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Financing innovation through minority acquisitions

Ibrahim Bostan, Mariana Spatareanu

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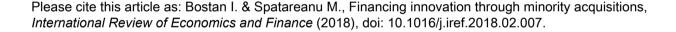
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#### ACCEPTED MANUSCRIPT

#### **Financing Innovation through Minority Acquisitions**

by

Ibrahim Bostan Zayed University, College of Business, Dubai, UAE E-mail: Ibrahim.Bostan@zu.ac.

and

Mariana Spatareanu Rutgers University, Department of Economics, 360 Martin Luther King Blvd., Newark, NY 07102. Email: <a href="mailto:marianas@andromeda.rutgers.edu">marianas@andromeda.rutgers.edu</a>

**Abstract:** This study analyses the financing role of minority equity purchases on innovation activities of US target firms. We provide evidence of increased innovation following minority acquisitions accompanied by cash flows to small, young, most financially constrained target firms that have relatively small patent portfolios prior to acquisition. The effect is not present in the case of minority acquisitions without cash transfers to target firms, or in the case of preacquisition relatively large patent portfolio firms, which are less likely to face financial constraints. We also find that R&D expenditures increase following minority acquisitions with cash transfers to target firms. The results are robust to accounting for endogeneity in estimation using matching techniques. Comparable firms, who are targets of announced but failed minority acquisitions, experience no change in their innovation activity. Several sensitivity checks confirm the validity of our results.

JEL: G34

Keywords: acquisitions, finance, innovation

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