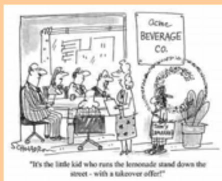
Motivating Takeover Bids



A Problem

- Consider the case of Acme widgets, badly mismanaged
  - Profits are π^*
  - Shares are selling at $40

A Problem

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  - Profits are π^*
  - Shares are selling at $40
- New Management can increase profits to π' and shares to $80

The Opportunity

- Offer to pay existing shareholders $60
  - Existing shareholders make money.
  - You make money.

The Fly in the Ointment

		Tender Offer	
		Successful	Not Successful
Shareholder Decision	Tender	$60	$40
	Don't Tender	$80	$40

The Fly in the Ointment

Dominant Strategy

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Shareholder Decision	Tender	$60	$40
	Don't Tender	$80	$40

Some Suggestions

- How then do we allow bidders to profit?

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- Treat tendered and non-tendered shares differently.

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  - Shares sell for $40; properly managed, worth $80.
  - Offer $80 for first 51% of shares and then buy the rest at $40.

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Some Suggestions

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  - Shares sell for $40; properly managed, worth $80.
  - Offer $80 for first 51% of shares and then buy the rest at $40.

Not legal under US Securities Law

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Some Suggestions

- Let bidders profit from the first 5% of the shares.

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- Let bidders profit from the first 5% of the shares.
  - Secretly buy the first 5% at $40 and then make intentions public

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Some Suggestions

Let bidders profit from the first 5% of the shares.

- This is the edge in American Law
- The effect is to reduce the incentives for takeovers.

End