

Does Mandatroy Bid Rule Discourage Acquisitions above the Threshold?

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Context: Mandatory Bid Rule in Action



- **TSB** (digital bank, mostly mortgage loans) with a set of block holders and a myriad of smaller shareholders.
- In 2015 Sabadell negotiated agreement with a few block-holders, reached 30%.
- Mandatory takeover was triggered: i.e. the acquiring party: Sabadell must be ready to buy from ALL other shareholders at an equitable price.
- i.e. the other minority shareholders have the **right to sell** their shares to Sabadell.
- Sabadell declared that it was **attempting to get 100% ownership**.

... Why this rule in place?

Context: Why this Mandatory Bid Rule (MBR)?

▪ Arguments in Favor:

- **Protect** minority shareholders to **significant** changes of control: fair opportunity to exit under new control configuration.

Other arguments:

- Prevents Value-Destroying Control Transfers ?
- Encourages Competitive Bidding ? i.e. Could this channel drive up the price and benefit all shareholders ?

▪ Against:

- Costly - er : pay fair price to all.
- Constraining either you remain below or be ready to get to 100%. Is that the case ?

Country	Threshold (%)	Date
Greece	33	2006.05.30
Iceland	50	1998.04.21
	30	2009.03.17
Ireland	30	1997.03.12
Italy	30	1998.05.14
	25	2014.08.20
Latvia	50	2006.07.13
	30	2016.06.29
Lithuania	50	1996.01.16
	40	2002.01.01
	33	2007.02.01
Luxembourg	33.34	2006.05.22
Malta	50	2006.06.19
Netherlands	30	2007.10.28
Norway	45	1985.06.24
	40	1997.12.01
	33.34	2008.01.01
Poland	50	1991.04.12
	33	2005.07.29
Portugal	33	2000.03.02
Romania	33	2004.07.29
Russian Fed	30	1995.12.26
Slovak Republic	30	1994.04.01
Slovenia	25	1997.08.01
	33	2012.05.01
Spain	25	1991.08.01
	30	2007.08.01
Sweden	30	2003.09.01
Switzerland	33	1998.01.01
Turkey	50	2012.12.06
United Kingdom	30	1972.01.18
America		
Argentina	50	2002.03.26
Brazil	50	2002.01.01

What is Control?

- **UK 1972 defined it around 30%** – 60s there were cases of unfair offers to minority shareholders.
- **Control between 25% - 50%**
- You may not win all voting events, ... but it is considered that you have control over the corp.

US, Korea (no rule), the Rest mostly converging to 30%.

Any examples in the US or South Korea of minority sh. being mistreated bcs this lack protection?

Examples: Hard to find in the media!

2014 new proposal **UK**, controlling shareholders will have to seek the approval of a majority of independent shareholders to delist a company.

Ensure London as the financial plaza for retail investors. **Liquidity!**

- Independent directors of London listed company **Essar Energy** urged small shareholders to resist a plan by its majority owner to take the Indian oil refinery and power group private in a hostile takeover. They said that the offer undervalued the business.
- Kazakh mining company the **Eurasian National Resources Corporation** (ENRC) delisted from the London Stock Exchange while under investigation by the Serious Fraud Office.

Examples: Why no clear examples in US!??

Are other mechanisms?

Maybe US courts do not allow for an unfair price to minority shareholders.

Objective

- **Objective of the paper:**
 - Assess the impact of this rule for market of control: costs, number of deals... dynamism of takeovers.
 - Are there unintended consequences?

Key Findings

- **Main Results:**
 - Reduces Control Premium by 45 percentage points & Private Benefits by 10 percentage points.
 - Not due to Selection.
 - Does not reduce the number of transactions that exceed the threshold.
- Old debate early 80s but now we have new data points: staggered adoption over two decades.
- Relevant from a policy perspective: protection vs. efficiency tradeoff?
- Can inform debate in the US having in mind structural diff in ownership distributions.
 - Europe: larger blocks, dual-shares, pyramiding.

Comments

- **Methods**
- **Mechanism**
- **A larger question?**
- **The narrative**

Methodology – measures and sample

- **Control premium = Offer Price (negotiated) - 2 days AFTER**
 - Why after? ~ Arbitrage Spread
 - Cost ~ premium paid: 1 day - 4 weeks **before**; bcs it is negotiated there is info leakage.
 - Other measures: price of share vs block (or diff between voting vs non-voting).

Paramount's voting shares have soared above its non-voting stock

Share prices rebased

— Paramount Global

— Paramount Global



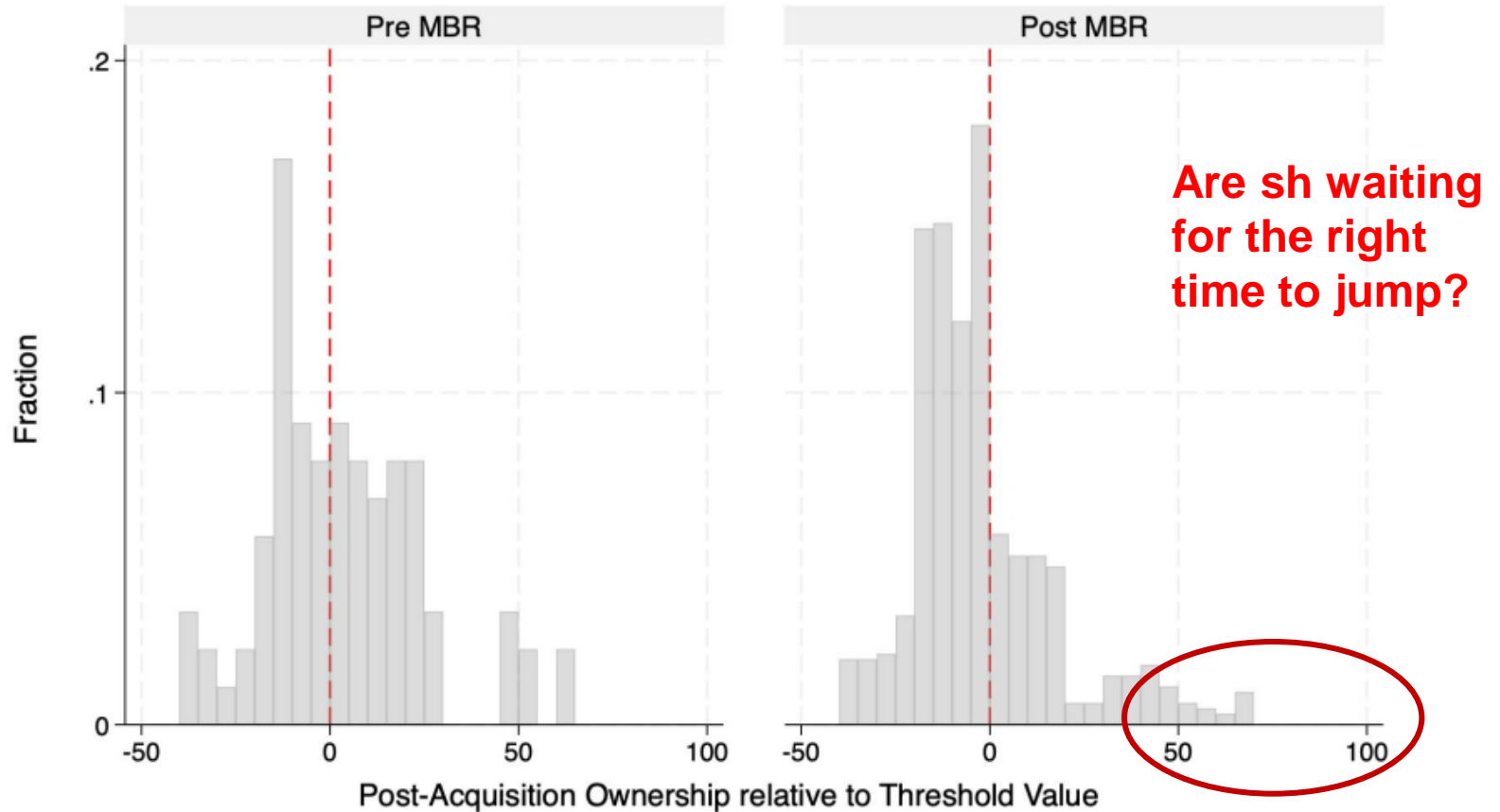
Source: I. SFG via markets.ft.com

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 - Price of share vs block (or diff between voting vs non-voting).
- **Universe of types of deals: Triggered:** if post acquisition above 50% it could be voluntary. Does it capture only mandatory or ALL?
- **Why not use a wider sample?** Seen as different ways of executing M&A.
 - Are there more/less voluntary mergers?
 - Negative premium (45% sample): might be relevant for minority shareholders in firms under distress. What does it proxy?

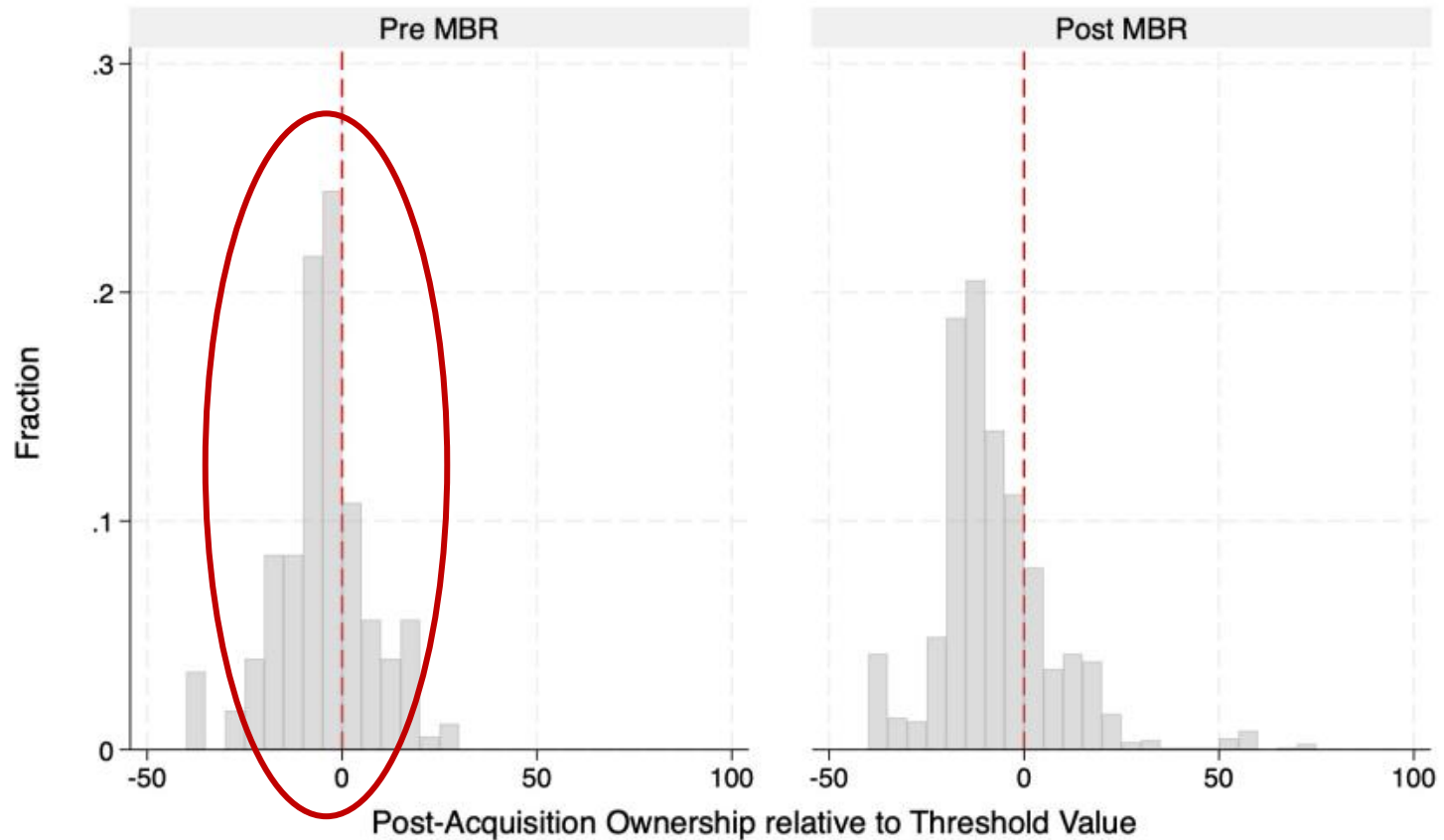
Methodology: Bunching Post-MBR ... WHY?

Figure 3-1. Histogram for MBR Adopting Countries ($N = 697$)



Methodology: Bunching for Non-Adopting...

Figure 3-2. Histogram for MBR Non-Adopting Countries ($N = 1,394$)



Methodology

- **Matching sample deals in geography with MBR to with-out:** add dimension
1) Industry 2) prior ownership, similar toehold & (3) cross country.
- **Methods: triple differencing does it work? Beta3?**
 - Visualize what the analysis is comparing, which deals before / after & above / below threshold
- **Concern on Triggered *not being exogenous***

“To account for potential unobservable differences between transactions above and below the threshold, we further differentiate the triple differencing model outlined in Equation (1) by making further comparisons between MBR-adopting and MBR non-adopting countries”

 - *Very hard to grasp how this additional diff. solves lack of exogeneity.*

Methodology

- **Embrace Selection!**
- **Things that I would like to learn:**
 - Do shareholders wait below the threshold?
 - Once MBR is triggered: paid premia is higher/lower than what got them close to threshold?
 - Acquirer premia less negative? Less value destroying?
 - Ex-post ownership when MBR is triggered?
 - Number of deals.
- **Who is being protected? Could the MBR be truly an antitakeover protection for majority shareholders? UK 60s vs Sweden in 2003! Families want the MBR in place!**

Mechanism

- **Increase of bargaining power?**
 - Motivation for lowering initial offers because it will have to be extended to all shareholders. Some will tender.
- What is the final ownership when triggered? If the outcome mostly 100% ownership and there are two ways to achieve it.
- Why choose mandatory vs voluntary route?
- Very strong results, maybe too strong? Benchmark with other events that affect M&A outcomes. Economic magnitude.

Larger Question?

- **Implications:**

- How the results square with the rest of the literature on shareholders return, control premiums block sellers?

- **Boarder question?**

Less on the technicality and more on the larger theme of “Protection of Minority Shareholders”.. Or maybe protection of Majority!

- Narrative, real cases and tension why it matters.
- Not to replicate own research Kim, Kim and Lee 2023 – refined sample and additional model specification.

Conclusion

- **There is no trade-off between protection & efficiency** → I'm not yet fully convinced
 - Measures of Costs.
 - How to square the distributional bunching with the Triple Diff results.
 - Causal estimates vs Selection.
 - Clarify mechanism. Who wins really?
 - Bring some narrative tension! Tell us cases of mistreated minority shareholders.
 - How this rule may affect the overall market of control.
- **It has the potential to be a relevant policy-oriented paper. Inform debate.**
- **Learned a lot about types of mergers and minority shareholders' protection 😊**



THANK YOU