Private information sharing in M&As: evidence from merger contracts

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Abstract: This study examines how acquirers and targets use contracted disclosures to address information asymmetry problems in M&As. We rely on a novel dataset of merger contracts and use a certain contract feature (i.e., representations and warranties related to high proprietary cost topics) to capture the extent of private information sharing between acquirers and targets. We find that parties are more likely to rely relatively more on proprietary topic contracted disclosures when the acquirer faces greater information asymmetry. We also find that the contracting parties' more extensive commitment to private information sharing via proprietary-topic representations and warranties is associated with better acquisition decisions. This association is stronger when target firm disclosures are less transparent in the pre-merger periods. Our findings show how disclosures negotiated in merger contracts can supplement publicly disclosed financial information to help acquirers mitigate information problems, especially in cases where public disclosure is weaker. This study contributes to the literature on the role of various internal and external mechanisms in reducing information problems in M&A transactions. It also contributes to the emerging literature that studies the determinants and consequences of contracted private disclosures and to the literature on the role of financial disclosure in M&As more generally.