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Financial vs. Strategic Buyers

by Marc Martos-Vila, Matthew Rhodes-Kropf and Jarrad Harford

Abstract

This paper introduces the impact of debt misvaluation on merger and acquisition activity. Debt misvaluation helps explain the shifting dominance of financial acquirers (private equity firms) relative to strategic acquirers (operating companies). The effects of overvalued debt might seem limited since both acquirer types and target firms can access the debt markets. However, fundamental differences in governance and project co-insurance between the two types of acquirer interact with debt misvaluation, resulting in variation in how assets are owned that depends on debt market conditions. We find support for our theory in merger data using a novel measure of debt misvaluation.

Keywords: [Misvaluation](#); [Mergers and Acquisitions](#); [Private Equity](#);

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Citation:

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