Firm value and investment policy around stock for stock mergers

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Abstract

We study a sample of publicly traded firms that expand by acquiring other firms in pure, stock-for-stock mergers. After these mergers, we find that the diversification premium decreases for the acquiring firm due to having added a target firm trading at a discount. Furthermore, the acquiring firm experiences a decrease in investment opportunities and a decrease in leverage. This is an effect confined only to non-diversifying mergers. Our results indicate that the acquirer's investment efficiency at the firm level remains unchanged after the merger.