

**Abstract**

In this article we have investigated whether the determinants of excess returns (especially of target excess returns) are valid for purchased goodwill as well. Among them are acquirer's and target's Tobin's  $q$ , and debt assets ratio, that explain value creation of acquisitions, and relative size, source of financing of the acquisition, number of bidders, and relatedness of businesses of acquiror and target, that explain overpayment or overvaluation of acquisitions. The study is confined to mergers and acquisitions between US publicly quoted companies announced and effective in between January 2002 and December 2005. Databases used are SDC Platinum, CRSP and Compustat industrial annual file. Goodwill amounts are derived from acquirer's 10-K forms in Edgar database of SEC. Results show that in line with our expectations, the correlation coefficient for target excess return amounts and goodwill is positive, whereas it is negative for acquirer and combined excess returns. Further it turns out that goodwill is significant positively influenced by acquisitions of high Tobin's  $q$  targets by either low or high Tobin's  $q$  acquirers, compared to acquisitions of low Tobin's  $q$  targets by low Tobin's  $q$  acquirers. Also the method of payment matters: payments other than cash or stock negatively influence goodwill. Moreover, a higher leverage of the target positively influences purchased goodwill. Although some of the determinants of excess return have a significant influence on goodwill, the pattern is sometimes different. Therefore, further research needs to take into account both the nature of goodwill and its unique determinants.