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Cross-border arbitrage and acquirers' returns in the Eurozone crisis

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Highlights:

- Returns of European acquisitions are impacted by the EMU and the Eurozone crisis
- There is no cross-border effect within the EMU
- The Eurozone crisis offers extra cross-border arbitrage investment opportunities
- Abnormal returns in the crisis are driven by the cheap financial capital channel
- No evidence for the cheap assets or fire-sale hypothesis

Abstract

Using a sample of 1,263 European acquisitions over 2004-2012, we show that the performance of cross-border acquisitions is significantly affected by the Eurozone and the euro debt crisis. First, due to financial market integration and the elimination of exchange rate risk, intra-Eurozone acquisitions do not earn any abnormal returns for bidders. Second, as a result of the euro debt crisis and the temporary misvaluation among European countries, acquisitions earn positive abnormal returns only for non-Eurozone companies acquiring Eurozone targets. These abnormal returns are driven by the depreciation of the euro and the use of low-cost capital available to overvalued acquirers.

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