

# Home biased? A spatial analysis of the domestic merging behavior of US firms

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## Abstract

Using data of US domestic mergers and acquisitions transactions, this paper shows that acquirers have a preference for geographically proximate target companies. We measure the 'home bias' against benchmark portfolios of hypothetical deals where the potential targets are firms of similar size in the same industry that have been targets in other transactions or listed at a stock exchange at the time of the original deal. There is a strong and consistent home bias for M&A transactions in the US, which is significantly declining during the observation period, i.e. between 1990 and 2004. At the same time, the average distances between target and acquirer increase articulately. The home bias is stronger for small and relatively opaque target companies suggesting that local information is the decisive factor in explaining the results. Acquirers that diversify into new business lines display a stronger preference for more proximate targets. Investors react relatively better to proximate acquisitions than to distant ones. That reaction is more important and significant in times when the average distance between target and acquirer gets larger, but is never economically significant.

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