

# Target-firm information asymmetry and acquirer returns

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## Abstract

We show that acquirer returns are significantly higher in stock-swap acquisitions of difficult-to-value targets, as measured by R&D intensity and idiosyncratic return volatility. This finding contributes to an explanation of the determinants of, and value gains from, using stock as a method of payment. The effects of target-valuation uncertainty on both the method of payment and the market reaction to acquisitions are more likely to be apparent in samples of private acquisitions, as these effects can be masked in samples of acquisitions of publicly held targets. Nevertheless, our results hold for publicly traded targets in multivariate analysis.

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