

Who benefits from bond tender offers in Europe?

Abstract

This paper documents bond tender offer activity by European firms, which amounted to over €70 billion in the period 1996 to 2005. Bondholders benefit from the tender offer in case the firm pays a tender premium. Although the premium to the bondholders reduces shareholders' wealth, other effects may offset this effect. This paper describes the wealth effects from tender offers for both bondholders and shareholders. We find that bondholders benefit most as they receive an average premium of 3.9% over the bond's market price. The size of this tender premium is explained by the presence of consent solicitation, takeover activity and the bond's remaining maturity. The average shareholder wealth effect does not differ significantly from zero and is affected by firm profitability and remaining maturity. We find no evidence for wealth transfers between bondholders and shareholders, as the shareholder returns are not affected by tender premiums. Interestingly, the wealth effects for both bondholders and shareholders increase in the remaining time to maturity. Thus, tendering the bonds – rather than waiting for them to mature – appears to be a valuable option for both types of financiers of the firm.

Keywords: bonds, tender offers, repurchases, financial restructuring

JEL classification: G32, G34