000	0.000	0.012	0.501
Full/Partial Imputation $_{Acq.}$	0.269	0.443	0	0	0	0	1	1	1
GDP Growth $_{Acq.}$	0.027	0.024	-0.055	-0.002	0.017	0.027	0.039	0.061	0.251
Fraction > 65 yrs. $_{Tar.}$	0.138	0.037	0.042	0.103	0.123	0.129	0.159	0.189	0.260
Ownership characteristics (U.S targets only, N = 2,053)									
Clientele Preference	0.057	0.044	0.005	0.011	0.020	0.050	0.085	0.119	0.332
Tax-Insensitive Clientele	0.409	0.270	0.002	0.047	0.170	0.390	0.637	0.796	0.938
Dedicated Clientele	0.157	0.188	0.000	0.000	0.000	0.019	0.217	0.509	0.999

Table 2.
Univariate analysis of changes in dividend payout following acquisitions: Full sample

This table presents the results of a univariate analysis of the change in acquirer DPS following acquisitions (*Δ DPS (–1 to +1), Δ DPS (–1 to +2),* and *Δ DPS (–1 to +3)*) in the full sample. The first column reports the mean change in acquirer DPS for cases where the target pays higher dividends than the acquirer (*Dividend Gap>0*) and the second column reports the mean change in acquirer DPS for cases where the target pays equal or lower dividends than the acquirer (*Dividend Gap*<=0). The third column is a test of differences (Column (2) – Column (1)). Panel A is based on the entire sample of acquisitions, Panel B is based on the subsample of deals where the payment includes stock, and Panel C is based on a subsample of pure cash deals. Panel D reports the difference-in-differences tests [Panel B: (Column (2) – Column (1)) – Panel C: (Column (2) – Column (1))]. All continuous variables are winsorized at the 1st and 99th percentiles. All significance tests are two-tailed. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

	(1) Dividend Gap>0	(2) Dividend Gap<=0	(3) Difference (*t*-stat)
Panel A: All Deals			
Δ DPS (–1 to +1)	0.1422	0.0576	0.0846*** (7.592)
Δ DPS (–1 to +2)	0.1763	0.0757	0.1006*** (7.399)
Δ DPS (–1 to +3)	0.2265	0.1057	0.1208*** (7.037)
Observations	2,426	2,940	
Panel B: Pct. Stock > 0			
Δ DPS (–1 to +1)	0.1577	0.0154	0.1423*** (8.904)
Δ DPS (–1 to +2)	0.2048	0.0299	0.1748*** (8.838)
Δ DPS (–1 to +3)	0.2594	0.0536	0.2058*** (8.240)
Observations	801	1,500	
Panel C: Pct. Stock = 0			
Δ DPS (–1 to +1)	0.1312	0.0902	0.0411*** (2.688)
Δ DPS (–1 to +2)	0.1561	0.1120	0.0441*** (2.437)
Δ DPS (–1 to +3)	0.2031	0.1460	0.0571*** (2.445)
Observations	1,625	1,440	
Panel D: Difference-in-differences by payment type (Difference Panel B – Difference Panel C)			
Δ DPS (–1 to +1)			***0.1012**** ***(4.435)***
Δ DPS (–1 to +2)			***0.1307**** ***(4.637)***
Δ DPS (–1 to +3)			***0.1487**** ***(4.222)***

Table 3.
Univariate analysis of changes in dividend payout following acquisitions: Excluding non-payers

This table presents the results of a univariate analysis of the change in acquirer DPS following acquisitions (*Δ DPS (–1 to +1), Δ DPS (–1 to +2), and Δ DPS (–1 to +3)*) for a subsample of deals involving bidders and targets that paid dividends prior to the deal. The first column reports the mean change in acquirer DPS for cases where the target pays higher dividends than the acquirer (*Dividend Gap>0*) and the second column reports the mean change in acquirer DPS for cases where the target pays equal or lower dividends than the acquirer (*Dividend Gap*<=0). The third column is a test of differences (Column (2) – Column (1)). Panel A is based on the entire sample of acquisitions, Panel B is based on the subsample of deals where the payment includes stock, and Panel C is based on a subsample of pure cash deals. Panel D reports the difference-in-differences tests [Panel B: (Column (2) – Column (1)) – Panel C: (Column (2) – Column (1))]. All continuous variables are winsorized at the 1st and 99th percentiles. All significance tests are two-tailed. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

	(1) Dividend Gap>0	(2) Dividend Gap<=0	(3) Difference (*t*-stat)
Panel A: All Deals			
Δ DPS (–1 to +1)	0.1560	0.1016	0.0544***
			(3.733)
Δ DPS (–1 to +2)	0.1932	0.1139	0.0792***
			(4.374)
Δ DPS (–1 to +3)	0.2386	0.1487	0.0899***
			(3.905)
Observations	1,289	1,979	
Panel B: Pct. Stock > 0			
Δ DPS (–1 to +1)	0.1684	0.0285	0.1399***
			(5.879)
Δ DPS (–1 to +2)	0.2163	0.0396	0.1767***
			(5.956)
Δ DPS (–1 to +3)	0.2634	0.0693	0.1941***
			(5.119)
Observations	575	748	
Panel C: Pct. Stock = 0			
Δ DPS (–1 to +1)	0.1472	0.1376	0.0096
			(0.519)
Δ DPS (–1 to +2)	0.1767	0.1506	0.0261
			(1.141)
Δ DPS (–1 to +3)	0.2209	0.1878	0.0331
			(1.140)
Observations	714	1,231	
Panel D: Difference-in-differences by payment type (Difference Panel B – Difference Panel C)			
Δ DPS (–1 to +1)			***0.1303******
			(4.331)
Δ DPS (–1 to +2)			***0.1506******
			(3.982)
Δ DPS (–1 to +3)			***0.1610******
			(3.362)

Table 4. Dividend clientele effect: Ex-post adjustment

This table presents regression analysis of the change in acquirer DPS from one year before to one, two, and three years after the deal (*Δ DPS (–1 to +1), Δ DPS (–1 to +2), Δ DPS (–1 to +3)*). Panel A presents the results estimated on the full sample, and Panel B restricts the estimation to the sample of deals where the bidder and the target paid dividends prior to the deal. *Dividend Gap* is defined as the difference between the pre-merger dividend yield of the target and the pre-merger dividend yield of the acquirer. All regressions include country, industry and year fixed effects, and the following control variables: *Rel. Size, Industry Relatedness*, $Cash_{Acq\ Y\text{-}1}$ and $Cash_{Tar\ Y\text{-}1}$; $Leverage_{Acq\ Y\text{-}1}$ and $Leverage_{Tar\ Y\text{-}1}$; *Business* $Risk_{Acq\ Y\text{-}1}$ and *Business* $Risk_{Tar\ Y\text{-}1}$; Age_{Acq} and Age_{Tar}; $M/B_{Acq\ Y\text{-}1}$ and $M/B_{Tar\ Y\text{-}1}$; $ROA_{Acq\ Y\text{-}1}$ and $ROA_{Tar\ Y\text{-}1}$; $Size_{Acq\ Y\text{-}1}$ and $Size_{Tar\ Y\text{-}1}$; $GDP\ Growth_{Acq}$. Refer to the Appendix for detailed definitions. *t*-statistics in parentheses are based on heteroscedasticity-robust standard errors. All continuous variables are winsorized at the 1st and 99th percentiles. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

Table 4 (continued)

	(1) Δ DPS (–1 to +1)	(2) Δ DPS (–1 to +1)	(3) Δ DPS (–1 to +2)	(4) Δ DPS (–1 to +2)	(5) Δ DPS (–1 to +3)	(6) Δ DPS (–1 to +3)
Panel A: Full sample						
Dividend Gap	0.0060	0.0004	0.0076	0.0003	0.0101	0.0008
	(0.937)	(0.087)	(0.861)	(0.052)	(0.940)	(0.111)
Dividend Gap x Pct. Stock		***0.2757******		***0.3871******		***0.4531******
		(8.229)		***(9.639)***		***(8.871)***
Pct. Stock	-0.0023	-0.0010	-0.0012	-0.0003	-0.0007	-0.0011
	(-1.570)	(-1.627)	(-1.586)	(-0.400)	(-0.652)	(-1.152)
Prior DPS Growth $_{\text{Tar. (3-year)}}$	-0.0012	-0.0004	-0.0035**	-0.0023	-0.0072***	-0.0058***
	(-0.806)	(-0.257)	(-1.995)	(-1.368)	(-3.515)	(-2.893)
Prior DPS Growth $_{\text{Acq. (3-year)}}$	0.0022**	0.0018**	0.0028**	0.0021*	0.0022	0.0014
	(2.503)	(2.069)	(2.428)	(1.940)	(1.551)	(1.064)
Δ Earnings	0.0189***	0.0180***	0.0341***	0.0331***	0.0489***	0.0476***
	(8.389)	(8.069)	(12.989)	(12.795)	(14.730)	(14.443)
Δ Growth Opportunities	0.0008***	0.0007***	0.0008***	0.0007**	0.0018***	0.0018***
	(3.268)	(3.015)	(2.697)	(2.538)	(4.936)	(4.904)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,366	5,366	5,366	5,366	5,366	5,366
R-squared	0.140	0.159	0.163	0.186	0.196	0.215
Panel B: Sample excluding non-payers						
Dividend Gap	0.0083	0.0018	0.0095	0.0008	0.0119	0.0024
	(0.865)	(0.274)	(0.760)	(0.101)	(0.843)	(0.249)
Dividend Gap x Pct. Stock		***0.3180******		***0.4238******		***0.4655******
		(8.700)		***(9.649)***		***(8.403)***
Pct. Stock	-0.0023**	-0.0001	-0.0013	-0.0018	-0.0001	-0.0035**
	(-2.493)	(-0.120)	(-1.150)	(-1.620)	(-0.502)	(-2.478)
Prior DPS Growth $_{\text{Tar. (3-year)}}$	-0.0046***	-0.0038**	-0.0069***	-0.0059***	-0.0099***	-0.0088***
	(-2.812)	(-2.415)	(-3.716)	(-3.296)	(-4.616)	(-4.214)
Prior DPS Growth $_{\text{Acq. (3-year)}}$	0.0022**	0.0016*	0.0024*	0.0016	0.0017	0.0008
	(2.253)	(1.720)	(1.915)	(1.343)	(1.099)	(0.540)
Δ Earnings	0.0322***	0.0304***	0.0551***	0.0531***	0.0743***	0.0721***
	(8.472)	(8.054)	(13.391)	(13.045)	(14.906)	(14.579)
Δ Growth Opportunities	0.0018***	0.0016***	0.0015***	0.0013**	0.0032***	0.0031***
	(3.621)	(3.352)	(2.647)	(2.448)	(4.643)	(4.566)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,268	3,268	3,268	3,268	3,268	3,268
R-squared	0.201	0.225	0.236	0.262	0.287	0.306

Table 5
Cross-sectional differences in the extent of adjustment: firm- and deal-level characteristics

This table presents regression analysis of the change in acquirer DPS from one year before to one, two, and three years after the deal (*Δ DPS (–1 to +1), Δ DPS (–1 to +2), Δ DPS (–1 to +3)*) conditioning on firm- and deal-level characteristics. In Panel A, the cross-sectional characteristic of interest is *Rel. Size*, which is a ratio of target size to the size of the combined firm. In Panel B, the cross-sectional characteristic of interest is *Amihud Illiquidity*$_{Acq.}$, which is measured as per Amihud (2002). All regressions include country, industry and year fixed effects, and the following control variables: *Prior DPS Growth* $_{Tar.}$, *Prior DPS Growth* $_{Acq.}$, *Δ Earnings, Δ Growth Opportunities*, *Industry Relatedness*, *Cash*$_{Acq\ Y\text{-}1}$ and *Cash*$_{Tar\ Y\text{-}1}$; *Leverage*$_{Acq\ Y\text{-}1}$ and *Leverage*$_{Tar\ Y\text{-}1}$; *Business Risk*$_{Acq\ Y\text{-}1}$ and *Business Risk*$_{Tar\ Y\text{-}1}$; *Age*$_{Acq}$ and *Age*$_{Tar}$; *M/B*$_{Acq\ Y\text{-}1}$ and *M/B*$_{Tar\ Y\text{-}1}$; *ROA*$_{Acq\ Y\text{-}1}$ and *ROA*$_{Tar\ Y\text{-}1}$; *Size*$_{Acq\ Y\text{-}1}$ and *Size*$_{Tar\ Y\text{-}1}$; *GDP Growth*$_{Acq}$. Refer to the Appendix for detailed definitions. *t*-statistics in parentheses are based on heteroscedasticity-robust standard errors. All continuous variables are winsorized at the 1st and 99th percentiles. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

	(1) Δ DPS (–1 to +1)	(2) Δ DPS (–1 to +2)	(3) Δ DPS (–1 to +3)
Panel A: Relative size of the target			
Dividend Gap	-0.0011	-0.0036	-0.0013
	(-0.248)	(-0.632)	(-0.174)
Dividend Gap x Pct. Stock	***0.2425******	***0.3597******	***0.4255******
	(7.237)	***(8.862)***	***(8.257)***
Dividend Gap x Rel. Size	-0.0268	-0.0521	-0.0365
	(-0.766)	(-1.201)	(-0.635)
Dividend Gap x Pct. Stock x Rel. Size	***0.7334******	***0.6628******	***0.5544****
	(3.928)	***(3.134)***	***(2.060)***
Pct. Stock x Rel. Size	0.0101***	0.0159***	0.0196***
	(3.156)	(4.014)	(3.667)
Rel. Size	-0.0032	-0.0009	-0.0013
	(-0.898)	(-0.208)	(-0.221)
Pct. Stock	-0.0014**	-0.0001	-0.0007
	(-2.302)	(-0.178)	(-0.679)
Panel B: Acquirer stock illiquidity			
Dividend Gap	0.0005	0.0004	0.0007
	(0.115)	(0.623)	(0.941)
Dividend Gap x Pct. Stock	***0.2786******	***0.3941******	***0.4621******
	(8.438)	***(9.944)***	***(9.114)***
Dividend Gap x Amihud Illiquidity$_{Acq.}$	-0.0163	-0.0029	-0.0143
	(-0.624)	(-0.075)	(-0.298)
Dividend Gap x Pct. Stock x Amihud Illiquidity$_{Acq}$	***0.5429******	***0.5401******	***0.5998******
	(4.633)	***(4.052)***	***(3.461)***
Pct. Stock x Amihud Illiquidity$_{Acq}$	0.0038**	0.0048**	0.0054*
	(2.205)	(2.192)	(1.825)
Amihud Illiquidity$_{Acq.}$	0.0040***	0.0038**	0.0052**
	(2.761)	(2.108)	(2.156)
Pct. Stock	-0.0011*	-0.0003	-0.0011
	(-1.754)	(-0.399)	(-1.079)

Table 6
Cross-sectional differences in the extent of adjustment: ownership characteristics (U.S. targets)

This table presents regression analysis of the change in acquirer DPS from one year before to one, two, and three years after the deal (*Δ DPS (–1 to +1), Δ DPS (–1 to +2), Δ DPS (–1 to +3)*) conditioning on target firm ownership characteristics. In Panel A, the cross-sectional characteristic of interest is *Dedicated Clientele*, which is the fraction of the target shares held by institutions classified as "dedicated" following Bushee (1998, 2001) and Bushee and Noe (2000). In Panel B, the cross-sectional characteristic of interest is *Clientele Preference*, which is the product of the weighted-average of (purged) portfolio dividend yields of all institutional shareholders (with holding sizes as weights) and the overall fraction of the target held by institutions. In Panel C, the cross-sectional characteristic of interest is *Tax-Insensitive Clientele*, which is the fraction of the target held by tax-insensitive institutions according to the classification in Blouin et al. (2017). All regressions include country, industry and year fixed effects, and the following control variables: *Prior DPS Growth* $_{Tar.,}$ *Prior DPS Growth* $_{Acq.}$, *Δ Earnings, Δ Growth Opportunities*, *Industry Relatedness*, $Cash_{Acq\ Y\text{-}1}$ and $Cash_{Tar\ Y\text{-}1}$; $Leverage_{Acq\ Y\text{-}1}$ and $Leverage_{Tar\ Y\text{-}1}$; $Business\ Risk_{Acq\ Y\text{-}1}$ and $Business\ Risk_{Tar\ Y\text{-}1}$; Age_{Acq} and Age_{Tar}; $M/B_{Acq\ Y\text{-}1}$ and $M/B_{Tar\ Y\text{-}1}$; $ROA_{Acq\ Y\text{-}1}$ and $ROA_{Tar\ Y\text{-}1}$; $Size_{Acq\ Y\text{-}1}$ and $Size_{Tar\ Y\text{-}1}$; $GDP\ Growth_{Acq}$. Refer to the Appendix for detailed definitions. *t*-statistics in parentheses are based on heteroscedasticity-robust standard errors. All continuous variables are winsorized at the 1st and 99th percentiles. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

Table 6 (continued)

	(1) Δ DPS (–1 to +1)	(2) Δ DPS (–1 to +2)	(3) Δ DPS (–1 to +3)
Panel A: Dedicated Clientele			
Dividend Gap	-0.0124**	-0.0121	-0.0196***
	(-2.048)	(-1.627)	(-2.946)
Dividend Gap x Pct. Stock	***0.4050******	***0.6642******	***0.6267******
	(2.804)	***(3.727)***	***(3.935)***
Dividend Gap x Dedicated Clientele	-0.2749	-0.3544	-0.3517
	(-1.166)	(-1.213)	(-1.347)
Dividend Gap x Pct. Stock x Dedicated Clientele	***0.1858****	***0.1913****	***0.1862****
	(2.420)	***(2.013)***	***(2.189)***
Pct. Stock x Dedicated Clientele	-0.0127	-0.0028	-0.0096
	(-0.912)	(-0.163)	(-0.618)
Dedicated Clientele	0.0067	0.0014	0.0029
	(0.721)	(0.123)	(0.276)
Pct. Stock	-0.0021	-0.0005	-0.0003
	(-1.454)	(-0.288)	(-0.169)
Panel B: Clientele Preference			
Dividend Gap	-0.0304***	-0.0411***	-0.0494***
	(-2.596)	(-2.829)	(-2.696)
Dividend Gap x Pct. Stock	***0.1875****	***0.3425******	***0.4799******
	(2.290)	***(3.703)***	***(5.293)***
Dividend Gap x Clientele Preference	-0.0618**	-0.0888**	-0.0918*
	(-2.014)	(-2.338)	(-1.917)
Dividend Gap x Pct. Stock x Clientele Preference	***0.3284****	***0.4128****	***0.4673****
	(1.992)	***(2.205)***	***(2.304)***
Pct. Stock x Clientele Preference	-0.0020	-0.0024	-0.0002
	(-1.110)	(-1.053)	(-0.071)
Clientele Preference	-0.0002	-0.0012	-0.0005
	(-0.115)	(-0.564)	(-0.213)
Pct. Stock	-0.0011	-0.0002	-0.0005
	(-1.336)	(-0.180)	(-0.330)
Panel C: Tax-Insensitive Clientele			
Dividend Gap	-0.0368**	-0.0441**	-0.0572**
	(-2.168)	(-2.555)	(-2.479)
Dividend Gap x Pct. Stock	***0.2001****	***0.3533******	***0.5043******
	(2.476)	***(5.241)***	***(5.604)***
Dividend Gap x Tax-Insensitive Clientele	-0.0925*	-0.1127**	-0.1303*
	(-1.774)	(-2.128)	(-1.843)
Dividend Gap x Pct. Stock x Tax-Insensitive Clientele	***0.6177****	***0.6233****	***0.7151****
	(1.966)	***(2.388)***	***(2.049)***
Pct. Stock x Tax-Insensitive Clientele	-0.0023	-0.0033	-0.0022
	(-0.856)	(-0.839)	(-0.420)
Tax-Insensitive Clientele	-0.0035	-0.0014	-0.0070*
	(-1.483)	(-0.522)	(-1.912)
Pct. Stock	-0.0009	-0.0003	-0.0001
	(-1.136)	(-0.255)	(-0.527)

Table 7
Cross-sectional differences in the extent of adjustment: country-level characteristics

This table presents regression analysis of the change in acquirer DPS from one year before to one, two, and three years after the deal (*Δ DPS (–1 to +1), Δ DPS (–1 to +2), Δ DPS (–1 to +3)*) conditioning on country-level characteristics. In Panel A, the cross-sectional characteristic of interest is Δ *Anti-self-dealing* $_{(Acq.-Tar.)}$, which is the difference in governance quality between the acquirer and target countries. In Panel B, the cross-sectional characteristic of interest is *Full/Partial Imputation*$_{Acq.}$, which is an indicator variable taking the value of one for acquirer countries with full or partial imputation tax regimes and zero otherwise. In Panel C, the cross-sectional characteristic of interest is *High (Fraction > 65 yrs.* $_{Tar.}$*)*, which is an indicator variable taking the value of one if the target firm comes from a country that falls into the top tercile of the distribution of senior population and zero otherwise. All regressions include country (except in Panel B), industry and year fixed effects, and the following control variables: *Prior DPS Growth* $_{Tar.,}$ *Prior DPS Growth* $_{Acq.}$*, Δ Earnings, Δ Growth Opportunities*, *Rel. Size*, *Industry Relatedness*, *Cash*$_{Acq\ Y-1}$ and *Cash*$_{Tar\ Y-1}$; *Leverage*$_{Acq\ Y-1}$ and *Leverage*$_{Tar\ Y-1}$*; Business Risk*$_{Acq\ Y-1}$ and *Business Risk*$_{Tar\ Y-1}$; *Age*$_{Acq}$ and *Age*$_{Tar}$; *M/B*$_{Acq\ Y-1}$ and *M/B*$_{Tar\ Y-1}$; *ROA*$_{Acq\ Y-1}$ and *ROA*$_{Tar\ Y-1}$; *Size*$_{Acq\ Y-1}$ and *Size*$_{Tar\ Y-1}$; *GDP Growth*$_{Acq}$. Refer to the Appendix for detailed definitions. *t*-statistics in parentheses are based on heteroscedasticity-robust standard errors. All continuous variables are winsorized at the 1st and 99th percentiles. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

Table 7 (continued)

	(1) Δ DPS (–1 to +1)	(2) Δ DPS (–1 to +2)	(3) Δ DPS (–1 to +3)
Panel A: Governance quality			
Dividend Gap	0.0020	0.0023	0.0030
	(0.408)	(0.314)	(0.382)
Dividend Gap x Pct. Stock	***0.2625****	***0.3999****	***0.4284****
	(7.720)	***(9.385)***	***(8.102)***
Dividend Gap x Δ Anti-self-dealing $_{(Acq.-Tar.)}$	0.1077	0.0658	0.1902
	(1.314)	(0.628)	(1.531)
Dividend Gap x Pct. Stock x Δ Anti-self-dealing $_{(Acq.-Tar.)}$	***-0.7136****	***-0.6873****	***-0.8189****
	(-2.299)	***(-1.978)***	***(-1.999)***
Pct. Stock x Δ Anti-self-dealing $_{(Acq.-Tar.)}$	0.0091	0.0178**	0.0183*
	(1.566)	(2.297)	(1.851)
Δ Anti-self-dealing $_{(Acq.-Tar.)}$	-0.0050**	-0.0052*	-0.0065*
	(-2.361)	(-1.917)	(-1.946)
Pct. Stock	-0.0015**	-0.0006	-0.0005
	(-2.479)	(-0.721)	(-0.493)
Panel B: Dividend tax regime			
Dividend Gap	0.0012	0.0024	0.0005
	(0.233)	(0.361)	(0.596)
Dividend Gap x Pct. Stock	***0.2290****	***0.3461****	***0.4184****
	(6.387)	***(8.048)***	***(7.663)***
Dividend Gap x Full/Partial Imputation$_{Acq.}$	0.0028	0.0046	0.0044
	(0.306)	(0.379)	(0.298)
Dividend Gap x Pct. Stock x Full/Partial Imputation$_{Acq}$	***0.3591****	***0.3789****	***0.4039****
	(3.837)	***(3.510)***	***(2.689)***
Pct. Stock x Full/Partial Imputation$_{Acq.}$	-0.0013	0.0032	0.0061
	(-0.523)	(1.136)	(1.579)
Full/Partial Imputation$_{Acq.}$	-0.0050	-0.0085	-0.0122*
	(-1.196)	(-1.361)	(-1.756)
Pct. Stock	-0.0008	-0.0001	-0.0008
	(-1.265)	(-0.188)	(-0.793)
Panel C: Age-based preferences			
Dividend Gap	0.0027	0.0012	0.0067
	(1.094)	(0.371)	(1.630)
Dividend Gap x Pct. Stock	***0.2388****	***0.2739****	***0.5243****
	(2.405)	***(2.137)***	***(3.158)***
Dividend Gap x High (Fraction > 65 yrs. $_{Tar.}$)	-0.0432***	-0.0629***	-0.0831***
	(-3.711)	(-4.192)	(-4.272)
Dividend Gap x Pct. Stock x High (Fraction > 65 yrs. $_{Tar.}$)	***0.1880****	***0.3002****	***0.2927****
	(3.934)	***(4.866)***	***(3.663)***
Pct. Stock x High (Fraction > 65 yrs. $_{Tar.}$)	-0.0031	-0.0003	-0.0017
	(-0.931)	(-0.854)	(-0.442)
High (Fraction > 65 yrs. $_{Tar.}$)	-0.0009	-0.0017	-0.0033
	(-0.599)	(-0.904)	(-1.301)
Pct. Stock	-0.0025	-0.0007	-0.0029
	(-1.129)	(-0.251)	(-0.767)

Table 8
Dividend clientele effect: Ex-ante impact on payment method

This table presents regression analysis of the payment method choice. The dependent variable in column (1) is an *All Stock Dummy* indicator variable taking the value of one for pure stock swaps and zero otherwise. The dependent variable in column (2) is *Pct. Stock*, which is the percentage of deal value paid for with acquirer stock. Refer to the Appendix for detailed definitions of all of the explanatory variables. *Z*-statistics and *t*-statistics in parentheses are based on heteroscedasticity-robust standard errors. All regression models include acquirer country, industry, and year fixed effects. All continuous variables are winsorized at the 1st and 99th percentile. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

	(1) All Stock Dummy	(2) Pct. Stock
Dividend Gap	***-0.38076******	***-0.10567******
	(-5.274)	***(-6.147)***
Hostile Dummy	-0.3297***	-0.0632**
	(-2.943)	(-2.449)
Tender Offer Dummy	-0.6781***	-0.2146***
	(-17.268)	(-21.572)
Industry Relatedness	0.1001***	0.0421***
	(2.996)	(4.459)
Rel. Size	0.0545	0.0489
	(0.319)	(1.071)
$M/B_{Acq.\ Y-1}$	0.0119***	0.0039***
	(5.373)	(5.969)
$M/B_{Tar.\ Y-1}$	0.0063***	0.0009
	(2.595)	(1.359)
$Cash_{Acq.\ Y-1}$	-0.1865	-0.0325
	(-1.141)	(-0.676)
$Cash_{Tar.\ Y-1}$	-0.1828	-0.0749*
	(-1.303)	(-1.879)
$Leverage_{Acq.\ Y-1}$	-0.3839***	-0.1075***
	(-3.804)	(-3.603)
$Leverage_{Tar.\ Y-1}$	-0.4196***	-0.1085***
	(-5.007)	(-4.624)
$Size_{Tar.\ Y-1\ (Market\ Value)}$	0.1280***	0.0575***
	(5.894)	(11.516)
$Size_{Acq.\ Y-1\ (Market\ Value)}$	-0.1987***	-0.0646***
	(-9.506)	(-13.381)
Country FE	Yes	Yes
Industry FE	Yes	Yes
Year FE	Yes	Yes
Observations	8,038	8,038
Pseudo R-squared (R-squared)	0.172	0.259

Appendix

Variable definitions

Variable Name	Definition
	Main dependent variables
Δ DPS (–1 to + *j*)	The difference in acquirer dividends per share (Δ DPS) from one year prior to the deal to + *j* years following completion (*j*= 1, 2, 3) scaled by book value of equity per share. (Source: Datastream)
Pct. Stock	Percentage of deal value paid for with acquirer stock. (Source: Thomson Reuters SDC)
All Stock Dummy	Indicator variable taking the value of one for pure stock swaps and zero otherwise. (Source: Thomson Reuters SDC)
	Main explanatory variables
Dividend Gap	Difference between the pre-merger dividend yield of the target and the pre-merger dividend yield of the acquirer. Dividend yields are computed using the stock price one day prior to the announcement of the deal. (Source: Datastream)
Pct. Stock	Percentage of deal value paid for with acquirer stock. (Source: Thomson Reuters SDC)
	Dependent variables in placebo and auxiliary tests
Δ ROA (–1 to +*j*)	Change in the return on assets (ROA) of the combined firm from one year prior to the deal to *j* years following completion (*j*= 1, 2, 3). (Source: Datastream)
BHAR (–1m to +*j* m)	Buy-and-hold abnormal return of the acquirer (local stock market index is the benchmark return) over the period starting one month prior to the deal and ending *j* months following completion (*j* = 12, 24, 36). (Source: Datastream)
Δ Leverage (–1 to +*j*)	Change in the leverage ratio (net debt divided by total assets) of the combined firm from one year prior to the deal to *j* years following completion (*j*= 1, 2, 3). (Source: Datastream)
Δ Cash (–1 to +*j*)	Change in cash holdings (cash and cash equivalents divided by total assets) of the combined firm from one year prior to the deal to *j* years following completion (*j*= 1, 2, 3). (Source: Datastream)
Δ CAPEX (–1 to +*j*)	Change in capital expenditures (CAPEX divided by total assets) of the combined firm from one year prior to the deal to *j* years following completion (*j*= 1, 2, 3). (Source: Datastream)
	Cross-sectional contrast variables
Δ Anti-self-dealing $_{(Acq.-Tar.)}$	Difference between the acquirer and target countries' anti-self-dealing indices. (Source: Djankov et al., 2008)
Full/Partial Imputation $_{Acq.}$	Dummy variable equal to one when the acquirer is domiciled in a country which has partial or full dividend tax imputation and zero otherwise. (Source: Alzahrani and Lasfer, 2012)
Amihud Illiquidity $_{Acq.}$	Illiquidity of the acquiring firm stock, measured following Amihud (2002) as the average ratio of the daily absolute return to the (dollar) trading volume on that day. (Source: Datastream)
Rel. Size	Ratio of target market value of equity to the sum of acquirer and target market value of equity one year prior to the acquisition. (Source: Datastream)
Dummy (Dividend Gap>0)	Indicator variable taking the value of one when *Dividend Gap* is greater than zero (target firm dividend yield is higher than that of the acquirer) and zero otherwise. (Source: Datastream)

Dedicated Clientele	Fraction of the target firm shares held by institutions classified as "dedicated" following Bushee (1998, 2001) and Bushee and Noe (2000) as of the most recent quarter prior to deal announcement. Available for U.S. targets only. (Source: Thomson Reuters 13f and Brian Bushee's website)
Clientele Preference	The product of target firm instructional shareholder preference and the fraction of target shares held by institutions. Institutional shareholder preference is the holding-weighted average of portfolio yields of all institutions holding the target as of the most recent quarter prior to deal announcement. The target firm is purged from the computation of portfolio yields. Available for U.S. targets only. (Source: Thomson Reuters 13f)
Tax-Insensitive Clientele	Fraction of the target firm shares held by institutional investors characterized as tax-insensitive according to Blouin et al. (2017) as of the most recent quarter prior to deal announcement. Available for U.S. targets only. (Source: Thomson Reuters 13f and Brian Bushee's website)
Fraction > 65 yrs. $_{Tar.}$	The fraction of senior citizens (aged 65 and above) in the target firm country as of the year of deal completion. (Source: World Bank)
	Control and other variables
Dividend Yield $_{Acq.}$ / Dividend Yield $_{Tar.}$	Pre-merger dividend yield of the acquirer/target measured using the stock price one day prior to the announcement of the deal. (Source: Datastream)
Prior DPS Growth $_{Acq.}$ / Prior DPS Growth $_{Tar.}$	Prior growth in dividends per share (DPS) of the acquirer/target in the three-year period preceding the acquisition, computed as DPS $_{Y-3}$ – DPS $_{Y-1}$. (Source: Datastream)
Δ Earnings (–1 to +*j*)	Change in acquirer earnings per share from one year prior to the deal to *j* years (*j*= 1, 2, 3) following completion, scaled by book value per share one year prior to the deal. (Source: Datastream).
Δ Growth Opportunities (–1 to +*j*)	Percentage change in the acquirer's market-to-book ratio from one year prior to the deal to *j* years following completion (*j*= 1, 2, 3). (Source: Datastream)
$Size_{Acq\ Y-1}$/ $Size_{Tar\ Y-1}$	Acquirer/target market value of equity (or total assets or net sales as indicated) one year before the acquisition. The natural logarithm of these values is used in the regressions. (Source: Datastream)
$M/B_{Acq\ Y-1}$/ $M/B_{Tar\ Y-1}$	Acquirer/target market-to-book ratio one year before the acquisition. (Source: Datastream)
$ROA_{Acq\ Y-1}$ / $ROA_{Tar\ Y-1}$	Acquirer/target return on assets one year before the acquisition. (Source: Datastream)
$Leverage_{Acq\ Y-1}$ / $Leverage_{Tar\ Y-1}$	Acquirer/target leverage ratio, computed as total debt divided by total assets as of one prior to the acquisition. (Source: Datastream)
$Cash_{Acq\ Y-1}$ / $Cash_{Tar\ Y-1}$	Acquirer/target cash holdings, computed as cash and liquid securities divided by total assets one year prior to the acquisition. (Source: Datastream)
Business $Risk_{Acq\ Y-1}$ / Business $Risk_{Tar\ Y-1}$	Standard deviation of acquirer/target operating cash flow to sales ratio measured over a period of three years prior to the acquisition. (Source: Datastream)
$Age_{Acq\ (3-year)}$ / $Age_{Tar\ (3-year)}$	Number of years the acquirer/target financial data (net sales) appears in Datastream. (Source: Datastream)
GDP $Growth_{Acq.}$	Percentage growth rate in GDP of the acquirer country one year prior to the year of deal completion (Source: IMF).
Industry Relatedness	Indicator variable taking the value of 1 when the first three digits of the target and acquirer primary standard industry classification (SIC) codes are the same and zero otherwise. (Source: Thomson Reuters SDC)
Hostile Dummy	Indicator variable equal to one when deal attitude is hostile and zero otherwise. (Source: Thomson Reuters SDC)
Tender Offer Dummy	Indicator variable equal to one when the deal is a tender offer and zero otherwise. (Source: Thomson Reuters SDC)

Table A1
Pure stock mergers only (clientele changes identified solely from differences in payout)

This table repeats main regression analysis of the paper on a subsample of pure stock swap mergers. The regressions therefore exclude *Pct. Stock* and its interaction with *Dividend Gap*. Panel A presents the results estimated on the full sample, and Panel B restricts the estimation to the sample of deals involving bidders and target that paid dividends prior to the deal. *Dividend Gap* is defined as the difference between the pre-merger dividend yield of the target and the pre-merger dividend yield of the acquirer. All regressions include country, industry and year fixed effects, and the following control variables: *Prior DPS Growth* $_{Tar.,}$ *Prior DPS Growth* $_{Acq.,}$ *Δ Earnings, Δ Growth Opportunities, Rel. Size, Industry Relatedness,* $Cash_{Acq\ Y\text{-}1}$ and $Cash_{Tar\ Y\text{-}1}$; $Leverage_{Acq\ Y\text{-}1}$ and $Leverage_{Tar\ Y\text{-}1}$; *Business* $Risk_{Acq\ Y\text{-}1}$ and *Business* $Risk_{Tar\ Y\text{-}1}$; Age_{Acq} and Age_{Tar}; $M/B_{Acq\ Y\text{-}1}$ and $M/B_{Tar\ Y\text{-}1}$; $ROA_{Acq\ Y\text{-}1}$ and $ROA_{Tar\ Y\text{-}1}$; $Size_{Acq\ Y\text{-}1}$ and $Size_{Tar\ Y\text{-}1}$; $GDP\ Growth_{Acq}$. Refer to the Appendix for detailed definitions. *t*-statistics in parentheses are based on heteroscedasticity-robust standard errors. All continuous variables are winsorized at the 1st and 99th percentiles. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

	(1) Δ DPS (–1 to +1)	(2) Δ DPS (–1 to +2)	(3) Δ DPS (–1 to +3)
Panel A: Full sample			
Dividend Gap	***0.5592**** ***(6.323)***	***0.6546**** ***(6.993)***	***0.5621**** ***(4.830)***
Control variables	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	1,491	1,491	1,491
R-squared	0.217	0.277	0.295
Panel B: Sample excluding non-payers			
Dividend Gap	***0.6464**** ***(6.125)***	***0.6665**** ***(6.289)***	***0.6923**** ***(3.713)***
Control variables	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	819	819	819
R-squared	0.342	0.424	0.414

Table A2
Relationship between target dividend yield and clientele characteristics

This table presents estimation results from regressions of target firm pre-merger dividend yield (*Dividend Yield* $_{Tar.}$) on the characteristics of its clientele. The explanatory variable in column (1) is *Clientele Preference*, which is the product of the weighted-average of (purged) portfolio dividend yields of all institutional shareholders (with holding sizes as weights) and the overall fraction of the target held by institutions. The explanatory variable in column (2) is *Tax-Insensitive Clientele*, which is the fraction of the target firm held by tax-insensitive institutions according to the classification in Blouin et al. (2017). The explanatory variable in column (3) is *High (Fraction > 65 yrs.* $_{Tar.}$*)* which is an indicator variable taking the value of one if the target firm country falls into the top tercile of the distribution of senior population and zero otherwise. All regressions include acquirer country, acquirer industry, and year fixed effects. Refer to the Appendix for detailed definitions. *t*-statistics in parentheses are based on heteroscedasticity-robust standard errors. All continuous variables are winsorized at the 1st and 99th percentiles. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)
Dependent variable	Dividend Yield $_{Tar.}$	Dividend Yield $_{Tar.}$	Dividend Yield $_{Tar.}$
Explanatory variable	Clientele Preference	Tax-Insensitive Clientele	High (Fraction > 65 yrs. $_{Tar.}$)
Coefficient	***0.2988******	***0.0245******	***0.0645******
t-stat	***(3.019)***	***(2.625)***	***(9.488)***
Country FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
R-squared	0.123	0.063	0.135
Observations	2,053	2,053	5,366

Table A3
Dividend clientele effect: Asymmetric adjustment

This table presents regression analysis of the change in acquirer DPS from one year before to one, two, and three years after the deal (*Δ DPS (-1 to +1), Δ DPS (-1 to +2), Δ DPS (-1 to +3)*). The explanatory variables are defined in the Appendix. All regressions include country, industry and year fixed effects, and the following control variables: *Prior DPS Growth* $_{Tar.,}$ *Prior DPS Growth* $_{Acq.}$, *Δ Earnings, Δ Growth Opportunities*, *Rel. Size*, *Industry Relatedness*, $Cash_{Acq\ Y\text{-}1}$ and $Cash_{Tar\ Y\text{-}1}$; $Leverage_{Acq\ Y\text{-}1}$ and $Leverage_{Tar\ Y\text{-}1}$; $Business\ Risk_{Acq\ Y\text{-}1}$ and $Business\ Risk_{Tar\ Y\text{-}1}$; Age_{Acq} and Age_{Tar}; $M/B_{Acq\ Y\text{-}1}$ and $M/B_{Tar\ Y\text{-}1}$; $ROA_{Acq\ Y\text{-}1}$ and $ROA_{Tar\ Y\text{-}1}$; $Size_{Acq\ Y\text{-}1}$ and $Size_{Tar\ Y\text{-}1}$; $GDP\ Growth_{Acq}$. Refer to the Appendix for variable definitions. All regressions include acquirer country, acquirer industry, and year fixed effects. *t*-statistics in parentheses are based on heteroscedasticity-robust standard errors. All continuous variables are winsorized at the 1st and 99th percentiles. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

	(2) Δ DPS (–1 to +1)	(4) Δ DPS (–1 to +2)	(6) Δ DPS (–1 to +3)
Dividend Gap	-0.0003	-0.0001	-0.0012
	(-1.129)	(-0.363)	(-0.371)
Dividend Gap x Dummy (Dividend Gap>0)	0.0005	0.0011	0.0010
	(0.202)	(0.343)	(0.251)
Dividend Gap x Pct. Stock	***0.0352******	***0.0413******	***0.0389****
	(3.113)	***(3.087)***	***(2.338)***
Dividend Gap x Pct. Stock x Dummy (Dividend Gap>0)	***0.3514****	***0.3721****	***0.4180****
	(2.528)	***(2.245)***	***(2.026)***
Dummy (Dividend Gap>0)	0.0026*	0.0017	0.0037*
	(1.774)	(1.003)	(1.759)
Pct. Stock x Dummy (Dividend Gap>0)	0.0046	0.0073**	0.0054
	(1.492)	(1.990)	(1.187)
Pct. Stock	-0.0069***	-0.0065***	-0.0052***
	(-5.391)	(-4.303)	(-2.726)
Controls variables	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	5,366	5,366	5,366
R-squared	0.153	0.202	0.224

Table A4
Placebo test: Changes in combined firm profitability

This table presents the results of regression analysis of changes in operating profitability (*Δ ROA*). The dependent variable is the change in return on assets (operating income divided by total assets) of the combined firm in years one, two, or three following the deal compared to the acquirer and target prior to the deal. The explanatory variables are defined in the Appendix. Control variables include: *Rel. Size, Industry Relatedness*, $Cash_{Acq\ Y\text{-}1}$ and $Cash_{Tar\ Y\text{-}1}$; $Leverage_{Acq\ Y\text{-}1}$ and $Leverage_{Tar\ Y\text{-}1}$; $Business\ Risk_{Acq\ Y\text{-}1}$ and $Business\ Risk_{Tar\ Y\text{-}1}$; Age_{Acq} and Age_{Tar}; $M/B_{Acq\ Y\text{-}1}$ and $M/B_{Tar\ Y\text{-}1}$; $ROA_{Acq\ Y\text{-}1}$ and $ROA_{Tar\ Y\text{-}1}$; $Size_{Acq\ Y\text{-}1}$ and $Size_{Tar\ Y\text{-}1}$; $GDP\ Growth_{Acq}$. Refer to the Appendix for variable definitions. *t*-statistics in parentheses are based on heteroscedasticity-robust standard errors. Acquirer country, industry, and completion year fixed effects are included. All continuous variables are winsorized at the 1st and 99th percentiles. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

	(1) Δ ROA (–1 to +1)	(2) Δ ROA (–1 to +2)	(3) Δ ROA (–1 to +3)
Dividend Gap	0.0153	0.0141	0.0378
	(0.177)	(0.155)	(0.410)
Dividend Gap x Pct. Stock	***-0.1217***	***-0.2944***	***-0.2468***
	(-0.566)	***(-1.273)***	***(-1.060)***
Pct. Stock	-0.0054	-0.0075	-0.0048
	(-0.989)	(-1.254)	(-0.853)
Prior DPS Growth $_{Tar.}$	-0.0034	-0.0071	-0.0011
	(-0.571)	(-1.210)	(-0.187)
Prior DPS Growth $_{Acq.}$	-0.0006	-0.0022	-0.0019
	(-0.094)	(-0.286)	(-0.259)
Δ Earnings	0.0583***	0.0842***	0.0887***
	(3.641)	(6.144)	(7.515)
Δ Growth Opportunities	-0.0010**	-0.0017***	-0.0014***
	(-2.079)	(-3.431)	(-3.103)
Control variables	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	5,366	5,366	5,366
R-squared	0.040	0.058	0.071

Table A5
Placebo test: Buy-and-hold abnormal returns

This table presents the results of regression analysis of buy-and-hold abnormal returns (*BHAR*) of the acquirer. The dependent variable is the buy-and-hold abnormal return of the acquirer (local stock market index is the benchmark return) over the period starting one month prior to the deal and ending 12 months, 24 months, and 36 months following the deal. The explanatory variables are defined in the Appendix. Control variables include: *Rel. Size, Industry Relatedness, $Cash_{Acq\ Y\text{-}1}$* and *$Cash_{Tar\ Y\text{-}1}$*; *$Leverage_{Acq\ Y\text{-}1}$* and *$Leverage_{Tar\ Y\text{-}1}$; Business $Risk_{Acq\ Y\text{-}1}$* and *Business $Risk_{Tar\ Y\text{-}1}$*; *Age_{Acq}* and *Age_{Tar}*; *$M/B_{Acq\ Y\text{-}1}$* and *$M/B_{Tar\ Y\text{-}1}$*; *$ROA_{Acq\ Y\text{-}1}$* and *$ROA_{Tar\ Y\text{-}1}$*; *$Size_{Acq\ Y\text{-}1}$* and *$Size_{Tar\ Y\text{-}1}$*; *GDP $Growth_{Acq}$*. Refer to the Appendix for variable definitions. *t*-statistics in parentheses are based on heteroscedasticity-robust standard errors. Acquirer country, industry, and completion year fixed effects are included. All continuous variables are winsorized at the 1st and 99th percentiles. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

	(1) BHAR (–1m to +12m)	(2) BHAR (–1m to +24m)	(3) BHAR (–1m to +36m)
Dividend Gap	0.0003	0.0006	0.0043
	(0.154)	(0.190)	(0.857)
Dividend Gap x Pct. Stock	***-0.0177***	***-0.0121***	***-0.0252***
	(-1.286)	***(-0.723)***	***(-1.191)***
Pct. Stock	-0.0006	-0.0006	-0.0009*
	(-1.480)	(-1.269)	(-1.910)
Prior DPS Growth $_{Tar.}$	0.0001	0.0003	0.0002
	(0.308)	(0.889)	(0.414)
Prior DPS Growth DPS $_{Acq.}$	-0.0001	-0.0004	-0.0006
	(-0.309)	(-0.720)	(-0.879)
Δ Earnings	0.0079***	0.0163***	0.0226***
	(6.150)	(11.863)	(15.837)
Δ Growth Opportunities	-0.0003	-0.0006	-0.0001
	(1.225)	(-0.615)	(-0.325)
Control variables	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	5,366	5,366	5,366
R-squared	0.125	0.172	0.240

Table A6
How are increases in dividends financed? Changes in leverage, cash holdings, and CAPEX

This table presents the results of regression analysis of the sources of increased dividend payouts. In Panel A, the dependent variable is the change in leverage (net debt divided by total assets) of the combined firm in years one, two, or three following the deal compared to the acquirer and target prior to the deal. In Panel B, the dependent variable is the change in cash holdings (cash and cash equivalents divided by total assets) of the combined firm in years one, two, or three following the deal compared to the acquirer and target prior to the deal. In Panel C, the dependent variable is the change in capital expenditures (CAPEX divided by total assets) of the combined firm in years one, two, or three following the deal compared to the acquirer and target prior to the deal. Only the coefficients of interest are shown, the specifications are identical to those in Table 4. Refer to the Appendix for variable definitions. *t*-statistics in parentheses are based on heteroscedasticity-robust standard errors. Acquirer country, industry, and completion year fixed effects are included. All continuous variables are winsorized at the 1st and 99th percentiles. Symbols ***, **, and * indicate statistical significance at a 1%, 5%, and 10% level, respectively.

Panel A: Changes in leverage	(1) Δ Leverage (–1 to +1)	(3) Δ Leverage (–1 to +2)	(4) Δ Leverage (–1 to +3)
Dividend Gap	-0.0063	-0.0042	-0.0048
	(-1.351)	(-0.896)	(-0.950)
Dividend Gap x Pct. Stock	***0.0984****	***0.0807****	***0.1407*****
	(2.072)	***(2.007)***	***(2.692)***
Pct. Stock	0.0001	0.0004	0.0001
	(0.124)	(0.331)	(0.549)
Panel B: Changes in cash holdings	**(1) Δ Cash (–1 to +1)**	**(2) Δ Cash (–1 to +2)**	**(3) Δ Cash (–1 to +3)**
Dividend Gap	0.0106	0.0123	0.0203
	(0.770)	(0.799)	(0.774)
Dividend Gap x Pct. Stock	***-0.1405***	***-0.1910***	***-0.2708***
	(-0.534)	***(-0.607)***	***(-0.638)***
Pct. Stock	0.0132***	0.0081	0.0104
	(2.798)	(1.437)	(1.476)
Panel C: Changes in CAPEX	**(1) Δ CAPEX (–1 to +1)**	**(2) Δ CAPEX (–1 to +2)**	**(3) Δ CAPEX (–1 to +3)**
Dividend Gap	0.0246	0.0074	0.0206
	(0.859)	(0.252)	(0.713)
Dividend Gap x Pct. Stock	***-0.1657***	***-0.2628****	***-0.0788***
	(-1.131)	***(-1.733)***	***(-0.527)***
Pct. Stock	-0.0028*	-0.0027*	-0.0010
	(-1.787)	(-1.652)	(-0.632)