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Leverage and strategic preemption: Lessons from entry plans and incumbent investments

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**Leverage and strategic preemption: Lessons from entry plans and incumbent investments\*****J. Anthony Cookson<sup>†</sup>**University of Colorado at Boulder, Leeds School of Business,  
995 Regent Hall, Boulder CO 80309**Abstract**

This paper empirically investigates the effect of leverage on strategic preemption. Using new data on entry plans and incumbent investments from the American casino industry, I find that high leverage prevents incumbents from responding to entry threats. Facing the same set of entry plans, low-leverage incumbents expand physical capacity (by 30%), whereas high-leverage incumbents do not. This difference in investment matters because capacity installations preempt eventual entry. Stock market reactions to withdrawn plans imply that effective preemption increases incumbent firm value by 5%. My findings suggest that leverage matters for industry composition, not just firm-level investment.

**JEL Classifications:** G31, L13, L83**Keywords:** leverage, entry threats, preemption, financial constraints, casino industry

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