Towers-Willis Sweetened Deal Enough for Shareholders?

|Update|- See our previous note on this merger here

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By Victor Li, Vice President, Governance Advisory & Proxy Analytics, Kingsdale Shareholder Services
Jackie Cheung, Director, Governance Advisory & Proxy Analytics, Kingsdale Shareholder Services

After two adjournments and a revised offer to Towers shareholders—sweetening the special dividend from the original $4.87 per share to $10.00 per share without changing the exchange ratio—shareholders are left wondering whether or not the Towers-Willis merger can be consummated.

The general sentiment appears to be that the sweetened offer is not sweet enough. Driehaus Capital Management, 1.5% holder of Towers and the primary voice against the deal, remains critical of the increased offer and believes that "[a] true merger of equals would dictate a special dividend of $17.72." The original negative recommendation for Towers shareholders issued by proxy advisor Institutional Shareholder Services Inc. ("ISS") sparked activist hedge fund manager Jeff Ubben of ValueAct Capital (who holds more than 10% shares of Willis) to speak out against ISS. Asserting that ISS' recommendation amounts to "bumpitrage", Mr. Ubben, who sits on the board of Willis, believes that "encouraging stockholders to walk away from a highly accretive deal if they do not receive a renegotiation of the deal economics incentivizes the very shortest-term profiteering."

Upon the revised terms of the deal, ISS released a new Special Situations Research note reviewing six precedent transactions of merger of equals over the past half-decade and noted that "simply matching the largest discount in these precedent MOEs [merger of equals] implies the cash dividend for Towers holders should have been raised to $13.44 [per share]. Matching the median of the precedent MOE discounts implies the cash dividend for Towers holders should be $15.92 [per share]."

Towers, in an investor presentation dated November 25, 2015, highlighted 22 precedent merger of equals overlapping with all of the cases identified by ISS except ProLogis and AMG Property. To no one's surprise, the Towers analysis concluded that the average partner discount is 4.1%, which is in line with Towers' 3.3% implied discount on announcement.

In the same presentation, Towers referenced extensive constructive discussions with shareholders and, given shareholder feedback, they re-entered into negotiations with Willis. After multiple discussions, the increase of the special dividend to $10.00 per share was agreed upon. Both Towers' and Willis' boards unanimously approved the merger terms and it is stated that Towers does not expect any further increase in the pre-merger special dividend and that Willis will not agree to any further amendments.

It has been reported that just over 40% of Towers shareholders voted in support of the deal. Additionally, Reuters reports that BlackRock Inc., a top shareholder of Towers with 5.9% shares, voted against the transaction. Based on Kingsdale's experience, BlackRock considers transactions on a case-by-case basis irrespective of ISS or Glass Lewis recommendations. Here, their decision may well lead to the success or failure of the transaction. The updated special meetings will occur on December 11, 2015 and whether or not the moderately sweetened offer will be approved by shareholders remains to be seen.