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Strategic merger decisions across business cycles: Evidence from bidders' time-varying appetite for operating leverage

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ABSTRACT

In this study, we examine how bidders' appetite for their targets' operating leverage affects merger activities, and whether this appetite varies throughout the business cycle. We find that the association between a firm's operating leverage and the likelihood of it becoming a target or an acquirer—as well as the deal premium, the bidder's cumulative abnormal returns around the deal announcement date, and the bidder's long-run buy-and-hold abnormal returns—depend on the business cycle. The time-varying effects of operating leverage on merger decisions are strategic and consistent with their time-varying benefits and costs.

Keywords: Strategic Merger, Operating Leverage, Business Cycle, Firm Performance

JEL classification numbers: G32, G34

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