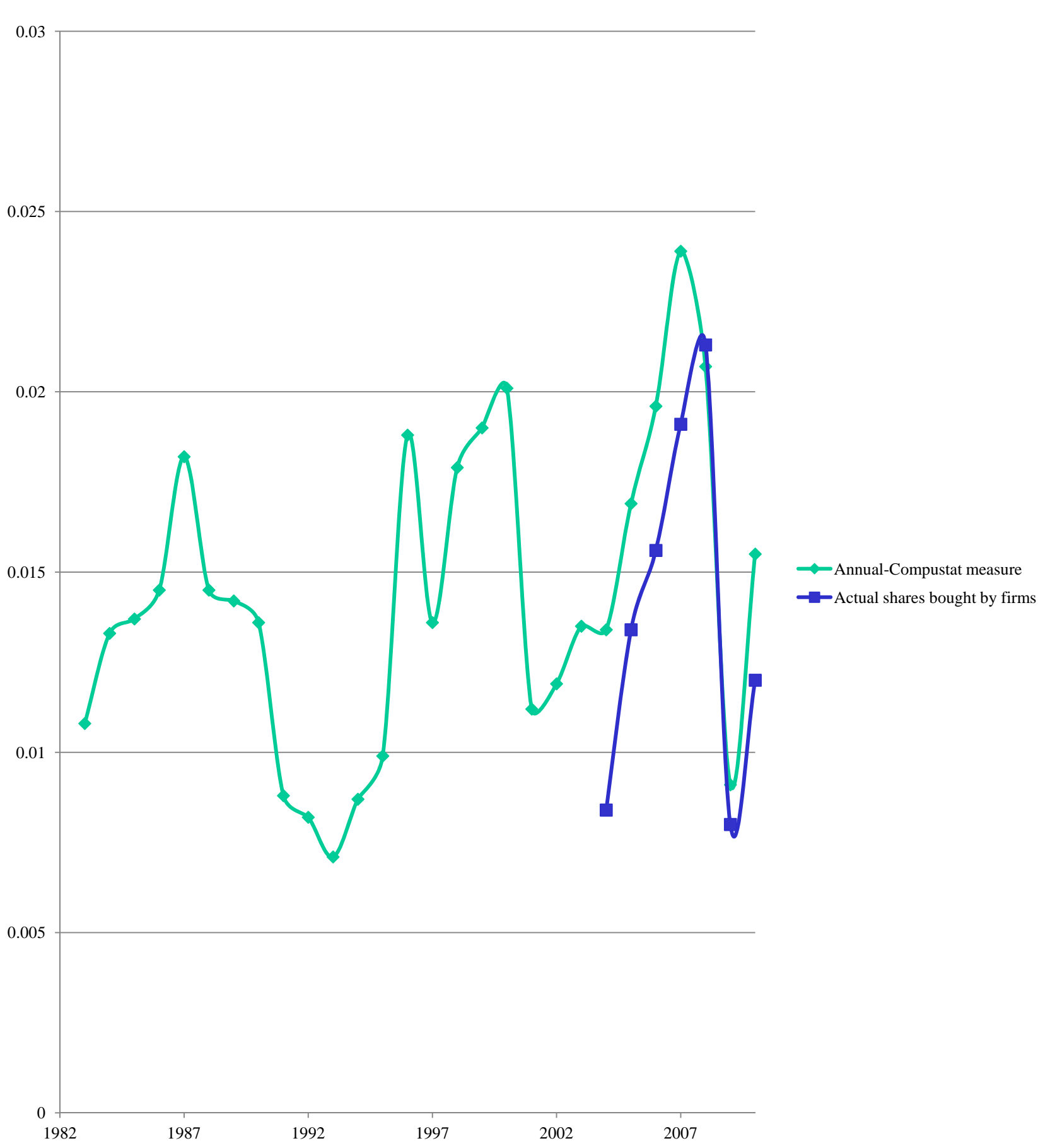


Does Share Buyback Deter Takeover Attempts?

- **H1: Share repurchasing reduces the ex post probability of a firm becoming a takeover target.**
- **H2: Share repurchasing reduces the ex post probability of becoming a takeover target for firms with high ex ante takeover probability.**
- **H3: Firms with a higher ex ante takeover probability pay a higher average price to buy back their shares.**
- Despite the numerous theoretical models, there has been no direct evidence on the takeover deterring effect of share repurchasing. I study whether share repurchase helps reduce the ex post takeover bids on a large sample from 1984 to 2011. The results show that for firms with high ex ante takeover probability, buying back shares indeed reduces their ex post takeover bids. The results are robust to different sample periods and different measures of share repurchase. I also find that firms with higher ex ante takeover probability tend to pay a higher price to buy back their shares. The empirical evidence presented here provides a missing piece in testing of takeover deterrence hypothesis.

| | Buyback price ratio | Buyback price ratio | Buyback price ratio |
|---------------------------------|---------------------|---------------------|----------------------|
| Column | 1 | 2 | 3 |
| Ex ante probability of takeover | 0.30*** (0.06) | 0.26*** (0.09) | 0.20** (0.09) |
| Log (firm size) | -- | -- | -0.065*** (0.009) |
| Leverage | -- | -- | -0.04 (0.03) |
| Market-to-book ratio | -- | -- | -0.013** (0.006) |
| Cash | -- | -- | -0.04 (0.04) |
| Operating profit margin | -- | -- | 0.19*** (0.05) |
| Return on assets | -- | -- | -0.19** (0.08) |
| NPPE | -- | -- | 0.02 (0.07) |
| Sales growth | -- | -- | -0.06*** (0.02) |
| Classified board | -- | -- | 0.01 (0.01) |
| Year fixed effects | no | yes | yes |
| Intercept | 0.95*** (0.01) | 0.94*** (0.01) | 1.74*** (0.13) |
| Number of observations | 4,821 | 4,821 | 4,821 |
| Number of groups | 1,262 | 1,262 | 1,262 |
| F-stat | 22.32 | 31.12 | 23.33 |
| Prob>F | 0.0000 | 0.0000 | 0.0000 |



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