

DUTCH AUCTIONS: TURN YOUR OWN STOCK INTO A GOOD INVESTMENT



A Dutch auction is an offer to buy back shares for cash. Dutch auctions are shareholder self-tenders typically used in non-hostile situations. These voluntary programs allow shareholders to select from among a range of prices set by the issuer. The “auction” is controlled by the issuer, who selects the lowest priced offers to fulfill the amount of its stated buyback.

If there are not enough shares offered at the lowest price to accomplish the desired buy-back, the issuer may accept offers from the next price tier. However, all tendered shares that are accepted receive one – the higher – price.

Important considerations

A successful Dutch auction starts with a strategy generated in partnership with your legal counsel, dealer manager, information agent and depositary. You should consider the current market conditions, current and historical stock price, and any other variables that may affect price during the offering period – all of these factors are critical to identifying the appropriate price that will maximize participation.

Candidates for a Dutch auction often share the following characteristics:

- › Excess cash (such as from a recent sale of assets) or a steady cash flow
- › Stock that is currently underpriced yet shows strong revenue and earnings growth, possibly as a result of under-coverage by analysts

- › Low daily trading volume, favoring a structured offer rather than open market purchases
- › The option of reducing a preponderance of small (also referred to as “oddlot”) shareholders through the buy-back

Benefits to your company

Dutch auctions can be an effective buyback vehicle if your securities are not broadly traded because your company can:

- › Control and set limits on prices you pay to achieve the buyback. In many cases, the total cost is less than enlisting a broker for this function.
- › Save on shareholder servicing costs by implementing an “oddlot preference” whereby oddlot shares tendered at the purchase price are purchased first, and not pro-rated.

How does a dutch auction work?

A shareholder package is distributed to both registered and beneficial shareholders. The package consists of:

- > The prospectus or offer to purchase
- > A letter of explanation
- > The transmittal form
- > A guarantee of delivery form
(for accounts held by brokers)

The information agent then follows up with brokerage houses and other institutions holding beneficial accounts to gauge interest. The offering period typically lasts 30 days.

At the end of the offering period, transmittal forms received by a depository group are reviewed and forwarded to your company, which selects the final program price.

If the offer is oversubscribed, participants' offers can be accepted on a pro-rated basis. Processing is completed and, in the case of pro-ration, checks and certificates are mailed to former shareholders within seven to 10 days of the expiration of the offer.

Registered shareholders with questions regarding the program will typically call the information agent while beneficial shareholders will call their brokers.

Comprehensive events management services

Georgeson is equipped to offer the unique capability to plan and deliver a Dutch auction in its entirety. We serve as the dealer manager to plan and structure a Dutch auction, analyzing and setting the price range to maximize participation while minimizing the cost to your company. Georgeson also acts as information agent while our parent company Computershare manages the depository function and coordinates print and mail services.

About Georgeson

Georgeson is a global provider of strategic shareholder engagement, proxy solicitation and corporate governance consulting services to companies and investors seeking to influence corporate strategy. We have helped many of the world's leading organizations maximize the value of relationships with their stakeholders and achieve their desired outcomes. Georgeson remains focused on successfully managing every step of the proxy solicitation process, with the expertise to handle everything from shareholder meetings to complex solicitations. The firm also provides issuers expertise in corporate events solutions such as unclaimed assets services and information agent services.

Georgeson LLC is a Computershare company. For more information, visit www.georgeson.com.

For more information about Dutch auctions, contact us today.

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