Accepted Manuscript

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PII: S0304-405X(18)30077-1
DOI: 10.1016/j.jfineco.2018.03.006
Reference: FINEC 2876

To appear in: *Journal of Financial Economics*

Received date: 1 August 2016
Revised date: 26 January 2017
Accepted date: 23 February 2017

Please cite this article as: B. Espen Eckbo, Tanakorn Makaew, Karin S. Thorburn, Are stock-financed takeovers opportunistic?, *Journal of Financial Economics* (2018), doi: 10.1016/j.jfineco.2018.03.006

Are stock-financed takeovers opportunistic?☆

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Abstract

The more the target knows about the bidder, the more difficult is paying the target with overpriced bidder shares. Thus, when bidders are opportunistic, the fraction of stock in the deal payment will be lower for better informed targets. We test this intuitive prediction against the alternative that stock payments primarily reflect bidder concerns with target adverse selection, which implies a greater fraction of stock in the deal payment for better informed targets. Discriminating between these two mutually exclusive and nested predictions requires measures of target information about the bidder but not of market mispricing. We find that public bidders systematically use more stock in the payment when the target knows more about the bidder. Tests exploiting exogenous variation in bidder market-to-book ratios also fail to support bidder opportunism. Finally, greater potential competition from private bidders is associated with greater propensity for public bidders to pay in cash.

☆We are grateful for comments by Jonathan Berk, Eric de Bodt, Jarrad Harford, Ron Giammarino, Gordon Phillips, Eric Talley, Ahn Tran, Wenyu Wang, and an anonymous referee, as well as participants at faculty seminars at Baruch College, Cass Business School, Dartmouth College, Drexel University, Erasmus University Rotterdam, Hanken School of Economics, Indiana University, Northeastern University, Norwegian School of Economics, Frankfurt University, Ghent University, Queen's University, Rotterdam School of Management, Rutgers University, Sabanci University, South-Western University of Finance and Economics, St. Andrews University, University of Amsterdam, University of Edinburgh, University of Groningen, University of Lausanne, University Lille 2, University of Manchester, University of Pennsylvania, University of Southern Denmark, University of Surrey, Vienna University of Economics and Business, and WHU - Otto Bessheim School of Management, at the annual meetings of American Finance Association, European Finance Association, and Northern Finance Association, and at European Center for Corporate Control conference, Financial Intermediation Research Society conference, Society for Financial Studies (SFS) Finance Cavalcade, University of British Columbia Sauder School of Business Summer Finance Conference, and Utah Winter Finance Conference. Partial financial support from the Tuck School of Business Lindenauer Center for Corporate Governance and the Norwegian School of Economics FOCUS project is gratefully acknowledged. The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication or statement by any of its employees. The views expressed herein are ours and do not necessarily reflect the views of the commission or of Tanakorn Makaew's colleagues on the staff of the commission.

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