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Deal Innovations In Mergers And Acquisitions: Do Go-Shop Provisions Create Real Benefits?

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DEAL INNOVATIONS IN MERGERS AND ACQUISITIONS: DO GO-SHOP PROVISIONS CREATE REAL BENEFITS?

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Chapter 1: Introduction

1.1. Background

Deal innovations in mergers and acquisitions have occupied a prominent place in finance research. The importance of understanding the efficacy of new deal-making devices and identifying the beneficiaries of such deal provisions has attracted the attention of researchers. Prior research in this area has focused on deal protection devices, such as termination fee provisions and lockup options (see e.g. Bates and Lemmon, 2003; Burch, 2001; Officer, 2003).

Along with the private equity boom in the mid-2000s emerged a new M&A deal technology – the "go-shop" provision. This newly invented provision allows the target firm to actively solicit superior offers after an initial merger agreement is signed with the initial bidder. As the go-shop provision was used in some recent prominent merger deals such as Lear, Topps, J.Crew, and Dell, it has attracted much attention from the practitioners and academics in law. However, despite the ongoing debate on the use of go-shop provisions in corporate takeover activities, we still do not know the effectiveness of this relatively new deal-making device or who truly benefits from these provisions. While researchers have discussed the impact of go-shop provisions from the legal perspective (Bloch, 2010; Denton, 2008; Morrel, 2008; Sautter, 2008; Subramanian, 2008), most of these studies are qualitative, use a small sample of go-shop deals, conduct mostly univariate analyses, and do not reach an agreement on the effectiveness of go-shop provisions in merger agreements. Subramanian (2008) also examines target firms' stock price reaction to acquisition announcements in go-shop deals.[1] To advance our understanding of the overall wealth effects of go-shop provisions in corporate acquisitions, it is important to shed light on the impact of go-shop provisions on the wealth of targets and bidders, and thereby

[1] Recent working papers by Jeon and Lee (2013) and Antoniades, Calomiris, and Hitscherich (2013) also examine target stock price reaction to acquisition announcements for go-shop deals.

provide evidence on the synergies associated with such deal provisions. To the best of my knowledge, this is the first study to do so.

I also provide evidence on how go-shop provisions affect the initial acquirer's bidding behavior. Previous literature almost exclusively focuses on the impact of go-shop provisions on the target in soliciting superior offers from potential buyers, but overlooks the possibility that the inclusion of go-shop provisions in merger agreements may exert influence on initial bidders as well. Arguably, the initial bidder has the incentive to protect the deal in which it has invested a substantial amount of time, money, and due diligence effort. This study examines how the use of go-shop provisions influences the initial bidder in the post-signing period. In this context, I document how initial bidders react to the inclusion of go-shop provisions and identify the go-shop deal characteristics that influence the initial bidders.

A detailed examination of hand-collected go-shop deal parameters allows me to identify which characteristics are important in determining the wealth effects to the deal participants and deal outcomes. These go-shop characteristics include the length of the go-shop period, the number of potential buyers contacted during the go-shop period, the number of confidentiality agreements between the target firm and potential buyers, and the presence of a bifurcated termination fee structure. Subramanian (2008) is the only study that examines these go-shop deal characteristics in a univariate setting for a relatively small sample of 48 go-shop transactions. Using a multivariate setting, my study sheds light on the usefulness and efficacy of these go-shop characteristics, as well as additional deal and target characteristics, on deal outcomes.

My primary focus in this paper is the impact of go-shop provisions on deal outcomes and I address the issue of whether go-shop provisions are utilized by target managers to pursue private benefits or are used to protect the fiduciary interests of the target shareholder. To this end,

I investigate the effectiveness of go-shop provisions by empirically testing a series of hypotheses following two competing theories: (a) the window-dressing theory, and (b) the shareholder interest theory.

The results indicate that go-shop provisions generally have significantly higher positive wealth effect on the targets as compared to no-shop deals, but the bidders' wealth effect is similar to no-shop transactions. However, go-shop deals are associated with substantially higher deal synergies. I also document that the inclusion of go-shop provisions in merger agreements affects the initial bidders' behavior in the post-signing period. Specifically, bidders under merger agreements with go-shop provisions are more likely to raise their initial bid offers. This suggests that go-shop provisions allow target firms to exert pressure on the initial bidders to obtain a better price on behalf of the target shareholders. Thus, go-shop provisions can be used as a bargaining device against the initial bidders. I also find that go-shop deals are significantly more likely to be terminated compared to no-shop deals. Go-shop deal characteristics are important determinants of the outcome of the deals. Specifically, the market seems to react positively to the bifurcated fee structure in go-shop provisions. The number of potential buyers contacted and the number of confidentiality agreements entered during the go-shop period play an important role in pressuring the initial bidder to raise the original offer price, while the length of go-shop period and the number of confidentiality agreements signed predict the initial bid success rate. This study controls for a variety of important firm and deal characteristics, as well as target firm governance quality but prior literature is mostly silent on this dimension. Heckman two-stage procedure and propensity score matching method are employed in this research to mitigate endogeneity concerns. The results are confirmed by these robustness checks.

1.2. Organization of the Dissertation

The remainder of this paper is structured as follows. In Chapter 2 I provide detailed background information of go-shop provisions and review literature on related topics. Chapter 3 introduces the two hypotheses regarding the use of go-shop provisions: the window-dressing hypothesis and shareholder interest hypothesis. In Chapter 4 I describe my data and sample selection process. Empirical findings are presented in Chapter 5. Chapter 6 concludes. Appendices and tables are included at the end of the dissertation.

Chapter 2: Go-Shop Provisions

2.1. How Do Go-Shop Provisions Work?

Go-shop provisions allow the target firm to shop for better offers from potential buyers after a merger agreement is signed with the initial bidder. This provision contrasts the traditional "no-shop" clause which prohibits target firms from soliciting superior offers or negotiating with potential buyers once a merger agreement is entered by both the target and the bidder, unless the target receives unsolicited offers that are deemed to benefit the target shareholders more than the original offer. In go-shop deals, target firms have the right to actively solicit better offers during the so-called go-shop period and may exchange confidential information with a potential bidder as long as the potential bidder signs a confidentiality agreement that is equivalent to the one signed by the initial bidder. After the go-shop period expires, the target is subject to the traditional no-shop clause. A potential buyer who has shown interest and submitted a proposal during the go-shop period is usually allowed to continue the negotiation with the target after the expiration of the go-shop period.

A prominent recent go-shop deal is Dell's $24.4 billion going-private buyout proposed by Michael Dell, the Founder, Chairman, and CEO of the computer giant. Dell announced on February 5th, 2013 that it had signed a definitive merger agreement under which Mr. Michael Dell, partnered with private equity firm Silver Lake Partners, will acquire the third largest PC maker in the world and take it private. The deal agreement contained a 45-day go-shop period during which Dell's board of directors can freely contact and solicit other buyers. Promptly following the announcement of the deal, Evercore Partners, one of Dell's financial advisors, began the go-shop process on behalf of the company at the direction and under the supervision of the Special Committee. During the 45-day go-shop period, Evercore contacted a total of 67

parties to solicit interest in pursuing a possible transaction. On March 22nd, 2013, the last day of the go-shop period, Blackstone Group and billionaire activist investor Carl Icahn submitted their competing bids. However, both Blackstone and Mr. Icahn subsequently backed out of the rival bid. The change-of-control transaction was completed on October 29th, 2013.

The 1986 landmark decision of the Delaware Supreme Court in *Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc.* rules that in a sale-of-control transaction, the singular responsibility of the target board of directors is to maximize the wealth of the target shareholders from the sale. In compliance with the *Revlon* standard, courts evaluate the adequacy of the decision-making process employed by the target board and examine the reasonableness of the target board's action in light of the circumstances. Dealmakers have primarily relied on pre-signing public auctions in an effort to obtain the highest possible price for the target stockholders. A pre-signing market check allows the target firm to discover the highest price available in the market and therefore it has been regarded as the most efficient way to achieve the target shareholder value maximization objective. Since the bidder has invested a substantial amount of time and resources upfront in conducting the due diligence research in identifying and evaluating the target firm, the bidder in the traditional auction process has the motivation to lock down deals that have been made. Consequently, a no-shop or no-talk provision, which provides the bidders with a deal protection, has been commonly used in merger agreements along with other deal protection devices such as termination fees. In situations where the target firm has little or virtually no pre-signing market check, the board of the target firm is expected to conduct an alternative post-signing market canvas (a fiduciary out or window-shop) so that the target shareholders could receive the highest bid price possibly available.

In recent years, the Delaware courts have held that a full-blown public auction is not necessarily a requirement for change of control transactions for all corporations under Delaware law. Delaware courts' attitude on a firm's sale process suggests that a pre-signing market check is no longer considered the only effective method for the target firm board to achieve the highest sales price possible on behalf of the target shareholders. Alternative sales processes are acceptable as long as there is evidence that the target board has fulfilled its fiduciary duties.

The go-shop provision has become a popular and important deal-making device since 2004. In contrast to traditional no-shop provisions, go-shop provisions give target firms an opportunity to lock in the initial sale price as the floor on the value of the company, while allowing the firm to actively solicit better offers during the go-shop period, which typically ranges from 30 to 50 days. The offer made by the initial bidder generates new information and may be used as a reference point for potential buyers, making the target more attractive and marketable. In case a superior offer emerges during the go-shop period and the target board decides to accept the superior offer price and terminate the original agreement, the target usually only needs to pay a reduced break-up fee, rather than the full amount, to the initial bidder.

Although a public auction is believed by some to be the most efficient market canvass process, Boone and Mulherin (2007) use novel data to show that there is no significant difference between publicly auctioned deals and privately negotiated deals in the wealth effects for target shareholders. In addition, it may not always be feasible for the target to run a full-blown auction to extract the best possible price for the target shareholders before a definitive merger agreement is entered. A target firm may find a go-shop provision appealing when it is important to reach a deal quickly or when there would otherwise be a significant possibility of losing a seemingly attractive offer. For instance, Lear Corporation, a leading supplier of components to the

automotive industry, was approached by activist investor Carl Icahn in early 2007 with an interest of taking the company private. Mr. Icahn indicated that he would withdraw his offer if an auction occurred. At that time, no other potential buyers showed interest in a deal with Lear. As a result, Lear and Mr. Icahn entered into a merger agreement without a pre-signing auction or market check.

Theoretically, the flexibility offered by go-shop provisions to solicit superior prices in the go-shop period is intended to encourage the target board to actively solicit competing bids from potential buyers. The target board can canvas the market and invite competing bids, if any, during the go-shop period. Because competition for a target is generally expected to result in a higher bid premium, the inclusion of a go-shop provision is perceived by some as good news. Besides, as suggested in Andersen (2008), go-shop provisions provide certainties to everyone as the initial deal is locked in without the risk to value or reputation that could result from a failed deal or a public auction. In the meantime, the go-shop provision provides the initial bidder with the advantage of pre-signing exclusivity. A one-on-one negotiation in the pre-announcement period helps the bidder avoid the risk of spending a significant amount of time and money in the auction process without a guaranteed outcome. Further, this exclusivity allows the bidder to close a deal much faster than if it has to compete in a public auction. Therefore, some previous studies argue that both the target and the acquirer can benefit from the go-shop provision (Bloch, 2010; Subramanian, 2008).

Nevertheless, there are different voices about the go-shop provision as an effective market check device that increases target shareholder value (Sautter, 2008). The questions and doubts regarding the effectiveness of the go-shop provision are based on the observed low likelihood of the initial offer getting “jumped” during the go-shop period following the initial

announcement. Critics argue that because of the bidder's management retention policy and generous offer to the target's management team, the target manager may intend to sell the company to one particular bidder only, making the go-shop provision a "window dressing" practice that may not be beneficial to the target shareholders. In addition, many of the go-shop deals involve private equity firms and it is believed that private firms are not likely to challenge other private firms' deals (the "gentlemen's agreement" between private equity firms), as noted in Houtman and Morton (2007). The go-shop periods are also claimed to be too short for potential buyers to conduct sufficient due diligence and propose competing bids. Moreover, go-shop provisions may come with clauses that restrict particular buyers from entering bids or give the initial bidder matching rights. Such deal protections in the initial merger agreements may deter third party bidders from making competing offers.

2.2. Literature Review

Several law studies discuss the role played by go-shop provisions in M&A deals since the emergence of the go-shop provision in the mid-2000s. Subramanian (2008) is the first empirical paper examining the effects of the go-shop provision. Using a sample of 48 go-shop deals in 2006 and 2007, Subramanian (2008) finds that go-shop deals yield more search than no-shop deals and target shareholders receive approximately 5% higher returns in pure go-shop deals than in no-shop deals. He concludes that the inclusion of a go-shop provision in a transaction on average benefits the target shareholders and may even lead to a "win-win" situation where the target firm gains from actively soliciting superior offers in the post-signing period while the bidder enjoys the highly valued exclusivity in the transaction. In the meantime, however, he warns that although the use of go-shop provisions allows the target board to fulfill its fiduciary

duties, a go-shop provision may not be beneficial to the target shareholders in management buyouts (MBOs).

Bloch (2010) echoes Subramanian (2008) and argues that with a go-shop provision, the target has the option to lock in a floor value of the company while still being allowed to pursue better prices, and the bidder is provided with the highly valued exclusivity. Bloch (2010) also notes that the effectiveness of a go-shop provision depends on the deal protection mechanisms, the management involvement, how much effort the target board puts in soliciting superior offers, and whether the potential bidders are provided a legitimate opportunity to conduct due diligence and propose an alternative offer. Highlighting possible legal pitfalls that may arise from using go-shop provisions in acquisitions, Morrel (2008) points out that while go-shop provisions can be used to fulfill target boards' fiduciary duties to obtain the best offer on behalf of target shareholders, target boards must utilize go-shop provisions in an effort to maximize target shareholder wealth.

Sautter (2008) criticizes the Delaware courts' support for post-signing market checks and contends that the go-shop provision is not a device that maximizes the wealth of target shareholders. In a recent working paper, Jeon and Lee (2013) find higher deal premiums and more competing bids in go-shop deals. Their findings generally support the proposition that go-shop provisions reflect target manager's effort to fulfill the *Revlon* duties. Another recent working paper by Antoniades, Calomiris, and Hitscherich (2013) uses a sample of 306 cash deals to study the decision of adopting go-shop provisions in merger agreements and consider potential conflicts of interest and litigation risks. They argue that the go-shop option is not free by showing that target firms in go-shop deals receive lower initial premiums. The authors find a small but statistically insignificant improvement in attracting post-agreement bidders in go-shop

deals. Their theoretical framework has an ambiguous prediction about the effects of go-shop choice on target firm valuation. Evidence on the effects of go-shop provisions in existing literature remains inconclusive.

This research is closely related to studies in deal protection devices such as termination fee provisions, toeholds, and lockup options. A considerable amount of attention has been given to research in this field (Bates and Lemmon, 2003; Betton and Eckbo, 2000; Burch, 2001; Officer, 2003). Termination fee provisions are included in M&A deals to require the target firm to pay a break-up fee to the bidder to compensate its labor, time, and expenses spent in the due diligence, in case the deal is not consummated. The findings in Bates and Lemmon (2003) and Officer (2003) show that the termination fees are at least not harmful, and are likely beneficial, to target shareholders. Betton and Eckbo (2000) find that pre-bid ownership of target shares reduces the likelihood of competition and target resistance and are associated with lower bid premiums. Another paper in the same vein as my study is Burch (2001). Burch (2001) examines the impact of lockup options granted to bidders and finds that although lockups serve as a competition deterrent for target firms, the lockup provision is associated with significantly higher returns to target shareholders. Burch (2001) concludes that managers use lockup options to enhance bargaining power rather than harm the shareholders.

In a recent study by Boone and Mulherin (2007), the authors use a novel dataset to show that there is active takeover competition in the pre-announcement period and find that the wealth effects for target shareholders are comparable in auctions and negotiations. Since the use of go-shop provisions is generally associated with private negotiation with particular single bidders while no-shop deals usually involve active auction processes, this research on the effectiveness

of the go-shop provisions from another angle empirically tests the conclusion in Boone and Mulherin (2007).

Chapter 3: Hypotheses Development

Practitioners and researchers alike have been rigorously discussing the effectiveness of the go-shop provision in protecting the interests of the target shareholders since the emergence of this new deal technology in the mid-2000s. "Success or failure in negotiating the terms of a go-shop clause can mean the difference between maximizing the sale price and protecting your senior management and board – or not," cautions Nicholas Unkovic, a partner at Squire, Sanders & Dempsey L.L.P. Consistent with this practical view on the effectiveness of go-shop provisions, previous law papers on the use of go-shop provisions argue that although this provision may be used as an effective market canvas device, target management incentives are an important determinant of the deal outcomes (see Bloch, 2010; Denton, 2008; Houtman and Morton, 2007; Morrel, 2008; Sautter, 2008; Subramanian, 2008). In line with both the professional and theoretical perspectives, I examine the effects of go-shop provisions in the context of two competing theories: the "window-dressing" theory and the "shareholder interest" theory.

The core of the window-dressing theory is agency conflicts. The agency conflicts between the shareholders and managers have received considerable interest in previous literature (Jensen and Meckling, 1976; Jensen, 1986). Divergence of managers' interests from owners' objectives gives rise to agency problems. In the context of corporate mergers and acquisitions, the target manager may agree to a merger in pursuit of private benefits, such as a secured future position in the surviving company, even when the buyer's offer may not be the highest offer price available to the target firm (Hartzell, Ofek, and Yermack, 2004).[2] The window-dressing theory assumes that in go-shop deals, the target manager acts in his own interests and makes the decision to sell the target firm to a particular bidder without a full-blown market check in

[2] It should be noted that neither Martin and McConnell (1991) nor Hartzell, Ofek, and Yermack (2004) find a negative relation between target shareholder gains and incumbent manager retention in the merged firm.

exchange for private benefits. Due to these potential private benefits, the management of the target firm may not have the incentive to run an efficient market canvas in the post-signing period since it has already decided whom it will sell the firm to. A particular bidder may be hand-selected because it promises the most private benefits to the manager of the target firm but not because the bidder offers a purchase price that maximizes the target shareholder wealth.

Since the Delaware Court's decision in *Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc.* requires the target board of directors to make its best effort to obtain the highest price possible on behalf of the target shareholders in the sale of the company, the management of the target firm may be subject to litigations for failing to fulfill its fiduciary duty. As a result, the inclusion of a go-shop provision may be used merely as a window-dressing practice that provides the target board with legal protection in case of shareholder litigations (Bloch, 2010). In a recent study, Webb (2013) finds that the presence of go-shop provisions is negatively associated with institutional lead plaintiffs, suggesting that go-shop provisions could be used to mitigate litigation risks.

In contrast, the shareholder interest theory presumes that target management acts in the best interests of target shareholders in change-of-control transactions. In situations where the target firm has limited pre-signing market check, if the target board determines that the initial bid offer is meaningful and attractive, it may accept the initial bidder's offer as a floor price and insist that a go-shop provision be included in the merger agreement so that the target firm can conduct a post-signing market canvas and actively solicit better prices from potential buyers on behalf of the target shareholders. If a competing bid emerges during the go-shop period and is deemed to be a superior offer, the target firm will accept it and terminate the initial deal by paying a (reduced) termination fee to the initial bidder. This way, the board of directors of the

target firm fulfills its fiduciary duties by thoroughly checking the market in the post-signing period and obtaining the highest price available to the target shareholders.

To shed light on the effectiveness of go-shop provisions, I investigate the effects of this new deal innovation on the wealth of deal participants (bidder and target), the behavior of the initial bidder, and deal outcomes. Following the window-dressing theory and the shareholder interest theory, I develop hypotheses in each of these aspects of interest.

3.1. Wealth Effect Hypotheses

The cumulative abnormal returns (CARs) around the announcement date are an important measure of wealth effects in M&A literature. Unlike previous literature that only examine the market reactions to target stock prices (Antoniades, Calomiris, and Hitscherich, 2013; Jeon and Lee, 2013; Subramanian, 2008), this study provides complete analyses of the wealth effects of go-shop provisions not only for the target, but also for the bidder as well as the synergy created by the transaction. The window-dressing theory implies that the go-shop provision is used by the target management as a mechanism to expropriate wealth from the target shareholders. If this is true, the market should view the go-shop provision as bad news and therefore should react negatively to the announcements of go-shop deals compared with no-shop deals. However, if the go-shop provision is an effective market canvas device for the target board to obtain the highest bid price for the target shareholders, the market reaction for target firms in go-shop deals should be at least at par with that for no-shop deals. The above discussion leads me to propose the following alternative hypotheses:

H1a: Target firms in go-shop deals receive lower CARs compared with target firms in no-shop deals.

H1b: Target firms in go-shop deals receive CARs that are no lower than target CARs in no-shop deals.

As the other party involved in the deal, the bidder is likely to be able to purchase the target firm at a discounted price if the go-shop provision is abused by target managers to pursue private benefits. The lower acquisition premium paid by the bidder in go-shop deals should be accompanied by positive bidder stock price reactions. On the other hand, under the shareholder interest theory where bidders pay fair premiums to target firms whose management actively solicits the highest price available for the target shareholders, bidders' stock price reactions should be no different between go-shop and no-shop deals. This discussion leads me to propose the following hypotheses:

H2a: Bidders in go-shop deals receive higher CARs compared with bidders in no-shop deals.

H2b: Bidders in go-shop deals receive no higher CARs compared with bidders in no-shop deals.

Examining the wealth effect of both the target and the bidder allows me to take a step further to investigate the synergy created by the target and the bidder and answer the question how go-shop provisions affect the overall value generated in change-of-control transactions. The synergy created between the target and the bidder is dependent on the CARs of the target and the bidder as well as the relative size of the deal participants (Bradley, Desai, and Kim, 1988; Wang and Xie, 2009).

In analyzing the wealth effects of go-shop provisions, I also consider the premiums paid to the target shareholders. According to the window-dressing theory, the management of the target firm may have the incentive to sell the target firm at a discounted price to a particular

bidder in exchange for private benefits from the bidder. Therefore, according to the window-dressing theory, the premiums paid to the targets in go-shop deals should be lower than those in no-shop deals. On the other hand, as suggested by the shareholder interest theory, if the target management strives to obtain the highest price available to the target shareholder, the initial bidder has the incentive to prevent the initial bid from being competed since it has already put in a substantial amount of time, money, and effort in identifying the target and entering into an agreement with the target. As a result, the initial bidder may offer a reasonable amount of premium to the target firm upfront to fend off potential competition during the go-shop period. The above discussion leads me to propose the following hypotheses:

H3a: Target firms in go-shop deals receive lower premiums than in no-shop deals.

H3b: Target firms in go-shop deals receive premiums that are no lower than in no-shop deals.

3.2. Initial Bidder Behavior Hypotheses

The implications of go-shop provisions to bidders remain undocumented in the previous literature. I examine the initial bidder behavior in go-shop deals. If target managers use the go-shop provision as a window-dressing device, then they will not have any incentive to solicit superior offers. Consequently, the initial bidder will not feel threatened by the go-shop provision and therefore will not consider it necessary to raise the initial offer to protect the deal. On the other hand, if the go-shop provisions are, in fact, utilized by shareholder-friendly target boards to solicit better prices in the post-signing period, the use of this provision should exert pressure on the initial bidder to raise the original offer price to protect the deal. Based on the above reasoning, I propose the following two alternative hypotheses:

H4a: Initial bidders in go-shop deals are unlikely to raise the original offer prices.

H4b: Initial bidders in go-shop deals are more likely to raise the original offer prices.

3.3. Deal Outcome Hypotheses

Given the "extended shopping hours," target firms in go-shop deals have the opportunity to check the availability of superior prices in the market and collect information and feedback regarding the value of the target firms from the potential buyers solicited. The intended purpose of the go-shop provision is for the target firm to find potential competing bids, if any, in the post-signing period and terminate the original deal if deemed necessary. I empirically examine the impact of the target firm's option to actively solicit better offers in the post-signing period on deal outcomes, specifically, the initial bid success rate and the post-bid competition.

Based on the window-dressing theory, if a private deal is made between the target management and one particular bidder, the initial deal is more likely to be completed. Therefore, the initial deal success rate in go-shop deals should be higher than in no-shop deals. Additionally, since the target management does not have the incentive to solicit better prices, go-shop provisions may not receive more competing bids compared to no-shop deals as one may expect. The target shareholder theory, on the other hand, suggests that if go-shop provisions are included in merger agreements to maximize the target shareholders' wealth in change-of-control transactions, they should affect deal outcomes differently. Specifically, if the target board makes its best effort to find superior prices in the market and collects information regarding the valuation and future prospect of the firm from the market during the go-shop period, the termination rate of initial bids in go-shop provisions should be higher.[3] Besides, in situations where the target firm has limited opportunities to canvas the market prior to the initial bid agreement, more competing bids should emerge during the post-bid period in go-shop deals than

[3] The frequently observed bifurcated (reduced) termination fee structure in go-shop deals would also encourage termination of the original bid.

in no-shop deals, assuming the target board acts in the best interest of the target shareholders. The above discussion leads to the following two sets of alternative hypotheses related to initial bid success rate and competing bids:

H5a: Go-shop deals have higher initial bid success rate compared with no-shop deals.

H5b: Go-shop deals have similar or lower initial bid success rate compared with no-shop deals.

H6a: Go-shop deals do not induce more competing bids than no-shop deals.

H6b: Go-shop deals induce more competing bids than no-shop deals.

Chapter 4: Data, Sample Formation, and Descriptive Statistics

M&A data are collected from Securities Data Company's (SDC) Platinum Mergers and Acquisitions database for the period between January 1st, 2004 and December 31st, 2012. The status of a deal is either "completed" or "withdrawn". I require deal values to be available in SDC and greater than 1 million US dollars. I exclude all transactions labeled as spinoffs, recaps, self-tenders, exchange offers, repurchases, minority stake purchases, acquisitions of remaining interest, or privatizations (Bargeron, Schlingemann, Stulz and Zutter, 2008). A deal is dropped out of the sample if the acquirer owned more than 50% of the target firm prior to the transaction. Target firms are public firms which have non-missing stock price data reported by the Center for Research in Security Prices (CRSP) during the three days surrounding the announcement date of a deal and accounting data reported in Compustat for the fiscal year immediately preceding the announcement date.

Go-shop deals are identified in the SDC database. The sample period starts in 2004 because the first go-shop deal in this database is recorded in that year. To verify accuracy, I read through SEC filings to identify go-shop deals. I found a total of 203 deals with this provision during the sample period.[4] Detailed go-shop deal information, such as the length of go-shop periods, number of potential buyers solicited during the go-shop period, the number of confidentiality agreements entered between the target and potential buyers during the go-shop period, and the presence of a bifurcated termination fee arrangement, is obtained from the SEC filings in EDGAR database or from online resources such as Lexis-Nexis and Google search,

[4] Datasets obtained from SDC prior to February 2013 included 242 go-shop deals with US targets in the sample for the period between 2004 and 2012. However, due to a clean-up process conducted by Thomson Reuters in March 2013, the number of go-shop deals in SDC dropped down to 174 for the same period of time.

supplemented by a go-shop deal report prepared by Potter Anderson & Corroon, LLP.[5] An example of the language used in a go-shop deal is contained in Appendix A. My final sample consists of 1,963 M&A deals, among which 137 are go-shop deals.

Several law papers have discussed the motivation of the management and boards that include go-shop provisions in merger agreements. Some argue that it is possible that target boards use go-shop provisions as a legal protection in case of shareholder litigations (Bloch, 2010; Sautter, 2008; Webber, 2013). In the meantime, a high quality board which acts in the best interest of target shareholders may adopt this provision to maximize the wealth of target shareholders in case a superior offer price emerges. Either way, it is critical to consider management incentives and board monitoring and advising quality in change-of-control activities when studying the effects of go-shop provisions. Therefore, in this study I control for target board characteristics which are absent from existing research on go-shop provisions.

For management incentives, I use an indicator variable to represent management buyout deals (MBO) obtained from SDC. The direct involvement of the management in a buyout offers the manager incentives to pay the lowest possible price. In the recent Dell going private deal, the founder of Dell, Mr. Michael Dell, is one of the major parties involved in the $24.4 billion purchase, and his initial offer price of $13.65 per share was deemed to be too low, which agitated the shareholders of the company.[6] To control for board quality, I employ corporate governance measures such as target board size, the percentage of outside directors on the board, CEO duality, and board busyness (see Brickley, Coles, and Jarrell, 1997; Core, Holthausen, and Larcker, 1999;

[5] A copy of the Potter Anderson & Corroon, LLP report on go-shop deals can be accessed at http://www.lawseminars.com/materials/07MACA/maca%20m%20morton%2008-23.pdf

[6] In a recent lesser-known management buyout transaction, the Weiss family, the founding family of the American Greetings Corporation, offered to buy the second largest paper card maker for $17.18 per share. The announcement of the initial offer price set off shareholder outrage. The special committee and institutional investors negotiated vigorously over the price. The founding family was pressured to raise the bid price up to $19 per share, which allowed the deal to go through.

Fich and Shivdasani, 2006; Finkelstein and D'Aveni, 1994; Yermack, 1996). These governance quality measures are captured using data from BoardEx Management Diagnostics Limited. BoardEx database is a private corporate research company that collects information on the board of directors and senior management.

I also control for standard firm characteristics in the M&A literature. M/B is the target market value of assets over book value of assets. Leverage is the target's long-term and current liabilities divided by total assets. Ln(market cap) is the natural log of a target's market value of equity computed 42 trading days prior to the deal announcement. I use the variable run-up, calculated as the market-adjusted buy-and-hold return from 252 days prior to the bid announcement to 6 days prior to the bid announcement, to capture the target previous performance and information leak before the announcement (Bargeron, Schlingemann, Stulz, and Zutter, 2008; Masulis, Wang, and Xie, 2007).

I note that in order to have a fair comparison between go-shop and no-shop deals and circumvent noise in subsequent bids, I examine the initial bids only and exclude follow-up bids from the sample. I only focus on initial deals because go-shop provisions are much more likely to appear in the initial deals than in competing bids (137 vs. 6). Further, in order to submit a competing offer proposal, the subsequent bidder generally needs to offer a premium higher than the original offer. In other words, the premiums in competing bids are conditional on the initial offer. Since the primary focus is on initial bids due to the clustering of go-shop deals in initial bids, I believe that it is better to compare premiums among initial bids. For the same reason, using only initial deals provides a cleaner setting when I examine the impact of go-shop provisions on the behavior of initial bidders and deal outcomes.

Table 1, Panel A describes the trend of the use of go-shop provisions in merger agreements over the period from 2004 to 2012. The use of go-shop provisions gained popularity during the mid-2000s private equity boom. Despite the decline in use in the late 2000s, the provision has been included in an increasing number of deals in recent years. In 2012, the last year of observation in my study, more than 13% of merger agreements contained go-shop provisions. Throughout the study period, on average about 7% deals included go-shop provisions in the agreements.

[Table 1 here]

Table 1, Panel B contains descriptive statistics for deal and target firm and board characteristics. Several deal and target characteristics are significantly different between the go-shop and the no-shop samples. Target termination fees are more likely to be present in go-shop deals than in no-shop deals. The more frequent use of target termination fee provisions may indicate that the bidders in go-shop deals are particularly concerned about the completion of go-shop deals because an effective target board will use the go-shop provision as a device to search for superior offers during the go-shop period. More than 80% of go-shop deals are financed by 100% cash, compared with 58% incidence in no-shop deals. The high percentage of pure cash transactions in go-shop deals may be due to the fact that many go-shop deals involve private equity firms. While 6.6% of go-shop deal buyers possessed a toehold before the bid announcement, only 3.2% of no-shop buyers owned more than 5% of the target's outstanding shares prior to the acquisitions. Public bidders tend to use no-shop provisions more than go-shop provisions, consistent with the finding in previous research that go-shop provisions appear often in deals with private equity involvement (Subramanian, 2008). Go-shop deal bidders are less likely to be in the same industry as the target defined by Fama-French 12 industry classifications.

Existing studies have shown that management involvement in M&A activities can give rise to severe agency problems, and it may affect the effectiveness of go-shop provisions (Hafzalla, 2009; Bloch, 2010; Perry and Williams, 1994; Subramanian, 2008). I use MBOs as a proxy for management incentives and agency conflict in this study (DeAngelo, DeAngelo, and Rice, 1984). The univariate analyses show that go-shop provisions are more frequently included in MBO deals. However, it is not clear at this point whether this provision is used by the target board to protect the target shareholders or is used to shield the self-interested management from potential litigations. A fiduciary-out provision in a merger agreement allows the target board of directors to terminate a deal if an *unsolicited* superior offer emerges. Some critics regard this provision as a passive form of fiduciary effort by the target board to protect the target shareholder's interest (Sautter, 2008).[7] I find that go-shop deals are more likely to be coupled with fiduciary-out provisions than no-shop deals. Firms with smaller sized boards are more likely to include go-shop provisions in their merger agreements. There is some evidence that CEO power, proxied by CEO duality, is associated with the use of go-shop provisions in merger agreements. Firms whose CEOs do not also hold the title of chairman of the board are more likely to install go-shop provisions in change-of-control transactions. The differences in characteristics between go-shop deals and no-shop deals are confirmed by Pearson correlations presented in Appendix C.

Go-shop deal characteristics, which are believed to be closely related to the effectiveness of go-shop provisions in benefiting the target shareholders (Subramanian, 2008), are reported in Table 2. Panel A of the table shows the statistics of detailed go-shop deal characteristics, namely,

[7] A target firm may employ both go-shop provision and fiduciary-out provision in the merger agreement. For instance, the Topps merger agreement states "…, the terms of the merger agreement allow our Board to exercise its fiduciary duties to consider potential alternative transactions, including if it believes that an unsolicited acquisition proposal it receives after the conclusion of the go-shop period is reasonably expected to result in a superior proposal".

the length of the go-shop period, the number of potential buyers solicited by the target firm during the go-shop period, the number of confidentiality agreements entered into between the target and potential buyers, and the presence of bifurcated termination fees.

Under the shareholder interest theory which suggests that go-shop provisions are an effective post-signing market check device, the characteristics of go-shop deals should have significant impact on the outcome of deals. A longer go-shop period is generally preferred because it allows more time for the target board and its financial advisors to solicit potential buyers. The number of potential buyers contacted by the target board and the number of confidentiality agreements entered by the target and potential bidders during the go-shop period reflect the effort made by the target board searching for superior offers. Theoretically, the likelihood of obtaining a higher bid offer should increase in the number of potential buyers contacted and in the number of confidentiality agreements signed during the go-shop period. A majority of the go-shop deals contain a bifurcated termination fee structure, which permits the target firm to pay a reduced termination fee in case the deal is terminated by the target board during the go-shop provision. The bifurcated termination fee structure is supposed to encourage the target board to solicit better prices during the go-shop period.

The average length of go-shop periods is 36.126 days with a median of 37 days, consistent with the findings in previous research.[8] A target board and its financial advisors on average solicit 51.87 potential buyers during the go-shop period and enter confidentiality agreements with 4.604 potential buyers who are interested in accessing the private information of the target firm. These numbers are higher than those reported in Subramanian (2008) due to the fact that the number of solicited buyers and confidentiality agreements signed kept growing over

[8] Subramanian (2008) reports an average go-shop period of 38.4 days and a median of 40 days, while Houtman and Morton (2007) document an average go-shop period of 33 days prior to 2007 and 42 days in the year of 2007.

the period between 2004 and 2012. 71.4% of the go-shop agreements contain bifurcated termination fee provisions, allowing the target to pay a reduced amount of breakup fee in case of a termination of the initial deal during the go-shop period.

[Table 2 here]

Panel B in Table 2 presents the Pearson correlations between the go-shop characteristics. The length of go-shop periods are positively related to the number of bidders solicited and the number of confidentiality agreements entered between the target and potential buyers. Deals with longer go-shop periods are also more likely to contain bifurcated termination fee provisions. Active solicitations are positively associated with the number of confidentiality agreements entered during the go-shop period. It should be noted that although theoretically both the number of potential buyers contacted and the number of confidentiality agreements entered are indicators of the target board's effort of maximizing the target shareholders' wealth, the number of confidentiality agreements may be a better and more accurate measure because the target board could contact many unsuitable bidders without getting any meaningful proposal or contact a few suitable bidders who are likely to submit superior offers. Potential bidders that enter into confidentiality agreements invest more time and effort into conducting due diligence than the "window shoppers" and therefore are more likely to challenge the initial deal.

Chapter 5: Empirical Findings

5.1. Determinants of Go-Shop Provisions

In this section, I consider various deal and target characteristics in an attempt to identify the determinants of go-shop provisions in merger agreements. In Table 3 Model 1, I present logistic regressions for the inclusion of go-shop provisions in merger agreements as a function of deal and target characteristics. The results in Model 1 indicate that the go-shop provisions and target termination fee provisions are positively correlated, which can be viewed as evidence that the initial bidder perceives the go-shop provision as a device that increases the likelihood of a termination of the initial merger agreement and therefore requires a termination fee provision in the agreement to protect the deal. Public bidders are less likely to use go-shop provisions in merger agreements, consistent with Subramanian (2008) who finds that private equity firms are frequently involved in go-shop deals. Go-shop provisions are less likely to be present in deals where targets and bidders from the same industry. There is some evidence that target firms with smaller boards of directors are more likely to include go-shop provisions in the merger agreements. I also find that the probability of including a go-shop provision in merger agreements is negatively correlated with the target firm's market-to-book ratio.

[Table 3 here]

5.2. Addressing Potential Endogeneity

As in any empirical finance studies, endogeneity issues are a potential concern. Firms choose whether to include go-shop provisions in merger agreements. It is possible that some unobservable factor that determines the choice of adopting go-shop provisions drives the effects of go-shop deals. Therefore, I attempt to address the endogeneity concern to draw conclusions on the causal effect of go-shop provisions on the wealth effect in mergers and acquisition deals.

According to Tucker (2010), Heckman two-step procedure is an appropriate method to address endogeneity problems where the selection bias is caused by unobservable factors. As a result, in examining the wealth effect of go-shop provisions, I report results of both OLS and Heckman two-step regressions in the paper.

In the Heckman two-step regressions, the presence of a special committee is used as the instrumental variable for two reasons. First, Chapman and James (2008) point out the importance for boards of directors to address conflicts of interest in change-of-control transactions and that special committees of independent directors can be useful in ensuring that stockholders' interests are protected in mergers and acquisitions. Secondly, Antoniades, Calomiris, and Hitscherich (2013) argues that the presence of special committees is a legitimate variable to capture exogenous variation in the go-shop decision because firms that employ special committees are more subject to lawyers conflicts of interest which make them litigation risk averse.[9] From the legal perspective, forming a special committee is a signal that the board attempts to fulfill its fiduciary duty, consistent with the argument that the use of go-shop provisions mitigates litigation risks (Webber, 2013). As a result, the presence of a special committee may explain the choice of using go-shop provisions in merger agreements.

Model 2 and Model 3 in Table 3 show that target firms that form special committees during the sales process are significantly more likely to include go-shop provisions in the merger agreements. In untabulated results, I find that the presence of special committees is not correlated with wealth effect variables, such as the announcement returns and premiums, which makes the

[9] Jeon and Lee (2013) employ the average proportion of go-shop deals in the target firm's industry as the instrumental variable. Antoniades, Calomiris, and Hitscherich (2013) argue that it is not a valid go-shop instrument because industries experience changes over time in their riskiness and competitiveness, and these factors should be central to the determination of acquisition premiums. I attempted including the industry average go-shop deal proportion as an instrument. It does not change the results.

special committee dummy variable a valid instrumental variable in Heckman two-step regressions.

5.3. Univariate Wealth Effects

5.3.1. Target and Bidder Announcement Returns and Acquisition Synergies

Market reactions around the announcement date are a popular measure of wealth effects in M&A literature. Previous empirical studies on go-shop provisions are limited to the target shareholder wealth effects but are silent on the bidder wealth effects and the total synergies generated by the deal. To further understand the wealth effects of go-shop provisions, I examine the announcement returns to the target and the bidder, as well as the deal synergies created as a result. I obtain the announcement dates of deals from the Securities Data Company (SDC). The target and bidder cumulative abnormal returns (CARs) are measured from event day -1 to event day +1, where day 0 is the deal announcement date. CRSP value-weighted return is used as the market return to estimate the market model over a 200-day period ending 53 days prior to the deal announcement. I exclude deals with CARs less than -100% or greater than 200% to mitigate the effect of outliers (Officer, 2003).

The calculation of acquisition synergies follows Bradley, Desai, and Kim (1988) and Wang and Xie (2009). For each deal, I form a value-weighted portfolio of the target and the bidder based on their market capitalizations 42 days prior to the announcement date. I adjust the target's weight by subtracting from the target's market capitalization the value of target equity held by the bidder prior to the acquisition announcement. The weighted average of the abnormal returns of the bidder and the target over the three day window is defined as the acquisition synergy.

Panel A in Table 4 presents the descriptive statistics of bidder and target CARs and acquisition synergies. Consistent with previous literature on acquisition announcement returns (Andrade, Mitchell, and Stafford, 2001; Jarrell, Brickley, and Netter, 1988; Jensen and Ruback, 1983; Moeller, Schlingemann, and Stulz, 2004), for the full sample, target firms experience an average of 24.5% announcement abnormal returns. Acquiring firm CARs are slightly negative, -1.1%, while the average acquisition synergy is 2.4%.

My primary interest is the difference in the wealth effect between go-shop deals and no-shop deals. Targets with go-shop provisions experience significantly higher CARs, 30.1%, compared to targets without go-shop provisions, 24.1%, during the three-day event window. However, there is no significant difference in announcement returns between the bidders of these two types of deals. In addition, deals containing go-shop provisions create significantly higher synergies, 6.3%, compared with deals without go-shop provisions, 2.3%. The univariate analyses indicate that the market reacts favorably to deals with go-shop provisions.

[Table 4 here]

5.3.2. Premiums

In this section, I compare the premiums received by target shareholders in go-shop deals with that in no-shop deals. In line with Officer (2003), the premium is defined as the bidder's offer divided by the target's market value of equity 42 trading days prior to announcement date minus one. Four different methods are used to compute the premium paid to the target. The first method uses the total value of the transaction, which is referred to as the component data. The second and third methods use "initial offer price" and "final offer price", respectively, both reported by SDC. The denominator for all premium measures is the target's market value of equity 42 days prior to the bid announcement. Due to the outlier issue pointed out by Bates and

Lemmon (2003) and Officer (2003), a fourth measure, referred to as the combined premium, is computed. Combined premium is based on the component data if that data results in a value between 0 and 2, and if not, depends on initial price (or final offer price if initial price data is missing) if that data provides a value between 0 and 2. The combined premium is left as a missing observation if none of the conditions is met. This combined premium measure is the primary measure of premiums.

Table 4 Panel B shows the mean and median for different premium measures for the full sample, the no-shop sample, and the go-shop sample. The premium calculated using component data for each group is consistently higher than the premium calculated using price data, consistent with results reported in Officer (2003). On a univariate basis, there is no significant difference in bid premiums between the go-shop group and no-shop group regardless of the premium measure used. These analyses suggest that including go-shop provisions in merger agreements does not result in lower premiums than in no-shop deals. This finding supports the shareholder interest theory and is consistent with hypothesis H3b which posits that go-shop deals are, at least, not detrimental to the target shareholders.

5.4. Multivariate Wealth Effects

5.4.1. Target and Bidder Announcement Returns and Acquisition Synergies

I also examine the market announcement returns to go-shop provisions in a multivariate framework. In Table 5 Model 1, I present OLS regressions of target announcement CARs over the three-day (-1, +1) event window around the bid announcement date using the go-shop dummy variable as the primary independent variable.[10] Model 1 in Table 5 suggests that controlling for various deal, governance, and target firm characteristics, the inclusion of go-shop

[10] As a robustness check, I perform OLS regressions on CARs of the target and the bidder as well as the synergy over the five-day (-2, +2) event window around the bid announcement date. The results of the wealth effects of go-shop provisions still hold.

provisions in merger agreements is associated with higher target announcement returns at 10% level. I also verify the OLS regression results by running Heckman two-step model and the positive impact of go-shop provisions on target announcement returns is confirmed (Model 2 in Table 5). These findings of positive market reactions to go-shop deals are consistent with hypothesis H1b, supporting the shareholder interest theory. Deal and target firm characteristics are significantly associated with target CARs, and the coefficients of the control variables are similar to the findings in previous studies (Bates and Lemmon, 2003; Masulis, Wang, and Xie, 2007; Moeller, Schlingemann, and Stulz, 2004; Officer, 2003; Schwert, 2000; Wang and Xie, 2009).

[Table 5 here]

Models 3 – 4, which examine go-shop deals only, include the go-shop periods and bifurcated termination fee structure respectively. I do not include the number of potential buyers contacted and the number of confidentiality agreements because these two factors are unobservable by the market participants at the announcement of a bid. Although the length of go-shop periods does not seem to be associated with announcement returns to the target, results in Model 4 indicate that go-shop deal targets with a bifurcated termination fee structure earn significantly higher announcement returns than targets that do not have reduced break-up fees. This finding suggests that the market perceives the reduced termination fee structure during the go-shop period to be valuable in encouraging the target firm to solicit better offers in the post-signing period.

As predicted by hypothesis H2b, the OLS regression of the bidder announcement returns in Table 6 shows that go-shop provisions are not associated with higher bidder CARs around the bid announcements. The market does not seem to consider bidders to be the beneficiaries of the

go-shop provision. Since it is possible that the bidder is involved in the target's decision to include go-shop provisions in merger agreements, for the purpose of robustness, I examine the bidder's CARs using Heckman two-step procedure to mitigate potential endogeneity concerns. The Heckman second-step regression result is very similar to the OLS result.

[Table 6 here]

I take a step further to investigate the impact of go-shop provisions on the synergy generated by the target and the bidder in a merger transaction. Both OLS and Heckman two-step regression results in Table 7 indicate that deals with go-shop provisions create higher acquisition synergies. As shown in both Model 1 and Model 2 in Table 7, an average go-shop deal generates about 3.4% higher synergy than a deal without a go-shop provision, suggesting that the go-shop provision adds value to the surviving entity.

The wealth effects of go-shop provisions on the target, the bidder and the synergy suggest that go-shop provisions are target friendly and increase the synergy generated in the deal, confirming the shareholder interest theory that go-shop provisions are at least not harmful, and may even be beneficial, to target shareholders and the surviving firm after the acquisition. Further, the findings lend some support to the results in Boone and Mulherin (2007) that target shareholders in privately negotiated deals are not worse off compared to target shareholders in deals that are publicly auctioned.

[Table 7 here]

5.4.2. Premiums

In addition to univariate analyses, I examine the wealth effect of go-shop provisions in a multivariate framework. As shown in Model 1 in Table 8, controlling for deal characteristics as well as target board and firm characteristics, the go-shop provision has no significant impact on

the premiums received by the target. This result is consistent with the univariate result presented in the previous section. Model 2 is the second stage regression result of Heckman two-step procedure which is employed to mitigate the selection bias. The regression result using Heckman two-step model is similar to the OLS result in Model 1.

[Table 8 here]

5.5. Initial Bidder Behavior: Changes from the Initial Offer to the Final Offer

Previous literature on go-shop provisions almost exclusively focus on the effects of go-shop provisions on the target firms but ignore the potential impact on the initial bidders. In order to understand the overall effects of go-shop provisions on corporate acquisitions, it is important to examine how the "extended shopping hours" influence the initial bidder. In this section, I focus on how go-shop provisions may affect the initial bidder's behavior in the post-signing period.

Under the shareholder interest theory, the target management acts in the best interests of target shareholders and use the go-shop provision to obtain the best offer price possibly available to the target shareholders. While in theory go-shop provisions are intended to allow the target firm to seek potential buyers who are willing to top the original bid, it is possible that the original bidder will feel pressured by the inclusion of go-shop provisions in merger agreements, and therefore raise its original offer prices subsequent to the merger announcement to make the initial bid more attractive (Hypothesis H4b).[11] On the other hand, the window-dressing theory suggests that go-shop deals are associated with severe agency conflicts where the target management

[11] Consistent with this argument, in the recent Dell going-private deal, Mr. Michael Dell and his partner, the investment firm Silver Lake, raised their initial offer price by a modest 10 cents from $13.65 to $13.75 per share prior to the scheduled shareholder meeting on July 24th, 2013 in exchange for a more certain shareholder vote. On August 2nd, 2013, Mr. Dell and Silver Lake once again sweetened the deal by offering a special dividend of 13 cents per share. In return, the special committee agreed to change the voting rules so that abstentions no longer count as opposing votes. In the meantime, the break-up fee was lowered from $450 million to $180 million if the deal with Mr. Dell and Silver Lake was terminated.

colludes with the bidder and thereby, hurting the target shareholders. If the initial bidder knows that the target management will sell the target firm at a discounted price in exchange for private benefits, the initial bidder should not be affected by the inclusion of the go-shop provision and therefore will not raise the original offer price following the announcement of the deal (Hypothesis H4a).

To answer the question whether or how go-shop provisions influence the initial bidder, I use multivariate analyses to examine the relation between the inclusion of go-shop provisions in merger agreements and the difference between the initial bid premium and the final bid premium. I create a dummy variable which is equal to one if the premium calculated using the final price data is higher than the premium calculated using the initial price data, and zero if the final premium is the same as or below the initial premium. This dummy variable is the dependent variable in the logistic regressions in Table 9.

[Table 9 here]

Model 1 and 2 in Table 9 include deals in the full sample, while Models 3 – 6 focus on go-shop deals only. Although the go-shop provision does not influence the overall premiums paid to the target, the logistic regression in Model 1 shows that the provision significantly affects initial bidders' behavior in the post-signing period. Specifically, the inclusion of go-shop provisions in merger agreements increases the likelihood that the initial bidder raises its original bid price following the announcement of the bid. The implication is that go-shop provisions are effective and beneficial to the target shareholders in the sense that the presence of these provisions pressures initial bidders to raise their original offer prices.

Intuitively, post-bid competition would motivate the initial bidder to increase the initial offer in order to protect the deal. In addition, it may be possible that firms raise their initial bids

because these firms paid lower initial premiums upfront. As a result, I include the challenged deal dummy variable and the initial premium in the regressions to control for the potential effects of challenged deals and initial bid prices on bidders' behavior. As expected, I observe a significant positive correlation between post-bid competition and the likelihood of an increase in the initial bidder's offer (Model 2). Initial premiums, however, do not affect the likelihood of raises in offer price following deal announcements, suggesting that the initial bidder's decision to raise the initial offer price is not determined by the original premium. After controlling for post-bid competition and initial premiums, go-shop provisions are still significantly positively associated with offer increases. This finding unveils a previously neglected function of go-shop provisions that their inclusion offers the target firm additional bargaining power over the initial bidder and pressures the initial bidder to raise its original offer to make its offer more attractive and competitive.

In addition to the positive impact of the go-shop provision and post-bid competition on the change in offer price by the initial bidder, several other variables appear to affect the initial bidders' behavior as well. As a deterrent to post-bid competition, the presence of termination fees is negatively related to the likelihood of an increase in the original bid. Toeholds, MBO, poison pill, and target firm size are positively associated with changes in offer prices by initial bidders. Target CEO duality and the inclusion of fiduciary-out provisions reduces the likelihood that the bidder raises the initial offer.

To get a closer look at the impact of go-shop provisions on changes in offer prices, I examine the go-shop provision characteristics in Models 3 – 6 that include go-shop deals only. I find that the number of potential buyers contacted and the number of confidentiality agreements entered during the go-shop period have a significant positive effect on the likelihood of initial

bidders raising their bids. This evidence is consistent with Hypothesis H4b that the initial bidder feels pressured to increase their initial offer price to protect the deal as the likelihood of deal termination increases with the increase in the number of potential buyers contacted and in the number of confidentiality agreements entered.

Overall, consistent with the shareholder interest theory and Hypothesis H4b, the regression results in Table 9 reveal a new function of go-shop provisions, namely, changing the behavior of the initial bidder, and demonstrate that go-shop provisions can be used to pressure the initial bidder to bid upward to secure the original deal.

5.6. Initial Bid Success

In this section I examine whether the inclusion of the go-shop provision in merger agreements significantly affects the likelihood of the initial bid success in a multivariate framework. Table 10 presents the results of logistic regressions of initial bid success. Model 1 and 2 study all the deals in the full sample, while Models 3 – 6 focus on the go-shop group only.

The results in Model 1 indicate that unlike deal protection innovations such as termination fees, go-shop provisions have a significant negative impact on the likelihood of initial deal completion. This higher possibility of deal termination justifies the initial bidders' requirement for termination fees in deals with go-shop provisions. Deal characteristics play an important role in the initial bid completion. The parameter estimates of the deal characteristics control variables are quantitatively similar to what previous studies have found (Bates and Lemmon, 2003; Burch, 2001; Officer, 2003). As shown in Model 2, while post-bid competition significantly increases the likelihood of termination of the initial deal, controlling for post-bid competition does not change the significant impact of go-shop provisions on the initial bid completion. A deal is more likely to be completed if the merger agreement contains a termination

fee agreement or if the deal is a tender offer. MBOs, which are believed to be associated with severe agency conflicts between the manager and target shareholders, are more likely to be terminated. A deal is less likely to be consummated if the bidder is hostile. Board independence is significantly negatively associated with deal completion rate. Interestingly, the fiduciary-out provision, designed to allow the target board to terminate the original deal if an unsolicited superior price is offered by a third party, is significantly positively related to the initial deal completion. This can be viewed as evidence that a fiduciary-out provision is a passive target shareholder interest protection device. Overall, the lower initial bid success rate in go-shop deals supports the shareholder interest theory (Hypothesis H5b).

In Models 3 – 6, I focus on go-shop deals and include individual go-shop deal characteristics in each model to examine what characteristics influence the initial bid success. The length of the go-shop period and the number of confidentiality agreements entered have a significant impact on initial bid success rate. Specifically, longer go-shop periods and more confidentiality agreements increase the probability of termination of initial bids. As mentioned previously, potential bidders entering confidentiality agreements with the target are likely to submit a proposal with an offer that tops the original offer price, resulting in higher termination rate. Another possible interpretation could be that with a longer go-shop period, the target firm may be able to collect more information in terms of its current value as well as its future prospect from the market, allowing the target to reconsider the initial bid and thus increasing the likelihood of initial deals getting terminated.

[Table 10 here]

5.7. Post-Bid Competition

As suggested by the shareholder interest theory, the inclusion of go-shop provisions allows "extended hours" for the target firm to solicit superior offers after signing the merger agreement with the initial bidder. Thus, theoretically, the target board's effort in finding potential bidders is supposed to result in higher level of post-bid competition (Hypothesis H6b). On the other hand, if the go-shop provision is used by the target management as a "window-dressing" device, then there will be no more competition in go-shop deals relative to no-shop deals (Hypothesis H6a). In this section, I use logistic regressions to empirically test these hypotheses and answer the question whether go-shop provisions lead to more competing bids in the post-signing period.

Table 11 displays the determinants of post-bid competition. The dependent variable is a dummy variable equal to one if a third party launched a competing bid when the initial bid was pending and zero otherwise. The independent variable of primary interest is the go-shop dummy variable. Model 1 indicates that the go-shop provision is significantly positively associated with higher post-bid competing rate, consistent with the shareholder interest theory and hypothesis H6b. However, I find that after controlling for the initial premium paid to the target (Model 2), the go-shop provision no longer significantly impacts the post-bid competition although the coefficient of the go-shop dummy variable is still positive. This suggests that the post-bid competition is largely dictated by the premiums paid to the target; higher premiums reduce the likelihood of the initial deal getting challenged. It should be noted that although go-shop provisions do not invite significantly more competing bids as one might expect, it does not necessarily mean that they are harmful to the target shareholders. If the initial bidder offers the target a reasonable offer price upfront, the target shareholders do not get hurt even though no

more competing bids emerge in the post-signing period. According to the wealth effect analyses in this study, bidders in go-shop deals indeed pay premiums that are comparable to premiums paid in no-shop deals.

Several independent variables are significantly related with post-signing competition. Consistent with previous studies, target termination fee provisions are a deal protection device which is used to deter post-bid competition. Hostile takeovers are associated with higher possibility of competing bids, while deals initiated by public bidders are less likely to be challenged. I also find that target board independence boosts post-bid competition.

[Table 11 here]

5.8. Robustness Check

To confirm the robustness of the results in this study, I employ the propensity score matching procedure (Rosenbaum and Rubin, 1983; Villalonga, 2004a) to examine the effects of go-shop provisions in merger agreements. As argued in Tucker (2010), propensity score matching procedure mitigates selection bias that stem from observable factors. I identify a control sample of firms that do not include go-shop provisions by matching each go-shop deal with three no-shop deals based on their propensity scores. The propensity scores are estimated using all deal and target governance and firm characteristics included in the regression analyses. The purpose of propensity score matching is to ensure that a sample deal and its control deals are identical except for the inclusion of the go-shop provision (treatment). The results of this analysis are reported in Table 12. These results obtained from the propensity score matching method confirm the findings reported in the paper.

[Table 12 here]

Specifically, I confirm the following findings: go-shop provisions do not affect premiums received by the target firms. The target announcement returns are more positive for deals containing go-shop provisions and the go-shop provisions are associated with higher deal synergies formed by the target and the bidder. Although there is no significant difference in the bidder's announcement returns between the go-shop and no-shop groups, bidders in go-shop deals are more likely to raise their initial bids compared to those in no-shop deals. In addition, the propensity score matching method indicates that go-shop deals invite more competing bids in the post-announcement period and are significantly more likely to be terminated than no-shop deals.

5.9. Limitation

In studying the effectiveness of go-shop provisions and examining the management's incentives in selling the target firm, it is interesting to investigate what happened before the initial agreement to better understand why firms adopt the go-shop provision in merger agreements and the importance of this provision. Due to data unavailability, however, I do not observe corporate activities prior to the announcement of initial deals. Using data from MergerMetrics, Antoniades, Calomiris, and Hitscherich (2013) show that go-shop deals conduct significantly fewer pre-announcement auction activities compared to no-shop deals. This finding is consistent with my proposition that go-shop provisions are included in merger agreements when the target has insufficient pre-signing market check and the management attempts to fulfill its fiduciary duties in the post-signing period.

Chapter 6: Conclusions

This paper is one of the first attempts to study the effects of go-shop provisions on a variety of deal outcomes and empirically test a series hypotheses based on two competing theories: the window-dressing theory and shareholder interest theory. I examine the wealth effects of go-shop provisions on both the target and the bidder to assess the effects of these deal-making devices on acquisition synergies. I also investigate how go-shop provisions may influence the initial bidder's actions in the post-signing period, an important issue that has been overlooked in previous literature. This study also documents the impact of go-shop provisions on initial bid success as well as post-bid competition. Using a hand-collected sample of detailed go-shop deal characteristics, namely, the go-shop period, the number of potential buyers contacted, the number of confidentiality agreements entered during the go-shop period, and bifurcated termination fee structures, I am able to test the impact of these individual go-shop deal features and show how they influence go-shop deal outcomes. With go-shop provisions becoming increasingly popular in recent corporate acquisitions, I hope that the findings in this study will lend helpful implications for future go-shop deals.

The results indicate that go-shop provisions generally have significantly higher positive wealth effect on the targets as compared to no-shop deals, but the bidders' wealth effect in go-shop deals is similar to that in no-shop transactions. The synergy generated between the target and the bidder is higher in go-shop deals than in no-shop deals. I also show that the inclusion of go-shop provisions in merger agreements changes the initial bidders' behavior in the post-signing period. Specifically, bidders under merger agreements with go-shop provisions are more likely to raise their initial bid offers, suggesting that go-shop provisions allow target firms to exert pressure on the initial bidders to obtain better prices on behalf of the target shareholders

and thus can be used as a bargaining device against the initial bidders. I also find that go-shop deals are significantly more likely to be terminated than no-shop deals. To address concerns regarding endogeneity and selection bias, I employ Heckman two-stage procedure and propensity score matching method to confirm my findings. In addition, go-shop deal characteristics are important determinants of the outcome of deals including go-shop provisions. The market reacts positively to the bifurcated fee structure in go-shop provisions. The number of potential buyers contacted and the number of confidentiality agreements entered during the go-shop period play an important role in pressuring the initial bidder to raise the original offer price, while the length of the go-shop period and the number of confidentiality agreements entered predict the likelihood of the initial bid success. These results are robust and generally support the shareholder interest theory that suggests that go-shop provisions are an effective market canvas alternative to public auctions.

APPENDIX A: GO-SHOP PROVISION EXAMPLE

Excerpt from Lear's merger agreement

This appendix contains an excerpt from the merger agreement between Lear Corporation (the "Company") and American Real Estate Partners LP (the "Parent"), signed on February 5th, 2007.

Solicitation of Other Offers

Until 11:59 p.m., Eastern Standard Time, on March 26, 2007 (which we sometimes refer to as the end of the "go shop" period), we were permitted to initiate, solicit and encourage acquisition proposals (including by way of providing access to non-public information pursuant to one or more acceptable confidentiality agreements), and participate in discussions or negotiations with respect to acquisition proposals or otherwise cooperate with or assist or participate in, or facilitate any such discussions or negotiations.

After 11:59 p.m., Eastern Standard Time, on March 26, 2007, we have agreed not to:

- initiate, solicit or knowingly encourage the submission of any inquiries, proposals or offers or any other efforts or attempts that constitute or may reasonably be expected to lead to any acquisition proposals or engage in any discussions or negotiations with respect thereto or otherwise cooperate with or assist or participate in, or knowingly facilitate any such inquiries, proposals, offers, discussions or negotiations;
- approve or recommend, or publicly propose to approve or recommend, any acquisition proposal;
- enter into any merger agreement, letter of intent, agreement in principle, share purchase agreement, asset purchase agreement or share exchange agreement, option agreement or other similar agreement relating to an acquisition proposal;

- enter into any agreement requiring us to abandon, terminate or fail to consummate the transactions contemplated by the merger agreement or breach our obligations under the merger agreement; or
- resolve, propose or agree to do any of the foregoing.

Notwithstanding these restrictions:

- we are permitted to continue discussions and provide non-public information to any party with whom we were having ongoing discussions or negotiations as of March 26, 2007 regarding a possible acquisition proposal (we were otherwise required to immediately cease or cause to be terminated discussions except as permitted below and cause any confidential information provided or made available to be returned or destroyed); and
- at any time after the date of the merger agreement and prior to the approval of the merger agreement by our stockholders, we are permitted to furnish information with respect to Lear and our subsidiaries to any person making an acquisition proposal and participate in discussions or negotiations with the person making the acquisition proposal, subject to certain limitations.

In addition, we may terminate the merger agreement and enter into a definitive agreement with respect to a superior proposal under certain circumstances.

Termination Fees

If we terminate the merger agreement or the merger agreement is terminated by Parent or Merger Sub under certain circumstances, we must pay a termination fee to Parent. In connection with such termination, we are required to pay a fee of $85.2 million to Parent plus up to $15 million of Parent's out-of-pocket expenses (including fees and expenses of financing sources,

counsel, accountants, investment bankers, experts and consultants) relating to the merger agreement. If such termination had been to accept a superior proposal during the "go shop" period, we would have been required to pay a fee of $73.5 million to Parent plus up to $6 million of Parent's out-of-pocket expenses. Under certain circumstances, Parent must pay us a termination fee of $250 million.

Excerpt of Background of the Merger

Beginning on February 9, 2007, pursuant to the solicitation provisions set forth in the merger agreement, JPMorgan contacted parties that it had identified as being potentially interested in making a competing proposal to acquire the Company, including those parties that had previously expressed to JPMorgan a general interest in exploring such a transaction. On February 26, 2007, the special committee expanded the engagement of Evercore to include an active role in soliciting, receiving and evaluating competing proposals. JPMorgan and Evercore identified potential purchasers on the basis of their likelihood of interest in participating in a transaction with the Company and their ability to execute such a transaction. The special committee also requested that JPMorgan prepare a debt financing proposal that it would make available to parties interested in making a competing proposal.

As part of the "go shop" process, the special committee established a protocol by which it retained active oversight of the solicitation process and the activities of the Company's management and the special committee's advisors in connection therewith. Contacts with potential purchasers were coordinated through the special committee's advisors, with the assistance of management to the extent requested by the special committee and its advisors.

During the "go shop" period, JPMorgan and Evercore contacted a total of 41 parties, consisting of 24 financial sponsors and 17 potential strategic buyers. No parties initiated contact

with Evercore or JPMorgan. Ten of the parties contacted requested a draft confidentiality agreement for the purpose of receiving access to confidential due diligence materials, and of those, eight parties executed a confidentiality agreement with the Company. The other parties contacted by JPMorgan and Evercore declined to participate further in an evaluation of the Company. The Company promptly made available to any party who executed a confidentiality agreement access to an electronic due diligence data room, a written management presentation and an opportunity to meet with management and the special committee's financial advisors. At the direction of the special committee, each party who executed a confidentiality agreement with the Company also received a letter from the special committee's advisors outlining the proposed solicitation process.

The "go shop" period under the merger agreement expired at 11:59 p.m. Eastern Time on March 26, 2007. At that time, the Company was engaged in ongoing discussions with three parties, who had formed a group for purposes of evaluating a competing proposal. Two members of the group subsequently withdrew their interest and terminated discussions with the Company. The remaining party thereafter indicated that due to resource constraints, it would require an equity partner or partners to pursue a competing proposal and requested that the Company enter into discussions and provide confidential information to two private equity firms that had indicated an interest in exploring a competing proposal, as a group, with the remaining party. Under the merger agreement, the Company was prohibited from doing so without AREP's consent. On May 10, 2007, the Company formally requested AREP's consent, which was granted on May 14, 2007.

As of the date of this proxy statement, no party has submitted a competing proposal for the Company, although the Company is engaged in certain ongoing discussions.

APPENDIX B: VARIABLE DEFINITIONS

Variable	Definition
Go-Shop	Dummy variable equal to one if the merger agreement contains a go-shop provision and zero otherwise.
Gsdays	The length of the go-shop period in days.
Solicited	The number of potential buyers contacted by the target and/or its financial advisors during the go-shop period.
Confidentiality	The number of confidentiality agreements entered between the target and potential buyers during the go-shop period.
Bifurcated TF	Dummy variable equal to one if there is a bifurcated termination fee structure in the initial merger agreement and zero otherwise.
TTF	Dummy variable equal to one if a target termination fee is included in the merger agreement and zero otherwise.
Cash deal	Dummy variable equal to one if 100% of the deal is financed with cash and zero otherwise.
Hostile	Dummy variable equal to one if the attitude of bid is defined as "hostile" by SDC and zero otherwise.
Toehold	Dummy variable equal to one if the fraction of the target's common stock owned by the bidder is greater than 5% before the bid announcement date and zero otherwise.
Public bidder	Dummy variable equal to one if the bidder is a public firm.
Tender offer	Dummy variable equal to one if a deal is identified as a tender offer by SDC and zero otherwise.
Related	Dummy variable equal to one if the target is from the same industry as the acquirer where industry definitions are taken from Fama and French 12 industry classifications.
Completion	Dummy variable equal to one if a deal is completed and zero otherwise.
Challenged deal	Dummy variable equal to one if a deal is labeled as a challenged deal by SDC and zero otherwise.
MBO	Dummy variable equal to one if the management of the target is reported by SDC to be involved in the transaction and zero otherwise.
Poison pill	Dummy variable equal to one if a poison pill affects the bidder's acquisition attempt and zero otherwise.
Fiduciary-out	Dummy variable equal to one if a fiduciary-out provision is included in the merger agreement and zero otherwise.
Ln(Board size)	The natural log of the number of directors on a target board.
Independence	The percentage of non-executive directors on a target board.
Duality	Dummy variable equal to one if the target CEO is also chairman of the target board and zero otherwise.
Board busyness	The percentage of target board members who serve on at least three boards.
M/B	The target's market value of assets divided by book value of assets.
Leverage	The target's long-term and current liabilities divided by total assets.
Ln(Market cap)	The natural log of a target's market value (in thousands) of equity computed 42 trading days prior to the deal announcement.
Run-up	The target’s market-adjusted buy-and-hold return from 252 days prior to the bid announcement to 6 days prior to the bid announcement

Variable	Definition
Special committee	Dummy variable equal to one if the target firm forms a special committee during the negotiations with the bidder and zero otherwise.
Premium based on component/initial price/final price data	The target premium is defined as {(Bidder's offer/Target's market value of equity 42 trading days prior to announcement date) - 1}, using the total/initial/final value of the transaction.
TCAR	3-day target cumulative abnormal return calculated using the market model. The market model parameters are estimated using the return data for the period (-252, -53).
ACAR	3-day acquirer cumulative abnormal return calculated using the market model. The market model parameters are estimated using the return data for the period (-252, -53).
PCAR	3-day cumulative abnormal return calculated using the market model for a value-weighted portfolio of the bidder and the target. The market model parameters are estimated using the portfolio return data from the period (-252, -53). The weights for the bidder and the target are based on their market capitalizations at the 42nd trading day prior to the announcement. The target's weight is adjusted for the bidder's toehold.

APPENDIX C: CORRELATION TABLE

This table contains Pearson correlation coefficients for a sample of 1,963 successful and unsuccessful acquisition bids between 2004 and 2012. Deal value is the compensation (in millions) paid by the acquirer to the target. Go-shop is a dummy variable equal to one if a deal contains a go-shop provision in the merger agreement and zero otherwise. TTF is a dummy variable equal to one if a target termination fee is used in the merger agreement and zero otherwise. Cash deal is a dummy variable equal to one if 100% of the deal is financed with cash and zero otherwise. Toehold is a dummy variable equal to one if the fraction of the target's common stock owned by the bidder is greater than 5% before the bid announcement date and zero otherwise. Public bidder is a dummy variable equal to one if the bidder in a deal is a public firm. Tender offer is a dummy variable equal to one if a deal is identified as a tender offer by SDC and zero otherwise. Related is a dummy variable equal to one if the target is from the same industry as the acquirer where industry definitions are taken from Fama and French 12 industry classifications. Fiduciary-out is a dummy variable equal to one if a fiduciary-out provision is included in the merger agreement and zero otherwise. MBO is a dummy variable equal to one if the management of the target is reported by SDC to be involved in the transaction and zero otherwise. Hostile is a dummy variable equal to one if the attitude of bid is defined as "hostile" by SDC and zero otherwise. Poison pill is a dummy variable equal to one if a poison pill affects the bidder's acquisition attempt and zero otherwise. Ln(Board size) is the natural log of the number of directors on a target board. Independence is the percentage of non-executive directors on a target board. Duality is a dummy variable equal to one if the target CEO is also chairman of the target board and zero otherwise. Board busyness is the percentage of target board members who serve on at least three boards. M/B equals the target's market value of assets divided by book value of assets. Leverage is the target's long-term and current liabilities divided by total assets. Ln(Market cap) is the natural log of a target's market value (in thousands) of equity computed 42 trading days prior to the deal announcement. Run-up is the target's market-adjusted buy-and-hold return from 252 days prior to the bid announcement to 6 days prior to the bid announcement. Bolded numbers indicate p-values smaller than 0.01.

		2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1	Go-shop	**0.061**	**0.120**	0.047	**-0.223**	-0.012	**-0.172**	0.058	**0.077**	-0.014	-0.017	-0.060	0.008	-0.044	-0.038	-0.058	0.004	0.004	-0.003
2	TTF	1	-0.028	**-0.165**	**0.176**	-0.002	**0.157**	**0.497**	**-0.138**	**-0.189**	**-0.162**	-0.008	0.039	-0.034	0.032	**0.072**	**-0.127**	**0.069**	**0.134**
3	Cash deal		1	**0.077**	**-0.354**	**0.225**	**-0.230**	0.030	**0.100**	-0.013	0.058	**-0.158**	0.020	-0.053	0.012	**0.065**	**-0.137**	**-0.071**	0.041
4	Toehold			1	**-0.079**	**0.060**	**-0.127**	**-0.103**	**0.155**	-0.022	0.046	-0.007	**-0.095**	-0.009	0.040	-0.044	**0.058**	-0.035	-0.043
5	Public bidder				1	0.003	**0.433**	**0.105**	**-0.196**	**0.064**	-0.016	**0.099**	**0.072**	0.019	**0.069**	**0.134**	**-0.111**	**0.154**	**0.062**
6	Tender offer					1	-0.053	0.022	-0.050	**0.118**	**0.152**	**-0.103**	**0.088**	-0.049	0.052	**0.102**	-0.051	0.012	**0.069**
7	Related						1	**0.092**	**-0.173**	-0.007	-0.006	**0.105**	0.045	-0.020	0.009	0.022	**-0.061**	0.036	-0.003
8	Fiduciary-out							1	**-0.110**	**-0.118**	**-0.112**	-0.026	**0.083**	-0.040	0.012	0.041	**-0.090**	**0.070**	**0.106**
9	MBO								1	-0.018	-0.019	-0.036	-0.059	**0.094**	-0.024	-0.037	**0.091**	0.008	-0.054
10	Hostile									1	**0.318**	0.029	0.051	-0.020	0.042	0.026	0.051	**0.090**	-0.002
11	Poison pill										1	-0.005	0.060	-0.010	0.030	-0.014	0.007	0.054	-0.045
12	Ln(Board size)											1	**0.071**	0.058	**0.148**	**-0.090**	**0.111**	**0.363**	-0.020
13	Independence												1	**-0.079**	**0.092**	-0.036	**-0.082**	0.042	-0.049
14	Duality													1	0.005	-0.008	**0.103**	**0.187**	-0.018
15	Board busyness														1	**0.107**	**0.069**	**0.282**	0.025
16	M/B															1	**-0.097**	**0.232**	**0.132**
17	Leverage																1	**0.116**	-0.008
18	Ln(Market cap)																	1	**0.195**
19	Run-up																		1

Table 1
Descriptive Statistics of Go-Shop Deals

The sample consists of 1,963 completed and withdrawn deals from 2004 to 2012 identified from the Securities Data Corporation (SDC) Mergers and Acquisition Database. My sample excludes deals labeled as spinoffs, recapitalizations, self-tenders, exchange offers, repurchases, minority stake purchases, acquisitions of remaining interest, and privatizations in SDC. Deals are eliminated from the sample if the target is not on both the Center for Research in Security Prices (CRSP) and Compustat databases. Panel A shows the distribution of go-shop provisions over the period between 2004 and 2012. Panel B reports means and medians for deal and target characteristics in the sample from 2004 to 2012. Deal value is the compensation (in millions) paid by the acquirer to the target. TTF is a dummy variable equal to one if a target termination fee is used in the merger agreement and zero otherwise. Cash deal is a dummy variable equal to one if 100% of the deal is financed with cash and zero otherwise. Toehold is a dummy variable equal to one if the fraction of the target's common stock owned by the bidder is greater than 5% before the bid announcement date and zero otherwise. Public bidder is a dummy variable equal to one if the bidder in a deal is a public firm. Tender offer is a dummy variable equal to one if a deal is identified as a tender offer by SDC and zero otherwise. Related is a dummy variable equal to one if the target is from the same industry as the acquirer where industry definitions are taken from Fama and French 12 industry classifications. Fiduciary-out is a dummy variable equal to one if a fiduciary-out provision is included in the merger agreement and zero otherwise. MBO is a dummy variable equal to one if the management of the target is reported by SDC to be involved in the transaction and zero otherwise. Hostile is a dummy variable equal to one if the attitude of bid is defined as "hostile" by SDC and zero otherwise. Poison pill is a dummy variable equal to one if a poison pill affects the bidder's acquisition attempt and zero otherwise. Ln(Board size) is the natural log of the number of directors on a target board. Independence is the percentage of non-executive directors on a target board. Duality is a dummy variable equal to one if the target CEO is also chairman of the target board and zero otherwise. Board busyness is the percentage of target board members who serve on at least three boards. M/B equals the target's market value of assets divided by book value of assets. Leverage is the target's long-term and current liabilities divided by total assets. Ln(Market cap) is the natural log of a target's market value (in thousands) of equity computed 42 trading days prior to the deal announcement. Run-up is the target's market-adjusted buy-and-hold return from 252 days prior to the bid announcement to 6 days prior to the bid announcement. All continuous variables are winsorized at 1%. ***,**,* indicate that the mean and median data are significantly different between go-shop and no-shop deals at the 1%, 5%, and 10% level, respectively.

Panel A

Year	Full Sample	No-shop	Go-shop	Go-shop%
2004	217	214	3	1.38%
2005	240	239	1	0.42%
2006	271	261	10	3.69%
2007	292	259	33	11.30%
2008	208	195	13	6.25%
2009	166	153	13	7.83%
2010	210	188	22	10.48%
2011	177	160	17	9.60%
2012	182	157	25	13.74%
Total	1963	1826	137	6.98%

Table 1 (Continued)

Panel B

	Full Sample		No Shop		Go Shop		
Variable	N	Mean [Median]	N	Mean [Median]	N	Mean [Median]	
TTF	1963	0.820	1826	0.813	137	0.905	***
Cash deal	1963	0.596	1826	0.579	137	0.810	***
Toehold	1963	0.035	1826	0.032	137	0.066	**
Public bidder	1963	0.614	1826	0.644	137	0.219	***
Tender offer	1963	0.163	1826	0.164	137	0.146	
Related	1963	0.643	1826	0.666	137	0.343	***
Fiduciary-out	1963	0.643	1826	0.636	137	0.745	**
MBO	1963	0.023	1826	0.020	137	0.066	***
Hostile	1963	0.013	1826	0.014	137	0.007	
Poison pill	1963	0.015	1826	0.015	137	0.007	
Ln(Board size)	1613	2.067	1478	2.072	135	2.014	**
		[2.079]		[2.079]		[1.946]	**
Independence	1613	0.740	1478	0.740	135	0.744	
		[0.778]		[0.778]		[0.778]	
Duality	1613	0.539	1478	0.545	135	0.467	*
Board busyness	1613	0.421	1478	0.424	135	0.392	
		[0.429]		[0.429]		[0.400]	
M/B	1963	1.680	1826	1.697	137	1.459	**
		[1.324]		[1.322]		[1.336]	
Leverage	1963	0.202	1826	0.202	137	0.205	
		[0.135]		[0.135]		[0.128]	
Ln(Market cap)	1963	12.494	1826	12.492	137	12.517	
		[12.441]		[12.432]		[12.760]	
Run-up	1963	-0.029	1826	-0.028	137	-0.034	
		[-0.080]		[-0.076]		[-0.107]	

Table 2
Go-Shop Deal Characteristics

This table shows detailed characteristics of go-shop deals. Panel A contains statistics of go-shop deal characteristics which are hand collected from SEC filings. Gsdays is the length of the go-shop period in the number of days. Solicited is the number of potential buyers contacted by the target and/or its financial advisors during the go-shop period. Confidentiality is the number of confidentiality agreements entered into between the target and potential buyers during the go-shop period. Bifurcated TF is a dummy variable equal to one if there is a bifurcated termination fee structure in the initial merger agreement and zero otherwise. Panel B gives the Pearson correlation among the go-shop characteristics. ***, **, * indicate significance at the 1%, 5%, or 10% level, respectively.

Panel A

Variable	N	Mean (Std Dev)	Median	Min	Max
Gsdays	135	36.126 (10.015)	37	14	60
Solicited	100	51.870 (33.101)	45	4	140
Confidentiality	91	4.604 (6.410)	3	0	36
Bifurcated TF	126	0.714 (0.454)	1	0	1

Panel B

Variable		Gsdays	Solicited	Confidentiality	Bifurcated TF
Gsdays	135	1	0.274*** (0.006)	0.363*** (0.000)	0.319*** (0.000)
Solicited	100		1	0.559*** (0.000)	0.005 (0.963)
Confidentiality	91			1	-0.235** (0.026)
Bifurcated TF	126				1

Table 3
Determinants of Go-Shop Provisions

This table reports determinants of the use of go-shop provisions using logistic regressions. Model 1 is the baseline model including the control variables employed in this study. Model 2 examines the impact of the instrumental variable, special committee, on the use of go-shop provisions. Model 3 is the first stage regression in Heckman two-stage procedure including the instrumental variable. TTF is a dummy variable equal to one if a target termination fee is used in the merger agreement and zero otherwise. Cash deal is a dummy variable equal to one if 100% of the deal is financed with cash and zero otherwise. Toehold is a dummy variable equal to one if the fraction of the target's common stock owned by the bidder is greater than 5% before the bid announcement date and zero otherwise. Public bidder is a dummy variable equal to one if the bidder in a deal is a public firm. Tender offer is a dummy variable equal to one if a deal is identified as a tender offer by SDC and zero otherwise. Related is a dummy variable equal to one if the target is from the same industry as the acquirer where industry definitions are taken from Fama and French 12 industry classifications. Fiduciary-out is a dummy variable equal to one if a fiduciary-out provision is included in the merger agreement and zero otherwise. MBO is a dummy variable equal to one if the management of the target is reported by SDC to be involved in the transaction and zero otherwise. Hostile is a dummy variable equal to one if the attitude of bid is defined as "hostile" by SDC and zero otherwise. Poison pill is a dummy variable equal to one if a poison pill affects the bidder's acquisition attempt and zero otherwise. Ln(Board size) is the natural log of the number of directors on a target board. Independence is the percentage of non-executive directors on a target board. Duality is a dummy variable equal to one if the target CEO is also chairman of the target board and zero otherwise. Board busyness is the percentage of target board members who serve on at least three boards. M/B equals the target's market value of assets divided by book value of assets. Leverage is the target's long-term and current liabilities divided by total assets. Ln(Market cap) is the natural log of a target's market value (in thousands) of equity computed 42 trading days prior to the deal announcement. Run-up is the target's market-adjusted buy-and-hold return from 252 days prior to the bid announcement to 6 days prior to the bid announcement. Special committee is a dummy variable equal to one if the target firm forms a special committee during the negotiations with the bidder and zero otherwise. All continuous variables are winsorized at 1%. The regressions control for year fixed effects. ***, **, * indicate significance at the 1%, 5%, or 10% level, respectively.

	Model 1 (Logistic)		Model 2 (IV)		Model 3 (Heckman First-Stage)	
Parameter	Estimate		Estimate		Estimate	
Intercept	-3.306	**	-4.345	***	-3.454	**
	(0.016)		(0.000)		(0.012)	
TTF	1.234	***			1.219	***
	(0.001)				(0.001)	
Cash deal	0.408				0.382	
	(0.124)				(0.153)	
Toehold	0.411				0.338	
	(0.355)				(0.448)	
Public bidder	-1.406	***			-1.309	***
	(0.000)				(0.000)	
Tender offer	-0.448				-0.344	
	(0.104)				(0.219)	
Related	-0.796	***			-0.735	***
	(0.000)				(0.001)	
Fiduciary-out	0.048				-0.282	
	(0.861)				(0.321)	
MBO	0.532				0.429	
	(0.259)				(0.368)	
Hostile	0.855				0.918	
	(0.477)				(0.428)	
Poison pill	-0.597				-0.641	
	(0.592)				(0.566)	

Table 3 (Continued)

	Model 1 (Logistic)		Model 2 (IV)		Model 3 (Heckman First-Stage)	
Parameter	Estimate		Estimate		Estimate	
Ln(Board size)	-0.739	*			-0.679	
	(0.085)				(0.120)	
Independence	0.297				0.418	
	(0.701)				(0.597)	
Duality	-0.286				-0.272	
	(0.158)				(0.185)	
Board busyness	-0.686				-0.610	
	(0.129)				(0.186)	
M/B	-0.369	**			-0.333	**
	(0.019)				(0.035)	
Leverage	-0.229				-0.310	
	(0.608)				(0.496)	
Ln(Market cap)	0.191	**			0.182	**
	(0.010)				(0.014)	
Run-up	0.018				0.027	
	(0.939)				(0.909)	
Special committee			1.536	***	1.049	***
			(0.000)		(0.000)	
Num. of Observations	1613		1963		1613	
Pseudo R-Squared	0.101		0.057		0.110	

Table 4
Wealth Effect Univariate Analyses

This table contains univariate analyese results. Panel A exhibits the mean and median (in parentheses) 3-day (-1, +1) cumulative abnormal returns (CARs) for the target, acquirer, and the synergy in the full sample, the go-shop sample, and the no-shop sample. TCAR and ACAR are the 3-day CARs for the target and the acquirer, respectively. Acquisition synergy (PCAR) is measured using the methodology employed by Bradley, Desai, and Kim (1988) and Wang and Xie (2009). For each acquisition, a value-weighted portfolio of the bidder and the target is formed, with the weights based on their respective market capitalizations 42 trading days prior to the initial announcement of the merger. The acquisition synergy (PCAR) is defined as the portfolio's cumulative abnormal return during the event window. Panel B shows means and medians (in parentheses) for different measures of the premium offered to target shareholders in the full sample, go-shop sample, and no-shop sample. The calculation of the premium in this study follows Officer (2003). The target premium is defined as {(Bidder's offer/Target's market value of equity 42 trading days prior to announcement date) - 1}. Four different methods are used to compute the premium paid to the target. The first method uses the total value of the transaction, which is referred to as the component data in Officer (2003). The second and third methods use "initial offer price" and "final offer price", respectively, both reported by SDC. The denominator for all premium measures is the target's market value of equity 42 days prior to the bid announcement. Due to the outlier issue pointed out by Bates and Lemmon (2003) and Officer (2003), a fourth measure, called the combined premium, is computed. Combined premium is based on the component data if that data results in a value between 0 and 2, and if not, relies on initial price (or final offer price if initial price data is missing) if that data provides a value between 0 and 2. If neither condition is met, the combined premium is left as a missing observation. For both Panel A and Panel B, the last column is the test statistics testing the significance of the difference in mean (median) between the go-shop sample and no-shop sample. ***, **, * indicate significance at the 1%, 5%, or 10% level, respectively.

Panel A

Variables	Full Sample	No Shop	Go Shop	T-test (Wilcoxon Test)	
TCAR	0.245	0.241	0.301	0.009	***
	(0.206)	(0.204)	(0.220)	(0.029)	**
ACAR	-0.011	-0.011	-0.006	0.746	
	(-0.008)	(-0.008)	(-0.001)	(0.226)	
PCAR	0.024	0.023	0.063	0.009	***
	(0.012)	(0.011)	(0.069)	(0.001)	***

Panel B

Variables	Full Sample	No-Shop	Go-Shop	T-test (Wilcoxon Test)
Premium based on component data	0.512	0.511	0.525	0.692
	(0.412)	(0.412)	(0.414)	(0.839)
Premium based on initial price data	0.394	0.397	0.363	0.229
	(0.326)	(0.328)	(0.296)	(0.183)
Premium based on final price data	0.407	0.408	0.405	0.914
	(0.334)	(0.338)	(0.313)	(0.522)
Combined premium	0.506	0.506	0.506	0.989
	(0.407)	(0.407)	(0.381)	(0.537)

Table 5
Multivariate Regression of Target Announcement Returns

This table presents multivariate regression results for deal premiums. The dependent variable is the target's cumulative abnormal returns (CARs) over the 3-day (-1, +1) event window around the bid announcement date, where event day 0 is the bid announcement date. Model 1 shows the OLS regression results. Model 2 is the result of Heckman two-stage regression. Model 3 and 4 focus on the go-shop sample only. Go-shop is a dummy variable equal to one if a deal contains a go-shop provision in the merger agreement and zero otherwise. Gsdays is the length of the go-shop period in the number of days. Bifurcated TF is a dummy variable equal to one if there is a bifurcated termination fee structure in the agreement with the initial bidder and zero otherwise. TTF is a dummy variable equal to one if a target termination fee is used in the merger agreement and zero otherwise. Cash deal is a dummy variable equal to one if 100% of the deal is financed with cash and zero otherwise. Toehold is a dummy variable equal to one if the fraction of the target's common stock owned by the bidder is greater than 5% before the bid announcement date and zero otherwise. Public bidder is a dummy variable equal to one if the bidder in a deal is a public firm. Tender offer is a dummy variable equal to one if a deal is identified as a tender offer by SDC and zero otherwise. Related is a dummy variable equal to one if the target is from the same industry as the acquirer where industry definitions are taken from Fama and French 12 industry classifications. Fiduciary-out is a dummy variable equal to one if a fiduciary-out provision is included in the merger agreement and zero otherwise. MBO is a dummy variable equal to one if the management of the target is reported by SDC to be involved in the transaction and zero otherwise. Hostile is a dummy variable equal to one if the attitude of bid is defined as "hostile" by SDC and zero otherwise. Poison pill is a dummy variable equal to one if a poison pill affects the bidder's acquisition attempt and zero otherwise. Ln(Board size) is the natural log of the number of directors on a target board. Independence is the percentage of non-executive directors on a target board. Duality is a dummy variable equal to one if the target CEO is also chairman of the target board and zero otherwise. Board busyness is the percentage of target board members who serve on at least three boards. M/B equals the target's market value of assets divided by book value of assets. Leverage is the target's long-term and current liabilities divided by total assets. Ln(Market cap) is the natural log of a target's market value (in thousands) of equity computed 42 trading days prior to the deal announcement. Run-up is the target's market-adjusted buy-and-hold return from 252 days prior to the bid announcement to 6 days prior to the bid announcement. All continuous variables are winsorized at 1%. The regressions control for year fixed effects. White's heteroskedasticity-consistent p-values are provided in parentheses. ***, **, * indicate significance at the 1%, 5%, or 10% level, respectively.

	Full Sample		Go-shop Sample	
	Model 1 (OLS)	Model 2 (Heckman)	Model 3	Model 4
Intercept	0.216 ***	0.142	1.075 **	1.264 **
	(0.003)	(0.165)	(0.014)	(0.010)
Go-shop	0.045 *	0.047 *		
	(0.083)	(0.075)		
Gsdays			0.000	
			(0.952)	
Bifurcated TF				0.121 **
				(0.047)
TTF	0.109 ***	0.128 ***	0.203	0.215 *
	(0.000)	(0.000)	(0.100)	(0.093)
Cash deal	0.086 ***	0.092 ***	-0.115	-0.084
	(0.000)	(0.000)	(0.106)	(0.219)
Toehold	0.038	0.045	0.060	0.127
	(0.357)	(0.296)	(0.688)	(0.507)
Public bidder	0.065 ***	0.044 *	0.039	0.098 *
	(0.000)	(0.094)	(0.417)	(0.064)
Tender offer	0.071 ***	0.064 ***	-0.021	-0.002
	(0.000)	(0.002)	(0.704)	(0.977)
Related	0.024 *	0.012	-0.107 **	-0.090 *
	(0.090)	(0.529)	(0.043)	(0.089)
Fiduciary-out	0.010	0.008	-0.034	-0.018
	(0.528)	(0.630)	(0.664)	(0.827)
MBO	0.004	0.013	-0.029	-0.037
	(0.896)	(0.649)	(0.677)	(0.612)
Hostile	0.040	0.052	0.058	0.039
	(0.356)	(0.250)	(0.530)	(0.671)
Poison pill	0.030	0.020	-0.081	-0.172
	(0.361)	(0.574)	(0.489)	(0.156)

Table 5 (Continued)

	Full Sample		Go-shop Sample	
	Model 1 (OLS)	Model 2 (Heckman)	Model 3	Model 4
Ln(Board size)	0.024	0.012	-0.091	-0.192
	(0.329)	(0.662)	(0.449)	(0.138)
Independence	0.040	0.046	0.058	0.156
	(0.329)	(0.270)	(0.759)	(0.417)
Duality	-0.004	-0.010	-0.019	-0.014
	(0.746)	(0.478)	(0.658)	(0.731)
Board busyness	0.054 *	0.046	0.145	0.192 *
	(0.070)	(0.151)	(0.213)	(0.087)
M/B	0.004	0.000	-0.025	-0.017
	(0.497)	(0.965)	(0.508)	(0.743)
Leverage	-0.003	-0.007	-0.079	-0.112
	(0.927)	(0.824)	(0.425)	(0.225)
Ln(Market cap)	-0.025 ***	-0.023 ***	-0.053 **	-0.060 **
	(0.000)	(0.000)	(0.042)	(0.019)
Run-up	-0.096 ***	-0.095 ***	-0.136 **	-0.140 **
	(0.000)	(0.000)	(0.018)	(0.016)
Inverse Mills Ratio		0.037		
		(0.323)		
Num. of Observations	1613	1613	133	124
Adjusted R-Squared	0.153	0.153	0.079	0.124

Table 6
Multivariate Regression of Bidder Announcement Returns

This table presents multivariate regression results for deal premiums. The dependent variable is the bidder's cumulative abnormal returns (CARs) over the 3-day (-1, +1) event window around the bid announcement date, where event day 0 is the bid announcement date. Model 1 shows the OLS regression results. Model 2 is the result of Heckman two-stage regression. Go-shop is a dummy variable equal to one if a deal contains a go-shop provision in the merger agreement and zero otherwise. TTF is a dummy variable equal to one if a target termination fee is used in the merger agreement and zero otherwise. Cash deal is a dummy variable equal to one if 100% of the deal is financed with cash and zero otherwise. Toehold is a dummy variable equal to one if the fraction of the target's common stock owned by the bidder is greater than 5% before the bid announcement date and zero otherwise. Public bidder is a dummy variable equal to one if the bidder in a deal is a public firm. Tender offer is a dummy variable equal to one if a deal is identified as a tender offer by SDC and zero otherwise. Related is a dummy variable equal to one if the target is from the same industry as the acquirer where industry definitions are taken from Fama and French 12 industry classifications. Fiduciary-out is a dummy variable equal to one if a fiduciary-out provision is included in the merger agreement and zero otherwise. MBO is a dummy variable equal to one if the management of the target is reported by SDC to be involved in the transaction and zero otherwise. Hostile is a dummy variable equal to one if the attitude of bid is defined as "hostile" by SDC and zero otherwise. Poison pill is a dummy variable equal to one if a poison pill affects the bidder's acquisition attempt and zero otherwise. Ln(Board size) is the natural log of the number of directors on a target board. Independence is the percentage of non-executive directors on a target board. Duality is a dummy variable equal to one if the target CEO is also chairman of the target board and zero otherwise. Board busyness is the percentage of target board members who serve on at least three boards. M/B equals the target's market value of assets divided by book value of assets. Leverage is the target's long-term and current liabilities divided by total assets. Ln(Market cap) is the natural log of a target's market value (in thousands) of equity computed 42 trading days prior to the deal announcement. Run-up is the target's market-adjusted buy-and-hold return from 252 days prior to the bid announcement to 6 days prior to the bid announcement. All continuous variables are winsorized at 1%. The regressions control for year fixed effects. White's heteroskedasticity-consistent p-values are provided in parentheses. ***, **, * indicate significance at the 1%, 5%, or 10% level, respectively.

	Model 1 (OLS)		Model 2 (Heckman)	
Intercept	-0.001		-0.004	
	(0.980)		(0.952)	
Go-shop	-0.005		-0.005	
	(0.837)		(0.837)	
TTF	-0.019	**	-0.018	
	(0.029)		(0.244)	
Cash deal	0.022	***	0.023	***
	(0.000)		(0.002)	
Toehold	-0.025		-0.024	
	(0.192)		(0.222)	
Public bidder				
Tender offer	0.008		0.008	
	(0.191)		(0.290)	
Related	-0.001		-0.001	
	(0.940)		(0.908)	
Fiduciary-out	0.002		0.002	
	(0.729)		(0.763)	
MBO				
Hostile	-0.022		-0.022	
	(0.242)		(0.291)	
Poison pill	0.036	***	0.036	**
	(0.009)		(0.023)	

Table 6 (Continued)

	Model 1 (OLS)		Model 2 (Heckman)	
Ln(Board size)	0.001		0.000	
	(0.944)		(0.990)	
Independence	0.001		0.002	
	(0.941)		(0.933)	
Duality	-0.004		-0.004	
	(0.498)		(0.591)	
Board busyness	-0.006		-0.006	
	(0.631)		(0.648)	
M/B	-0.004		-0.004	
	(0.136)		(0.388)	
Leverage	0.058	***	0.058	***
	(0.000)		(0.001)	
Ln(Market cap)	-0.003	*	-0.003	
	(0.082)		(0.264)	
Run-up	0.008		0.008	
	(0.159)		(0.160)	
Inverse Mills Ratio			0.001	
			(0.955)	
Num. of Observations	721		721	
Adjusted R-Squared	0.065		0.064	

Table 7
Multivariate Regression of Synergy

This table presents multivariate regression results for deal premiums. The dependent variable is the synergy created between the target and the bidder over the 3-day (-1, +1) event window around the bid announcement date, where event day 0 is the bid announcement date. Model 1 shows the OLS regression results. Model 2 is the result of Heckman two-stage regression. Go-shop is a dummy variable equal to one if a deal contains a go-shop provision in the merger agreement and zero otherwise. TTF is a dummy variable equal to one if a target termination fee is used in the merger agreement and zero otherwise. Cash deal is a dummy variable equal to one if 100% of the deal is financed with cash and zero otherwise. Toehold is a dummy variable equal to one if the fraction of the target's common stock owned by the bidder is greater than 5% before the bid announcement date and zero otherwise. Public bidder is a dummy variable equal to one if the bidder in a deal is a public firm. Tender offer is a dummy variable equal to one if a deal is identified as a tender offer by SDC and zero otherwise. Related is a dummy variable equal to one if the target is from the same industry as the acquirer where industry definitions are taken from Fama and French 12 industry classifications. Fiduciary-out is a dummy variable equal to one if a fiduciary-out provision is included in the merger agreement and zero otherwise. MBO is a dummy variable equal to one if the management of the target is reported by SDC to be involved in the transaction and zero otherwise. Hostile is a dummy variable equal to one if the attitude of bid is defined as "hostile" by SDC and zero otherwise. Poison pill is a dummy variable equal to one if a poison pill affects the bidder's acquisition attempt and zero otherwise. Ln(Board size) is the natural log of the number of directors on a target board. Independence is the percentage of non-executive directors on a target board. Duality is a dummy variable equal to one if the target CEO is also chairman of the target board and zero otherwise. Board busyness is the percentage of target board members who serve on at least three boards. M/B equals the target's market value of assets divided by book value of assets. Leverage is the target's long-term and current liabilities divided by total assets. Ln(Market cap) is the natural log of a target's market value (in thousands) of equity computed 42 trading days prior to the deal announcement. Run-up is the target's market-adjusted buy-and-hold return from 252 days prior to the bid announcement to 6 days prior to the bid announcement. All continuous variables are winsorized at 1%. The regressions control for year fixed effects. White's heteroskedasticity-consistent p-values are provided in parentheses. ***, **, * indicate significance at the 1%, 5%, or 10% level, respectively.

	Model 1 (OLS)		Model 2 (Heckman)	
Intercept	0.006		0.004	
	(0.852)		(0.941)	
Go-shop	0.034	***	0.034	***
	(0.005)		(0.005)	
TTF	-0.018	**	-0.018	
	(0.045)		(0.203)	
Cash deal	0.006		0.006	
	(0.277)		(0.346)	
Toehold	-0.046	**	-0.045	**
	(0.022)		(0.023)	
Public bidder				
Tender offer	0.006		0.006	
	(0.381)		(0.437)	
Related	0.002		0.002	
	(0.769)		(0.834)	
Fiduciary-out	0.004		0.004	
	(0.565)		(0.587)	
MBO				
Hostile	0.023		0.023	
	(0.333)		(0.346)	
Poison pill	0.063	**	0.063	**
	(0.032)		(0.036)	

Table 7 (Continued)

	Model 1 (OLS)		Model 2 (Heckman)	
Ln(Board size)	0.003		0.003	
	(0.786)		(0.838)	
Independence	0.003		0.004	
	(0.879)		(0.879)	
Duality	-0.004		-0.004	
	(0.442)		(0.506)	
Board busyness	0.001		0.001	
	(0.918)		(0.927)	
M/B	-0.004		-0.004	
	(0.174)		(0.330)	
Leverage	0.035	**	0.035	**
	(0.037)		(0.042)	
Ln(Market cap)	0.001		0.001	
	(0.780)		(0.802)	
Run-up	-0.008		-0.008	
	(0.244)		(0.245)	
Inverse Mills Ratio			0.000	
			(0.981)	
Num. of Observations	721		721	
Adjusted R-Squared	0.042		0.041	

Table 8
Multivariate Regression of Premium

This table presents multivariate regression results for deal premiums. The dependent variable is the combined premium calculated in Table 4. Model 1 shows the OLS regression results. Model 2 is the result of Heckman two-stage regression. Go-shop is a dummy variable equal to one if a deal contains a go-shop provision in the merger agreement and zero otherwise. TTF is a dummy variable equal to one if a target termination fee is used in the merger agreement and zero otherwise. Cash deal is a dummy variable equal to one if 100% of the deal is financed with cash and zero otherwise. Toehold is a dummy variable equal to one if the fraction of the target's common stock owned by the bidder is greater than 5% before the bid announcement date and zero otherwise. Public bidder is a dummy variable equal to one if the bidder in a deal is a public firm. Tender offer is a dummy variable equal to one if a deal is identified as a tender offer by SDC and zero otherwise. Related is a dummy variable equal to one if the target is from the same industry as the acquirer where industry definitions are taken from Fama and French 12 industry classifications. Fiduciary-out is a dummy variable equal to one if a fiduciary-out provision is included in the merger agreement and zero otherwise. MBO is a dummy variable equal to one if the management of the target is reported by SDC to be involved in the transaction and zero otherwise. Hostile is a dummy variable equal to one if the attitude of bid is defined as "hostile" by SDC and zero otherwise. Poison pill is a dummy variable equal to one if a poison pill affects the bidder's acquisition attempt and zero otherwise. Ln(Board size) is the natural log of the number of directors on a target board. Independence is the percentage of non-executive directors on a target board. Duality is a dummy variable equal to one if the target CEO is also chairman of the target board and zero otherwise. Board busyness is the percentage of target board members who serve on at least three boards. M/B equals the target's market value of assets divided by book value of assets. Leverage is the target's long-term and current liabilities divided by total assets. Ln(Market cap) is the natural log of a target's market value (in thousands) of equity computed 42 trading days prior to the deal announcement. Run-up is the target's market-adjusted buy-and-hold return from 252 days prior to the bid announcement to 6 days prior to the bid announcement. All continuous variables are winsorized at 1%. The regressions control for year fixed effects. White's heteroskedasticity-consistent p-values are provided in parentheses. ***, **, * indicate significance at the 1%, 5%, or 10% level, respectively.

	Model 1 (OLS)		Model 2 (Heckman)	
Intercept	0.952	***	1.013	***
	(0.000)		(0.000)	
Go-shop	0.036		0.035	
	(0.311)		(0.330)	
TTF	0.059	*	0.043	
	(0.063)		(0.378)	
Cash deal	-0.067	***	-0.072	***
	(0.004)		(0.008)	
Toehold	-0.171	***	-0.176	***
	(0.001)		(0.001)	
Public bidder	0.053	**	0.070	
	(0.028)		(0.152)	
Tender offer	0.078	***	0.083	***
	(0.002)		(0.004)	
Related	-0.024		-0.014	
	(0.281)		(0.650)	
Fiduciary-out	-0.014		-0.013	
	(0.548)		(0.611)	
MBO	-0.038		-0.045	
	(0.424)		(0.377)	
Hostile	0.028		0.018	
	(0.718)		(0.824)	
Poison pill	0.077		0.086	
	(0.332)		(0.300)	

Table 8 (Continued)

	Model 1 (OLS)		Model 2 (Heckman)	
Ln(Board size)	0.105	***	0.115	**
	(0.007)		(0.015)	
Independence	0.114		0.110	
	(0.105)		(0.125)	
Duality	0.018		0.022	
	(0.349)		(0.325)	
Board busyness	0.137	***	0.145	***
	(0.002)		(0.002)	
M/B	0.029	***	0.033	**
	(0.007)		(0.022)	
Leverage	0.237	***	0.240	***
	(0.000)		(0.000)	
Ln(Market cap)	-0.068	***	-0.071	***
	(0.000)		(0.000)	
Run-up	0.048	**	0.047	*
	(0.047)		(0.053)	
Inverse Mills Ratio			-0.029	
			(0.687)	
Num. of Observations	1474		1474	
Adjusted R-Squared	0.115		0.114	

Table 9
Initial Bidder Behavior: Changes from the Initial Offer to the Final Offer

This table examines the impact of go-shop provisions on the initial bidder's behavior using logistic regressions. Model 1 and 2 include firms in the full sample, while Model 3 through Model 6 focus on go-shop deals only. The dependent variable is a dummy variable equal to one if a bidder's final offer is higher than the initial offer and zero if the final offer is the same as or below the initial offer. Go-shop is a dummy variable equal to one if a deal contains a go-shop provision in the merger agreement and zero otherwise. Gsdays is the length of the go-shop period in the number of days. Solicited is the number of potential bidders contacted by the target during the go-shop period. Confidentiality is the number of confidentiality agreements entered between the target and potential buyers during the go-shop period. Bifurcated TF is a dummy variable equal to one if there is a bifurcated termination fee structure in the agreement with the initial bidder and zero otherwise. Challenged deal is is a dummy variable equal to one if a third party launched a competing offer when the initial bid was pending and zero otherwise. Initial premium is calculated as {(Bidder's initial offer/Target's market value of equity 42 trading days prior to announcement date) - 1}. TTF is a dummy variable equal to one if a target termination fee is used in the merger agreement and zero otherwise. Cash deal is a dummy variable equal to one if 100% of the deal is financed with cash and zero otherwise. Toehold is a dummy variable equal to one if the fraction of the target's common stock owned by the bidder is greater than 5% before the bid announcement date and zero otherwise. Public bidder is a dummy variable equal to one if the bidder in a deal is a public firm. Tender offer is a dummy variable equal to one if a deal is identified as a tender offer by SDC and zero otherwise. Related is a dummy variable equal to one if the target is from the same industry as the acquirer where industry definitions are taken from Fama and French 12 industry classifications. Fiduciary-out is a dummy variable equal to one if a fiduciary-out provision is included in the merger agreement and zero otherwise. MBO is a dummy variable equal to one if the management of the target is reported by SDC to be involved in the transaction and zero otherwise. Hostile is a dummy variable equal to one if the attitude of bid is defined as "hostile" by SDC and zero otherwise. Poison pill is a dummy variable equal to one if a poison pill affects the bidder's acquisition attempt and zero otherwise. Ln(Board size) is the natural log of the number of directors on a target board. Independence is the percentage of non-executive directors on a target board. Duality is a dummy variable equal to one if the target CEO is also chairman of the target board and zero otherwise. Board busyness is the percentage of target board members who serve on at least three boards. M/B equals the target's market value of assets divided by book value of assets. Leverage is the target's long-term and current liabilities divided by total assets. Ln(Market cap) is the natural log of a target's market value (in thousands) of equity computed 42 trading days prior to the deal announcement. Run-up is the target's market-adjusted buy-and-hold return from 252 days prior to the bid announcement to 6 days prior to the bid announcement. All continuous variables are winsorized at 1%. The regressions control for year fixed effects. P-values are provided in parentheses. Estimates marked as "-" are ommitted due to separation issues in logistic regressions. ***, **, * indicate significance at the 1%, 5%, or 10% level, respectively.

	Full Sample		Go-Shop Sample			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	-3.422 **	-3.464 **	1.914	-6.911	-4.805	-0.819
	(0.010)	(0.013)	(0.732)	(0.433)	(0.630)	(0.902)
Go-shop	0.820 **	0.768 **				
	(0.012)	(0.028)				
Gsdays			0.076			
			(0.114)			
Solicited				0.041 **		
				(0.019)		
Confidentiality					0.220 *	
					(0.070)	
Bifurcated TF						-0.546
						(0.521)
Challenged deal		2.495 ***	2.697 **	2.503	2.872	2.702 **
		(0.000)	(0.020)	(0.190)	(0.161)	(0.020)
Initial premium		-0.335	-1.678	0.685	0.535	-0.938
		(0.448)	(0.322)	(0.714)	(0.786)	(0.558)
TTF	-0.852 ***	-0.837 ***	-2.461 *	-1.885	-3.461 *	-2.423 *
	(0.005)	(0.009)	(0.070)	(0.282)	(0.079)	(0.083)
Cash deal	0.117	0.204	0.925	0.535	1.431	1.274
	(0.661)	(0.468)	(0.388)	(0.726)	(0.378)	(0.323)
Toehold	1.997 ***	2.041 ***	2.408 *	3.408	4.014 *	2.654 *
	(0.000)	(0.000)	(0.051)	(0.107)	(0.066)	(0.072)
Public bidder	0.160	0.442	2.619 ***	2.058	2.712 *	2.501 **
	(0.572)	(0.149)	(0.004)	(0.109)	(0.082)	(0.011)
Tender offer	0.144	0.311	1.095	2.121	0.722	0.265
	(0.606)	(0.284)	(0.205)	(0.103)	(0.603)	(0.794)
Related	-0.024	-0.077	-1.363	-0.480	-1.587	-1.704 *
	(0.925)	(0.773)	(0.126)	(0.700)	(0.244)	(0.080)
Fiduciary-out	-0.482 *	-0.503 *	0.765	0.508	1.328	1.179
	(0.086)	(0.090)	(0.472)	(0.783)	(0.452)	(0.316)
MBO	1.783 ***	1.803 ***	3.709 ***	4.507 **	4.881 **	3.185 ***
	(0.000)	(0.000)	(0.004)	(0.010)	(0.018)	(0.006)
Hostile	0.933	0.009	-	-	-	-
	(0.142)	(0.990)				
Poison pill	2.687 ***	2.984 ***	-	-	-	-
	(0.000)	(0.000)				

Table 9 (Continued)

	Full Sample		Go-Shop Sample			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Ln(Board size)	-0.601	-0.533	-1.035	-1.456	-0.341	-0.664
	(0.194)	(0.264)	(0.542)	(0.613)	(0.906)	(0.730)
Independence	0.637	0.100	-0.065	-0.867	0.365	1.010
	(0.446)	(0.908)	(0.983)	(0.794)	(0.924)	(0.742)
Duality	-0.455 **	-0.478 **	-0.270	0.753	0.272	-0.028
	(0.046)	(0.044)	(0.745)	(0.542)	(0.817)	(0.973)
Board busyness	-0.154	-0.118	-0.876	-3.149	-4.358	-1.013
	(0.759)	(0.824)	(0.620)	(0.286)	(0.155)	(0.583)
M/B	0.017	-0.025	-0.055	-0.842	-0.943	-0.238
	(0.883)	(0.840)	(0.930)	(0.536)	(0.495)	(0.773)
Leverage	0.596	0.739	-0.381	1.202	-0.585	-1.009
	(0.201)	(0.124)	(0.835)	(0.617)	(0.793)	(0.582)
Ln(Market cap)	0.148 *	0.150 *	-0.303	0.506	0.296	0.022
	(0.068)	(0.097)	(0.426)	(0.441)	(0.600)	(0.949)
Run-up	0.133	0.039	0.220	-0.377	0.890	-0.717
	(0.589)	(0.880)	(0.825)	(0.786)	(0.632)	(0.524)
Num. of Observations	1355	1355	118	90	82	111
Pseudo R-Squared	0.126	0.159	0.264	0.289	0.289	0.221

Table 10
Initial Bid Success

This table examines the impact of go-shop provisions on the initial bid success using logistic regressions. Model 1 and 2 include firms in the full sample, while Model 3 through Model 6 focus on go-shop deals only. The dependent variable is a dummy variable equal to one if the initial bid is completed. Go-shop is a dummy variable equal to one if a deal contains a go-shop provision in the merger agreement and zero otherwise. Gsdays is the length of the go-shop period in the number of days. Solicited is the number of potential bidders contacted by the target during the go-shop period. Confidentiality is the number of confidentiality agreements entered between the target and potential buyers during the go-shop period. Bifurcated TF is a dummy variable equal to one if there is a bifurcated termination fee structure in the agreement with the initial bidder and zero otherwise. TTF is a dummy variable equal to one if a target termination fee is used in the merger agreement and zero otherwise. Cash deal is a dummy variable equal to one if 100% of the deal is financed with cash and zero otherwise. Toehold is a dummy variable equal to one if the fraction of the target's common stock owned by the bidder is greater than 5% before the bid announcement date and zero otherwise. Public bidder is a dummy variable equal to one if the bidder in a deal is a public firm. Tender offer is a dummy variable equal to one if a deal is identified as a tender offer by SDC and zero otherwise. Related is a dummy variable equal to one if the target is from the same industry as the acquirer where industry definitions are taken from Fama and French 12 industry classifications. Fiduciary-out is a dummy variable equal to one if a fiduciary-out provision is included in the merger agreement and zero otherwise. MBO is a dummy variable equal to one if the management of the target is reported by SDC to be involved in the transaction and zero otherwise. Hostile is a dummy variable equal to one if the attitude of bid is defined as "hostile" by SDC and zero otherwise. Poison pill is a dummy variable equal to one if a poison pill affects the bidder's acquisition attempt and zero otherwise. Ln(Board size) is the natural log of the number of directors on a target board. Independence is the percentage of non-executive directors on a target board. Duality is a dummy variable equal to one if the target CEO is also chairman of the target board and zero otherwise. Board busyness is the percentage of target board members who serve on at least three boards. M/B equals the target's market value of assets divided by book value of assets. Leverage is the target's long-term and current liabilities divided by total assets. Ln(Market cap) is the natural log of a target's market value (in thousands) of equity computed 42 trading days prior to the deal announcement. Run-up is the target's market-adjusted buy-and-hold return from 252 days prior to the bid announcement to 6 days prior to the bid announcement. All continuous variables are winsorized at 1%. The regressions control for year fixed effects. P-values are provided in parentheses. Estimates marked as "-" are ommitted due to separation issues in logistic regressions. ***, **, * indicate significance at the 1%, 5%, or 10% level, respectively.

	Full Sample		Go-Shop Sample			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	-0.324	-0.926	4.437	5.543	4.336	5.473
	(0.734)	(0.355)	(0.243)	(0.221)	(0.344)	(0.159)
Go-shop	-1.056 ***	-1.003 ***				
	(0.000)	(0.001)				
Gsdays			-0.116 ***			
			(0.002)			
Solicited				0.003		
				(0.818)		
Confidentiality					-0.106 **	
					(0.042)	
Bifurcated TF						0.382
						(0.555)
Challenged deal		-2.932 ***	-3.224 ***	-3.196 **	-1.922	-2.573 **
		(0.000)	(0.002)	(0.018)	(0.176)	(0.016)
TTF	1.865 ***	1.944 ***	0.661	1.323	1.971	-0.754
	(0.000)	(0.000)	(0.531)	(0.334)	(0.138)	(0.604)
Cash deal	0.199	0.212	0.221	-0.267	-0.272	0.391
	(0.311)	(0.304)	(0.756)	(0.770)	(0.780)	(0.606)
Toehold	-	-	-	-	-	-
Public bidder	0.258	0.117	0.460	0.262	0.702	0.387
	(0.243)	(0.615)	(0.612)	(0.831)	(0.594)	(0.682)
Tender offer	1.537 ***	1.621 ***	-	-	-	0.928
	(0.000)	(0.000)				(0.444)
Related	-0.019	0.004	0.223	0.858	2.036 *	1.069
	(0.926)	(0.985)	(0.765)	(0.298)	(0.051)	(0.137)
Fiduciary-out	0.985 ***	1.066 ***	0.515	-0.908	-0.650	-0.290
	(0.000)	(0.000)	(0.459)	(0.369)	(0.504)	(0.679)
MBO	-0.991 **	-1.110 **	-0.361	0.486	0.297	-0.174
	(0.016)	(0.011)	(0.704)	(0.645)	(0.783)	(0.847)
Hostile	-3.617 ***	-3.360 ***	-	-	-	-
	(0.000)	(0.000)				
Poison pill	-0.836	-0.999	-	-	-	-
	(0.162)	(0.114)				

Table 10 (Continued)

	Full Sample		Go-Shop Sample			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Ln(Board size)	0.466	0.454	0.314	-0.796	-1.939	-0.834
	(0.185)	(0.211)	(0.806)	(0.631)	(0.282)	(0.528)
Independence	-1.715 ***	-1.312 **	0.341	1.008	0.856	-1.048
	(0.008)	(0.048)	(0.900)	(0.704)	(0.761)	(0.677)
Duality	-0.146	-0.156	0.095	-0.348	-0.361	-0.315
	(0.402)	(0.392)	(0.878)	(0.637)	(0.649)	(0.592)
Board busyness	0.158	0.212	2.565 *	3.488 *	2.596	2.275
	(0.675)	(0.592)	(0.082)	(0.078)	(0.157)	(0.125)
M/B	0.075	0.115	-0.234	0.487	0.672	0.148
	(0.438)	(0.231)	(0.599)	(0.533)	(0.406)	(0.799)
Leverage	0.277	0.209	-2.240 *	-1.643	-2.437	-1.280
	(0.472)	(0.598)	(0.091)	(0.266)	(0.134)	(0.307)
Ln(Market cap)	-0.008	0.018	-0.043	-0.387	-0.125	-0.158
	(0.889)	(0.762)	(0.855)	(0.248)	(0.692)	(0.499)
Run-up	-0.346 *	-0.296	0.315	1.767 *	2.260 *	1.402 *
	(0.084)	(0.151)	(0.647)	(0.081)	(0.081)	(0.093)
Num. of Observations	1613	1613	133	98	89	124
Pseudo R-Squared	0.230	0.268	0.279	0.227	0.257	0.209

Table 11
Post-Bid Competition

This table examines the impact of go-shop provisions on post-bid competition using logistic regressions. The dependent variable is a dummy variable equal to one if a third party launched a competing offer when the initial bid was pending and zero otherwise. Go-shop is a dummy variable equal to one if a deal contains a go-shop provision in the merger agreement and zero otherwise. Initial premium is calculated as {(Bidder's initial offer/Target's market value of equity 42 trading days prior to announcement date) - 1}. TTF is a dummy variable equal to one if a target termination fee is used in the merger agreement and zero otherwise. Cash deal is a dummy variable equal to one if 100% of the deal is financed with cash and zero otherwise. Toehold is a dummy variable equal to one if the fraction of the target's common stock owned by the bidder is greater than 5% before the bid announcement date and zero otherwise. Public bidder is a dummy variable equal to one if the bidder in a deal is a public firm. Tender offer is a dummy variable equal to one if a deal is identified as a tender offer by SDC and zero otherwise. Related is a dummy variable equal to one if the target is from the same industry as the acquirer where industry definitions are taken from Fama and French 12 industry classifications. Fiduciary-out is a dummy variable equal to one if a fiduciary-out provision is included in the merger agreement and zero otherwise. MBO is a dummy variable equal to one if the management of the target is reported by SDC to be involved in the transaction and zero otherwise. Hostile is a dummy variable equal to one if the attitude of bid is defined as "hostile" by SDC and zero otherwise. Poison pill is a dummy variable equal to one if a poison pill affects the bidder's acquisition attempt and zero otherwise. Ln(Board size) is the natural log of the number of directors on a target board. Independence is the percentage of non-executive directors on a target board. Duality is a dummy variable equal to one if the target CEO is also chairman of the target board and zero otherwise. Board busyness is the percentage of target board members who serve on at least three boards. M/B equals the target's market value of assets divided by book value of assets. Leverage is the target's long-term and current liabilities divided by total assets. Ln(Market cap) is the natural log of a target's market value (in thousands) of equity computed 42 trading days prior to the deal announcement. Run-up is the target's market-adjusted buy-and-hold return from 252 days prior to the bid announcement to 6 days prior to the bid announcement. All continuous variables are winsorized at 1%. The regressions control for year fixed effects. P-values are provided in parentheses. ***, **, * indicate significance at the 1%, 5%, or 10% level, respectively.

	Model 1		Model 2	
Intercept	-5.312	***	-3.010	*
	(0.001)		(0.079)	
Go-shop	0.670	*	0.638	
	(0.079)		(0.120)	
Initial premium			-1.361	**
			(0.026)	
TTF	-0.393		-0.712	*
	(0.290)		(0.081)	
Cash deal	-0.155		-0.434	
	(0.586)		(0.172)	
Toehold	0.137		0.156	
	(0.831)		(0.815)	
Public bidder	-0.851	***	-1.011	***
	(0.007)		(0.004)	
Tender offer	-0.644		-0.556	
	(0.109)		(0.206)	
Related	0.210		0.164	
	(0.458)		(0.595)	
Fiduciary-out	-0.061		0.030	
	(0.853)		(0.935)	
MBO	0.367		0.203	
	(0.543)		(0.745)	
Hostile	2.427	***	2.808	***
	(0.000)		(0.000)	
Poison pill	-0.176		-0.602	
	(0.828)		(0.492)	

Table 11 (Continued)

	Model 1		Model 2	
Ln(Board size)	-0.225		-0.227	
	(0.665)		(0.687)	
Independence	2.337	**	1.938	*
	(0.025)		(0.077)	
Duality	0.057		-0.049	
	(0.822)		(0.860)	
Board busyness	0.144		0.246	
	(0.790)		(0.681)	
M/B	0.209	*	0.224	*
	(0.059)		(0.085)	
Leverage	-0.385		-0.179	
	(0.495)		(0.765)	
Ln(Market cap)	0.079		-0.007	
	(0.355)		(0.947)	
Run-up	0.323		0.256	
	(0.234)		(0.406)	
Num. of Observations	1613		1366	
Pseudo R-Squared	0.035		0.051	

Table 12
Propensity Score Matching

This table contains the results of propensity score matching. Control variables in the logistic regression in Model 1 of Table 3 are used to calculate the propensity score. For each go-shop deal, three no-shop deals are matched based on the propensity score calculated. The differences in means and medians between the go-shop group and no-shop group are reported. ***, **, * indicate significance at the 1%, 5%, or 10% level, respectively.

	No-shop		Go-shop			
Num. of Observations	399		133			
	Mean	Median	Mean	Median	Diff in Mean	Diff in Median
TCAR	0.248	0.214	0.302	0.220	**	
ACAR	-0.019	-0.012	-0.006	-0.001		
PCAR	0.020	0.009	0.063	0.069	***	***
Premium	0.497	0.409	0.503	0.390		
Raise in Offer	0.066	0	0.161	0	***	
Completion	0.912	1	0.789	1	***	
Challenged deal	0.035	0	0.083	0	**	

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ABSTRACT

DEAL INNOVATIONS IN MERGERS AND ACQUISITIONS: DO GO-SHOP PROVISIONS CREATE REAL BENEFITS?

by

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May 2014

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Along with the private equity boom in the mid-2000s emerged a new M&A deal technology - the "go-shop" provision. In this paper, I address the question whether go-shop provisions are utilized by target managers to pursue private benefits or are used to protect the fiduciary interests of the target shareholder. I investigate the effectiveness of go-shop provisions by empirically testing two competing hypotheses: (a) the window-dressing hypothesis, and (b) the shareholder interest hypothesis.

This is the first study to shed light on the impact of go-shop provisions on the wealth of both the target and the bidder shareholders, and thereby provide evidence on the synergies associated with such deal provisions. I also provide evidence on how go-shop provisions affect the initial acquirer's bidding behavior, an important issue that has been overlooked in previous literature. In addition, this study examines go-shop deal characteristics that are important in determining the wealth effect as well as deal outcomes.

I document that go-shop deals have higher deal synergies and higher positive wealth effect on targets than no-shop deals. Further, although go-shop provisions have no effect on bidders' wealth, they pressure the initial bidders to raise the initial offers to protect the deals. I also show that the go-shop deals are more likely to be terminated compared with no-shop deals. To address concerns regarding endogeneity and selection bias, I employ Heckman two-stage procedure and propensity score matching method to confirm the findings. The go-shop period, the number of potential buyers contacted, the number of confidentiality agreements entered, and bifurcated termination fee structures are important determinants of deal outcomes. Specifically, the market reacts positively to the bifurcated fee structure in go-shop provisions. The number of potential buyers contacted and the number of confidentiality agreements entered during the go-shop period play an important role in pressuring the initial bidder to raise the original offer price, while the length of the go-shop period and the number of confidentiality agreements entered predict the likelihood of the initial bid success. The findings support the shareholder interest theory and suggest that go-shop provisions are an effective market canvas alternative to public auctions.

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