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Inefficiencies and externalities from opportunistic acquirers ☆

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Abstract

If opportunistic acquirers can buy targets using overvalued shares, then there is an inefficiency in the merger and acquisition (M&A) market: the most overvalued rather than the highest-synergy bidder may buy the target. We quantify this inefficiency using a structural estimation approach. We find that the M&A market allocates resources efficiently on average. Opportunistic bidders crowd out high-synergy bidders in only 7% of transactions, resulting in an average synergy loss equal to 9% of the target's value in these inefficient deals. The implied average loss across all deals is 0.63%. Although the inefficiency is small on average, it is large for certain deals, and it is larger when misvaluation is more likely. Even when opportunistic bidders lose the contest, they drive up prices, imposing a large negative externality on the winning synergistic bidders.

JEL Classification: G14, G34

Keywords: mergers and acquisitions, structural estimation, misvaluation, inefficiency, externality

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