UNIVERSITY OF ROCHESTER

William E. Simon Graduate School of Business Administration

Finance 423 | **Professor G. William Schwert**
Corporate Financial Policy & Control | Spring 1997

Quiz #4: Wednesday, May 7, 1997

(10 points)

According to Larry Dann, repurchase tender offers have the following characteristics (on average): (I) the firm seeks to repurchase 15 percent of its stock (and does in fact purchase about 16 percent); (ii) the firm offers a premium of about 20 percent over the market price of the stock before the offer; (iii) about 18 percent of the stock is tendered to the firm; and (iv) the stock price rises by about 15 percent during the offer period, then falls slightly to remain about 12 percent above the pre-offer level.

(a) Explain why the stock price does not rise up to the level offered by the firm.

(b) Explain why the stock price falls after the offer expires.

(c) Explain why only 18 percent of the outstanding shares are tendered (on average).

(d) If you were the CFO of a firm with large cash balances, would you initiate a repurchase tender offer at a premium to create a permanent increase in your company's stock price? *Why, or why not?*