

**Date of the event:**

On Thursday 28<sup>th</sup> January 2010  
From 12:30pm to 1:30pm

**Location:**

Luxembourg School of Finance  
University of Luxembourg  
4 Rue Albert Borschette  
2<sup>nd</sup> Floor  
Modigliani Miller Auditorium (E02-003)  
L-1246 Luxembourg

**Registrations:**

- Free seminar (with lunch included)
- Registrations by email before January 26<sup>th</sup> 2010
- At the following address : [lsf-events@uni.lu](mailto:lsf-events@uni.lu)

**Information:**

Ms Caroline Herfroy  
Tel : +352 46 66 44 6335

<http://www.lsf.lu/eng/Research/Seminars-and-Conferences/Seminars-Workshops>



The LSF is pleased to invite you to the following  
lunch seminar:

# Acquisition Finance, Capital Structure and Market Timing

*By Professor Theo Vermaelen*

*INSEAD, Paris  
LSF, Luxembourg*



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# ***Acquisition Finance, Capital Structure and Market Timing***

***By Theo Vermaelen***

The Luxembourg School of Finance

Is pleased to invite you to the

**LSF Seminar**

The paper examines the effects of capital structure management and misevaluation on the choice of payment method in mergers and acquisitions. In our sample of 3,027 transactions, we find evidence both for leverage optimization (based on economic fundamentals) and misvaluation as drivers to pay with cash or with stock. We also find that it is difficult to pay with overvalued stock unless it can also be motivated by economic fundamentals. Few bidders -only 1 % of our sample- try to do so and mainly only succeed after going hostile. Paying with cash against the predictions of the trade-off hypothesis is more common.

These firms are reluctant to pay with undervalued stock and experience positive excess returns after the acquisition. When extending our analysis to 255 buyback tender offers we also find evidence consistent with the hypothesis that firms balance static trade-off and market timing considerations. However, examining a sample of 2,011 equity issues reveals that these transactions are mainly driven by misevaluation.