Practice Note 19 (PN 19) – Chain principle offer price

There may be instances where, as a result of acquiring statutory control of a company (which need not be a Code company), a person or group of persons may in turn obtain or `lkplifa^qb `lkqolilsbo^pb`lkab`lj m^kv_b`^rpbqebd«opq company holds 30% or more of the voting rights of the second. In such cases, Note 8 to Rule 26.1 provides that the acquirer lcqebd«opq`lj m^kvj ^vqofddbo^kl_ifd^qflkqlj^hb^ j ^ka^qlovdbkbo^ilccbocloqebplqebo`lj m^kv+Qefpfphklt k as a chain principle offer.

The Executive has from time to time been consulted about how to determine the offer price where a chain principle offer has been triggered. Practice Note 19 provides guidance on this issue.

Highlights

- Practice Note 19 – Chain principle offer price
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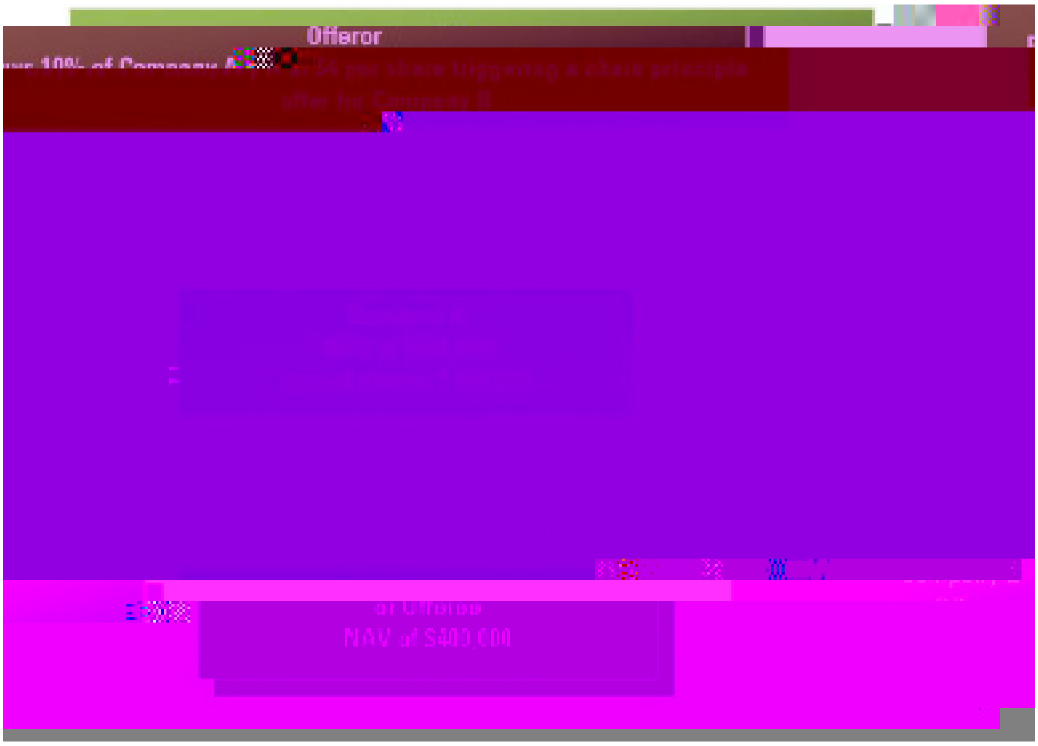
The chain principle

Note 8 to Rule 26.1 provides that *“[o]ccasionally, a person or group of persons acting in concert acquiring statutory control of a company (which need not be a company to which the Q^hblsbop@labo^mmifbp&t fiiqebob_v^`nrfobl `lkplifa^qb `lkqolij(lo^pab«kbafkqeb@labp)lc^pb`lkab`lj m^kv_b`^rpb qebd«opq`lj m^kvfqpbicle liap)bfqebodafob`qivlofkafob`qiv through intermediate companies, a controlling interest in the second company, or holds voting rights which, when aggregated with those already held by the person or group, secure or consolidate control of the second company. The Executive will not normally require an offer to be made under this Rule 26 in these circumstances unless either: -*

a) the holding in the second company is significant in relation to the first company. In assessing this, the Executive will q^hbfkqlo^``lrkq^kr j_bolcc^`qlopfk`irafkd)^p appropriate, the assets and profits of the respective companies. Relative values of 60% or more will normally be regarded as significant; or

b) one of the main purposes of acquiring control of the first company was to secure control of the second company.

Set out below is an example of an offeror triggering a chain principle offer for an asset-based company:



3. >mmloqflk qeb fjmifba j^ohbq s^irb lc @ljm^kv > ql @ljm^kv ?

   Qefp fp abqbojfkba _v jriqfmivfkd qeb obi^qfsfqv o^qfl l_q^fkba fk Pqbm . t fqe qeb fjmifba j^ohbq s^irb lc @ljm^kv > l_q^fkba in Step 2:

   0.24 x $4,000,000 = $960,000.

4. Translate into a per share price for Company B

   Qeb fjmifba j^ohbq s^irb lc @ljm^kv ? ^qqof_rq^_ib ql @ljm^kv > l_q^fkba fk Pqbm 0 obi^qbp ql qeb ql q^i kr j_bo lc pe^obp held by Company A in Company B (i.e. 150,000). The price for each Company B share is therefore:

   $960,000 / 150,000 = $6.40 per share.

The offer price for the chain principle offer for Company B is $6.40 per share.

In summary the Pacpo Formula calculates a chain principle offer price as follows:

It is noted that the Pacpo Formula essentially arrives at the chain principle offer price of the second company by applying the p^jb mobjfrj ,afp`lrkq ql K>S ^q t ef`e qeb lccbo lcfp ^``nrfofkd qeb «opq `ljm^kv+

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Oribd . /+. lc qeb Q^hblsbop @lab obnrfobp ^ii @lab*obi^qba ^kklrk`bjbkqp ^ka al`rjbkqp %lqebo qe^k ^kklrk`bjbkqp ^mmb^ofkd in the Post-Vet List) to be *§«iba t fqe qeb Bub`rqfsb cl o `ljjbkqp mofl o ql obib^pb ql mr_if`^qflk ^ka jrpq kl q _b obib^pba ql mr_ifpeba rkqfi qeb Bub`rqfsb e^p `lk«ojba qe^q fq e^p kl c roqebo `ljjbkqp qebob lk¶*. Once a draft announcement or document

J lpqďf j m loq^kqiv)ďqebď§k lď` l j  j bkq¶ďc^uďpe l riaďk lqď_bďq^hbkď^pď^ď` l k«o j ^qf l kďco l j ďqebďBub` rqfsbďqe^qďqebď^kk l r k`b j bkqď l oď