

Business strategy at j.c. penney towards pershing square capital

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Teacher Discuss a hostile acquisition and the tactics employed by the predator and the target companies. During the first quarter of 2013, J. C. Penney revealed a bigger than expected loss as its store sales dropped by 11.9%. These losses had been consistent making the company vulnerable from hostile takeovers. J. C. Penney recognizes this and to guard against hostile takeover, it employed an age old tactic of defense against corporate raids.

One of its potential raider is its biggest shareholder is Pershing Square Capital. J. C. Penney has been in a month long standoff with its largest shareholder, Pershing Square Capital's Bill Ackman and its ally Vornado as it poised for a takeover. Pershing Square accounts 18% of J. C. Penney while Vornado 9.9%. J. C. Penney anticipate that if Pershing Square Capital's Bill Ackman and its ally Vornado will make a position for a bid to take-over the company, J. C. Penney will swallow a "poison pill" to avert the siege. The plan will be activated the moment an investor will buy at least 10% of the company shares in addition to the shares that they already have.

The poison pill is an age old strategy against hostile take-overs to dilute the holdings of an investor whose stake exceeds that threshold (Egain 2013). In the case of J. C. Penney, if anyone builds a stake in the company in a move for a takeover, J. C. Penney will "issue a dividend of one right for each outstanding common share not owned by the raider. The right will have an exercise price of \$55, and it'll allow investors to, say, buy \$110 worth of J. C. Penney shares for only \$55 (Brown 2013). In effect, J. C. Penney board can buy back its stocks at a fraction of a penny if a hostile takeover is launched.

2. Was the management of the target trying to defeat the bid or to secure

the highest price of its stockholders?

The strategy was effective because J. C. Penney was able to avert the stand-off and potential takeover of Pershing Square Capital's Bill Ackman. It also discouraged any potential hostile takeover from other companies and/or individuals. The poison pill was effective that the potential raider Bill Ackman of Pershing Square Capital mulled an exit from holding any shares of J. C.

3. How did each announcement by the protagonists affect their stock prices?

The poison pill may have been an effective strategy to avert any potential takeover. It was able to guard against the standoff from Pershing Square Capital but its shares fell 1.43% which is \$13.14 the day after it announced the use of poison pill "leaving them off 33% on the year and 45% over the past 12 months" (Egan 2013).

This was indeed a poison pill to swallow to avoid hostile takeover because the strategy compounded the loss of J. C. Penney by the deterioration of its shares in the stock market. But as J. C. Penney's CEO Mike Ullman would explain "There are no quick fixes to correct the errors of the past" (Egan 2013)

Bibliography

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