Post Signing Market Check or Window Dressing? The Role of Go-Shop Provisions in M&A Transactions

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Abstract

The paper examines the use of go-shop provisions in merger agreements. Using the sample of 1,254 M&A deals involving U.S targets between 2004 and 2008, we find that 95 deals include go-shop provisions. The empirical results show that go-shop deals tend to have higher deal premiums and receive more competing bids. The length of go-shops, however, does not affect deal premiums and competition. Deals are less likely to be consummated when go-shop provisions are included and when the length of go-shops is longer. However, go-shops have no effect on the consummation of high premium deals. Overall, our findings generally support the proposition that go-shops reflect target managers’ effort to fulfill the Revlon duties, consistent with Subramanian (2008).

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