

# Accepted Manuscript

Acquiring growth

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PII: S0304-405X(17)30148-4  
DOI: [10.1016/j.jfineco.2017.07.001](https://doi.org/10.1016/j.jfineco.2017.07.001)  
Reference: FINEC 2794

To appear in: *Journal of Financial Economics*

Received date: 22 January 2016  
Revised date: 27 September 2016  
Accepted date: 3 October 2016

Please cite this article as: Oliver Levine, Acquiring growth, *Journal of Financial Economics* (2017), doi: [10.1016/j.jfineco.2017.07.001](https://doi.org/10.1016/j.jfineco.2017.07.001)

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September 27, 2016

## ABSTRACT

I develop a model of mergers in which M&A deals are used to reallocate investment opportunities. In equilibrium, acquirers lack internal growth options and seek out projects from targets in the M&A market. The model is able to reconcile many features of the merger data that I document, including the high productivity, investment, and valuation of target firms. Furthermore, in my model, profitability is highly predictive of acquisition, and merger transactions naturally lead to a substantial drop in profitability despite creating value for the acquirer.

*JEL classification:* G31, G32, G34

*Keywords:* Mergers and acquisitions; Growth options; Intangible capital; Corporate investment

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\*I am deeply grateful for the advice and support of João Gomes, Nikolai Roussanov and Amir Yaron. I thank an anonymous referee, Toni Whited (the editor), David Brown, Mariano Croce, Alex Edmans, Vincent Glode, Itay Goldstein, Mark Jenkins, Dana Kiku, Richard Kihlstrom, André Kurmann, Christian Opp, Krishna Ramaswamy, Karin Thorburn, Liu Yang (discussant), seminar participants at The Wharton School, Federal Reserve Board of Governors, Copenhagen Business School, University of Washington, Norwegian School of Economics (NHH), Aalto University (Helsinki School of Economics), and University of Wisconsin–Madison, and participants at the Western Finance Association and Midwest Finance Association Annual Meetings for useful comments and discussions. I gratefully acknowledge the Carlos and Rosa de la Cruz Fellowship and Patrick Thiele Fellowship for financial support.

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