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# Toeholds and Takeovers

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## Abstract

Part ownership of a takeover target can help a bidder win a takeover auction, often at a low price. A bidder with a “toehold” bids aggressively in a standard ascending auction because its offers are both bids for the remaining shares and asks for its own holdings. While the direct effect of a toehold on a bidder’s strategy may be small, the indirect effect is large in a common value auction. When a firm bids more aggressively, its competitors face an increased winner’s curse and must bid more conservatively. This allows the toehold holder to bid more aggressively still, and so on. One implication is that a controlling minority shareholder may be immune to outside offers. The board of a target may increase the expected sale price by allowing a second bidder to buy a toehold on favorable terms, or by running a sealed bid auction.

*Keywords:* Toeholds, Takeovers, Auctions, Mergers, Corporate Acquisitions, Footholds, Winner’s Curse, Common Value Auctions.

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