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Financing innovation through minority acquisitions

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**Financing Innovation through Minority Acquisitions**

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**Abstract:** This study analyses the financing role of minority equity purchases on innovation activities of US target firms. We provide evidence of increased innovation following minority acquisitions accompanied by cash flows to small, young, most financially constrained target firms that have relatively small patent portfolios prior to acquisition. The effect is not present in the case of minority acquisitions without cash transfers to target firms, or in the case of pre-acquisition relatively large patent portfolio firms, which are less likely to face financial constraints. We also find that R&D expenditures increase following minority acquisitions with cash transfers to target firms. The results are robust to accounting for endogeneity in estimation using matching techniques. Comparable firms, who are targets of announced but failed minority acquisitions, experience no change in their innovation activity. Several sensitivity checks confirm the validity of our results.

JEL: G34

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