

UCLA

UCLA Public Law & Legal Theory Series

Title

The Impact of the Duty to Maximize Short-Term Value in Mergers and Acquisitions: An Analysis of Revlon

Permalink

<https://escholarship.org/uc/item/233028z5>

Author

Restrepo, Fernan

Publication Date

2023

The impact of the duty to maximize shareholder value in change-of-control transactions: An analysis of *Revlon*

Fernán Restrepo*

Abstract

For nearly four decades, *Revlon v. MacAndrews and Forbes*, 506 A.2d 173 (Del. 1986) has required the boards of target companies in change-of-control transactions to maximize immediate shareholder value – that is, to expose the firm to a market canvass before closing any transaction and refrain from favoring one bidder over another for reasons unrelated to short-term value. Although *Revlon* is certainly one of the most famous and controversial decisions in the history of corporate law, it remains unclear whether the case had any effect on shareholder welfare. This paper examines that question. The results show that, in fact, the returns of the target shareholders in *Revlon* deals increased significantly after *Revlon* – not only in absolute terms, but also in relation to transactions not subject to the decision. From a policy perspective, this finding suggests that if courts continue to limit the scope of the *Revlon* doctrine (as they have in recent cases), there might be a point after which that trend will harm the welfare of the target shareholders.

JEL classification: K20, K22.

* Assistant Professor of Law, University of California – Los Angeles; Affiliated Scholar, Stanford University, Rock Center for Corporate Governance. Email: fernán.restrepo@law.ucla.edu. I am very grateful to Iman Anabtawi, Stephen Bainbridge, Matteo Gatti, Martin Gelter, Zachary Gubler, Leo E. Strine Jr., two anonymous referees, and Rocco Macchiavello (the editor of the *Journal of Law, Economics & Organization* for this article) for very helpful comments. In addition, I am extremely grateful to Mary Stachofsky for excellent research assistance.

The impact of the duty to maximize shareholder value in change-of-control transactions: An analysis of *Revlon*

1. Introduction

Approximately four decades ago, in *Revlon v. MacAndrews and Forbes*,¹ the Delaware Supreme Court required the directors of target companies in change-of-control mergers and acquisitions (M&A) to immediately *maximize shareholder value* – that is, to expose the company to a market canvass and refrain from favoring one bidder over another for reasons unrelated to immediate value maximization. The basic motivation behind this doctrine was the court’s desire to mitigate the potential conflicts of interest and “last period” incentives that emerge in a sale of a company. This kind of transaction involves a potential conflict of interest because the directors of the target company may favor a bidder that does not offer the best deal to the shareholders but offers a prospect of personal benefits (such as employment or consulting contracts) to the directors; and this potential conflict is exacerbated by the fact that a sale also involves a “last period” situation: because the target ceases to exist as a going concern after the sale, the directors’ incentives to maximize the welfare of the shareholders (and the ability of the shareholders to discipline the directors for not doing so) deteriorate; as a result, the risk that the directors will favor a transaction that is not in the best interest of the shareholder increases. *Revlon* thus seeks to address this problem by imposing a clear rule of immediate value maximization. Even the potential interests of the company in the long run are not a valid justification under *Revlon* for selling the company to a buyer that does not immediately maximize shareholder value because considerations of long-term value may be used by the board to mask personal interests and because such considerations do not benefit the target shareholders – who are removed from the consolidated business or retain only a minority participation in it.

Revlon is certainly one of the best-known and most controversial cases in corporate law. As other commentators have noted, the decision has reached “almost mythical status,” with hundreds of citations in other cases and academic studies, and with a central role in framing the conduct of the board in M&A (Cain et al., 2020). Part of the reason *Revlon* is so controversial is that there is no consensus on the benefits of the doctrine. Notably, some argue that *Revlon* is simply an application of the board’s general duty to be informed, which in turn

¹ *Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc.*, 506 A.2d 173 (Del. 1986).

suggests that the doctrine should not have much effect on M&A outcomes (e.g., Giovannelli, 1996), while others argue that a policy that facilitates competing bids (like *Revlon* does) can have two types of negative effects: discouraging first bidders from bidding, which should shrink the market for target companies and thus lead to an inefficient allocation of resources in the economy; and prompting first bidders to reserve cash to match competing offers, which should lower the prices that the target shareholders receive in change-of-control transactions if no competing bids emerge (Easterbrook and Fischel, 1981; 1982).²

Despite the important policy implications of the merits of *Revlon*, however, there is little empirical evidence on the impact of the decision on the welfare of the target shareholders. Two prior studies moved the literature forward by comparing relatively recent deals that were subject to *Revlon* duties with deals that were not (Cain et al., 2020; Gubler, 2021), but because those studies examine only post-*Revlon* deals, they leave open the question of whether the gains of the target shareholders in fact changed *after Revlon*. This paper therefore evaluates *Revlon*'s impact by comparing the gains of the target shareholders in *Revlon* transactions before and after the decision, and by examining whether non-*Revlon* deals experienced similar changes.³

The results show that the target shareholders did receive higher returns in *Revlon* transactions after the case was decided – both in absolute terms and in relation to deals that do not trigger *Revlon*. The results therefore lend additional support to the claim that *Revlon* explains at least to some extent the higher gains that shareholders receive in *Revlon* deals today – a result that implies that if courts continue to limit the scope of the decision (as they have in recent years), then that policy may ultimately harm the target shareholders.

One potential limitation of this analysis is that there is potential selection bias: buyers have some discretion to structure their transaction in a way that avoids *Revlon*, which means that higher post-*Revlon* target returns in *Revlon* deals may not necessarily mean that buyers are

² As is common knowledge in corporate law, the debate on the desirability of *Revlon* (like other debates on Delaware corporate law) is not only relevant to the small number of companies that operate in Delaware. Because most public corporations are incorporated in that state, and because other states often follow its law, Delaware's doctrine governs a large fraction of the companies that operate in the U.S. economy.

³ In an earlier unpublished manuscript, I also sought to study the effect of *Revlon* by examining the effect of a decision (*Paramount Communications, Inc. v. Time Inc.*, 571 A.2d 1140 (Del. 1989)) that declined to apply the *Revlon* doctrine to a stock-for-stock merger (Restrepo, 2014). I found that *Time* had no discernible effect. However, in that study, I used post-*Revlon* data only – at which point, as discussed in more detail later, the impact of *Revlon* probably had been already absorbed by the M&A market.

offering better deals – it may simply mean that the buyers that pay low premiums restructured their deals to avoid Revlon, while the stronger buyers did not engage in this kind of arbitrage. However, as discussed in more detail later, this concern is mitigated by two considerations. First, there is no clear evidence of selection bias in the data; and second, in sensitivity analyses, I compared *Revlon* deals, on the one hand, with non-*Revlon* deals in states that did not adopt *Revlon*, on the other hand, and the results from these estimations (which should be much less affected by selection bias) were generally consistent with the baseline results.

The rest of this paper is organized as follows. Section 2 provides background on the *Revlon* doctrine, section 3 discusses the hypotheses, section 4 reviews prior studies on the impact of *Revlon*, section 5 describes the methodology, section 6 presents the results, section 7 discusses the implications of the results, and section 8 concludes.

2. Institutional background

Directors of public companies typically enjoy significant deference in making business decisions. When challenged, those decisions are reviewed under the “business judgment rule,” a standard of judicial review that prevents courts from intervening in board actions unless the actions involved a proved conflict of interest, gross negligence, bad faith, or an outcome that was so extremely poor that it can be characterized as “waste.”⁴ In scenarios involving a sale of a company, however, courts are significantly less deferential to the directors of the target company (the seller) because a sale poses a latent conflict of interest and a “last period” problem. The potential conflict of interest arises from the fact that the directors may have personal interests in selling the company to a bidder that does not offer the best deal to the target shareholders. For instance, the directors may expect employment or consulting contracts from one of the bidders, so they may adopt antitakeover defenses to fend off the undesired (but highest-paying) bidder⁵ or “lockups” that protect the preferred deal and that are so onerous that they effectively preclude any competing bid.⁶ The “last period” problem exacerbates these risks. When a company is sold, the company disappears or is transformed because control

⁴ See, e.g., *In re Goldman Sachs Group, Inc. Shareholder Litigation*, No. CIV.A. 5215-VCG, 2011 WL 4826104, at *7 (Del. Ch. Oct. 12, 2011).

⁵ Most notably, the board may adopt a “poison pill,” that is, a right to buy shares of the company at a substantially discounted price. This right is offered to all the shareholders of the company except to a bidder that crosses a given shareholding threshold, which has the effect of diluting any bidder seeking control.

⁶ “Lockups” or “deal protection devices” (that is, contractual arrangements that give some value to a bidder if the deal with that bidder does not close) typically take the form of termination fees. However, there are other types, including mainly the option to buy stock or assets of the target at a discount (commonly referred to as “stock” or “asset” lockups, respectively).

changes hands, which in turn means that the corporate relationships between the directors and the shareholders disappear: the directors cease to be such, and the shareholders typically disappear or retain only a small participation in the consolidated business. As a result, the ability of the target shareholders to reward or punish the directors for their actions deteriorates, which exacerbates the risk that the directors may steer a sale toward a bidder that benefits them at the expense of the shareholders.⁷ *Revlon* thus addresses precisely this kind of risk.

Revlon involved an unsolicited bid by Ronald Perelman (acting through a company he ultimately controlled, Pantry Pride, Inc.) for all the shares of Revlon Inc. The offer was made directly to the company's shareholders in an attempt to bypass approval by the directors, who were unlikely to endorse the transaction; but the board responded to this strategy with a number of defensive measures, including a poison pill, which would dilute Perelman's stake in Revlon if he purchased a certain number of shares from the shareholders, and a buyback of some of Revlon's shares for debt instruments (subordinated notes), which included a contractual provision prohibiting Revlon from selling or lending against its assets without permission from the company's independent directors (thus making it difficult for Perelman to borrow against Revlon's assets to pay for the company's stock).

After Perelman responded by raising his bid multiple times, Revlon's board decided to fend Perelman off by entering into a merger agreement with Forstmann Little & Co. ("Forstmann Little"), a private equity firm that promised to leave the incumbent managers in charge of part of Revlon's business after acquiring control of the firm. To prompt Forstmann Little to bid, Revlon removed the provision in the notes that required the independent directors to approve

⁷ During the life of a firm, there are several types of constraints that provide incentives for directors to act in the best interest of the shareholders. Rewards and punishments administered by the shareholders (such as pay raises when directors perform well or removal of the directors when they do not) are especially direct, but there are other types of constraints. These include product market constraints (if directors fail to produce goods and services that are attractive to consumers, the products will not be sold), capital market constraints (if directors underperform, the company will not be able to raise capital in financial markets), constraints created by the market for corporate control (if the directors perform poorly, a third party will buy the company and remove the directors), and intra-firm norms. In a last period scenario, however, all these constraints become weaker. The directors are likely to become indifferent to product market constraints (because the firm will no longer take products to the market), capital market constraints (because the firm will no longer need to raise capital), labor market constraints (because there will be no more pay raises or other changes to employment contracts), the market for corporate control (because control will already be in new hands), and intra-firm norms (because the firm will disappear). As the literature on game theory puts it, when a "participant" in a "game" is told that the next round of the game will be the last, the incentives to cooperate with other participants become weaker and the chances that each participant will seek to maximize his individual welfare increase (see, e.g., Griffith, 2003 (for a thorough discussion of last period problems in the corporate context)).

any sale of (or loan against) the firm's assets, but this action had the unintended effect of causing a drop in the notes' price. This prompted the noteholders to consider a lawsuit against the directors; however, the board ultimately convinced Fortmann Little to support the market value of the notes, which eliminated the risk of litigation.

The presence of Forstmann Little in the sale of Revlon had the effect of creating a bidding war with Perelman, but Revlon's board quickly ended the war by granting Forstmann Little various lockup provisions – including, notably, a substantial asset lockup and a termination fee. These provisions would drain significant value out of Revlon if the transaction with Forstmann Little failed, so Perelman sued for an injunction of the lockups to continue bidding.⁸ In concluding that the actions of the board were inappropriate, the Delaware Supreme Court held that when a company decides to sell itself to a third party, the directors' duties shift from “*defenders of the corporate bastion to auctioneers charged with getting the best price for the stockholders.*”⁹ Although the specific contours of this doctrine were left open for further clarification, *Revlon* essentially required the board of the seller to obtain the best price available when the company decides to sell itself to a third party – thus precluding the ability of the board to accept inferior offers for reasons unrelated to immediate value maximization.¹⁰

In the particular case of the *Revlon* transaction, the court concluded that the board did not obtain the best deal available. First, Forstmann Little did not offer a better price or better financing. And second, in response to the argument that Forstmann Little offered a better deal because it committed to supporting the value of the notes, the court held that the board's principal consideration should have been the protection of the shareholders' interests, not those of the noteholders.

Subsequent cases emphasized that a “sale” is technically involved (and therefore *Revlon* duties are triggered) only in “change-of-control” situations, which mainly include purchases of a

⁸ The nominal plaintiff in the case was MacAndrews & Forbes Holdings, Inc., the immediate controlling shareholder of Pantry Pride (and a company that was in turn controlled by Perelman). As the court noted, for all practical purposes, the interests of Pantry Pride and MacAndrews & Forbes Holdings in the litigation were identical. *Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc.*, 506 A.2d 173, 176 (Del. 1986)

⁹ *Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc.*, 506 A.2d 173, 182 (Del. 1986).

¹⁰ This does not mean that a company is prohibited from resisting undesirable offers in order to pursue its long-term vision. *Unocal Corp. v. Mesa Petroleum Co.*, 493 A.2d 946 (Del. 1985). However, once a company decides to sell itself to a third party (unilaterally or in response to a takeover offer), *Revlon* duties are triggered and therefore the company cannot favor one bidder over another for reasons unrelated to immediate value maximization. *Paramount Communications, Inc. v. Time Inc.*, 571 A.2d 1140 (Del. 1989).

controlling stake of the target for cash – like in the *Revlon* deal itself.¹¹ In addition, the cases provided flexibility in the definition of a market canvass that satisfies the board’s *Revlon* duties. *Revlon*’s “auctioneering” language suggested that the directors of the seller had to conduct an auction before selling the company, which implies that the board had to solicit competing bids before signing a merger agreement (that is, conduct a “pre-signing” “market check”).¹² However, in *In re Fort Howard Corp. Shareholders Litigation*, 1988 WL 83147 (Del. Ch. Aug. 8, 1988), the Delaware Chancery Court allowed the target boards to satisfy their *Revlon* duties by conducting a post-signing market check (that is, by soliciting bids after signing a merger agreement),¹³ and this line of cases has further emphasized that the market check can be active (i.e., the board actively solicits competing bids) or passive (i.e., the board simply gives all potential bidders a “fair opportunity” to bid).¹⁴ In addition, in *Barkan v. Amsted Industries, Inc.*, 567 A.2d 1279, 1286-87 (Del. 1989), the Delaware Supreme Court further held that the board does not have to canvass the market if the directors already have a “body of reliable evidence” with which to judge the transaction – which can occur, for example, if the board solicited bids as part of a separate attempt to sell the company.¹⁵

3. Hypotheses

Since *Revlon* requires the target board to expose the firm to a market check and refrain from “playing favorites” with a bidder that does not maximize short-term value, the doctrine can have a positive effect on the gains of the target shareholders for at least three reasons. First, if *Revlon* in fact increases a company’s exposure to the market, then there should be greater competition for the company in the form of a larger number of (public or private) bids, which may in turn result in better offers.

¹¹ However, these cases added that a sale is also involved in the less common situation in which a buyer that has a controlling shareholder buys a widely-held company for stock – since, in those cases, before the deal, control of the target is in the hands of a “large and fluid aggregation of shareholders,” but after the deal, it becomes controlled by a single identifiable controller. *Paramount Communications Inc. v. QVC Network Inc.*, 637 A.2d 34, 43 (Del. 1994).

¹² For a discussion, see *Barkan v. Amsted Industries, Inc.*, 567 A.2d 1279, 1286-87 (Del. 1989).

¹³ In the case, the target board did not engage in any pre-signing market check, but the press release announcing the deal invited competing bids and the termination fee that they target had to pay to the buyer if the target pursued an alternative transaction was relatively low (1.9% of the deal value). According to the court, the board did not violate its *Revlon* duties just because it did not conduct a pre-signing market check.

¹⁴ *C&J Energy Servs., Inc. v. City of Miami Gen. Emps.’ & Sanitation Emps.’ Ret. Trust*, 107 A.3d 1049, 1068 (Del. 2014).

¹⁵ *Barkan v. Amsted Industries, Inc.*, 567 A.2d 1279, 1286-87 (Del. 1989).

Second, first bidders may offer more up front under *Revlon* to preempt potential competing bidders and because they know that the target board must not accept an offer that does not immediately maximize shareholder value. From this perspective, *Revlon* can have a positive effect on the gains of the target shareholders even if not competing bidders emerge.

And third, once the negotiations begin, as mentioned, *Revlon* prevents the board from choosing a buyer that does not maximize immediate value, which can mitigate potential conflicts of interest in the choice of the winning bidder and thus sales that undervalue the target. Moreover, under *Revlon*, the board's negotiations will take place in the shadow of enhanced judicial review. In addition to setting a standard of conduct or model of expected behavior, *Revlon* also creates a form of enhanced judicial review because, under the decision, the actions of the target board are reviewed under a "reasonableness test" rather than under the deferential business judgment rule. This means that for a plaintiff to be successful in challenging a transaction, the plaintiff does not have the burden of proving that the directors were conflicted, that they acted with gross negligence or bad faith, or that the transaction was so poor that it amounts to waste; instead, *the directors have the burden of demonstrating* that they were adequately informed and that they acted in a way that reasonably maximized shareholder value.¹⁶ As a result, courts are much more likely to second-guess board decisions in *Revlon* scenarios than in other scenarios in which the board is also expected to act with care *but in which the standard of judicial review is the business judgment rule*.¹⁷ The ultimate implication of this doctrinal shift is, once again, that *Revlon* can exert upward pressure on the gains of the target shareholders even in the absence of competing bids.

Some commentators argue, however, that a policy that facilitates competing bids might not be beneficial for the target shareholders. According to one line of commentary, even without *Revlon* duties, the directors of the target company will try to obtain the best price available in the sale of the company in order to satisfy their ordinary fiduciary duties to the shareholders (e.g., Giovannelli, 1996), which suggests that that *Revlon* is essentially innocuous.¹⁸

¹⁶ See *Paramount Communications v. QVC Network*, 637 A.2d 34, 45 (Del. 1994).

¹⁷ The significance of the enhanced judicial review created by *Revlon* is illustrated by actual litigation patterns, which show that in suits challenging a sale process, injunctions are granted almost exclusively when *Revlon* applies. See Thompson and Smith (2001).

¹⁸ It is important to note, however, that the directors may argue that a low-value deal is consistent with their fiduciary duties if the deal could be justified on the basis of long-term value. In this sense, *Revlon* does not seem to be just an application of the board's general fiduciary duties. Moreover, as mentioned earlier, *Revlon* also creates a form of enhanced judicial review that replaces the business judgment rule.

Another line of commentary goes further, arguing that the prospect of competing bids increases the probability that the first bidder will have to pay more and even lose the deal to a topping bidder, which can generate two types of negative effects. The first is disincentivizing first bidders to search for targets. First bidders must do substantial research to identify underpriced targets and determine how their management can be improved, but if target managers are encouraged or required to look for competing bids, then it will be more difficult for first bidders to recoup their search costs.¹⁹ As a result, there will be fewer transactions in the marketplace, which can create an inefficient allocation of resources in the economy and harm the target shareholders because without first bidders, there are no later bidders or deal premiums (Easterbrook and Fischel, 1981).

The second effect is prompting the first bidder to offer less for the target in anticipation of the need to increase the bid if a competing bidder emerges. In this scenario, if a competing bid emerges, the target shareholders might not experience any harm because the bidding fight will likely push the price up. But if no competing bidders emerge, then the gains of the target shareholders in this scenario will be lower than in a scenario in which the target managers are not encouraged to look for competing bids because, in the former, the target shareholders will only have one option on the table: the lower bid made by the initial bidder. In this sense, given

¹⁹ The literature suggests that there are three types of costs that first bidders might not be able to recover if the transaction is lost to a competing bidder (Subramanian, 2003). The first is out-of-pocket expenses (e.g., due diligence costs in the form of banker and lawyer fees) and opportunity costs (e.g., diversion of managerial attention). These costs are asymmetric among bidders because first bidders bear the cost of identifying a promising target and the cost of assessing its value, while subsequent bidders bear only the cost of assessing the target's value. The second type of cost is the revelation of a strategic hole. First bidders usually extol the strategic benefits of the deal at the time of the initial announcement, which implies that if the deal does not close, the first bidder will have revealed a strategic need that then goes unfilled. Competing bidders also may experience this kind of cost, but those bidders usually receive less publicity (and their "strategic fit" is emphasized less) because they are usually unsolicited and therefore often receive less support from the target's management. The third type of cost is a reputational cost. First bidders may face a reputation for weakness if a deal is taken away from them, which may in turn reduce opportunities for profits in the future. In fact, this and the previous argument might explain why first bidders typically experience a decline in their market price when the deal is not consummated (see also Bradley, Desai, and Kim, 1983). In response to these observations, some commentators argue that the potential effects of the costs incurred by first bidders are overstated because investment bankers bear a large part of those costs (and their fees are a relatively small portion of the value of target company), and because first bidders can at least partially recover the costs by demanding lockup provisions (that is, contractual clauses that provide some value to the bidder if the transaction does not close) and by buying a block of shares in the target before announcing the transaction and then selling that block to the winning bidder – at which point the price of the target's shares should be higher because acquisitions of control blocks are typically for a premium. In addition, this line of argument suggests, competing bids should not materially disincentivize first bidders from bidding if first bidders anticipate synergistic gains that offset the cost of competition in the bidding process (Bebchuk, 1982a; Gilson, 1981; Subramanian, 2003).

this and the previous effects, a policy that encourages competing bids does not have obvious effects on the welfare of the target shareholders (Easterbrook and Fischel, 1981; 1982).

4. Literature review

Despite the significant economic implications that *Revlon* can have, there is not much empirical evidence on the effect of the decision. Two empirical papers have examined this topic. In the first one, Cain et al. (2020) examined a sample of deals announced between 2003 and 2017, and found that buyers pay higher premiums in deals that trigger *Revlon* than in deals that do not. In addition, they find that the incidence of multiple bidders, the number of bidding rounds, and the number of negotiation days were higher in *Revlon* deals. In the second study, Gubler (2021) examined a random sample of deals announced between 2009 and 2014, and also found that *Revlon* deals were associated with higher gains for the target shareholders – as well as a higher incidence of an active rather than a passive market check, and a higher number of bidders.²⁰

Although these papers move the literature forward by showing that *Revlon* appears to exert a positive effect on the gains of the target shareholders today, it is still an open question whether *Revlon* in fact has a causal effect. In this paper, therefore, I contribute to filling this gap by examining whether the gains of the target shareholders in *Revlon* deals increased after *Revlon* in relation to deals that were not subject to the decision.

5. Methodology

To examine the relationship between *Revlon* and the gains of the target shareholders, I compare deals that trigger *Revlon* (“*Revlon*” deals) with deals that do not (“non-*Revlon*” deals) before and after the decision.²¹ The sample period is 1975 and 2000.²² In other words, I perform a

²⁰ As mentioned earlier, Restrepo (2014) also explored the effect of *Revlon* by examining the effect of *Paramount Communications, Inc. v. Time Inc.*, 571 A.2d 1140 (Del. 1989), which declined to apply the *Revlon* doctrine to a stock-for-stock merger. The study did not find any significant effect; however, as discussed in more detail in Section 6, it is likely that the effect of *Revlon* had already been absorbed by the M&A market when *Time* was decided. There are also other papers that compare cash and stock-for-stock mergers (Andrade, Mitchell, and Stafford, 2001), acquisitions involving one or multiple bidders (Bradley, Dasai, and Kim, 1988; Schwert, 2000; Hamermesh, 2004), and tender offers before and after the Williams Act (which required the transactions to remain open for a minimum period and thus could enhance bidding competition) (Jarrell and Bradley, 1980). However, none of those papers examine the impact of *Revlon*.

²¹ The date of the oral decision was November 1985, and the date of the written opinion was March 1986. I use the earliest date as the time cutoff.

²² I do not cover transactions before 1975 because I do not have data on them, and I choose a post-*Revlon* period that is longer than the pre-*Revlon* period because that allows me to examine the potential effect of cases that contributed to refining the *Revlon* doctrine, including especially the Delaware Supreme Court’s 1994 decision in

difference-in-differences analysis in which the *Revlon* deals are the treatment group and the non-*Revlon* deals are the control group. The *Revlon* deals include all “change-of-control” transactions in the sample, which I define as transactions in which the buyer bought a controlling stake in the target for cash.²³ The non-*Revlon* deals include the transactions in which the consideration took the form of stock because in those cases the target shareholders remain in the consolidated business and therefore they are not change-of-control situations. In the baseline analysis, I classify a deal as non-*Revlon* if part of the consideration was stock, but I repeat the analysis excluding those transactions from the sample (or classifying them as *Revlon* deals) because more recent decisions have indicated that a hybrid consideration structure that includes cash and stock can trigger *Revlon*.²⁴

I apply four filters to build the database. First, the baseline sample includes only acquisitions of Delaware targets because the applicability of *Revlon* was completely clear only in that state both before and after the date of the decision²⁵. Second, I only examine acquisitions of publicly traded corporations because I would not have a comparable measure for the gains of the target shareholders without public pre-announcement market prices. More specifically, without those prices, it would be difficult to know how much a target’s price change in response to M&A announcements in relation to unaffected prices. Third, I exclude acquisitions of target companies with a market capitalization below \$10 million because those companies are generally illiquid and therefore the computation of the returns tends to be less reliable (e.g., Coates and Subramanian, 2000). And fourth, I exclude parent/subsidiary M&A (that is, transactions in which a controlling shareholder buys out the remaining shares of the corporation) because those transactions involve even more acute conflicts of interest and

QVC. I do not include more recent deals because the previous empirical papers on *Revlon* have focused on post-2000 deals.

²³ The Delaware courts also have held that even though a 50% shareholding establishes clear control, a shareholder with as little as 20% of the shares of the company could have control. See, e.g., *In re Cysive Inc. Shareholders Litigation*, 836 A.2d 531 (Del. Ch. 2003) (finding a 35% shareholder to be a controller); *Calesa Associates, L.P. v. American Capital, Ltd.*, 2016 WL 770251, at *10 (Del.Ch., 2016) (finding a 25% shareholder to be a controller); *In re Zhongpin Inc. Stockholders Litigation*, 2014 WL 6735457, at *9 (Del.Ch., 2014) (finding that 17.3% could be enough to establish control). Similarly, stock exchange rules state that if a transaction results in an investor obtaining more than 20% of the shares in a company, the transaction is considered a change of control (NYSE Manual, Section 312.04). Therefore, in the baseline regressions, I include all acquisitions of at least 20% of the shares in the target company, and then I repeat the regressions using a 50% threshold. These changes, however, do not substantially affect the results. This can be explained by the fact that in the vast majority of the transactions in my sample (approximately 80%), the buyer sought to buy 100% of the shares in the target.

²⁴ *In re Smurfit-Stone Container Corp. S’holder Litig.*, No. 6164-VCP, 2011 WL 2028076 (Del. Ch. May 20, 2011, revised May 24, 2011).

²⁵ As discussed later, however, I also perform tests that use non-Delaware targets as a control group or that include targets incorporated in states that adopted *Revlon* (other than Delaware) in the treatment group.

therefore they were subject to a special doctrinal regime even before *Revlon*.²⁶ Although the baseline estimations include all third-party acquisitions (i.e., transactions in which a party who is not a controller of the target acquires the target), regardless of the ownership structure of the target, I repeat the analyses excluding acquisitions of targets in which there are indications that the target had a controlling shareholder because case law decided after *Revlon* has indicated that those transactions are not be subject to *Revlon* duties.²⁷ In addition, I also repeat the regressions excluding transactions in which there are indications that the buyer had a controlling shareholder because other post-*Revlon* cases have indicated that those transactions trigger *Revlon* even if the consideration was stock.²⁸

I measure the gains of the target shareholders associated with a transaction as the cumulative abnormal returns (CARs) for the stock of the target during a one-day period around the announcement of the deal ($CAR_{-1,+1}$). I define the abnormal returns as the difference between the returns of the target and the returns of the Center for Research in Securities Pricing (CRSP) index, and I use the value-weighted CRSP index in the baseline estimations and the equal-weighted index in sensitivity analyses. The reason I employ one-day CARs is because I want to minimize the possibility that the results will be affected by market fluctuations unrelated to the transactions; however, I repeat the analyses using longer windows to capture potential information leakages and delays in the market reaction to the deals.

²⁶ In these transactions, the controlling shareholder stands on both sides of the deal (as a buyer and as a controller of the target), so they have historically been subject to entire fairness review – a demanding standard of judicial review under which courts examine whether *the process and the price* of the transaction were fair. *Weinberger v. UOP*, 457 A.2d 701, 711 (Del. 1983). Following more recent case law, those deals are reviewed under the deferential business judgment rule when certain procedural protections are implemented – that is, when a special committee of independent directors and the majority of the minority shareholders approve the transaction. *In re CNX Gas Corp. Shareholder Litigation*, 4 A.3d 397, 407 (Del. Ch. 2010); *Kahn v. M&F Worldwide Corp.*, 88 A.3d 635, 643 (Del. Supr., 2014).

²⁷ *Bershad v. Curtiss-Wright Corp.*, 535 A.2d 840, 845 (Del. 1987). I refer to “indications that the target had a controlling shareholder” because, unlike in the specific case of parent/subsidiary mergers (where the buyer also was the controller of the target before the transaction), I have limited data on the shareholding structure of the target in the context of third-party acquisitions. Specifically, SDC (one of the key data sources for this project) provides the number of shares that *the buyer* held when the merger was announced. This information allows me to determine whether *the buyer* was a controlling shareholder (and, therefore, whether the transaction involves a parent/subsidiary merger); however, the information does not allow me to determine whether the target was controlled by a person other than the buyer (and hence whether a third-party deal involves the acquisition of a controlled target). As a result, in the case of third-party mergers, I need to rely on a proxy based on SDC data to establish control. I return to this point in the discussion of Table A.6.

²⁸ *Paramount Communications v. QVC Network*, 637 A.2d 34, 46-47 (Del. 1994). I refer to “indications” that the buyer had a controlling shareholder for the same reasons that I use that language in the case of controlled targets.

I estimate all the regressions using ordinary least squares (OLS) with heteroskedasticity-consistent standard errors. In line with the description of the empirical strategy described above, the main independent variable of interest in these regressions is an interaction between two dichotomous variables: *Revlon* (which takes the value of one for *Revlon* deals and zero for non-*Revlon* deals) and *Post* (which takes the value of one for observations after November 2, 1985, the date of the oral decision in *Revlon*, and zero for observations before the decision). This interaction variable, *Revlon*×*Post*, measures post-*Revlon* changes in the gains of the target in *Revlon* deals in relation to non-*Revlon* deals.

The controls are defined in detail in the appendix and include the target's size, profitability (return on equity or "ROE"), sales growth, liquidity (liquid assets to total assets), leverage (the ratio of debt to equity), market-to-book ratio (the ratio of the market value of the company to the book value of the equity), industry (the one-digit standard industry classification of the company), firm age (in years), and a macroeconomic variable (capital market liquidity) that works as a proxy for businesses' financing costs (e.g., Harford, 2005).²⁹ I use these controls for various reasons (see also, e.g., Comment and Schwert, 1995; Schwert, 2000; Cain, McKeon, and Davidoff, 2017). First, in some studies, the size of a firm is negatively correlated with the premium that buyers pay in M&A (e.g., Schwert, 2000). Second, a buyer may pay more for targets that are more profitable, that have a stronger growth trajectory in their core business activities, or that are more highly valued by the market in relation to their assets – which motivates the controls for ROE, sales growth, and the market-to-book ratio, respectively. Third, firms that are inefficiently run may be more likely to have too little debt or too many liquid assets (Jensen 1986), which motivates the controls for leverage and liquidity. Fourth, firm age tends to predict the likelihood that a target will attract a takeover bid (Shumway, 2001) and thus it might be positively associated with the likelihood of a bidding war. And fifth, capital market liquidity is a proxy for the ease with which companies can access financing, which can affect the frequency with which takeover bids occur and the premium paid by a buyer (e.g., Harford, 2005).

²⁹ I define capital market liquidity as the spread of the prime rate over the federal funds rate. The prime rate is a reference rate at which banks price short-term business loans. The federal funds rate is the rate at which commercial banks borrow and lend their excess reserves among themselves. Both variables are published by the Federal Reserve. Harford (2005) computes capital market liquidity as the spread between the commercial and industrial loan rate (that is, the average interest rate on commercial and industrial loans) and the federal funds rate. However, I use the prime rate because the commercial and industrial loan rate was not available for the entire sample period.

I built the database using various sources. The M&A data for the period 1981-2000 come from the Securities Data Company (SDC) and the data for the 1975-1992 period come from Schwert (2000) (the two periods do not fully overlap because SDC's coverage during the early 1980s increased gradually, so I supplement that period with Schwert, 2000). Stock market prices are from the Center for Research in Securities Prices (CRSP) and the companies' financials come from Compustat and SDC. The state of incorporation of the target companies comes from SDC, which I supplemented using SEC filings and Mergent. Mergent is my primary source of data for the states of incorporation not available in SDC before 1995. After 1995, I supplement SDC primarily with SEC filings. I obtained the data from these filings using the Spamann and Wilkinson (2019) script. The prime rate and the federal funds rate is from the Federal Reserve Bank (St. Louis).

It is important to note that Schwert's (2000) M&A database is an augmented version of Robert Comment's M&A database, which covers acquisitions of all exchange-listed target firms before SDC began collecting the data. The list of M&A announcements was built using the Commerce Clearing House's Capital Changes Reporter ("CCHCCR") (the original source for the CRSP delisting codes),³⁰ the Dow Jones News Retrieval (DJNR) database, and the Wall Street Journal Index. The list only covers bids for which the terms of the offer were disclosed.

Although combining Schwert's database with SDC might generate some measurement error, the two data sources are quite comparable and therefore such source of error should not significantly affect the results. Two main considerations lead to this conclusion. First, to identify all completed M&A transactions, Schwert's database primarily relies on delistings published by CCHCCR (which, as mentioned, is the original source of the CRSP delisting data); and, as mentioned earlier, I only include in my database targets that appear in the CRSP database. This suggests that, at least for completed deals (which account for the vast majority of the deals in my database, with a participation of more than 75%), I essentially use an identical source of data throughout the entire sample period. Perhaps not surprisingly, if I run the regressions only with completed deals, the results are qualitatively similar to the baseline results. Moreover, previous studies examining several decades of M&A data also have relied on a combination of SDC and Schwert (2000) data (e.g., Cain et al, 2017) or have built their

³⁰ When a company is acquired in an M&A transaction, the company is delisted, and CRSP keeps track of such delistings (as well as delistings due to other reasons, such as bankruptcy). Delistings due to M&A have a code starting with 2.

databases using delistings published by CRSP (e.g., Loughran and Vijh, 1997; Andrade, Mitchell, and Stafford, 2001; Barnes, Harp, and Oler, 2014).

The second consideration is that the SDC Manual suggests that the SDC database primarily collects public offers. All the SDC offers in my database had a non-missing “Date Announced,” and according to SDC, the “Date Announced” of an offer is “the date one or more parties involved in the transaction makes the first public disclosure of common or unilateral intent to pursue the transaction” (even if no formal agreement has been reached). This date is determined by “the disclosure of discussions between the parties, disclosure of a unilateral approach made by a potential bidder, and the disclosure of a signed Memorandum of Understanding (MOU) or other agreement.” As mentioned earlier, Schwert’s (2000) database also relies exclusively on bids that are public, which makes the two databases comparable even for deals that were not completed.

6. Results

Table 1 shows descriptive statistics and univariate analyses. The sample consists of 576 pre-*Revlon* deals (261 *Revlon* deals and 315 non-*Revlon* deals) and 3,040 post-*Revlon* deals (1,340 *Revlon* deals and 1,700 non-*Revlon* deals). As mentioned earlier (and discussed in more detail later in this section), the post-*Revlon* period is longer to allow for an analysis of decisions that shaped the development of the *Revlon* doctrine, and especially *QVC*.³¹ As shown in Panel A of the table, while CARs in both *Revlon* and non-*Revlon* deals increased after *Revlon*, the CARs of the *Revlon* deals increased much more – thus providing preliminary evidence that *Revlon* in fact seems to be associated with greater gains for the target. Moreover, Figure 1 shows that the increase in the CARs of the *Revlon* deals relative to the CARs of the non-*Revlon* deals occurred only after *Revlon* – and immediately after the decision.

The table also shows that there were statistically significant changes in other variables after *Revlon*. In addition, Panel B shows that there were differences across some financial characteristics between the *Revlon* deals and the non-*Revlon* deals, especially after *Revlon*. I therefore mitigate the effect of all these differences by including controls in the regressions and by constructing two types of matched samples (which are described in more detail later in this

³¹ But even if I required a balanced number of years before and after *Revlon*, the number of post-*Revlon* deals would still be higher. This mitigates potential concerns that *Revlon* has systematically deterred bidders from bidding – a point to which I return later in this section.

section): one that matches the *Revlon* deals with their most similar non-*Revlon* deals across the entire sample, and one that matches the pre-*Revlon* deals with their most similar post-*Revlon* deals.

Table 2 shows the baseline regression results. The first column does not include any control other than the main variable of interest *Revlon*×*Post* and the stand-alone components of that variable (*Revlon* and *Post*); the second column includes the financial and industry controls; and the third column adds year fixed effects to control for general economic fluctuations. As shown, the interaction *Revlon*×*Post* was positive and statistically significant in all the estimations, indicating that the gains of the target shareholders increased after *Revlon* in relation to non-*Revlon* deals even after controlling for all the observable characteristics. The coefficient of the variable was approximately 0.06, which means that the returns of the target shareholders in *Revlon* deals increased by 6 percentage points.³²

An important assumption behind the analysis presented in Table 2 is that the returns in the *Revlon* and the non-*Revlon* deals were following similar trends before *Revlon*, and that the differences shown in the table only emerged after the date of the decision. Figure 1 confirms that this assumption is reasonably satisfied: the trajectories of the two groups of deals were generally similar before *Revlon*, and then they started to diverge right after the decision. In addition, untabulated analytical tests show that interactions between the *Revlon* variable and each of the years preceding *Revlon* were not statistically significant.³³

³² The average deal value in *Revlon* deals was approximately \$200 million before *Revlon*. Therefore, the average dollar value of the effect of *Revlon* was \$10 million (= \$200*0.06 = \$12 million).

³³ In *Revlon*, the fact that all the bids were cash offers played an important role in the court's decision to grant the injunction, but as mentioned above, it was only in cases decided after *Revlon* that courts clarified more explicitly that stock deals generally do not trigger *Revlon*. See *Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc.*, 506 A.2d 173, 184 (Del. 1986); *Paramount Communications, Inc. v. Time Inc.*, 571 A.2d 1140, 1150 (Del. 1989); *Paramount Communications Inc. v. QVC Network Inc.*, 637 A.2d 34, 43 (Del. 1994). This suggests that it would be reasonable not to expect an increase in the gains of the target shareholders in cash deals relative to stock deals immediately after *Revlon*. However, consistent with the empirical results in Table 2, anecdotal evidence suggests that practitioners interpreted *Revlon* as indicating that the case would apply exclusively or primarily to cash deals. See Hertzberg (1985a) (emphasizing that the antitakeover measures adopted by *Revlon* were “especially significant” because Panty Pride was offering cash for *Revlon*'s shares); Hertzberg (1985b) (“Takeover lawyers say that the pill is most likely to be effective against a so-called two-tiered tender offer. That's when a bidder couples a cash offer for a controlling interest in a company with an offer of securities ... But *Revlon*'s pill is opposing an all-cash offer by Panty Pride ... A pill won't be an effective deterrent to a determined purchaser who is willing to offer cash to all shareholders); Cole (1985) (“Besides turning over control of *Revlon*, Justice Walsh's decision will change the shape of board rooms and generate vast new business for lawyers. For one thing, it reduces the latitude that directors have had to find friendly buyers to save them or to fight off takeovers in which bidders pay cash for all the stock”).

Table 3 shows regressions using a matched sample – which, as mentioned earlier, seeks to further mitigate the effect of observed confounders on the difference-in-differences analysis. To construct this sample, I performed one-to-one matching (that is, for each *Revlon* transaction, I identified the most similar non-*Revlon* transaction), and these observations were selected by matching the *Revlon* and non-*Revlon* subsamples on all their observable characteristics: market capitalization, ROE, market-to-book ratio, sales growth, liquidity, leverage, and age.³⁴ As shown in Models 1-3 of the table, the interaction variable *Revlon*×*Post* remained positive and statistically significant in all the estimations.³⁵

The decision to pursue a cash deal or a stock deal is something that the buyer controls to some extent, which implies that triggering or not triggering *Revlon* is somewhat determined by the buyer. This introduces potential selection bias in the analysis because it may be possible that the post-*Revlon* cash deals are different from the pre-*Revlon* cash deals in the sense that the post-*Revlon* deals are precisely those in which the buyer knew that he would be able to pay a high premium (and, therefore, withstand greater judicial scrutiny under *Revlon*). As a result, the post-*Revlon* increase in the gains of the target shareholders may not necessarily be attributable to the *Revlon* doctrine – it may be caused by changes in the characteristics of the buyers.

To examine this hypothesis, I regressed the variable that classifies the deals as *Revlon* or non-*Revlon* on the *Post* variable and the other characteristics of the transactions. The results are displayed in Table A.2 of the Appendix. As shown, in both the simple regression model and the model with all the controls, the *Post* variable was statistically indistinguishable from zero. It thus seems that the buyers in the sample did not systematically shift away from cash deals to avoid *Revlon* scrutiny. One explanation for this result is the fact that although a buyer has some discretion to choose his transactional form, he generally does not have full control over whether or not to pursue a transaction that triggers *Revlon*. For example, financial constraints may limit his ability to pursue a cash deal, paying with stock may trigger other execution risks (like

³⁴ I did not impose any specific caliper or common support condition. However, the results are similar if I use a caliper of 0.25 times the standard deviation of the propensity score, which is often recommended in the literature (Rosenbaum and Rubin, 1985), or if I require common support (that is, if I drop the *Revlon* observations whose propensity score was higher than the maximum or lower than the minimum propensity score of the non-*Revlon* deals).

³⁵ Table A.3 of the Appendix (covariate balancing tests) examines differences in the transaction characteristics of the matched *Revlon* and non-*Revlon* deals. With one exception, all the financial characteristics were statistically indistinguishable from zero, which suggests that the matching procedure was successful in creating a set of comparable observations across the treatment and the control groups.

approval by the shareholders of the buyer (DGCL §251(f)), and the ownership structure of the target (which, as discussed earlier, can affect the applicability of *Revlon*) is something that may be completely outside of the control of the buyer.³⁶

Leaving aside changes in the incidence of *Revlon* deals, as shown in Panel A of Table 1, there were some statistically significant changes in the financial characteristics of the targets after *Revlon*. And although, as mentioned, the matched sample reduces differences between the *Revlon* and the non-*Revlon* deals across the entire sample, the matching procedure does not address differences between the pre-*Revlon* and the post-*Revlon* periods. To mitigate these differences, therefore, I constructed an alternative matched sample in which, for the treatment and the control groups individually considered, I matched the post-*Revlon* deals with their most similar pre-*Revlon* deals. The results are presented in Models 4 through 6 of Table 3. As shown, the difference-in-differences estimator remained positive and statistically significant with this matching procedure.³⁷

As an alternative methodology to mitigate selection bias concerns, I compared all cash deals of Delaware targets with an alternative control group: stock acquisitions of targets incorporated in states that did not adopt *Revlon*.³⁸ This analysis further mitigates selection bias because it seems unlikely that concerns about triggering *Revlon* will motivate a buyer's choice between a cash or a stock consideration structure when the target is incorporated in a state that does not

³⁶ I do observe some fluctuation over time in the incidence of cash deals. In particular, immediately after *Revlon*, cash deals increased somewhat in relation to stock deals, but then they declined in the 1990s. This is consistent with prior studies, which find similar patterns (Andrade, Mitchell, and Stafford, 2001; Subramanian, 2003). Given the lack of a steady trend, however, the fluctuation in the incidence of cash deals might be more attributable to overall market factors than *Revlon*. But even if the fluctuation were attributable to *Revlon*, it would still seem unlikely that the changes in target returns I identify here were caused by selection bias. As shown earlier, the increase in CARs in *Revlon* deals occurred immediately after *Revlon*. In contrast, as mentioned before, I observe an increase in the incidence of cash deals in the second half of the 1980s, and only in the 1990s do I observe a decline. This suggests that the increase in CARs in *Revlon* deals was not caused by a migration of low-paying buyers from those deals. Moreover, as discussed later, I also ran the regressions using acquisitions of non-Delaware targets as a control group (in which case the potential for selection bias is lower), and I still obtain a positive and statistically significant difference-in-differences estimator. A related point is that *Revlon* might have had the negative effect of reducing the overall number of transactions (cash and stock deals) because buyers initiating both kinds of deals might have been concerned about triggering *Revlon*. However, the data do not seem to support this concern because the average annual number of transactions is actually higher after *Revlon* than before (approximately 200 versus 60).

³⁷ The matching procedure significantly mitigated the differences between the pre-*Revlon* and the post-*Revlon* periods, especially in the *Revlon* deals. In these deals, after the procedure, all the financial characteristics except two became statistically indistinguishable from zero. In the non-*Revlon* deals, the matching procedure was less effective at reducing the differences (which remained statistically significant across five financial characteristics); however, both the statistical significance of those differences became lower than in the full sample. The results of these analyses are presented in Table A.3 of the Appendix (covariate balancing tests).

³⁸ The states that followed *Revlon* are Illinois, Indiana, Michigan, Minnesota, Montana, and New York.

adopt *Revlon*.³⁹ Table 4 shows the results. As shown, the magnitude and statistical significance of the difference-in-differences estimator remained similar to the baseline results.

Table A.4 of the Appendix presents other alternative analyses with non-Delaware targets. Models 1-2 compare cash deals of Delaware targets with all stock deals (that is, stock deals of Delaware and non-Delaware targets); Models 3-4 compare cash deals of all *Revlon* states (Delaware and other states that followed *Revlon*, to which, together, I refer as “Adopters”) with all stock deals; and Models 5-6 compare cash deals of *Revlon* states other than Delaware (to which I refer as “Followers”) with all stock deals. As shown, the results are consistent with those presented in Table 4. However, the results are somewhat weaker when the treatment group consists only of “Follower” states (Models 5-6). One possible explanation is lower statistical power, since the sample of “Followers” is approximately four times smaller than the sample of Delaware deals (there are 1601 Delaware treatment deals and only 395 treatment deals from the “Following” states). Cain et al. (2020) find a similar result for their cross-section of more recent deals and argue that another explanation could be that Delaware’s specialized courts offer a prospect of stronger enforcement.⁴⁰

Table 5 presents various sensitivity analyses. First, as mentioned earlier, to capture potential runups and delays in the market reaction to the announcement of the transactions, I ran the regressions using the cumulative abnormal returns for the stock of the target companies during a longer window around the announcement date. I explored two windows: five days and thirty days before and after the announcement date. Second, to ensure that the results are not driven by how I adjust the CARs for general market fluctuations, I subtracted from the target returns the equal-weighted CRSP index instead of the value-weighted index when computing the CARs. And third, I controlled for industry effects using the Fama-French five-industry

³⁹ This concern is not completely absent outside of Delaware, though. Delaware law may have spillover effects on how companies behave outside of Delaware, which means that *Revlon* could influence the choice between cash and stock even outside of Delaware.

⁴⁰ In untabulated results, I returned to the baseline treatment group (Delaware cash deals) but re-defined the control group to include all stock and cash deals of targets incorporated in states that did not follow Delaware. These estimations have an important limitation: Delaware corporate law is often adopted in other states and, therefore, as mentioned earlier, changes in Delaware doctrine can have spillover effects on the behavior of non-Delaware companies. As a result, *Revlon* could predictably affect the sales processes of cash deals outside of Delaware. But with that caveat in mind, the results once again suggest that *Revlon* had a positive effect on the gains of the target companies: the difference-in-differences estimator remained positive and statistically significant in the estimations. If I compare only cash deals in *Revlon* states with cash deals in non-*Revlon* states, the difference-in-differences estimator remains positive but is not significant – a result that may be explained by the spillover effects just described.

categories instead of the Standard Industry Classification (SIC) code of the target companies because the Fama-French categories tend to reduce overdispersion (there are more firms per Fama-French category than per SIC code) and because the categories may better predict how the returns of M&A targets cluster among themselves. As shown in Models 1 through 4 of the table, the results in all these specifications remained qualitatively similar to the baseline results.

Table 5 also presents models with additional controls. Model 5 of the table includes a control (“Hostile”) for the negotiation attitude of the buyer. This variable distinguishes between hostile deals, in which the buyer did not seek to obtain prior approval from the target board before making an offer to the target shareholders, and friendly deals, in which such an approval was sought. Model 6 controls for the transactional structure employed by the buyer. This variable (“Tender Offer”) distinguishes between transactions executed as a merger (in which the buyer and the target board negotiate a merger agreement, which then has to be approved by a majority of the target shareholders) or as a tender offer (in which the buyer seeks to buy directly from the target shareholders without a merger agreement).⁴¹ The final model, Model 7, includes a control (“Financial Buyer”) for whether the buyer is a financial or a strategic buyer because a strategic buyer may pay different premiums for at least two reasons: because it expects greater profits from synergies with the target (which would predict higher premiums) or because it expects to profit from the merger using strategies that involve longer time horizons than the strategies employed by financial buyers (which may predict lower premiums) (e.g., Chiarella and Ostinelli, 2020). As shown in the table, across all these specifications, the results remained consistent with the baseline results.

As discussed in Section 2, in the 1980s and 1990s, there were some cases that significantly shaped the *Revlon* doctrine. A particularly important case was *Paramount Communications Inc. v. QVC Network Inc.*,⁴² which made explicit the test that triggers *Revlon* – that is, acquisitions of controlling stakes in which the buyer pays with cash. Another case, *Paramount Communications, Inc. v. Time Inc.*,⁴³ also implied that principle when it held that the stock-for-stock merger between Time, Inc. and Warner Communications, Inc. had not triggered *Revlon*; however, the court did not explicitly articulate the general test that governs *Revlon* in that case.

⁴¹ Hostile bids tend to be tender offers, but many tender offers are not hostile bids because a buyer may (and in fact typically does) negotiate the terms of the offer with the target board before extending the offer to the shareholders.

⁴² 637 A.2d 34, 43 (Del. 1994).

⁴³ 571 A.2d 1140 (Del. 1989).

Another important case was *In re Fort Howard Corp. Shareholders Litigation*,⁴⁴ in which the court allowed the target directors to satisfy their *Revlon* duties by conducting a post-signing market check – that is, by canvassing the market after signing a merger agreement with a bidder.

Given these doctrinal developments, I divided the post-*Revlon* period in four subperiods: between the *Revlon* decision in 1986 and the *Fort Howard* decision in 1988; between the *Fort Howard* decision and the *Time* decision in 1989; between the *Time* decision and the *QVC* decision in 1994; and after the *QVC* decision. The coefficients of interest in these estimations are the interactions between the *Revlon* variable (the variable that classifies the deals as triggering or not triggering *Revlon*), and indicator variables for each of the subperiods. These interactions measure how the CARs in the *Revlon* deals changed after the corresponding court case in relation to the pre-*Revlon* period, after subtracting similar changes among non-*Revlon* deals.

Table 6 shows the results.⁴⁵ The first aspect that emerges from the table is that it reinforces the point mentioned earlier that the CARs in the *Revlon* deals increased immediately after *Revlon*. Even though the first post-*Revlon* subperiod (the period between *Revlon* and *Fort Howard*) contains only approximately two years and a half, the variable $Revlon \times Post_{Revlon}$ was positive and statistically significant at the 1% level. The second interaction ($Revlon \times Post_{Fort Howard}$) is also positive and statistically significant, suggesting that the effect of *Revlon* remained relatively stable after the *Fort Howard* decision.

The third interaction ($Revlon \times Post_{Time}$) was still positive and significant in the models with controls, but the magnitude and statistical significance of the variable were lower. One possible explanation is that the post-signing market check allowed by *Fort Howard* had a negative effect on the CARs of the *Revlon* deals, but there was a delay in the materialization of this effect (so the effect only became tangible during the post-*Time* period). In fact, Subramanian (2016) and Subramanian and Zhao (2020) suggest that post-signing market checks are less effective than pre-signing checks because once there is a signed contract, other bidders will face a “ticking clock problem:” unlike in the pre-signing phase, in which the target board can control the

⁴⁴ 1988 WL 83147 (Del. Ch. Aug. 8, 1988)

⁴⁵ Table A.5 shows the results by sub-periods using the longer time window of 30 days before and after each transaction to compute the CARs. As shown there, the results are consistent with those in Table 6.

timeline of the negotiations so that all bidders can conduct adequate due diligence before submitting a bid, in a post-signing canvass, third parties are constrained by the timeline set by the signed agreement, which can discourage third parties to bid. This in turn means that by allowing a post-signing market check, *Fort Howard* might have caused a reduction in the intensity of competition for target companies.

The fourth interaction ($Revlon \times Post_{QVC}$) is again positive and significant at the 1% level. This result could be explained by the fact that, as mentioned earlier, *QVC* made more explicit the test that determines the applicability of *Revlon*, which might have reinforced the initial effect of the decision.

In addition to *Revlon* and the cases that elaborated on the case, there were other cases in the 1980s that introduced important principles on the duties of the target board in M&A. *Unocal*⁴⁶ and *Moran*,⁴⁷ and especially *Moran*, are particularly important. *Unocal* set a general framework to evaluate the validity of antitakeover defenses in response to a hostile bid. According to the court, when the board of a target company adopts such defensive measures, the board must show that the hostile bid poses a “threat” to the corporation and that the defensive tactics are reasonable in relation to the threat posed. *Moran* then applied this framework to assess the validity of what is often considered the most powerful antitakeover defense (the “poison pill”) and upheld the validity of the pill.⁴⁸

The direction of the potential effect of *Moran* on the gains of the target shareholders is not obvious. On the one hand, the validation of the pill probably deterred many hostile bidders from bidding – a hypothesis that is consistent with the fact that hostile bids became increasingly rare after the 1980s. This may reduce competition for corporate control and thus exert downward pressure on the premium offered to target companies. But on the other hand, by giving more bargaining power to the board, the validation of the pill could push bidders to offer more.

⁴⁶ *Unocal Corp. v. Mesa Petroleum Co.*, 493 A.2d 946, 954 (Del. 1985).

⁴⁷ *Moran v. Household International, Inc.*, 500 A.2d 1346 (Del. 1985).

⁴⁸ As discussed earlier, a pill gives the target shareholders (other than the hostile bidder) the right to buy shares in the target at a substantial discount if the hostile bidder crosses a certain shareholding threshold. Since the pill has the effect of diluting the hostile bidder, it would be extremely difficult for a bidder to obtain control of the company without negotiating with the board.

Whichever theory is correct, however, it is unlikely that *Moran* drives the results presented in this paper. *Moran* authorized the use of poison pills in response to any type of hostile bid (cash or stock bids), so it is unclear why the case should cause the CARs of cash deals to increase in relation to those in stock deals. In addition, hostile bids represent a relatively small fraction of the sample (approximately 13% of the post-*Revlon* deals), but the results presented here indicate that there is a more general increase in the CARs of cash deals. Moreover, as shown in Table 5, the regression results hold after controlling for hostile deals (or, as shown in Table A.6 of the appendix, if I exclude those deals from the sample).

Another notable case decided in the 1980s is *Smith v. Van Gorkom*,⁴⁹ a predecessor of *Revlon*. The case was notable at the time because even though the business judgment rule typically protects the business decisions of managers, the Delaware Supreme Court held an entire board liable for breaching its duty of care under circumstances in which this outcome was generally not expected. The case was triggered by the sale of Trans Union Corp. to a company controlled by Jay Pritzker for \$55 per share (at a time at which the company was trading at \$35 per share). Van Gorkom, the CEO of Trans Union, acted mostly on his own in arranging the sale of the company, and the board then approved the transaction after a two-hour meeting. This amount of time appeared insufficient to the Delaware Supreme Court for a board to assess a transaction of this magnitude, so the court held that the actions of the board did not fall within the business judgment rule. The decision was surprising to the legal community because even though the directors acted expeditiously, they deliberated about the key corporate decisions at issue, which indicates that they were informed.

Van Gorkom may thus have been interpreted as signaling greater scrutiny of target directors in M&A, which might in turn have had a positive effect on the gains of target companies. However, once again, it is unclear why the case would cause CARs in cash deals to increase in relation to stock deals, since the holding of the case applied equally to both types of transactions.

In a set of analyses reported in the appendix, I also ran the regressions after removing some deals in which the application of *Revlon* might have been less clear, at least in the first years following the decision. These tests include the following: removing deals in which the

⁴⁹ 88 A.2d 858 (Del. 1985).

consideration structure (cash versus stock) was mixed, since those deals can be subject to *Revlon*⁵⁰ (as discussed earlier, in the baseline analyses, the *Revlon* deals are all-cash deals); removing third-party acquisitions in which there are indications that the target had a controlling shareholder, since subsequent case law excluded those deals from *Revlon*;⁵¹ removing stock-for-stock deals in which there are indications that the buyer had a controlling shareholder, since subsequent case law held that those transactions can trigger *Revlon* even if the consideration was stock;⁵² and excluding hostile bids (a test I run as an alternative to controlling for hostile bids in order to mitigate potential confounding effects from *Moran*).⁵³ The results (shown in Table A.6) were consistent with the baseline results across all these specifications. This might be explained by various factors, including the fact that the changes generally do not alter the composition of the sample in a material way, the fact that some of the doctrinal clarifications were made many years after *Revlon*, the fact that some or all of the clarifications might have been predicted by practitioners on the basis of the original language of *Revlon*, and the fact that if *Moran* had any effect on premiums, those effects should not affect only cash deals.

In a final set of analyses reported in the appendix, I examined the relationship between *Revlon* and other dependent variables, including specifically the number of bidders, the length of the negotiation period, and the likelihood of closing a transaction. The first analysis is motivated by the fact that *Revlon* requires the directors of the target to expose their firms to an active or a passive market “check,” which may attract more bidders to the bidding process; the motivation for the second analysis is that if a board seeks to achieve the best price available, that could lead to more intensive (and thus lengthier) negotiations; and the motivation for the

⁵⁰ In re Smurfit-Stone Container Corp. S’holder Litig., No. 6164-VCP, 2011 WL 2028076 (Del. Ch. May 20, 2011, revised May 24, 2011). The results also remain similar if I classify transactions with a mixed consideration structure as *Revlon* deals. At least part of the explanation for this result is the fact that the vast majority of deals in the sample are either all-cash or all-stock.

⁵¹ *Bershad v. Curtiss-Wright Corp.*, 535 A.2d 840 (Del. 1987).

⁵² *Paramount Communications Inc. v. QVC Network Inc.*, 637 A.2d 34 (Del. 1994).

⁵³ I do not exclude from the main sample transactions in which there are indications of a controlling shareholder for two reasons. One is that, as mentioned, the rules that apply to these transactions only became clear with cases decided after *Revlon* (i.e., *Bershad* and *QVC*). The other reason is that I rely on a proxy to establish control in the case of third-party M&A: whether SDC lists a parent company of the target (or a parent company of the buyer) whose 6-digit CUSIP differs from that of the target (or from that of the buyer). However, this method is not perfect because SDC does not provide details about the shareholding of the “parent” (and thus why the “parent” is deemed such). Therefore, to ensure that I do not exclude firms that should have been included in the sample, I start with the entire universe of firms. As a side observation, as discussed earlier, I do exclude parent/subsidiary M&A (i.e., acquisitions of the minority shares of the target by the controlling shareholder) from the main sample for two reasons: because I can more precisely identify those transactions, since SDC provides the percentage of shares held by the buyer in the target when the transaction is announced; and because parent/subsidiary M&A were subject to enhanced judicial review (in the form of “entire fairness review”) even before *Revlon* (*Weinberger v. UOP*, 457 A.2d 701, 711 (Del. 1983)).

third analysis is similar to the second one – that is, more intensive negotiations could lead not only to a lengthier negotiation process, but also to a higher likelihood of not reaching a final deal. Table A.7 of the Appendix shows the results (without controls other than the *Revlon* and *Post* variables, and with all the controls). The results do not show a significant increase in the number of bidders post-*Revlon*. There was an increase in the average length of the negotiation period (measured by the natural log of the number of negotiation months), although the increase only reached statistical significance (at the 10% level) in the model without controls. The likelihood of deal completion declined, and although the decline was not far from reaching statistical significance (with *t*-values of 1.40), it did not. The results thus suggest that there seems to be some association between *Revlon* and lower completion rates and longer negotiation processes, but at least in this paper’s sample, the association was not strong enough to reach statistical significance at conventional levels.

The fact that *Revlon* was not associated with a higher number of offers suggests that there are at least three possible (non-mutually exclusive) explanations for the increase in CARs identified in this paper. One is that, after *Revlon*, the target boards were more proactive in canvassing the market, which did result in more competing bids, but many bids did not translate to public offers. This might have occurred, for example, if greater bidding competition discouraged some bidders from making their bids public. Another explanation, as discussed in Section 3, is that *Revlon* induced first bidders to offer more up front because they expected a greater number of competing bids (and thus sought to preempt those bids) and because first bidders knew that the target board would not accept an offer that did not immediately maximize shareholder value. And a third explanation, as also discussed earlier, is that *Revlon* simply prevented the target boards from pursuing deals that did not immediately maximize shareholder value because they knew that that was the standard of conduct created by *Revlon*, and because *Revlon* subjected the target directors to enhanced judicial scrutiny (by requiring courts to evaluate their sale processes under a “reasonableness test” rather than under the extremely deferential “business judgment rule”).

7. Implications

The fact that *Revlon* seems to be associated with higher returns for the target shareholders has implications for a recent trend in the case law that could be interpreted as limiting the scope of

the *Revlon* doctrine. A key case in this trend is *Corwin v. KKR Financial Holdings LLC*,⁵⁴ which held that once a merger is approved by a fully informed and uncoerced majority of the target shareholders, the standard to judge the board's actions shifts from *Revlon*'s reasonableness standard to the deferential business judgment rule. In this sense, leaving aside situations in which there are material defects in the disclosures made to the shareholders, a plaintiff is unlikely to recover damages after a transaction closes, which essentially confines the role of *Revlon* to a mechanism to seek injunctions.⁵⁵

Corwin has the potential benefit of limiting M&A litigation, which is often perceived as excessive and non-meritorious.⁵⁶ However, some commentators argue that giving so much weight to shareholder ratification is problematic for two reasons: because shareholders tend to be extremely deferential to managers, which suggests that voting is not a meaningful backstop against ineffective or conflicted boards (Cox, Mondino, and Thomas, 2019), and because a vote for a deal may simply reflect the investors' desire to protect themselves against uncertainty – not the belief that a deal appropriately values their shares (Anabtawi, 2019).⁵⁷

As a threshold matter, it is debatable that *Corwin* in fact introduced a significant doctrinal change. That shareholder ratification should lead to significant managerial deference is a principle that was already present in the case law,⁵⁸ and, moreover, *Corwin* can be interpreted as simply bringing the *Revlon* doctrine back to its original factual context – that is, a competing

⁵⁴ *Corwin v. KKR Financial Holdings LLC*, 125 A.3d 304, 312–14 (Del. 2015) (en banc).

⁵⁵ See also *Lyondell Chemical Co. v. Ryan*, 970 A.2d 235, 243 (Del. 2009) (en banc) (holding that when the plaintiff seeks damages after a transaction closes and the target has in place a liability waiver under Delaware's statute, as most companies do, the directors are not liable except in the unlikely event that there is enough evidence to conclude that they acted in bad faith).

⁵⁶ See, e.g., Bainbridge (2016). Before *Corwin*, approximately 90% of all mergers with a value over \$100 million involved at least one shareholder suit (e.g., Cain and Solomon, 2015), and some commentators have suggested that the breadth of *Revlon* contributed to this trend (e.g., Griffith, 2019). One important way in which courts responded to the proliferation of litigation was by raising the bar for the approval of settlements, which typically enabled the plaintiff lawyers to collect large fees in exchange for additional disclosures that did not provide clear benefits to the target shareholders. See *In re Trulia Stockholder Litigation*, 129 A.3d 884, 898 (Del. Ch. 2016). Although *Trulia* is probably the main cause of the lower litigation rates in recent years, as Griffith (2019) suggests, it could still be possible that *Corwin* also played a role (e.g., Cain et al., 2018; 2020, p. 1696).

⁵⁷ See also Friendlander (2017); Gevurtz (2018); Cox, Mondino, and Thomas (2019). In a separate study, however, I find that when the Delaware courts exempted from enhanced judicial review parent/subsidiary mergers that were approved by the majority-of-the-minority shareholders, the gains of the target shareholders remained similar. Although various interpretations of this result are possible, one interpretation is that shareholder voting (coupled with certain other procedural safeguards) provides a level of protection that is approximately similar to enhanced judicial review. See Restrepo (2021).

⁵⁸ See *Smith v. Van Gorkom*, 488 A.2d 858, 890 (Del. 1985) (stating that “The settled rule in Delaware is that where a majority of fully informed stockholders ratify action of even interested directors, an attack on the ratified transaction normally must fail”) (internal quotation marks omitted).

bidder seeking an injunction in a bidding contest (Cain et al., 2020). Maybe precisely for this reason, studies on the effect of *Corwin* have not found significant effects on the welfare of the target shareholders or the design of sale processes (Cain et al., 2020; Gatti, 2020; Gelter and Gatti, 2023).⁵⁹

But even if *Corwin* did not introduce a major doctrinal shift, that does not mean that future cases (or legal changes) will not do it. The positive relationship between *Revlon* and the gains of the target companies documented in this paper then provides a reason for courts and legislators to at least consider the risk of deteriorated shareholder gains if they decide to relax (or further relax) *Revlon*. And it is worth noting that this risk can have broader economic implications beyond affecting the specific shareholders involved in a merger. First, if investors anticipate when they invest in a company that they will receive lower gains in change-of-control scenarios, then the cost of capital may increase because those investors may demand a higher premium for their capital (e.g., Bebchuk, 1988; 1989; Gilson, 1982). Second, if exposing a company to a market check increases the chances that the company will be bought by the bidder that values it the most, then a policy that fails to incentivize those checks might inhibit the flow of resources to their most valuable uses – that is, it may hinder allocative efficiency (e.g., Gilson, 1982). And third, a policy that encourages bids that are not necessarily favored by managers (like *Revlon* does) may expose the management team to an enhanced disciplinary effect of the market for corporate control (that is, an enhanced threat that a new controlling shareholder will remove the managers from the business if they do not operate it efficiently). As a result, a doctrinal regime that does not facilitate or encourage competing bids may ultimately reduce the efficiency with which companies are generally managed (e.g., Bebchuk, 1982; Gilson, 1982; Coffee, 1986).⁶⁰

⁵⁹ There are at least two other possible explanations for the lack of significant effects. One is that, as Cain et al. (2020) point out, *Revlon* remains the central case that “frames the big picture” of the conduct of the directors in the sale of a company, so the directors may follow this “big picture” as a matter of norm or best practice even if the standard of judicial review to judge their actions is relaxed. The other explanation is that *Revlon* is part of a larger ecosystem of protections, many of which have become stronger over the last decades (Cain et al., 2020). For instance, the directors of public companies tend to be more independent and informed today (e.g., Gordon, 2007), and the emergence of activist investors can provide an important layer of protection against ineffective boards (Solomon and Thomas, 2019; see also Black, 1990; 1992; Gilson and Gordon, 2013). In this sense, the role of enhanced judicial review might be less relevant in current times than it was in the 1980s.

⁶⁰ It is also possible to make the opposite argument, though. As Easterbrook and Fischel (1981) point out, a policy that encourages competing bids may disincentivize first bidders to search for targets, and this could in turn reduce the threat that a new controlling shareholder will buy the company and remove the managers. From this perspective, a policy that encourages competing bids could reduce both the disciplinary effect of the takeover market and allocative efficiency.

Before concluding, it is important to note that all the considerations discussed in this section raise a natural question (which also has been raised in previous studies): whether *Revlon* should be extended beyond the context of change-of-control transactions (e.g., Cain et al., 2020). In particular, some commentators argue that the scope of *Revlon* has always been too narrow because mergers pose potential conflicts of interest for the directors regardless of whether the consideration is cash or stock, or whether the post-merger entity would or would not have a controlling shareholder (Laster, 2013). The results presented in this paper do not provide an answer to this debate; however, as mentioned before, they do provide a new element for courts and legislators to assess the potential costs and benefits of their decisions.

8. Conclusion

After almost four decades of debates on the scope of the *Revlon* doctrine, the empirical evidence on the impact of the doctrine remains limited. Some studies analyze recent deals and suggest that *Revlon* has a positive effect on the gains of the target shareholders, but those studies do not examine how those gains changed after the decision relative to the pre-decision gains. This paper shows that shortly after *Revlon*, the gains of the target companies in fact increased significantly in *Revlon* deals in relation to non-*Revlon* deals, which lends support to the claim that *Revlon* matters. This result in turn implies that if courts decide to constrain the scope of the decision (a step that, according to some commentators, recent cases have already taken), then that trend might lead to a systematic reduction in the gains of the target shareholders. However, it is important to keep in mind that this potential reduction is only one of the multiple cost/benefit considerations that courts and legislators should assess in shaping the scope of *Revlon*.

References

- Anabtawi, Iman. 2019. The twilight of enhanced scrutiny in Delaware M&A jurisprudence. *Delaware Journal of Corporate Law* 43: 161-211.
- Andrade, Gregor, Mark Mitchell, and Erik Stafford. 2001. New evidence and perspectives on mergers. *Journal of Economic Perspectives* 15: 103-120.
- Allen, William, Reinier Kraakman, and Vic Khanna. 2021. Commentaries and cases on the law of business associations (Wolters Kluwer Publishers).
- Bainbridge, Stephen M. 2013. The geography of Revlon-land. *Fordham Law Review* 81: 3277-3388.
- Bainbridge, Stephen M. 2016. Fee-shifting: Delaware's self-inflicted wound. *Delaware Journal of Corporate Law* 40: 851 – 876.
- Bebchuk, Lucian. 1982a. The case for facilitating competing tender offers. *Harvard Law Review* 95 1028 – 1056.
- Bebchuk, Lucian. 1982b. The case for facilitating competing tender offers: A Reply and extension. *Stanford Law Review* 35: 23-50.
- Black, Bernard S. 1990. Shareholder passivity reexamined. *Michigan Law Review* 89: 520-608.
- Black, Bernard. 1992. Agents watching agents: The promise of institutional investor voice. *UCLA Law Review* 39: 811-893.
- Bradley, Michael, Anand Dasai, and E. Han Kim. 1988. Synergistic gains from corporate acquisitions and their division between the stockholders of target and acquiring firms. *Journal of Financial Economics* 21:3-40.
- Cain, Matthew D., and Steven Davidoff Solomon. 2016. Takeover Litigation in 2015 (unpublished manuscript).
- Cain, Matthew D., Jill E. Fisch, Steven Davidoff Solomon, Randall Thomas. 2018. The shifting tides of merger litigation. *Vanderbilt Law Review* 71: 603-640.
- Cain, Matthew D., Sean J. Griffith, Robert J. Jackson Jr., and Steven Davidoff Solomon. 2020. Does Revlon Matter? An empirical and theoretical study. *California Law Review* 108: 1683 – 1731.
- Cain, Matthew D., Stephen B. McKeon, and Steven Davidoff Solomon. 2017. Do takeover laws matter? Evidence from five decades of hostile takeovers. *Journal of Financial Economics* 124(3) 464-485.
- Coates, John, and Guhan Subramanian. 2000. A buy- side model of M&A lockups: Theory and evidence. *Stanford Law Review* 53 (2): 307-396.
- Coffee, John C. 1986. Shareholders versus managers: The strain in the corporate web. *Michigan Law Review* 85: 1-109.
- Cole, Robert J. 1985. High-stakes drama at Revlon: Giant was sitting duck the dramatic and high-stakes battle for control of Revlon. *New York Times*, November 11, 1985).
- Cornerstone. 2022. M&A litigation trends.

Cox, James D., and Randall S. Thomas. 2018. Delaware's retreat: Exploring developing fissures and tectonic shifts in Delaware corporate law. *Delaware Journal of Corporate Law* 42: 323 – 389.

Cox, James D., Tomas J. Mondino, and Randall S. Thomas. 2019. Understanding the (ir)relevance of shareholder votes on M&A deals. *Duke Law Journal* 69(3): 503-582.

Easterbrook, Frank, and Daniel Fischel. 1981. The proper role of a target's management in responding to a tender offer. *Harvard Law Review* 94: 1161 - 1204.

Easterbrook, Frank, and Daniel Fischel. 1982. Auctions and sunk costs in tender offers. *Stanford Law Review* 35: 1-21.

Eisenberg, Melvin Aron. 1993. The divergence of standards of conduct and standards of review in corporate law. *Fordham Law Review* 62: 437-468.

Friedlander, Joel Edan. 2017. Vindicating the duty of loyalty: Using data points of successful stockholder litigation as a tool for reform. *Business Lawyer* 72: 623 - 656.

Gatti, Matteo. 2020. Did Delaware really kill corporate law? Shareholder protection in a post-*Corwin* world. *N.Y.U. Journal of Law & Business* 16: 345.

Gatti, Matteo, and Martin Gelter. 2023. Barking without biting. How *Corwin* did not change M&A (Working Paper).

Gevurtz, Franklin A. 2018. Cracking the *Corwin* conundrum and other mysteries regarding shareholder approval of mergers and acquisitions 7–8 (Oct. 13, 2018).

Gilson, Ronald. 1981. A structural approach to corporations: The case against defensive tactics in tender offers. *Stanford Law Review* 33: 819 – 891.

Gilson, Ronald. 1982. Seeking competitive bids versus pure passivity in tender offer defense. *Stanford Law Review* 35: 51 - 67.

Giovannelli, Richard. 1996. Revisiting *Revlon*: The rumors of its demise have been greatly exaggerated. *William and Mary Law Review* 37: 1520-1567.

Gordon, Jeffrey N. 2007. The rise of independent directors in the United States, 1950-2005: Of shareholder value and stock market prices. *Stanford Law Review* 59: 1465-1568.

Griffith, Sean. 2003 Deal protection provisions in the last period of play. *Fordham Law Review* 71: 1899 (2003).

Griffith, Sean J. 2019. Innovation in disclosure-based shareholder suits. *Case Western Reserve Law Review* 69: 927-962.

Gubler, Zachary. 2021. What's the deal with *Revlon*? *Indiana Law Journal* 96(2): 429 – 469.

Hamermesh, Lawrence. 2004. Premiums in stock-for-stock mergers and some consequences for the law of director fiduciary duties. *University of Pennsylvania Law Review* 152: 881-915.

Harford, Jarrad. 2005. What drives merger waves? *Journal of Financial Economics* 77: 529-560.

Hertzberg, Daniel. 1985a. Ruling against *Revlon* lockup option will force more selectivity in defenses. *Wall Street Journal*, October 25, 1985.

- Hertzberg, Daniel. 1985a. Poison pill defense no longer is seen as a sure way to repel hostile suitors. *Wall Street Journal*, October 31, 1985.
- Jarrell, Gregg A., and Michael Bradley. 1980. The economic effects of federal and state regulations of cash tender offers. *Journal of Law and Economics* 23: 371-407.
- Jensen, Michael C. 1986. Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review* 76: 323-329.
- Laster, J. Travis. 2013. *Revlon* is a standard of review: Why it's true and what it means. *Fordham Journal of Corporate and Financial Law* 19: 5-55.
- Restrepo, Fernan. 2014. Do mandatory market checks affect the gains of the target shareholders? *Harvard Law School Forum on Corporate Governance* (February 21, 2014).
- Restrepo, Fernán. 2021. Judicial deference, procedural protections, and deal outcomes in freezeout transactions: Evidence from the effect of *MFW*. *Journal of Law, Finance, and Accounting* 6: 353-394.
- Schwert, William. 2000. Hostility in takeovers: In the eyes of the beholder? *Journal of Financial Economics* 55: 2599-2640.
- Solomon, Steven Davidoff, and Randall S. Thomas. 2019. The rise and fall of Delaware's takeover standards, in Solomon, *The corporate contract in changing times* (Steven Davidoff Solomon and Randall Thomas (eds.)).
- Shumway, Tyler. 2001. Forecasting bankruptcy more accurately: a simple hazard model. *Journal of Business* 74: 101-124 .
- Spamann, Holger, and Colby Wilkinson. 2020. A new dataset of historical states of incorporation of U.S. stocks. *Harvard Law School Forum on Corporate Governance and Financial Regulation* (January 2, 2020).
- Subramanian, Guhan. 2003. The drivers of market efficiency in *Revlon* transactions. *Journal of Corporation Law* 28: 69-714.
- Subramanian, Guhan. 2016. Deal process design in management buyouts. *Harvard Law Review* 130: 590-658.
- Thompson , Robert B., and D. Gordon Smith. 2001. Toward a new theory of the shareholder role: "Sacred space" in corporate takeovers. *Texas Law Review* 80: 261-326.

Table 1
Descriptive statistics

Table 1 presents summary statistics. Panel A shows the characteristics of the *Revlon* and non-*Revlon* deals before and after *Revlon*. Panel B shows univariate tests for differences between *Revlon* and non-*Revlon* deals within the pre-*Revlon* period and the post-*Revlon* period. The sample period is 1975-2000. The *Revlon* and non-*Revlon* deals are defined in more detail in the body of the text. The tests of statistical significance are *t*-tests of mean differences. The coefficients of the differences may be slightly different than what a manual computation would yield due to rounding. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Differences between the pre-*Revlon* and the post-*Revlon* periods by type of transaction

	Pre-Revlon				Post-Revlon				
	Mean	Median	S.D.	N	Mean	Median	S.D.	N	Difference
Revlon deals									
CAR _{-1,+1}	0.13	0.09	0.15	261	0.21	0.17	0.22	1340	0.09***
Log(Market capitalization)	4.52	4.42	1.23	261	4.79	4.60	1.41	1340	0.27***
Market-to-book	1.07	0.85	1.41	261	1.38	0.83	2.08	1340	0.31**
Liquidity	0.19	0.08	0.19	261	0.17	0.07	0.38	1340	-0.03
Leverage	0.40	0.30	0.38	261	0.33	0.30	0.26	1340	-0.07***
Sales growth	0.09	0.08	0.14	261	0.08	0.08	0.29	1340	-0.01
ROE	0.07	0.08	0.22	261	-0.02	0.04	0.28	1340	-0.09***
Age	17.65	13.46	15.08	261	12.16	6.53	13.56	1340	-5.49***
Non-Revlon deals									
CAR _{-1,+1}	0.11	0.08	0.15	315	0.13	0.11	0.18	1700	0.03**
Log(Market capitalization)	4.71	4.69	1.34	315	5.20	5.04	1.69	1700	0.49***
Market-to-book	1.14	0.85	1.72	315	1.57	0.73	2.72	1700	0.44***
Liquidity	0.17	0.08	0.34	315	0.17	0.07	0.47	1700	0.01
Leverage	0.34	0.30	0.36	315	0.35	0.30	0.29	1700	0.01
Sales growth	0.08	0.08	0.13	315	0.12	0.10	0.31	1700	0.04**
ROE	0.06	0.08	0.18	315	-0.02	0.03	0.23	1700	-0.08***
Age	16.34	12.18	13.35	315	9.58	5.16	11.77	1700	-6.76***

Panel B: Differences between the *Revlon* and non-*Revlon* deals by period

Period	Non- <i>Revlon</i> deals	<i>Revlon</i> deals	Difference
<i>Pre-Revlon</i>			
CAR _{-1,+1}	0.11	0.13	0.02*
Log(Market capitalization)	4.71	4.52	-0.19*
Market-to-book	1.14	1.07	-0.07
Liquidity	0.17	0.19	0.02
Leverage	0.34	0.40	0.06*
Sales growth	0.08	0.09	0.01
ROE	0.06	0.07	0.01
Age	16.34	17.65	1.31
<i>Post-Revlon</i>			
CAR _{-1,+1}	0.13	0.21	0.08***
Log(Market capitalization)	5.20	4.79	-0.41***
Market-to-book	1.57	1.38	-0.19**
Liquidity	0.17	0.17	0.00
Leverage	0.35	0.33	-0.02**
Sales growth	0.12	0.08	-0.04***
ROE	-0.02	-0.02	0.00
Age	9.58	12.16	2.58***

Figure 1
Evolution of CARs over time in *Revlon* and non-*Revlon* deals

The figure shows the average annual CARs of the *Revlon* and non-*Revlon*. The reference line is 1985, the year of the oral decision in *Revlon*.



Table 2
Regression estimations: *Revlon* and CARs

Table 2 presents regression results on the association between *Revlon* and the gains of the target shareholders in M&A. In all the models, the dependent variable is the cumulative abnormal returns for the stock of the target during a one-day period around the announcement of the transaction (that is, the $CAR_{S(-1,+1)}$). The financial controls (untabulated) include the target's size (market capitalization), profitability (ROE), sales growth, leverage, liquidity, market-to-book ratio, and age, and a control for capital liquidity. The industry fixed effects are based on the one-digit SIC code of the target. The *t*-statistics are in parentheses and ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Variable	(1)	(2)	(3)
<i>Revlon</i> × <i>Post</i>	0.059*** (4.08)	0.066*** (4.46)	0.065*** (4.30)
<i>Revlon</i>	0.021* (1.70)	0.015 (1.16)	0.013 (1.02)
<i>Post</i>	0.026*** (2.82)	0.001 (0.12)	-0.049 (-1.63)
Financial controls	No	Yes	Yes
Industry FE	No	Yes	Yes
Year FE	No	No	Yes
R-squared	0.044	0.073	0.093
N	3616	3616	3616

Table 3
Regressions with matched samples

The table shows regressions using two matched samples. The dependent variable in all the models is the $CAR_{(-1,+1)}$ of the target. Models 1 through 3 use the baseline matched sample, in which *Revlon* deals are matched with their closest *non-Revlon* deals across the entire sample period. Models 4 through 6 are based on a matched sample in which the post-*Revlon* deals are matched with their closest pre-*Revlon* deals. This procedure is applied separately to the treatment and the control group. The financial controls are the same controls described in Table 2. The *t*-statistics are in parentheses and ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Analysis:	Matched sample			Alternative matched sample		
Model	(1)	(2)	(3)	(4)	(5)	(6)
<i>Revlon</i> × <i>Post</i>	0.063*** (4.25)	0.071*** (4.70)	0.069*** (4.48)	0.071*** (3.35)	0.073*** (3.47)	0.074*** (3.42)
<i>Revlon</i>	0.019 (1.55)	0.013 (1.03)	0.012 (0.88)	0.021* (1.70)	0.018 (1.37)	0.018 (1.30)
<i>Post</i>	0.023** (2.34)	-0.004 (-0.37)	-0.056* (-1.84)	0.016 (1.20)	-0.006 (-0.41)	-0.060 (-1.64)
Financial controls	No	Yes	Yes	No	Yes	Yes
Industry FE	No	Yes	Yes	No	Yes	Yes
Year FE	No	No	Yes	No	No	Yes
R-squared	0.047	0.081	0.104	0.052	0.075	0.104
N	3200	3200	3200	1152	1152	1152

Table 4
Delaware cash deals versus stock deals in states that did not follow *Revlon*

The table compares cash deals involving Delaware targets (the treatment group) with stock deals involving targets incorporated in states that did not adopt *Revlon* (the control group). The dependent variable in all the models is the $CARS_{(-1,+1)}$ of the target. The financial controls are described in Table 2. The t -statistics are in parentheses and ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Variable	(1)	(2)	(3)
<i>Revlon</i> × <i>Post</i>	0.054*** (4.00)	0.047*** (3.46)	0.048*** (3.50)
<i>Revlon</i>	0.016 (1.44)	0.013 (1.09)	0.009 (0.78)
<i>Post</i>	0.054*** (4.00)	0.047*** (3.46)	0.048*** (3.50)
Financial controls	No	Yes	Yes
Industry FE	No	Yes	Yes
Year FE	No	No	Yes
R-squared	0.039	0.070	0.088
N	3511	3511	3511

Table 5
Sensitivity analyses

The table presents various sensitivity analyses. The dependent variable in all the models is the $CAR_{(-1,+1)}$ of the target, and all the models include all the controls – the financial controls, the industry effects, and the year fixed-effects. Model 1 uses a window of 5 days before and after the announcement of the M&A to calculate the CARs. Model 2 employs a longer window of 30 days. Model 3 returns to the baseline window of one day, but it adjusts the returns of the target for general market fluctuations by subtracting the returns of the equal-weighted CRSP index instead of the returns of the value-weighted index from the target returns. Model 4 replaces the industry controls based on the SIC of the targets with the Fama-French five-industry categories. Model 5 includes a control for hostile bids. Model 6 includes a control for tender offers. Model 7 includes a control for the type of buyer (financial versus strategic). The t -statistics are in parentheses and ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

[illegible]

Table 6
Regressions by post-*Revlon* sub-periods

The regression models in the table divide the post-*Revlon* period in four sub-periods: post-*Revlon*, post-*Fort Howard*, post-*Time*, and post-*QVC*. The dependent variable in all the models is the $CARS_{(-1,+1)}$ of the target. The main independent variables of interest are the interactions between the *Revlon* variable (which classifies the deals as triggering or not triggering *Revlon* mainly based on whether the payment was with cash) and each of the indicator variables for the post-*Revlon* sub-periods. The indicators for the sub-periods take the value of one for transactions announced after the corresponding court decision (for example, *QVC*) and zero otherwise. The models also include the stand-alone *Revlon* variable and the stand-alone indicators for each sub-period, but those variables are not reported to save space. The *t*-statistics are in parentheses and ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Model	(1)	(2)	(3)
<i>Revlon</i> × <i>Post_{Revlon}</i>	0.055*** (2.86)	0.057*** (2.91)	0.055*** (2.75)
<i>Revlon</i> × <i>Post_{Fort Howard}</i>	0.082*** (2.78)	0.087*** (2.95)	0.092*** (3.07)
<i>Revlon</i> × <i>Post_{Time}</i>	0.036 (1.47)	0.042* (1.74)	0.044* (1.74)
<i>Revlon</i> × <i>Post_{QVC}</i>	0.073*** (4.60)	0.073*** (4.57)	0.069*** (4.26)
Financial controls	No	Yes	Yes
Industry F.E.	No	Yes	Yes
Year F.E.	No	No	Yes
R-squared	0.056	0.075	0.094
N	3616	3616	3616

Appendix
Table A.1. Variable definitions

Variable	Definition
<i>Age</i>	Number of years between the date on which the target company became listed and the announcement date of a takeover bid. Listing dates are from CRSP and Compustat.
<i>CARs_{-t,+t}</i>	Cumulative abnormal returns of the target around the date of the transaction. The subscript indicates the number of days around the announcement of the deal for the computation of the CAR.
<i>Capital liquidity</i>	Spread of the prime rate over the federal funds rate (measured at the quarterly level). The prime rate is a reference rate at which banks price short-term business loans. The federal funds rate is the rate at which commercial banks borrow and lend their excess reserved among themselves.
<i>Financial buyer</i>	Indicator variable that takes the value of one for financial buyers and zero for strategic buyers.
<i>Hostile</i>	Indicator variable that takes the value of 1 for hostile bids and zero otherwise.
<i>Leverage</i>	Total debt to total assets
<i>Liquidity</i>	Cash and short-term investments to total assets.
<i>Market capitalization</i>	Market capitalization of the target company, which is defined as the number of shares outstanding multiplied by the stock market price of the target thirty days before the announcement of the transaction.
<i>Market-to-book</i>	Market to book ratio, defined as the ratio of the market value of common stock to the book value of equity.
<i>Post</i>	Indicator variable that takes the value of one for transactions announced after the <i>Revlon</i> decision and zero otherwise.
<i>Post_i</i>	Indicator variable that takes the value of one for transactions announced after the <i>i</i> -th key decision during the post- <i>Revlon</i> sample period (<i>Revlon</i> , <i>Fort Howard</i> , <i>Time</i> , or <i>QVC</i>) and zero otherwise.
<i>Revlon</i>	Indicator variable that takes the value of one for deals subject to <i>Revlon</i> and zero otherwise. A deal triggers <i>Revlon</i> if it is a change-of-control transaction in which the payment took the form of cash.
<i>Sales growth</i>	Change in sales in relation to the fiscal year preceding the announcement of the transaction.
<i>Tender offer</i>	Indicator variable that takes the value of one for transactions executed as a tender offer and zero otherwise.

Table A.2
Choice of transactional form after *Revlon*

The regressions show how the incidence of *Revlon* deals changed after *Revlon*. The dependent variable in all the models is therefore the *Revlon* variable, and the main independent variable of interest is *Post*, an indicator that takes the value of one for transactions announced after *Revlon* and zero otherwise. Model 1 does not include any control and Model 2 includes all the controls. The *t*-statistics are in parentheses and ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Analysis	Incidence of <i>Revlon</i> deals	
Dependent variable	<i>Revlon</i> deal	<i>Revlon</i> deal
Model	(1)	(2)
<i>Post</i>	-0.012 (-0.55)	-0.237 (-1.63)
Controls	No	Yes
R-squared	0.000	0.093
N	3616	3616

Table A.3
Covariate balancing tests

The table presents covariate balancing tests for two matched samples. The first is the baseline matched sample, which matches all *Revlon* deals with their most similar non-*Revlon* deals across the entire sample period. The second matched sample matches the post-*Revlon* transactions that are most similar to their pre-*Revlon* transactions, and this process is performed separately for the *Revlon* and the non-*Revlon* deals. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Differences between the *Revlon* and the Non-*Revlon* deals in the baseline matched sample

	Non- <i>Revlon</i>				<i>Revlon</i>				Difference
	Mean	Median	S.D.	N	Mean	Median	S.D.	N	
Log(Market Capitalization)	4.78	4.59	1.48	1600	4.75	4.56	1.39	1600	-0.03
ROE	-0.01	0.04	0.23	1600	0.00	0.04	0.27	1600	0.01
Market-to-book	1.36	0.85	2.06	1600	1.33	0.85	1.99	1600	-0.03
Sales growth	0.09	0.08	0.30	1600	0.08	0.08	0.26	1600	-0.01
Leverage	0.35	0.30	0.30	1600	0.34	0.30	0.28	1600	0.00
Liquidity	0.18	0.08	0.45	1600	0.17	0.08	0.36	1600	-0.01
Age	11.58	7.19	12.95	1600	13.02	7.74	13.92	1600	1.44***

Panel B. Differences between the pre-*Revlon* and post-*Revlon* periods

	Pre- <i>Revlon</i>				Post- <i>Revlon</i>				
	Mean	Median	S.D.	N	Mean	Median	S.D.	N	Difference
<i>Revlon deals</i>									
Log(Market capitalization)	4.52	4.42	1.23	261	4.31	3.97	1.42	261	-0.21*
ROEw1_ip50	0.07	0.08	0.22	261	0.09	0.07	0.08	261	0.02
Market-to-book	1.07	0.85	1.41	261	1.10	0.85	1.14	261	0.03
Sales	0.09	0.08	0.14	261	0.10	0.08	0.23	261	0.01
Leverage	0.40	0.30	0.38	261	0.36	0.30	0.29	261	-0.04
Liquidity	0.19	0.08	0.19	261	0.22	0.06	0.58	261	0.02
Age	17.65	13.46	15.08	261	21.38	15.63	18.78	261	3.73**
<i>Non-Revlon deals</i>									
Log(Market capitalization)	4.71	4.69	1.34	315	4.43	3.93	1.68	315	-0.29**
ROEw1_ip50	0.06	0.08	0.18	315	0.06	0.04	0.09	315	0.00
Market-to-book	1.14	0.85	1.72	315	0.95	0.81	0.83	315	-0.19*
Sales	0.08	0.08	0.13	315	0.04	0.08	0.31	315	-0.04**
Leverage	0.34	0.30	0.36	315	0.29	0.28	0.24	315	-0.05**
Liquidity	0.17	0.08	0.34	315	0.14	0.06	0.33	315	-0.03
Age	16.34	12.18	13.35	315	19.34	14.06	18.03	315	3.00**

Table A.4
***Revlon* deals in *Revlon* states versus non-*Revlon* deals**

The table presents models with alternative definitions of the treatment and the control groups. Models 1-2 compare cash deals of Delaware targets with all stock deals (stock deals of Delaware and non-Delaware targets). Models 3-4 compare cash deals of all *Revlon* states (Delaware and other states that followed *Revlon*, to which, together, I refer as “Adopter” states) with all stock deals; and Models 5-6 compare cash deals of *Revlon* states other than Delaware (to which I refer as “Follower” states) with all stock deals. Models 1, 3, and 5 do not include any control other than the interaction displayed in the table (as well as the stand-alone components of the interaction), and the remaining models include all the controls. The dependent variable in all the models is the $CAR_{(-1,+1)}$ of the target. The t -statistics are in parentheses and ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Variable	(1)	(2)	(3)	(4)	(5)	(6)
<i>Delaware</i> _{Cash} × <i>Post</i>	0.049*** (4.09)	0.050*** (4.14)				
<i>Adopter</i> × <i>Post</i>			0.050*** (4.73)	0.052*** (4.87)		
<i>Follower</i> × <i>Post</i>					0.038* (1.90)	0.047** (2.35)
Financial controls	Yes	Yes	Yes			Yes
Industry FE	Yes	Yes	Yes			Yes
Year FE	Yes	Yes	Yes			Yes
R-squared	0.026	0.040	0.052	0.044	0.052	0.081
N	7267	7267	7267	4805	4805	4805

Table A.5
Regressions by post-*Revlon* sub-periods

The table contains the same regressions shown in Table 6 (which divides the post-*Revlon* period in various sub-periods). But instead of using the $CAR_{(-1,+1)}$ of the target as the dependent variable, this table uses $CAR_{(-30,+30)}$, that is, the cumulative abnormal returns of the target over a period of 30 days before and after the announcement of the transactions. The t -statistics are in parentheses and ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Model	(1)	(2)	(3)
$Revlon \times Post_{Revlon}$	0.136*** (4.23)	0.137*** (4.26)	0.132*** (4.16)
$Revlon \times Post_{Fort\ Howard}$	0.122*** (2.86)	0.134*** (3.09)	0.146*** (3.37)
$Revlon \times Post_{Time}$	0.029 (0.80)	0.039 (1.06)	0.051 (1.38)
$Revlon \times Post_{QVC}$	0.077*** (3.17)	0.079*** (3.25)	0.081*** (3.30)
Financial controls	No	Yes	Yes
Industry F.E.	No	Yes	Yes
Year F.E.	No	No	Yes
R-squared	0.043	0.071	0.099
N	3616	3616	3616

Table A.6
Exclusions of certain deals

The table presents regressions excluding various types of deals. Model 1 excludes deals in which the consideration structure (cash versus stock) was mixed. Model 2 excludes transactions in which there are indications that the target was controlled. Model 3 excludes transactions in which there are indications that the buyer was controlled. Model 4 excludes hostile bids. The dependent variable in all the models is the $CAR_{(-1,+1)}$ of the target. The t -statistics are in parentheses and ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Variable	(1)	(2)	(3)	(4)
<i>Revlon</i> × <i>Post</i>	0.050*** (3.13)	0.082*** (3.55)	0.064*** (4.15)	0.099*** (4.86)
<i>Revlon</i>	0.032** (2.25)	-0.004 (-0.17)	0.012 (0.90)	-0.025 (-1.33)
<i>Post</i>	-0.035 (-0.99)	-0.058* (-1.71)	-0.051* (-1.67)	-0.072** (-2.14)
Financial controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
R-squared	0.104	0.094	0.092	0.105
N	3180	2937	3354	2911

Table A.7
Other outcome variables

The table examines the impact of *Revlon* on outcome variables other than the gains of the target shareholders. In Models 1-2, the dependent variable is an indicator variable for whether a deal was completed. In Models 3-4, the dependent variable is the time it took to complete (or withdraw) a deal (measured from the date of the announcement of the transaction). In Models 5-6, the dependent variable is an indicator variable for whether competing bids emerged. The *t*-statistics are in parentheses and ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Variable	Completion		Time-to-completion		Competing bid	
	(1)	(2)	(3)	(4)	(5)	(3)
<i>Revlon</i> × <i>Post</i>	-0.058 (-1.40)	-0.059 (-1.38)	0.148* (1.80)	0.065 (0.81)	0.001 (0.01)	-0.037 (-0.95)
<i>Revlon</i>	0.039 (1.03)	0.075* (1.88)	-0.375*** (-4.78)	-0.255*** (-3.29)	0.096*** (2.64)	0.098*** (2.70)
<i>Post</i>	0.084*** (3.00)	-0.045 (-0.30)	0.357*** (5.83)	-0.117 (-0.53)	-0.028 (-1.16)	0.074 (0.54)
Financial controls	No	Yes	No	Yes	No	Yes
Industry FE	No	Yes	No	Yes	No	Yes
Year FE	No	Yes	No	Yes	No	Yes
R-squared	0.003	0.060	0.073	0.168	0.014	0.105
N	3616	3616	3552	3552	3616	3616