Andreas Krause



Fees for abandoned mergers

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Costs and fees

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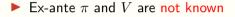
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Investment bank profits

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Investment bank profits



$\Pi_B = \hat{\Pi}_B dH(\pi) dG(V)$

Ex-ante π and V are not known, and profits are only made if the merger commences

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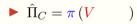
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Client profits

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Client profits

► If the merger commences the client gets the merger value



Client profits

▶ If the merger commences the client gets the merger value, less the fee paid

$$\hat{\Pi}_C = \pi \left(V - F_1 \right)$$

If the merger commences the client gets the merger value, less the fee paid, and if the merger does not commence pays the break-up fee

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• Clients want to commence a merger if $\hat{\Pi}_C \ge 0$, which gives $\pi \ge \pi^{**} = \frac{F_0}{V - F_1 + F_0}$

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Reasons for break-up fees

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