FIN08

Impact of Vertical Mergers on Rivals' Cost of Debt

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Abstract

We find that rivals of both acquirers and targets experience an increase in their cost of bank loans following a vertical merger. We observe this increase whether or not the merger is part of an industry merger wave, mitigating concerns that our findings are driven by unobserved industry factors. While vertical mergers can foreclose input/output markets for rivals, they can also create efficiencies for the merging firms by reducing the holdup problem in relationship-specific investments. Utilizing asset specificity measures to assess the severity of the holdup problem, we find evidence that the cost of debt increases for rivals when vertical mergers are motivated more likely by foreclosure motives rather than efficiency motives.

Conference Track

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