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.

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