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Abstract

This paper presents empirical evidence on the combined effects of target firm distress and industry-level illiquidity on acquisition outcomes and industry-specific contagion. When the target industry is in distress, I find that the fire-sale effects cause distressed targets to be sold to industry outsiders at discounts and acquirers to gain higher return by exploiting targets weakened bargaining power. These findings are stronger for targets with high industry asset-specificity in capital, labor and technology. I also find that target rivals earn negative abnormal stock return due to negative information from fire-sale acquisitions.

Keywords: Fire-sale, Mergers and acquisition, Financial distress, Asset-specificity, Contagion

JEL Classification: G30, G34, C70

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