

Do Earnouts Deafen Managers?

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ABSTRACT

This study investigates the role of contingent payments in mergers and acquisitions (earnouts), focusing on their impact on deal completion rates and managerial responses to announcement-period stock price reactions. Using a large sample of more than 19,000 U.S. M&A deals, we find that earnouts significantly increase the probability of deal completion, consistent with their function in mitigating information asymmetry and valuation uncertainty. Interestingly, we also find that managers learn less from announcement stock price reactions when earnouts are used. Deals that include earnouts are more likely to proceed despite adverse market reactions, and there is limited evidence of earnout renegotiation or removal. This pattern is more pronounced among the subsample of M&A deals with negative announcement returns, where managers appear more reluctant to abandon or revise underperforming deals. These results suggest that while earnouts are valuable contracting tools, they may make managers less responsive to market reactions. This study has important implications for boards, shareholders, and policymakers, emphasizing the need to monitor how M&A contingent contract structures affect managerial actions in response to market reactions.

Keywords: Earnouts, M&A, Market feedback, Managerial learning

JEL Classification: G34; D82; G14; D83

1. Introduction

Mergers and acquisitions (M&As) are among a corporation's most significant and impactful decisions. However, they also entail considerable risks, not only regarding financial performance but also the execution of the transaction itself. The complexity of negotiating, structuring, and finalizing an M&A deal is affected by several factors, including information asymmetries, valuation disagreements, regulatory uncertainties, and strategic misalignments. Therefore, the deal structure becomes a critical factor for success, with the potential to delay or even compromise completion.

Among the various contractual mechanisms available to address these challenges, earnouts have emerged as a particularly important tool. Earnouts are contractual provisions that tie a portion of the purchase price to the target firm's post-acquisition performance, typically measured by metrics such as revenue, earnings, or predefined milestones over a defined period.

These contingent payments are commonly used when acquirers and targets struggle to agree on valuation, often due to uncertainties about future cash flows, differences in information, or divergent expectations about performance. By deferring part of the price and making it contingent on future outcomes, earnouts enable the parties involved in the deal to share risks and encourage cooperation after the transaction. In this way, earnouts bridge the valuation gap, facilitating transactions that might otherwise stall or fall apart.

While earnouts are recognized as useful contractual mechanisms in mergers and acquisitions, particularly for addressing valuation uncertainty and aligning incentives in deals involving information asymmetries (Kohers & Ang, 2000; Datar et al., 2001; Cain et al., 2011), their role in shaping the actual execution of transactions remains empirically underexamined. Existing studies often suggest that earnouts may facilitate deal completion or reduce negotiation frictions, especially in private-target acquisitions. However, these claims have not been systematically tested using large-sample data. For example, Datar et al. (2001) and Kohers and Ang (2000) note the potential for earnouts to support deal success by accommodating differences in expectations between parties, but do not investigate whether earnouts meaningfully affect the probability of deal completion. This gap is notable given how frequently earnouts are cited as tools that enhance transactional flexibility.

More importantly, little is known about whether earnouts interfere with how managers incorporate external information, particularly stock market reactions to deal

announcements, into completion decisions. The literature on managerial learning about M&A deals (e.g., Luo, 2005; Loureiro & Taboada, 2015) argues that managers may learn from stock price reactions to deal announcements, which reflect information from various sources and market participants, including well-informed institutional investors, often providing real-time information useful for managerial decision-making. Adverse market reactions to M&A announcements have been shown to predict deal withdrawals, revisions, or renegotiations. This indicates that acquirers do, at least in part, consider market reactions at announcement when deciding how to proceed, suggesting that managers learn from the market about the deal's growth prospects and update their expectations accordingly (Luo, 2005).

In this study, we develop a conceptual framework and present new, timely empirical evidence on a theoretically accepted but empirically overlooked channel through which contract design may influence M&A outcomes. In our model, earnouts provide contractual insurance that increases the likelihood of deal completion but reduces the sensitivity of completion to market-based signals. By making a portion of the transaction value contingent on future performance, earnouts mitigate overpayment risk and thereby attenuate the informational role of announcement returns. We derive empirical hypotheses to test these predictions: first, we estimate the impact of earnouts on the probability of deal completion; second, we test whether the inclusion of earnouts mitigates the impact of announcement returns on the likelihood of deal completion. Our focus is therefore not only on whether earnouts affect deal outcomes, but also on whether they alter the extent to which managers listen to the market when deciding whether to proceed with a transaction.

Using a sample of 19,458 deals announced by U.S. acquirers, our first set of results indicates that the use of earnouts in M&As increases the likelihood of deal completion. Our second set of results shows that the use of earnouts may reduce managerial responsiveness to the stock market reaction around M&A announcements. Specifically, we find that acquirers using earnouts are less likely to revise or withdraw deals following negative abnormal returns around the announcement date than their counterparts, precisely when announcement returns may contain valuable information about deal quality that could guide acquirer managers in reconsidering the transaction. These results pass several robustness tests, including those addressing sample selection issues. For instance, we test our hypotheses on a subsample of acquirers ("switchers") that engaged in acquisitions with and without earnouts throughout the sample period to mitigate

systematic biases associated with the characteristics of firms that consistently use earnouts versus those that do not. In doing so, we find an even stronger mitigating effect of earnouts on the relation between announcement returns and deal completion compared to the full sample. The results are qualitatively similar when using a coarsened exact matched sample.

A likely explanation for our results is that earnouts provide a sense of contractual insulation, allowing managers to perceive the deal as less risky or more flexible. This perceived buffer may reduce the urgency to reconsider or renegotiate, even in the face of adverse investor sentiment. As a result, earnouts can inadvertently act as a behavioral shield, dampening the disciplining effect of stock prices and weakening the managerial learning channel from investor reactions. These findings highlight a previously overlooked yet highly consequential implication of using earnouts: while they promote deal execution, they may also hinder adaptive managerial behavior at critical decision points.

Our study offers several contributions to the literature. First, we contribute to the growing literature on how contractual mechanisms influence managerial behavior during mergers and acquisitions. Recent empirical studies recognize that these mechanisms can also influence strategic outcomes, including deal execution and renegotiation. Earnouts, in particular, have been shown to reduce information asymmetries and facilitate deal completion, especially in transactions involving private targets or valuation uncertainty (Kohers & Ang, 2000; Cain et al., 2011; Barbopoulos & Danbolt, 2021).

Second, we contribute to the literature on managerial learning from outsiders through stock prices (Dye & Sridhar, 2002), specifically in the context of M&A where announcement returns reflect new information revealed through trading by well-informed investors – information that managers then use to finalize, abandon, or revise the terms of the deal, particularly when governance structures enable managers to incorporate external signals (Kau et al., 2008). Our findings extend this literature by providing new evidence that earnouts may interfere with the managerial learning channel by making managers less responsive to stock price reactions around M&A announcements. Our evidence that earnouts may reduce the likelihood of deal revision or withdrawal following negative abnormal returns highlights how contractual choices can influence responsiveness to capital market signals, with implications for deal governance and alignment with shareholder interests.

Our study speaks to policy and governance debates. If earnouts “deafen” managers to market signals to the extent that they pay less attention to announcement returns when making subsequent decisions related to the acquisition, they may undermine an important channel of managerial learning. This has implications for boards of directors, institutional investors, and regulators seeking to ensure that acquisition decisions are made in shareholders' best interests. It indicates that greater transparency around earnout terms, more rigorous oversight of managerial justifications for earnout-based deals, and stronger governance mechanisms may be warranted.

2. Literature Review

Earnouts are contractual provisions that defer part of the acquisition payment and make it contingent on the target firm's post-acquisition performance, typically based on financial metrics such as revenue, EBITDA, or net income. Their primary purpose is to bridge valuation gaps between buyers and sellers by allowing part of the acquisition payment to depend on future outcomes (Datar et al., 2001). By deferring payment, earnouts reduce the need for complete agreement on the target's value at the time of signing, thereby increasing the likelihood of reaching a negotiated agreement.

Empirical research has shown that earnouts are more frequently used in transactions characterized by high information asymmetry, such as acquisitions of private firms (Kohers & Ang, 2000), targets operating in R&D- or intangible-intensive sectors (Ragozzino & Reuer, 2009), or when acquirers have limited acquisition experience (Reuer et al., 2004). In such cases, earnouts can enhance deal feasibility by accommodating uncertainty and reducing the acquirer's upfront risk, thereby increasing the likelihood of deal completion. Beyond facilitating agreement, these features may also reduce managers' need to rely on external information (such as market reaction to the announcement) when deciding whether to complete a transaction.

Despite these benefits, earnouts introduce complexity and potential post-deal conflict. Disputes may arise over performance measurement, integration processes, or the acquirer's strategic incentives, such as under-resourcing the acquired business to avoid triggering earnout payments (Coelho & Loureiro, 2025). These contractual risks can limit their effectiveness if not properly structured (Reuer et al., 2004). Nevertheless, earnouts' flexibility during negotiations may outweigh these risks, particularly in deals that are otherwise prone to breakdown due to valuation disagreements. As such, earnouts are

increasingly viewed as tools for aligning incentives and improving deal closure in challenging transactional settings.

A growing strand of literature investigates the determinants of M&A deal completion, emphasizing that execution is not merely a matter of contractual design or strategic alignment, but also of managerial responsiveness to external signals, particularly those conveyed by the stock market. Numerous studies have documented that acquirer announcement returns are, on average, negative, particularly in deals involving diversification, equity financing, or high premiums (Moeller et al., 2005). These reactions are commonly interpreted as indicators of market skepticism about the strategic or financial merits of the deal. Notably, such abnormal returns at the time of announcement have been shown to influence the probability that a transaction is ultimately completed. Luo (2005) provides evidence that cumulative abnormal returns (CARs) at announcement significantly predict deal outcomes: when CARs are negative, deals are more likely to be withdrawn or renegotiated. This suggests that managers learn new information about the potential outcome of the deal from the stock market and react accordingly. In fact, some studies (e.g., Dye & Sridhar, 2002) argue that trading by outside investors impounds information into stock prices that otherwise would be unknown to managers but may still be useful for managerial decision-making.

This evidence aligns with broader research on managerial learning from stock prices. The central idea is that stock prices reflect dispersed information held by market participants, which managers can extract and use to guide corporate decision-making (Zuo, 2016; Edmans et al., 2017). In the context of M&A, several studies (Luo, 2005; Kau et al., 2008; Loureiro & Taboada, 2015) show that this learning mechanism may operate through the announcement returns, which aggregate investor expectations about the deal's value-creation potential, its likelihood of integration success, and any perceived misalignment with the acquirer's existing strategy. These studies reinforce this interpretation by showing that managers are more likely to abandon deals following adverse stock reactions. Such patterns suggest a feedback loop between capital markets and corporate strategy, in which public signals act as corrective inputs into managerial decision-making. While this form of learning is often beneficial, allowing managers to avoid overpaying or undertaking value-destroying transactions, it may be influenced by various factors related to the firm and its environment.

The extent to which managers learn from the market depends heavily on contextual factors, including the quality of the firm's information environment and its corporate

governance. For example, Kau et al. (2008) find that firms are more likely to respond to market signals in their investment decisions when agency conflicts are mitigated – for instance, when large blockholders are present, or CEO incentives are strongly performance-based. Loureiro and Taboada (2015) show that managerial learning around M&As is greater when the quality of the information environment improves, and well-informed institutions hold the companies' stocks. Similarly, Abdallah and Abdallah (2017) find that cross-listed firms, often subject to stronger market scrutiny and better disclosure standards, exhibit greater responsiveness to stock price feedback during M&A processes. These findings support the idea that a firm's governance quality and information environment influence how managers learn about the deal's prospects from stock price reactions around the announcement. In some settings, managers appear attentive to the informational content of prices and adjust accordingly; in others, they may disregard price signals altogether. Banerjee et al. (2023) add nuance by suggesting that overconfident managers may ignore price feedback, which can have both stabilizing and destabilizing effects depending on market conditions. Meanwhile, Sani et al. (2023) show that excessive transparency or regulatory disclosure may, paradoxically, reduce the informativeness of prices and inhibit learning by discouraging informed trading.

Despite these advances, existing research has largely examined contractual design and market-based learning as separate mechanisms influencing deal outcomes. In particular, little is known about whether contractual features such as earnouts affect the extent to which managers incorporate information revealed by stock prices. This aspect is important because earnouts directly affect the distribution of risk and the need for ex post learning, suggesting that they may interfere with market-based feedback. In short, this paper addresses this gap by examining whether earnouts alter the sensitivity of managerial decisions to market reactions.

To formalize this intuition and derive testable hypotheses, the next section presents a stylized theoretical framework that captures the trade-off between contractual risk-sharing and market-based learning. The model provides a structured foundation for our empirical analysis by clarifying the conditions under which earnouts are expected to attenuate managerial responsiveness to market feedback.

3. Theoretical Framework and Testable Hypotheses

3.1. Theoretical Framework

We consider a setting in which managers receive both private information about the deal and a public signal derived from market reactions. We let the weight placed on this public signal vary with the presence of an earnout provision. This setting allows us to derive predictions on how earnouts affect the sensitivity of deal completion to announcement returns, and, in particular, on the asymmetric role of earnouts when market feedback is negative.

Consider a merger between an acquiring firm and a target firm. The actual net value of the transaction for the combined firm is

$$V = \theta + \varepsilon, \quad \mathbb{E}[\varepsilon] = 0 \quad (1)$$

Financial markets observe a noisy public signal

$$s = \theta + u, \quad \mathbb{E}[u] = 0 \quad (2)$$

Cumulative abnormal returns (CARs) around announcement are assumed to be an increasing transformation of s , so a higher CARs reflect better market information about deal fundamentals.

At $t = 1$, after observing s and contractual terms, the acquirer chooses deal completion $D \in \{0, 1\}$. Let $K \geq 0$ denote fixed implementation/friction costs of completion.

Without contingent payment, the expected net gain from completion is

$$\Delta_0(s) = \mathbb{E}[V | s] - K. \quad (3)$$

The acquirer completes the deal iff $\Delta_0(s) \geq 0$.

Under standard monotone signal extraction conditions, $\mathbb{E}[V | s]$ is increasing in s . Therefore, the completion probability increases with s and CAR, which has been referred to in the literature as managerial learning about M&A deals (e.g., Luo, 2005; Loureiro & Taboada, 2015): favorable market reactions increase the likelihood of completion, while unfavorable reactions increase the likelihood of withdrawal.

Let $\lambda \in \{0, 1\}$ indicate whether the deal includes an earnout ($\lambda = 1$) or not ($\lambda = 0$). Let $\mu(s) \geq 0$ be the insurance value to the acquirer from risk-sharing when an earnout is present.

Expected net gain is

$$\Delta(s, \lambda) = \mathbb{E}[V | s] - K + \lambda \mu(s). \quad (4)$$

Completion rule:

$$D = 1 \text{ iff } \Delta(s, \lambda) \geq 0. \quad (5)$$

For fixed s

$$\Delta(s, 1) - \Delta(s, 0) = \mu(s) \geq 0. \quad (6)$$

Therefore, earnouts raise the chance that the completion inequality holds.

Proposition 1: Completion probability is increased when earnouts are used.

If the main earnout channel is a level shift (insurance) rather than a steeper response of μ to s , the completion threshold is relaxed while local responsiveness to s around the threshold is attenuated.

Proposition 2: The sensitivity of completion probability to market signals is lower when the contract includes an earnout.

Let local slope effects differ by the sign of CAR and earnout status:

$$b_{\lambda}^{-} = \left. \frac{\partial \Pr(D = 1)}{\partial s} \right|_{CAR < 0}; b_{\lambda}^{+} = \left. \frac{\partial \Pr(D = 1)}{\partial s} \right|_{CAR > 0}, \quad \lambda \in \{0, 1\} \quad (7)$$

Earnouts mainly ensure downside valuation risk for the acquirer, so attenuation from including an earnout is stronger when CAR is negative:

$$b_0^{-} - b_1^{-} > b_0^{+} - b_1^{+} \quad (8)$$

Intuitively, insurance weakens the signal's informational relevance for the completion decision.

Proposition 3: The dampening effect of earnouts on responsiveness to market signals is stronger following negative announcement returns than following positive returns.

3.2. Testable Hypotheses

Building upon the model above and the empirical literature, we test the following hypotheses:

Hypothesis 1: Deals that include earnouts as a method of payment exhibit a higher likelihood of completion.

Hypothesis 2: The impact of deal announcement CARs on the probability of completion is attenuated by the presence of earnouts.

Hypothesis 3: Bidder managers listen less to the market when deals include earnouts, i.e., the likelihood that a deal is dropped following negative announcement returns is lower in earnout deals.

4. Sample, Data, and Methodology

4.1. Sample and Data

Our initial sample includes all M&A deals available in LSEG (Refinitiv) SDC Platinum that were announced between 1998 and 2022. We then apply the following screening criteria. First, the acquirer is a publicly traded U.S. firm listed on a major U.S. stock exchange (NYSE, NYSE American, or NASDAQ). Second, the acquirer is not classified by SDC Platinum as “Investor Group” or “Shareholders”, and the target is not a “Joint Venture” or “Government”. Third, the deal is classified as an acquisition or a merger. Fourth, neither the acquirer nor the target is in the financial or regulated sectors. Fifth, the book value of equity must be non-negative. Sixth, only deals above \$1M are considered. Seventh, the deal is either completed or withdrawn. Finally, the acquirer owns less than 50% of the target before the deal is completed.

After the sample screening, we end up with 19,458 deals, of which 2,395 involve earnouts at announcement.

[Insert Table 1 here]

Table 1 presents the distribution of deals by announcement year (panel A), Fama-French 48-industry classification (panel B), and target status (panel C). In line with previous research, our data indicate that the use of earnouts is associated with higher deal uncertainty. Specifically, panel A shows that the use of earnouts has increased over time, with peaks following prominent crises such as the 2000s dot-com bubble, the 2007 financial crisis, and the 2020 pandemic. Panel B presents the incidence of earnouts in industries with greater valuation uncertainty, where assessing the market value of a firm’s assets is more challenging. In fact, in our sample, the sectors with the highest fraction of deals with earnouts are those related to high-tech firms (where more than 20% of the deals include earnouts) and firms with more intangible assets (especially service firms, where human capital is the primary asset). Finally, panel C documents the prevalence of earnouts

in deals where information asymmetry is likely to be more severe, such as transactions involving private and subsidiary targets. Earnouts are used in roughly 19% and 8% of these deals, respectively, compared with only 1.24% of deals involving publicly traded targets.

Table 2 presents summary statistics of deal and firm characteristics for transactions with and without earnout provisions. As documented in previous literature, several significant differences emerge. First, earnouts are strongly associated with smaller deals. In line with values reported by Barbopoulos and Danbolt (2021) and Alexakis and Barbopoulos (2019), the mean deal value in earnout deals is \$164.6 million, compared to \$401.1 million in non-earnout transactions. Similarly, acquirers in earnout deals are smaller (mean market value of \$3.72 billion vs. \$5.94 billion), consistent with the idea that earnouts are more prevalent when valuation uncertainty is greater – a condition more likely to arise in deals involving smaller and private targets (Datar et al., 2001; Cain et al., 2011).

[Insert Table 2 here]

Reduced termination fees for both targets and acquirers, and a diminished role for top-tier financial advisors characterize earnout deals. This pattern may reflect the more informal or less contentious nature of earnout transactions, commonly linked to private targets where such elements (e.g., termination fees, prominent advisors) are less frequently encountered (Barbopoulos & Danbolt, 2021). Additionally, earnout deals are more likely to be completed, indicating that contingent payment agreements can facilitate deal closure, particularly when negotiation frictions or information asymmetries are high (Kohers & Ang, 2000). The lower prevalence of tender offers and multiple-bidder contests when earnouts are used also supports this interpretation; earnouts tend to be negotiated solutions in less competitive environments.

Earnout deals are also associated with slightly more positive announcement returns. The mean CAR is higher for earnout transactions (1.19% vs. 0.81%), and the difference is statistically significant at conventional levels. This pattern suggests that the market, on average, views earnout structures as value-enhancing. This is consistent with the idea that earnouts help mitigate valuation uncertainty and align incentives between acquirers and targets, thereby improving expected deal outcomes. At the same time, the relatively small difference in CARs indicates that earnout and non-earnout transactions are broadly

comparable in terms of market perceptions at announcement, which is important for the identification strategy that exploits variation in market reactions across deal types.

Interestingly, earnout deals are less likely to be both cross-industry and cross-border. The frequency of cross-industry transactions is slightly lower in earnout deals (37.7% vs. 40.0%), while cross-border transactions are also less prevalent (18.2% vs. 21.8%), with both differences statistically significant. This pattern suggests that earnouts are not primarily used in the most complex transactional environments. Instead, they appear to be concentrated in settings that are more comparable and geographically closer, where valuation uncertainty may still be present but does not derive from substantial operational or institutional frictions. This evidence is consistent with the view that, although earnouts mitigate information asymmetry, their use may be constrained in environments characterized by higher legal, cultural, or integration costs (Viarengo et al., 2018).

4.2. Methodology

To test our initial hypothesis that earnouts increase the likelihood of deal completion, we estimate the logit model below (Equation 9). Since one of our main objectives in this paper is to test whether the sensitivity of deal completion decisions to announcement-period abnormal returns varies with the presence of earnout provisions, we estimate a variation of the main model with an interaction term between earnout and the acquirer's announcement returns (Equation 10). In these models, we use announcement returns as a forward-looking market signal about the deal quality and estimate how contractual features of the transaction moderate their relationship with completion outcomes.

$$P(\text{completion} = 1)_{it} = \alpha + \beta_1 \text{Earnout}_{it} + \beta_2 \text{CAR}_{it} + \beta_n X_n + \mu_t + \lambda_j + \varepsilon_{it} \quad (9)$$

$$\begin{aligned} P(\text{completion} = 1)_{it} \\ = \alpha + \beta_1 \text{Earnout}_{it} + \beta_2 \text{CAR}_{it} + \beta_3 \text{Earnout}_{it} \times \text{CAR}_{it} + \beta_n X_n + \mu_t + \lambda_j \\ + \varepsilon_{it} \end{aligned} \quad (10)$$

The dependent variable of these equations is a binary variable that equals 1 if the deal was completed and 0 if it was withdrawn. Our main variables of interest are the *Earnout*, in Equation (9), and the interaction term between *Earnout* and *CAR*, in Equation (10). *Earnout* is defined as a binary variable that takes the value 1 if the deal includes an earnout clause at announcement and 0 if it does not, and *CAR* is the cumulative abnormal return over a 3-day event window around the announcement date [-1, +1]. X_n is a vector of

control variables that include *Relative value* (the logarithm of the ratio between deal value and the market value of the acquirer's equity), *Cash* (a binary variable that takes the value of one if the deal is mainly paid with cash), *Acquirer Termination fee* (a binary variable that takes the value of one if the bid includes a breakup fee to be paid by the bidder), *Target Termination fee* (a binary variable that takes the value of one if the bid includes a breakup fee to be paid by the target), *Cross border* (a binary variable that takes the value of one if the target is not from the U.S.), *Toehold* (a dummy variable that takes the value of one if the bidder has a percentage of shares in the target at announcement), *Cross Industry* (a binary variable that takes the value of one if the target is from a different industry of the bidder, based on Fama-French 48-industry classification), *Multiple Bidders* (a binary variable that takes the value of one if there are other bidders), *Tender offer* (a binary variable that takes the value of one if the deal is classified as tender offer), *Friendly* (a binary variable that takes the value of one if the deal is classified as friendly), *Defensive* (a binary variable that takes the value of one if the target employs any defensive tactic), *Acquirer top advisor* (a binary variable that takes the value of one if acquirer's advisor is one of the top ten advisors by number of deals undertaken in the announcement year), and *Target top advisor* (a binary variable that takes the value of one if target's advisor is one of the top ten advisors by number of deals undertaken in the announcement year); μ_t and λ_j are dummies to control for year and industry fixed effects, respectively.

Relative Value is included to control for the fact that larger transactions typically involve greater complexity, due diligence, and negotiation, which affect completion probability and duration (Officer, 2003; Moeller et al., 2004). We include Cash to control for the fact that a higher cash payment percentage reduces uncertainty for target shareholders and, as such, increases the probability of the deal being completed (Wong & O'Sullivan, 2001). Acquirer and target termination fees reflect contractual safeguards and bargaining dynamics; they serve as credible commitment devices and can influence the likelihood deal completion (Bates & Lemmon, 2003; Luo, 2005; Boone & Mulherin, 2007). We control for cross-border transactions because these deals are associated with greater regulatory, cultural, and informational frictions, although no consensus exists on the effect on the probability of completion (Rossi & Volpin, 2004; Dikova et al., 2010; Erel et al., 2012; Lawrence et al., 2021). We include a toehold indicator to capture the acquirer's pre-announcement ownership stake, which can affect bargaining power and completion outcomes (Betton et al., 2008). Cross-industry mergers are often more challenging to evaluate and integrate, and thus are more likely to involve earnouts or

delays (Kohers & Ang, 2000). The presence of multiple bidders is associated with increased competitive pressure, potentially increasing deal failure risk or altering deal terms (Kau et al., 2008; Abdallah & Abdallah, 2017). Given their standardized and unilateral nature, tender offers are generally more likely to succeed than negotiated deals (Schwert, 2002). We also control whether the deal is friendly or hostile, as hostile takeovers face resistance that affects completion likelihood (Morck et al., 1988). Defensive mechanisms, such as poison pills or staggered boards, can reduce the probability of deal success or prolong negotiations (Bebchuk et al., 2002). Finally, we control for the presence of top-tier financial advisors on both the acquirer and target side, since advisor reputation is linked to deal quality, execution efficiency, and value creation (Golubov et al., 2012; Barbopoulos & Danbolt, 2021). Year and industry fixed effects are also included to control for unobserved time-varying macroeconomic factors and industry-specific merger dynamics.

We calculate each bidder's cumulative abnormal return (CAR) using the market model, which accounts for firm-specific sensitivity to market movements and provides a more precise estimate of abnormal performance around the announcement. Specifically, for each firm i , we estimate the following market model over a pre-event estimation window spanning from day -250 to day -20 relative to the announcement date:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}, \quad (6)$$

where R_{it} denotes the return on firm i on day t , and R_{mt} is the return on the market portfolio. Abnormal returns are then computed as:

$$AR_{it} = R_{it} - (\hat{\alpha} - \hat{\beta}_i R_{mt}), \quad (7)$$

and cumulative abnormal returns are obtained by aggregating abnormal returns over the standard three-day event window $[-1; +1]$:

$$CAR_i = \sum_{t=-1}^{+1} AR_{it} \quad (8)$$

Consistent with prior literature (e.g., Luo, 2005; Kau et al., 2008), we interpret CARs as a proxy for the market's assessment of deal quality and expected value creation. Our empirical analysis then examines whether the presence of earnouts affects how managers respond to this market feedback, focusing on whether earnout provisions attenuate the

sensitivity of completion decisions to announcement-period returns, while controlling for a comprehensive set of deal characteristics and year and industry dummies.

5. Results

5.1. The Use of Earnouts and Deal Completion

We begin by examining whether the use of earnouts is associated with a higher likelihood of deal completion, as stated in Hypothesis 1. Table 3 reports baseline estimates of the relation between earnout use and deal completion. Because these models do not include interaction terms, the table reports average marginal effects, which facilitate economic interpretations. Column (1) presents a parsimonious specification including only the earnout indicator, along with year and industry dummies. The marginal effect of *Earnout* is positive and highly significant, indicating that transactions structured with contingent payments are, on average, 2.7 percentage points more likely to be completed than transactions without earnouts. Columns (2) and (3) introduce the full set of controls and combinations of year and industry dummies. The positive association between earnouts and deal completion remains statistically significant throughout. In the most complete model, the coefficient on *Earnout* remains positive and significant, and the marginal effect indicates that earnout transactions are associated with a 1.13 percentage point increase in the likelihood of completion. Although the magnitude declines once a complete set of controls is taken into account, the result remains economically meaningful given the high unconditional completion rate in the sample.

These findings are consistent with the view that earnouts facilitate agreement by reducing valuation disagreement between bidders and targets. By deferring part of the purchase price and tying it to future target performance, earnouts allow the parties to share valuation risk and bridge differences in expectations, thereby increasing the likelihood of transaction completion.

Another salient result from Table 3 is the positive relation between the acquirer's cumulative abnormal returns around the announcement and deal completion, which aligns with the managerial learning idea that managers respond to market-based signals when deciding whether to proceed with announced transactions. The remaining control variables are generally consistent with prior M&A evidence. Completion is less likely in transactions with higher relative deal value, cross-border deals, multiple-bidder deals, and

deals involving defensive tactics. In contrast, cash deals, tender offers, and friendly transactions are significantly more likely to be completed.

[Insert Table 3 here]

Overall, these findings provide consistent support for Hypothesis 1, indicating that earnouts indeed facilitate deal completion.

5.2. Do Managers Go Deaf When Using Earnouts?

We now test whether acquirer managers pay more or less attention to the stock market reaction around deal announcements when earnouts are used as a method of payment. As shown above, there is a positive relation between the acquirer's announcement returns and the likelihood of deal completion, suggesting that managers listen to market signals and respond accordingly when those signals are encouraging. However, this effect may be mitigated when earnouts are used, as they provide a form of contractual risk-sharing that is valuable to the acquirer and may drive completion of the deal independently of the market's reaction to the announcement.

In Table 4, we test our Hypothesis 2 that the use of earnouts attenuates the sensitivity of deal completion to acquirer's announcement returns. The key variable is the interaction between *Earnout* and the acquirer's *CAR*. Panel A shows the coefficients from the logit models and Panel B shows the estimated marginal effect of announcement returns on deal completion conditional on earnout status, derived from the same models as in Panel A; the bottom row of Panel B reports the marginal effect associated with the interaction term $Earnout \times CAR$.

The results show that, albeit the coefficient on *CAR* is positive and statistically significant, the coefficient on the interaction term $Earnout \times CAR$ is negative and highly significant in all models. This result indicates that the positive relation between announcement returns and deal completion becomes substantially weaker when the transaction includes an earnout provision.

As for the economic interpretation, taking Model (3) as an example, the marginal effects show that, in non-earnout deals, a one-unit increase in announcement returns increases the probability of completion by 4.2 percentage points, on average, whereas in earnout deals the effect is negative corresponding to an average reduction in the likelihood of deal completion of 4.29 percentage points. The difference (-8.9 percentage points)

captures the marginal impact of the interaction between *Earnout* and *CAR*, which is economically relevant. This result supports our Hypothesis 2 suggesting that earnouts dampen acquirers' sensitivity to market signals in completion decisions, as contingent pricing reduces valuation risk exposure and weakens the channel through which managers learn from announcement-period stock returns.

[Insert Table 4 here]

We next test Hypothesis 3 by examining whether the relation between earnout use and deal completion differs depending on the sign of the market reaction, i.e., whether *CAR* is positive or negative. Per our argument, the use of earnouts should be more impactful on completion rates when announcement returns are negative, precisely when market feedback may provide a warning signal about the proposed transaction. To test this prediction, we split the sample into deals with non-negative announcement returns and deals with negative announcement returns. This sample split allows us to assess whether earnouts are associated with a higher probability of completion specifically among deals that receive adverse market feedback. If earnouts reduce managers' responsiveness to negative market signals, the positive association between earnout use and deal completion should be concentrated in the negative-*CAR* subsample.

[Insert Table 5 here]

The results are shown in Table 5, which exhibits marginal effects. We observe a clear different pattern between the two subsamples: in deals with non-negative announcement returns, earnouts have no meaningful impact on completion. The estimated marginal effect is only 0.17 percentage points and is not statistically significant. Thus, when the market reaction is neutral or favorable, earnouts do not appear to materially affect the probability that the deal is completed. By contrast, in deals with negative announcement returns, earnouts are positively and significantly associated with completion. The marginal effect indicates that earnout deals are 2.58 percentage points more likely to be completed, significant at the 1% level.

These findings are consistent with Hypothesis 3. Earnouts matter most precisely when announcement-period stock price reactions are adverse. Rather than abandoning negatively received transactions, acquirers using earnouts are more likely to proceed to completion. This pattern aligns with the view that contingent payment structures reduce

managers' sensitivity to negative valuation feedback by mitigating valuation uncertainty and providing contractual protection against downside risk.

5.3. Additional Analyses

5.3.1. *Likelihood of Ignoring the Market*

An alternative method of identifying whether acquirer managers ignore the market around acquisition announcements was proposed by Kau et al. (2008). Based on this study, we build a binary variable *Ignore* that takes the value of one if the announcement CAR is below a certain threshold and the manager still completes the deal, or is above a certain threshold and the acquirer withdraws. Panel A uses a zero threshold, while Panel B focuses on stronger market reaction by restricting attention to cases with announcement returns of at least 1%¹ in absolute value (that is, the dependent variable takes the value of one if deals are completed when $CAR < -1\%$ and withdrawn when $CAR \geq 1\%$). This cutoff follows Kau et al. (2008), who argue that managerial learning from prices is most relevant when announcement returns are sufficiently large in absolute value to be informative. By restricting the sample to deals with returns above this threshold in absolute value, the analysis isolates situations in which the stock market conveys clearer signals about deal quality.

[Insert Table 6 here]

In Table 6, we estimate logit models where the dependent variable identifies whether the acquirer manager ignores the market. The results reveal a clear and consistent asymmetry between deals with positive and negative stock price reactions. In Panel A, when considering the full sample, we find that earnouts are associated with a 2.43 percentage point increase in the probability of ignoring the market. However, this average effect is entirely driven by deals with negative announcement returns. In the subsample where $CAR < 0$, earnouts increase the probability of completing the deal despite adverse market feedback by 2.58 percentage points, whereas in the subsample where $CAR \geq 0$, the marginal effect is economically small and statistically insignificant.

¹ Kau et al. (2008) also use a cutoff of $\pm 2.5\%$, which has the disadvantage of significantly reducing the number of observations as observations falling between the two thresholds are discarded. In unreported analysis we also test for this threshold and our main conclusion remains unchanged.

In Panel B, we use the $\pm 1\%$ threshold on CAR to focus on more informative market reactions. Again, in the subsample of strongly adverse market reactions, earnouts increase the probability of ignoring the market by 3.20 percentage points, with strong statistical significance. By contrast, there is no significant effect in the subsample of positive market reactions.

Collectively, the two panels indicate that the relation between earnouts and managerial disregard of market feedback is concentrated in transactions that receive unfavorable investor reactions and becomes even more pronounced when those reactions are strongly negative. This pattern of results provides additional support to our Hypothesis 3.

5.3.2. *Likelihood of Revising Deal Terms Post-announcement*

One potential alternative explanation for our main findings is that managers in earnout deals appear to ignore negative market feedback because they subsequently revise transaction terms in response to investor concerns. Under this interpretation, the higher completion likelihood documented in previous tables would not necessarily reflect reduced sensitivity to market feedback, but rather the ability of managers to renegotiate the acquisition price after the announcement.

To address this possibility, we examine whether earnout deals are more likely to experience post-announcement price revisions. If managers rely on ex-post renegotiation to mitigate negative investor reactions, earnout transactions should exhibit a higher likelihood of subsequent price changes.

The evidence does not support this argument. In Table 7, we show the marginal effects from logit regressions where the dependent variable is one if the transaction price is revised after the initial announcement, and zero otherwise. Taking Model (3) as an example, we observe that earnout deals are associated with approximately a 2.4 percentage point lower probability of a price revision relative to non-earnout transactions. Given the relatively low unconditional frequency of price amendments, this effect is economically meaningful.

[Insert Table 7 here]

It is also worth noting that the coefficient on *CAR* is aligned with the literature: more favorable bidder announcement returns reduce the probability of a subsequent price

change, suggesting that adverse market reactions are indeed associated with increased renegotiation pressure.

Taken together, these findings support our main results. The greater completion likelihood observed in earnout deals does not appear to be driven by managers accommodating market concerns through subsequent price renegotiations. Instead, the evidence is more consistent with the view that earnouts reduce managers' responsiveness to negative market feedback after the initial announcement.

6. Empirical Robustness Tests

6.1. Within-Firm Evidence: Switchers Sample

A matter of concern is that differences between earnout and non-earnout deals may reflect underlying differences in the types of acquirers that choose these contractual structures. If firms that systematically rely on earnouts also differ in their responsiveness to stock price feedback for reasons unrelated to contract design, the baseline interaction effects may capture such cross-sectional heterogeneity rather than a causal mechanism.

To address this concern, we exploit within-firm variation by focusing on acquirers that engage in both earnout and non-earnout transactions. By comparing deals conducted by the same firm under different contractual structures, this approach absorbs time-invariant acquirer characteristics that may jointly influence earnout adoption and deal outcomes.

Table 8 presents a robustness test on our main result shown in Table 4 based on the switchers sample, which includes only acquirers that engage in both earnout and non-earnout transactions over the sample period.

[Insert Table 8 here]

The results are aligned with our prior evidence. In Panel A, the coefficient on the interaction between *Earnout* and *CAR* is negative and strongly significant throughout, while the coefficient on *CAR* remains positive and statistically significant. The magnitude of the interaction is even larger than in the full sample, suggesting that the mitigating effect is particularly pronounced when the analysis is restricted to firms that switch their use of earnouts across deals.

The marginal effects shown in Panel B suggest that our results are also economically significant. Taking Model (3) as an example, a one-unit increase in announcement returns

reduces the likelihood of completing the deal by 13.18 percentage points when earnouts are used compared to non-earnout deals.

The switchers evidence reduces the concern that the baseline results are driven by persistent differences between acquirers that use earnouts and those that do not. Even among firms that use both contract types, completion decisions are significantly less sensitive to announcement returns when the deal includes an earnout.

6.2. Coarsened Exact Matching (CEM) Samples

Besides the switchers sample analysis, concerns may still remain that earnout and non-earnout transactions differ systematically in observable deal characteristics. Such differences may still bias the estimated relation between earnouts and managerial responsiveness if they are correlated with both contract choice and completion outcomes.

To address this issue, we implement a coarsened exact matching (CEM) procedure that reweights the sample to ensure comparability between earnout and non-earnout transactions along key observable dimensions, namely relative deal value, cross-border deal, cross-industry deal, public target status, market-to-book, and analyst following. This approach reduces model dependence and allows for a more credible comparison of otherwise similar deals. The regressions are then estimated in the matched sample using CEM weights. The results are presented in Table 9, which reports the estimates from the coarsened exact matching (CEM) analysis. The results remain strongly consistent with our main findings throughout the paper. In Panel A, the coefficient on the interaction between *Earnout* and *CAR* remains negative and strongly significant in all models. The magnitude of the interaction is very similar to that reported in the baseline specifications, suggesting that the attenuation effect is not driven by observable differences in the types of transactions that select into earnout use.

The marginal effects shown in Panel B suggest that our results are also economically significant. From Model (3), a one-unit increase in announcement returns reduces the likelihood of completing the deal by 13.36 percentage points when earnouts are used compared to non-earnout deals.

[Insert Table 9 here]

These results support our prior evidence and release concerns that that differences in deal type or information environment drive our baseline findings. Instead, the evidence continues to point to the contractual structure itself: when contingent payments are used,

managers appear less responsive to the information embedded in announcement-period stock returns.

6.3. Alternative Measures of CARs

Finally, we examine whether our results are sensitive to the measurement of announcement returns. Although the baseline analysis focuses on CAR $[-1; +1]$, different event windows may capture varying degrees of information leakage or delayed market reactions. If our findings reflect a genuine learning mechanism rather than window-specific noise, they should persist across alternative return windows.

Table 10 examines whether the main attenuation result is robust to alternative constructions of the announcement-period market signal. The first two columns use abnormal returns estimated with the market model over wider event windows, $[-2, +2]$ and $[-3, +3]$, while the third column re-estimates the baseline $[-1, +1]$ specification using the market-adjusted approach, whereby abnormal returns are defined as the difference between firm and market returns, thus avoiding the need to estimate firm-specific parameters and providing a parsimonious benchmark for market reactions. The evidence remains consistent with our main findings.

[Insert Table 10 here]

Across all models, the coefficient on the interaction between *Earnout* and *CAR* remains negative and statistically significant, whereas the coefficient on *CAR* is still positive and significant. Thus, the conclusion that earnouts weaken the sensitivity of completion decisions to market feedback does not depend on the specific return-estimation method or event window.

The magnitude of the marginal economic effects continues to be significant, as shown in Panel B. Depending on how CARs are measured, a one-unit increase in CARs leads to a decrease in the probability of completion ranging from 5.70 to 9.40 percentage points in deals with earnouts compared to those without.

7. Conclusion

This study enhances our understanding of earnouts in mergers and acquisitions by offering comprehensive evidence on their impact on key transactional outcomes, such as

deal completion, and managerial responsiveness to market feedback. Consistent with prior literature (e.g., Kohers & Ang, 2000; Datar et al., 2001; Cain et al., 2011), the analysis confirms that earnouts serve as an effective contracting mechanism to bridge valuation gaps and mitigate information asymmetries, thereby increasing the likelihood of deal completion.

This study extends the literature by uncovering an important implication of earnout use that, to the best of our knowledge, has received no empirical attention. While earnouts are associated with a higher likelihood of deal completion, the results also indicate that their inclusion may reduce managers' responsiveness to market feedback at the time of the announcement. Specifically, deals involving earnouts are more likely to proceed despite strongly negative cumulative abnormal returns, suggesting that managers are more prone to ignore the market and therefore less inclined to withdraw or revise such transactions in response to adverse investor reactions. This reduced responsiveness reflects a weaker link between stock price signals and managerial action, thereby undermining an important managerial learning mechanism in the context of mergers and acquisitions. Through this mechanism, managers learn from the market about new information regarding the acquisition prospects and adjust their actions accordingly in line with investors' sentiment - a phenomenon previously documented by, among others, Luo (2005), Kau et al. (2008), and Loureiro and Taboada (2015).

Importantly, our main results remain robust even after accounting for potential selection bias through coarsened exact matching, exploiting within-firm variation using a switchers sample design, and employing alternative event windows and estimation methods to compute acquirer's abnormal returns around deal announcements. We also test a possible alternative explanation that managers using earnouts complete more deals because they revise deal terms after receiving adverse market feedback. The evidence does not support this view. Earnout deals are less likely to experience subsequent price revisions post-announcement compared to non-earnout deals, following an adverse market reaction. This result strengthens the interpretation that earnouts reduce responsiveness to market feedback rather than enabling managers to incorporate that feedback through renegotiation.

These findings have important implications for corporate governance and deal scrutiny. The weaker sensitivity of acquirer managers to adverse investor reactions raises concerns about whether they act in shareholders' best interests when proceeding with deals perceived to be value-reducing. As a result, the use of earnouts, particularly in

transactions that trigger negative announcement returns, should be subject to heightened scrutiny by boards, institutional investors, and other governance actors. Although earnouts provide insurance to acquirer investors, they may nonetheless be skeptical of the value added by such acquisitions and react negatively. Our finding that managers still tend to pursue those deals without revising their terms suggests that the use of earnouts may require closer monitoring. More broadly, the findings call for a nuanced understanding of how contract design interacts with external market discipline in shaping M&A outcomes.

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Appendix A – Variable Definitions

VARIABLE	DEFINITION	SOURCE
Acq. Termination fee	A binary variable that takes the value of one if the bid includes a breakup fee to be paid by the bidder and zero otherwise	SDC/LSEG(Refinitiv))
Acquirer top advisor	A binary variable that takes the value of one if acquirer 's advisor is one of the top ten advisors by number of deals undertaken in the announcement year, and zero otherwise	SDC/LSEG(Refinitiv)
Analysts following	Number of analysts following the firm in the previous year (the number of analysts is set to 0 if not reported).	LSEG(Refinitiv)/DataStream
CAR [-1; +1]	cumulative abnormal return over a 3-days event window around the announcement date.	LSEG(Refinitiv)/DataStream
Cash	A binary variable that takes the value of one if the deal is mainly paid with cash, and zero otherwise	SDC/LSEG(Refinitiv)
Completed	A binary variable that takes the value of one if the deal was completed and zero if it was withdrawn	SDC/LSEG(Refinitiv)
Cross industry	A binary variable that takes the value of one if the target is from a different industry of the bidder, based on Fama-French 48 industry classification, and zero otherwise	Professor Kenneth French's website
Crossborder	A binary variable that takes the value of one if the target is not from USA, and zero otherwise	SDC/LSEG(Refinitiv)
Defensive	A binary variable that takes the value of one if the target employs any defensive tactic	SDC/LSEG(Refinitiv)
DV	Value of the deal (in millions of dollars)	SDC/LSEG(Refinitiv)
Earnout	A binary variable that takes the value of 1 if the deal includes an earnout clause at announcement, and zero otherwise	SDC/LSEG(Refinitiv)
Friendly	A binary variable that takes the value of one if the deal is classified as friendly, and zero otherwise	SDC/LSEG(Refinitiv)
MTB t-1	Market-to-book, the ratio between the market value of equity and the book value of equity	LSEG(Refinitiv)/DataStream
Multiple bidders	A binary variable that takes the value of one if there are other bidders, and zero otherwise	SDC/LSEG(Refinitiv)
MV t-1	Bidders' market capitalization	LSEG(Refinitiv)/DataStream
Public target	A binary variable that takes the value of one if the target is publicly traded	SDC/LSEG(Refinitiv)
Relative value	The logarithm of the ratio between deal value and acquirer's market value	LSEG(Refinitiv)/DataStream
Targ. Termination fee	A binary variable that takes the value of one if the bid includes a breakup fee to be paid by the target, and zero otherwise	SDC/LSEG(Refinitiv)
Target top advisor	A binary variable that takes the value of one if target's advisor is one of the top ten advisors by number of deals undertaken in the announcement year, and zero otherwise	SDC/LSEG(Refinitiv)
Tender offer	A binary variable that takes the value of one if the deal is classified as tender offer, and zero otherwise	SDC/LSEG(Refinitiv)
Toehold	A dummy variable that takes the value of one if the bidder has a percentage of shares in the target at announcement, and zero otherwise	LSEG(Refinitiv)/DataStream

Table 1 – Sample Description

This table provides the sample distribution by announcement year (panel A), by target's Fama-French 48 industries (panel B) and by target's status (panel C), of deals announced between 1998 and 2022, by US acquirers.

Panel A – Sample distribution by announcement Year

Year announced	Non-Earnout	Earnout	Total	Earnout/Total
1998	1 508	131	1 639	7.99%
1999	1 378	87	1 465	5.94%
2000	1 266	95	1 361	6.98%
2001	858	95	953	9.97%
2002	732	112	844	13.27%
2003	716	93	809	11.50%
2004	844	136	980	13.88%
2005	858	146	1 004	14.54%
2006	847	115	962	11.95%
2007	855	136	991	13.72%
2008	640	117	757	15.46%
2009	425	84	509	16.50%
2010	532	95	627	15.15%
2011	536	115	651	17.67%
2012	581	102	683	14.93%
2013	480	72	552	13.04%
2014	607	97	704	13.78%
2015	558	95	653	14.55%
2016	470	70	540	12.96%
2017	438	55	493	11.16%
2018	450	63	513	12.28%
2019	353	60	413	14.53%
2020	302	62	364	17.03%
2021	483	89	572	15.56%
2022	346	73	419	17.42%
Total	17 063	2 395	19 458	12.31%

Panel B – Sample distribution by target's Fama-French 48 Industries

Target Industry	Non-Earnout	Earnout	Total	Earnout/Total
Apparel	110	45	155	29.03%
Pharmaceutical Products	768	282	1050	26.86%
Medical Equipment	611	182	793	22.95%
Tobacco Products	7	2	9	22.22%
Construction	230	43	273	15.75%
Business Services	4885	867	5752	15.07%
Recreation	114	20	134	14.93%
Personal Services	229	40	269	14.87%
Agriculture	57	9	66	13.64%
Healthcare	496	68	564	12.06%

Electronic Equipment	1207	164	1371	11.96%
Measuring and Control Equipment	394	53	447	11.86%
Computers	585	77	662	11.63%
Wholesale	667	86	753	11.42%
Transportation	406	51	457	11.16%
Entertainment	181	21	202	10.40%
Aircraft	115	13	128	10.16%
Other	6001	372	6373	5.84%
Total	17063	2395	19458	12.31%

Panel C – Sample distribution by target's status

Target status	Non-Earnout	Earnout	Total	Earnout/Total
Private	8122	1861	9983	18.64%
Public	3110	39	3149	1.24%
Subsidiary	5831	495	6326	7.82%
Total	17063	2395	19458	12.31%

Table 2 – Descriptive statistics

This table provides descriptive statistics for acquirer firms and deal characteristics. All variables are defined in Appendix A. All continuous variables are winsorized at the top and bottom 1% of the distribution. ***, ** and * mean statistical significance at the 1%, 5%, and 10% level, respectively using t-test for differences in means

	Deals without earnouts				Deals with earnouts					
	N	Mean	Median	SD	N	Mean	Median	SD	Diff in means	
<u>Continuous variables</u>										
DV (\$MM)	17063	401.087	56	1142.754	2395	164.633	35	523.336	-236.454	***
MV t-1 (\$MM)	17063	5936.049	984.67	11946.014	2395	3718.6	472.29	9877.783	-2217.449	***
Relative value	17063	1.598	0.066	137.119	2395	0.374	0.078	3.499	-1.224	
Toehold (%)	17063	0.486	0	3.885	2395	0.286	0	2.941	-0.1995	**
CAR [-1; +1] (%)	17063	0.806	0.311	8.506	2395	1.185	0.426	8.557	0.379	***
<u>Dummy variables</u>										
Completed	17063	0.96	1	0.195	2395	0.982	1	0.131	0.022	***
Termination fee (acq)	17063	0.046	0	0.209	2395	0.009	0	0.093	-0.037	***
Termination fee (trg)	17063	0.118	0	0.323	2395	0.02	0	0.139	-0.098	***
Crossborder	17063	0.218	0	0.413	2395	0.182	0	0.386	-0.036	***
Toehold	17063	0.021	0	0.144	2395	0.012	0	0.109	-0.009	***
Cross industry	17063	0.4	0	0.49	2395	0.377	0	0.485	-0.023	**
Multiple bids	17063	0.015	0	0.122	2395	0.002	0	0.041	-0.013	***
Tender offer	17063	0.039	0	0.195	2395	0.003	0	0.05	-0.036	***
Friendly	17063	0.978	1	0.147	2395	0.997	1	0.058	0.019	***
Top advisor (acq)	17063	0.178	0	0.383	2395	0.099	0	0.299	-0.079	***
Top advisor (trg)	17063	0.174	0	0.379	2395	0.088	0	0.283	-0.086	***

Table 3 – Probability of Deal Completion

This table reports average marginal effects from logit models of the probability that an announced acquisition is completed. The dependent variable equals one if the deal is completed and zero if it is withdrawn. Earnout is an indicator equal to one if the transaction includes an earnout provision. The control variables are defined as follows. **CAR** is the bidder's cumulative abnormal return over the three-day announcement window from day -1 to day +1. **Relative value** is the ratio of deal value to acquirer market value. **Cash** is an indicator equal to one if any portion of the consideration is paid in cash. **Acq. termination fee** and **Targ. termination fee** are indicators for whether the transaction includes, respectively, an acquirer-paid or target-paid termination fee. **Cross-border** equals one if bidder and target are located in different countries. **Toehold** equals one if the bidder holds a prior stake in the target. **Cross-industry** equals one if bidder and target operate in different industries based on Fama–French 48 industry classification. **Multiple bidders** equals one if the target attracts competing bids. **Tender offer** equals one if the transaction is structured as a tender offer. **Friendly** equals one if the target board recommends the offer. **Defensive** equals one if the target adopts a defensive tactic. **Target top advisor** and **Acquirer top advisor** are indicators equal to one if the target's or acquirer's advisor, respectively, is a top-ranked financial advisor. Robust z-statistics clustered at the acquirer level are reported in parentheses. The constant is included in all regressions but not reported. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

VARIABLES	Pr(Completion)		
	(1)	(2)	(3)
Earnout	0.0272*** (4.53)	0.0115** (2.31)	0.0113** (2.27)
CAR		0.0319** (2.14)	0.0310** (2.05)
Relative value		-0.0092*** (-11.40)	-0.0095*** (-11.72)
Cash		0.0192*** (5.76)	0.0190*** (5.60)
Acq. Termination fee		-0.0127** (-2.29)	-0.0126** (-2.25)
Targ. Termination fee		0.0047 (0.95)	0.0053 (1.06)
Cross-border		-0.0145*** (-4.73)	-0.0149*** (-4.75)
Toehold		-0.0182*** (-2.89)	-0.0170** (-2.53)
Cross Industry		-0.0008 (-0.32)	-0.0005 (-0.19)
Multiple bidders		-0.0970*** (-17.51)	-0.0960*** (-16.91)
Tender offer		0.0230*** (3.13)	0.0246*** (3.28)
Friendly		0.0835*** (19.28)	0.0834*** (18.93)
Defensive		-0.0187*** (-2.88)	-0.0189*** (-2.87)
Acquirer top advisor		-0.0032 (-0.99)	-0.0028 (-0.84)
Target top advisor		0.0026 (0.77)	0.0037 (1.09)

Observations	19,282	19,458	19,282
Year dummies	Yes	Yes	Yes
Industry dummies	Yes	No	Yes
Pseudo R-squared	0.0057	0.2248	0.2373

Table 4 – Probability of Deal Completion, Earnouts, and Announcement Returns

This table examines whether earnouts alter the relation between market feedback and deal completion. The dependent variable is equal to one if the announced acquisition is completed and zero if it is withdrawn. The main variables of interest are **Earnout**, an indicator equal to one if the transaction includes an earnout provision, **CAR**, the bidder's cumulative abnormal return over the three-day announcement window, and their interaction. Panel A reports logit coefficients. Panel B presents the estimated marginal effect of announcement returns on deal completion conditional on earnout status, derived from the same models as in Panel A. The bottom row of Panel B shows the marginal effects on the interaction term **Earnout x CAR**. Control variables are the same as those defined in Table 3 and described in Appendix A. Robust z-statistics clustered at the acquirer level are reported in parentheses. The constant is included in all regressions but not reported. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A - Logit Estimates

VARIABLES	Pr(Completion)		
	(1)	(2)	(3)
Earnout	0.8656*** (4.86)	0.4969*** (2.71)	0.4789*** (2.63)
CAR	1.8093*** (2.74)	1.5257*** (2.69)	1.4140** (2.51)
Earnout x CAR	-5.4232*** 0.8656***	-3.5534*** (-2.71)	-3.6184*** (-2.78)
Observations	19,282	19,282	19,282
Controls	No	Yes	Yes
Year dummies	Yes	Yes	Yes
Industry dummies	Yes	No	Yes
Pseudo R-squared	0.0356	0.2284	0.2383

Panel B - Marginal effects of CAR on Completion

VARIABLES	Pr(Completion)		
	(1)	(2)	(3)
No earnout	0.0683*** (2.74)	0.0458*** (2.69)	0.0420** (2.51)
Earnout	-0.0659*** (-2.81)	-0.0429* (-1.71)	-0.0470* (-1.87)
Difference: Earnout x CAR	-0.1342*** (-3.88)	-0.0886*** (-2.91)	-0.0891*** (-2.94)

Table 5 – Earnouts and the Propensity to Ignore the Market

This table reports average marginal effects from logit models of the whether the association between earnout use and deal completion differs according to the sign of the bidder's announcement-period market reaction. The dependent variable is equal to one if the deal is completed and zero if it is withdrawn. The main variable of interest is **Earnout**, an indicator equal to one if the transaction includes an earnout provision at announcement. Control variables are the same as those defined in Table 3 and described in the Appendix A. Year and industry fixed effects are included in both specifications. Robust z-statistics clustered at the acquirer level are reported in parentheses. The constant is included in all regressions but not reported. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

VARIABLES	Pr(Completion)	
	CAR $\geq$ 0	CAR $<$ 0
	(1)	(2)
Earnout	0.0017 (0.28)	0.0258*** (2.86)
Observations	10,375	8,841
Controls	Yes	Yes
Year dummies	Yes	Yes
Industry dummies	Yes	Yes
Pseudo R-squared	0.230	0.273

Table 6 – Probability of Ignoring the Market

This table reports average marginal effects from logit models of the probability that managers ignore market feedback. The dependent variable, **Ignore**, equals one if the acquisition outcome is inconsistent with the sign of the bidder's announcement-period abnormal return. In **Panel A**, the threshold is zero, so **Ignore** equals one if a deal is completed despite a negative announcement return or withdrawn despite a non-negative announcement return. In **Panel B**, the threshold is set at $\pm 1\%$, so **Ignore** equals one if a deal is completed despite an announcement return below -1% or withdrawn despite an announcement return of at least 1% . The variable of interest is **Earnout**, an indicator equal to one if the transaction includes an earnout provision. Columns (2) and (3) split the sample according to the sign of the announcement return within each threshold definition. Control variables are the same as those defined in Table 3 and described in Appendix A. Robust z-statistics clustered at the acquirer level are reported in parentheses. The constant is included in all regressions but not reported. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Threshold=0		Pr(Ignore)	
	Full Sample	CAR ≥ 0	CAR < 0
VARIABLES	(1)	(2)	(3)
Earnout	0.0243** (2.09)	-0.0017 (-0.28)	0.0258*** (2.86)
Observations	19,458	10,375	8,841
Control Variables	Yes	Yes	Yes
Year and Industry dummies	Yes	Yes	Yes
Pseudo R-squared	0.0100	0.2299	0.2735

Panel B: Threshold= +/- 1%		Pr(Ignore)	
	Full Sample	CAR $\geq 1\%$	CAR $< -1\%$
	(1)	(2)	(3)
Earnout	0.0266** (2.12)	-0.0012 (-0.18)	0.0320*** (2.80)
Observations	15,354	8,135	6,862
Control Variables	Yes	Yes	Yes
Year and Industry dummies	Yes	Yes	Yes
Pseudo R-squared	0.0147	0.2342	0.2693

Table 7 – Earnouts and the Probability of Price Revision

This table reports average marginal effects from logit models of the probability that the announced transaction price is revised. The dependent variable equals one if the transaction price is changed after the initial announcement and zero otherwise. The main variable of interest is **Earnout**, an indicator equal to one if the transaction includes an earnout provision at announcement. **CAR** is the bidder's cumulative abnormal return over the three-day announcement window from day -1 to day +1. Control variables are the same as those defined in Table 3 and described in Appendix A. Robust z-statistics clustered at the acquirer level are reported in parentheses. The constant is included in all regressions but not reported. ***, *, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

VARIABLES	Pr(Price Revision)		
	(1)	(2)	(3)
Earnout	-0.0503*** (-5.05)	-0.0243*** (-3.06)	-0.0243*** (-3.26)
CAR	-0.0633*** (-4.78)	-0.0201** (-2.10)	-0.0197** (-1.99)
Observations	19,331	19,458	19,331
Controls	No	Yes	Yes
Year dummies	Yes	Yes	Yes
Industry dummies	Yes	No	Yes
Pseudo R-squared	0.0545	0.3111	0.3222

Table 8 – Earnouts and Market Feedback: Switchers Sample

This table re-estimates the main completion model in the **switchers sample**, consisting of acquirers that appear in the data with both earnout and non-earnout transactions. The dependent variable is **Completed**, equal to one if the announced acquisition is completed and zero if it is withdrawn. The main variables of interest are **Earnout**, an indicator equal to one if the transaction includes an earnout provision, **CAR**, the bidder's cumulative abnormal return over the three-day announcement window, and their interaction. Panel A reports logit coefficients. Panel B presents the estimated marginal effect of announcement returns on deal completion conditional on earnout status, derived from same models as in Panel A. The bottom row of Panel B shows the marginal effects on the interaction term **Earnout x CAR**. Control variables are the same as those defined in Table 3 and described in Appendix A. Robust z-statistics clustered at the acquirer level are reported in parentheses. The constant is included in all regressions but not reported. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Logit Estimates

VARIABLES	Pr(Completion)		
	(1)	(2)	(3)
Earnout	0.6355*** (3.11)	0.2143 (0.97)	0.2167 (0.98)
CAR	3.3030*** (3.04)	3.3562*** (3.58)	3.3145*** (3.52)
Earnout x CAR	-7.6836*** (-3.84)	-6.1908*** (-3.17)	-6.1756*** (-3.17)
Observations	8,212	8,212	8,212
Controls	No	Yes	Yes
Year dummies	Yes	Yes	Yes
Industry dummies	Yes	No	Yes
Pseudo R-squared	0.0546	0.2441	0.2608

Panel B: Marginal effects of CAR on Completion

	Pr(Completion)		
	(1)	(2)	(3)
No earnout	0.0990*** (3.02)	0.0765*** (3.51)	0.0747*** (3.44)
Earnout	-0.0804** (-2.49)	-0.0572* (-1.68)	-0.0571* (-1.69)
Difference: Earnout x CAR	-0.1794*** (-3.81)	-0.1337*** (-3.23)	-0.1318*** (-3.23)

Table 9 – Earnouts and Learning: CEM approach

This table reports robustness tests using a **coarsened exact matching (CEM)** procedure. The dependent variable is **Completed**, equal to one if the announced acquisition is completed and zero if it is withdrawn. The variables of interest are **Earnout**, an indicator equal to one if the transaction includes an earnout provision, the bidder's announcement-period abnormal return (**CAR [-1;+1]**), and their interaction. The matching procedure is performed on relative deal value, cross-border status, cross-industry status, public target status, market-to-book, and analyst following. The reported regressions are estimated in the matched sample using CEM weights. Panel A reports logit coefficients. Panel B presents the estimated marginal effect of announcement returns on deal completion conditional on earnout status, derived from same models as in Panel A. The bottom row of Panel B shows the marginal effects on the interaction term **Earnout x CAR**. Control variables are the same as those defined in Table 3 and described in Appendix A. Robust z-statistics clustered at the acquirer level are reported in parentheses. The constant is included in all regressions but not reported. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Logit Estimates

VARIABLES	Pr(Completion)		
	(1)	(2)	(3)
Earnout	0.8312*** (4.63)	0.4151** (2.26)	0.4156** (2.24)
CAR	1.8779*** (2.98)	1.4807*** (2.68)	1.4709*** (2.61)
Earnout x CAR	-5.3878*** (-3.90)	-3.4764*** (-2.70)	-3.5112*** (-2.66)
Observations	19,213	19,389	19,213
Control Variables	No	Yes	Yes
Year and Industry dummies	Yes	Yes	Yes
Clusters (acquirer)	Yes	No	Yes
Pseudo R-squared	0.0364	0.2310	0.2436

Panel B: Marginal effects of CAR on Completion

	Pr(Completion)		
	(1)	(2)	(3)
No earnout	0.0693*** (2.97)	0.0426*** (2.68)	0.0423** (2.61)
Earnout	-0.0643*** (-2.73)	-0.0430* (-1.72)	-0.0442* (-1.71)
Difference: Earnout x CAR	-0.1336*** (-4.01)	-0.0857*** (-2.88)	-0.0865*** (-2.84)

Table 10 – Alternative Measures of CARs

This table reports robustness tests using alternative measures of announcement-period reaction. The dependent variable is **Completed**, equal to one if the announced acquisition is completed and zero if it is withdrawn. The main variables of interest are **Earnout**, an indicator equal to one if the transaction includes an earnout provision, **CAR**, the bidder's cumulative abnormal return over the three-day announcement window, and their interaction. Panel A reports logit coefficients. Panel B presents the estimated marginal effect of announcement returns on deal completion conditional on earnout status, derived from same models as in Panel A. The bottom row of Panel B shows the marginal effects on the interaction term **Earnout x CAR**. In the first two columns, abnormal returns are estimated using the market model over the [-2,+2] and [-3,+3] event windows, respectively. In the third column, abnormal returns for the usual [-1,+1] window are computed using the market-adjusted approach, defined as the bidder's raw stock return minus the contemporaneous return on the market index. Control variables are the same as those defined in Table 3 and described in Appendix A. Robust z-statistics clustered at the acquirer level are reported in parentheses. The constant is included in all regressions but not reported. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Logit Estimates

VARIABLES	Pr(Completion)		
	[-2; +2] (Market Model)	[-3; +3] (Market Model)	[-1; +1] (Market Adjusted)
Earnout	0.4238** (2.42)	0.4471** (2.51)	0.4848*** (2.65)
CAR	1.3333*** (2.64)	0.8887** (2.11)	1.6554*** (2.76)
Earnout x CAR	-2.1325* (-1.80)	-2.4174** (-2.22)	-3.5841*** (-2.62)
Observations	19,282	19,282	19,282
Controls	Yes	Yes	Yes
Year and Industry dummies	Yes	Yes	Yes
Pseudo R-squared	0.2382	0.2376	0.2386

Panel B: Marginal effects of CAR on Completion

	Pr(Completion)		
	(1)	(2)	(3)
No earnout	0.0396*** (2.64)	0.0264** (2.11)	0.0492*** (2.76)
Earnout	-0.0173 (-0.73)	-0.0331 (-1.50)	-0.0412 (-1.57)
Difference: Earnout x CAR	-0.0570* (-2.06)	-0.0595** (-2.36)	-0.0904*** (-2.85)