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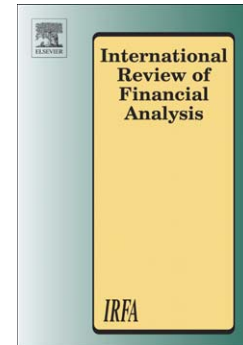
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Is More Less? Propensity to diversify via M&A and market reactions

Abigail S. Hornstein^{*} and Zachary Nguyen^{**}

Abstract

Mergers and acquisitions (M&A) could lead to a firm diversifying into new industries, and the impact of this may be related to the firm's prior diversification. Using a panel of 1,030 M&A transactions from 2000-2010, we find that that previously diversified firms are more likely to pursue industrially diversifying M&A. Both previous and contemporary diversification measures are not associated with the firm's cumulative abnormal returns (CAR) at time of announcement but have a lasting effect on various performance measures up to two years later. We find evidence supporting both a diversification discount and premium, which can be predicted by the sign of the CAR at time of announcement. This suggests that while diversification is *necessary* to explain firm value, it is not *sufficient*.

JEL Classification: G34, G32

Keywords: M&A, diversification, event study, operating performance

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