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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.

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