INFORMATION IN TENDER OFFERS WITH A LARGE SHAREHOLDER[1]

Mehmet Ekmekci and Nenad Kos

Date: September 8, 2012

We study tender offers for a firm which is owned by one large shareholder who holds less than half of the total shares, and many small shareholders who each hold a unit share. Each shareholder is privately informed, yet uncertain, about the raider's ability to improve the value of the firm, whereas the raider is uninformed. In the benchmark model of complete information, the raider is unable to make a profit. As shown in Marquez and Yılmaz (2008), the same obtains when the raider is facing only privately informed small shareholders. We show, however, that the combination of private information on the side of shareholders and the presence of a large shareholder can facilitate profitable takeovers. More precisely, for any given information structure, the raider can make a profit if the large shareholder holds a sufficiently large stake in the company. In the unique equilibrium outcome, neither the probability of a successful takeover nor the equilibrium price offer depends on the large shareholder's information. Therefore, the large shareholder's information is not reflected in the price. When the equilibrium price offer is positive, the large shareholder tenders all of his shares regardless of his information. Finally, we show that the same type of equilibria arise when there are several large shareholders, as long as their total stake in the company is smaller than one-half.

Keywords: takeovers, tender offers, lemons problem, large shareholder.

JEL Classification Numbers: D82, G34.

MEDS, Kellogg School of Management, Northwestern University, 2001 Sheridan Road, Evanston, IL 60208. Email: m-ekmekci@kellogg.northwestern.edu.

Department of Economics and IGIER, Bocconi University, Via Roentgen 1, 20136 Milan, Italy Email: nenad.kos@unibocconi.it.

[1]We would like to thank Bilge Yilmaz and Oğuzhan Karakaş for insightful conversations, and seminar audiences at, University of Pennsylvania, Yale, Seoul National University, the 2012 North American Econometric Society Meetings and the 2012 Games World Congress for many helpful comments. We would also like to thank Sneehal Banarjee, Mike Fishman, Qingmin Liu, Fausto Panunzi and Larry Samuelson for their comments.