BLOOD IN THE WATER: THE VALUE OF ANTITAKEOVER PROVISIONS DURING MARKET SHOCKS*

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Abstract

We document that during market shocks that cause large drops in firm value (e.g., COVID-19), firms with more state-endorsed antitakeover provisions (ATPs) experience smaller declines in value. This higher relative valuation persists for up to three quarters after a shock, holds for firm-level ATPs, and is greater for firms that are more likely to become undervalued during a shock. Consistent with stronger takeover defenses preserving value by giving boards more bargaining power to fight shock-induced opportunistic bids, we also find that conditional on receiving a bid during a market shock, firms with more state-endorsed ATPs receive higher takeover premiums.

JEL classifications: G14, G32, G34, K22

Keywords: Antitakeover provisions, Market shocks, COVID-19, Firm value, Bargaining power

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