

## Appendix 30A

## Campeau Corp.'s Acquisition of Federated Department Stores

Campeau Corp.'s 1988 takeover of Federated (the largest U.S. department store conglomerate) for a total purchase consideration of \$6.6 billion is one of the biggest takeovers in U.S. corporate history. Although well known in Canada, Campeau was unknown on Wall Street before its purchase of Allied Stores at the end of 1986. Allied Stores (a department and specialty store conglomerate similar to Federated) cost Campeau \$4.1 billion.

### Brief Description of the Acquisition

In summer 1987, approximately six months after his purchase of Allied Stores, Campeau commissioned the First Boston Corporation (which had been heavily involved in the Allied deal) to prepare a research analysis of Federated. In early October, Campeau began to purchase shares of Federated through a dummy corporation. Through the end of 1987, Campeau continued to work out plans to launch a bid for Federated. These actions were the prelude to one of the largest acquisitions ever.

On January 25, 1988, Campeau made a bid of \$47 per share for all 90 million outstanding shares of Federated Department Stores. Before the announcement, Federated stock traded for about \$36 per share on the New York Stock Exchange. Campeau's bid price was widely regarded as too low, and it was expected that the Federated board would reject the offer. On Monday, January 25, 1988, Federated's shares shot up immediately to the \$49 range for a one-day increase in share price of more than 35 percent. The market reacted to Campeau's offer by bidding Campeau's common stock to \$17.75, which was down \$0.25 from the previous trading day. The data suggest that the market viewed Campeau's bid as low and unlikely to be accepted. The dramatic response of Federated's share price was very likely caused by anticipation of more bidding.

On February 3, Campeau offered to raise his bid to \$61 per share for all of Federated's shares. On February 4, Federated's directors unanimously rejected Campeau's \$47 offer. Lack of sufficient financing was cited as one key reason for the rejection. By this time, Federated's share price had increased to \$56.25. The market had not priced Federated's shares at \$61 because it was not confident about Campeau's financing ability. On February 8, Federated's share price closed at \$59.17 on expectations of the entry of fresh bidders.

On February 16, Campeau increased his bid to \$66 a share; however, Federated's board rejected this proposal. Around this time, R.H. Macy & Co. expressed an interest in merging with Federated. Although it was not publicly released, Macy and Federated signed a confidentiality arrangement, and Macy received secret Federated growth forecasts. Federated's shares closed at \$63.75 on February 16, but then fell to \$61.75 on February 17. This was due to the rejection of Campeau's offer combined with market speculation that the company would attempt an internal restructuring or leveraged recapitalization.

In order to aid in financing the takeover, Campeau decided to sell one of Allied Stores' major divisions. By Friday, February 26, it appeared that Campeau and Federated had come to a friendly agreement for a takeover at \$68 per share, and negotiations began. Federated's share price closed at \$64.50 on February 26.

Over the weekend, Macy contacted Federated and made a revised offer. On February 29, Federated announced that it was considering a surprise offer. And by March 2, Federated's directors accepted Macy's merger proposal. Macy's offer was \$73.80 per share for 80 percent of Federated's shares. Federated's share price closed at \$67.75 on March 1.

After Federated accepted the Macy offer, Campeau vowed to persevere, and he created a two-tiered offer of \$75 a share for 80 percent of Federated and \$44 a share for the remaining balance. On March 14, Macy increased the cash portion of its offer at the expense of the securities portion. As well, the three companies went to court on March 14. Campeau wanted Federated's poison pill thrown out, and Macy wanted Campeau's bid to remain open. Federal Court Judge Leonard Sand issued no ruling, but stated that the bids must remain open for three business days after any decision was made.

On March 15, Campeau made a one-tier, all-cash bid of \$68 per share for all of Federated's shares. Three days later, Judge Sand ruled that Federated's poison pill was valid, but Campeau's bid could close on March 25. In response, Campeau increased his bid to a two-tiered offer worth \$73 a share on March 22. Federated's share price closed at \$69.25 on March 22.

Over the next week, numerous bids were tendered by Campeau and Macy. The auction finally ended on April 1. The settlement price paid by Campeau for all of Federated's shares was \$73.50 per share in cash. The completion of the bidding war was announced on April 3.

## Conclusion

The text above summarizes several studies showing that significant positive abnormal returns are earned for the target shareholders in takeover activity. In this case, we saw that Federated's share price increased from approximately \$36 on January 22, 1988, to \$69.25 on March 22, 1988. The final price paid for each share, as announced on April 3, 1988, was \$73.50.

Kaplan shows that Campeau paid a premium of around \$1.6 billion for Federated's assets.<sup>1</sup> These results support the notion that the real winners in takeover battles are (1) the shareholders of target firms and (2) those traders who identify undervalued firms that will become takeover targets, buy their stock before bidding begins, and hold it until just after the last bid is made.

As we noted, Campeau did not fare as well as the target shareholders. On January 15, 1990, both Allied and Federated applied for protection under Chapter 11 of the U.S. Federal Bankruptcy Code. Campeau Corp. was closed down and its name changed; and Robert Campeau was sued for unpaid personal loans that he allegedly took out of the corporation.

## SUGGESTED READING

*For an excellent, easily readable discussion of the Campeau story, see:*

J. Rothchild. *Going for Broke—How Robert Campeau Bankrupted the Retail Industry, Jolted the Junk Bond Market, and Brought the Booming Eighties to a Crashing Halt*. Toronto: Simon & Schuster, 1991.

*Detailed clinical studies of Campeau's acquisition of Federated appear in:*

S. N. Kaplan. "Campeau's Acquisition of Federated: Value Destroyed or Value Added." *Journal of Financial Economics* 25 (December 1989), pp. 191–212.

S. N. Kaplan. "Campeau's Acquisition of Federated: Post-Bankruptcy Results." *Journal of Financial Economics* 35 (February 1994), pp. 123–36.

<sup>1</sup>S. N. Kaplan. "Campeau's Acquisition of Federated," *Journal of Financial Economics* 25 (December 1989), pp. 191–212"; and S. N. Kaplan. "Campeau's Acquisition of Federated: Post-Bankruptcy Results." *Journal of Financial Economics* 35 (February 1994), pp. 123–36.