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 consolidate control over a second company because the first 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 of the first company may trigger an obligation to make a mandatory general offer for the other company. This is known 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.

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 Takeovers Code applies) will thereby acquire or consolidate control, as defined in the Codes, of a second company because the first company itself holds, either directly or indirectly 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*

“Statutory control” in this Note means the degree of control which a company has over a subsidiary.”

Trigger

Under the chain p

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 same premium/discount to NAV at which the offeror is acquiring the first company.

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