

# Accepted Manuscript

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PII: S0927-5398(17)30089-0  
DOI: <https://doi.org/10.1016/j.jempfin.2017.10.001>  
Reference: EMPFIN 1006

To appear in: *Journal of Empirical Finance*

Received date: 22 November 2016  
Revised date: 3 October 2017  
Accepted date: 9 October 2017

Please cite this article as: Adra S., Barbopoulos L.G., The valuation effects of investor attention in stock-financed acquisitions. *Journal of Empirical Finance* (2017), <https://doi.org/10.1016/j.jempfin.2017.10.001>

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## The Valuation Effects of Investor Attention in Stock-Financed Acquisitions

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### Abstract

Limited investor attention allows overvalued companies to engage in stock-financed acquisitions of listed target firms without experiencing significant reductions in their existing valuations. Our robust findings show that overvalued stock-paying acquirers that are subject to limited investor attention do not experience significant announcement period wealth losses. However, the overvaluation of these acquirers is corrected in the post-announcement period. On the contrary, the overvalued acquirers that receive high investor attention and use stock as the payment method in their listed-target acquisitions experience negative announcement period abnormal returns. The widely documented evidence that stock-financed acquisitions are associated with significant announcement period wealth losses is primarily driven by deals in which the acquirers are subject to high investor attention.

Keywords: investor attention, corporate takeovers, payment method, acquirer abnormal returns.

JEL Classification: G34.

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\* We are grateful to comments and suggestions offered by the participants of the 14th INFINITI Conference on International Finance, Dublin, Ireland, June 2016 and the BAFA Scottish Area Group meeting, Strathclyde, UK, August 2016. The authors are also grateful for comments and suggestions offered by Faten Hammoud, Marc Morris and the participants in the seminar series of the School of Economics and Finance at the University of St. Andrews. Any remaining errors remain are ours.

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