Dollar Tree’s Acquisition of Family Dollar Stores

Abstract

The case study discusses alternative takeover defense strategy. In 2014, Family Dollar approved one-year shareholder right plan with a trigger of 10% holding of its stock to prevent the hostile takeover of the company from an individual or a group. The case study also discussed the synergies and criticism of the merger of Dollar Tree and Family Dollar. Case study provides a platform to discuss the pre-offer and post-offer takeover defense strategy among the students.

Key Words: Family Dollar, Dollar Tree, Dollar General, Acquisition, Hostile, Shareholder right plan, Carl Icahn and Benefits.

This case study could be used to discuss the various alternative takeover defense strategies. It can be used for MBA students who have chosen an elective course of Merger and Acquisition.
1. Which of the defensive strategy of merger and acquisition does explain shareholder right plan?

This case study discussed poison pills strategy to avoid the takeover of the US-based discount retailer Family Dollar Stores from an individual or a group. It is known as a pre-offer takeover defense strategy. Poison pill strategy involves a board issuing rights to current shareholder, with the exception of an unwanted investor or group, to buy the firm’s shares at an exercise price well below their current market value. Family Dollar also implemented the poison pill strategy to prevent the hostile takeover of the company from an individual or a group.

The rights are issued as dividends to its shareholder except an unwanted investor or group. The board has exclusively authority to declare dividends and a pill can be announced without the vote of shareholder. It can also be implemented before or after hostile bid. This strategy comes into force when a specified percentage of the target’s common stock acquired by a hostile investor or group. There are two types of poison pills which are flip-over and flip-in.

**Flip-in Plan:** Under the flip-in poison pill plan, shareholders are given a common stock dividend in the form of rights for each share against their holdings. Whenever a bidder or group acquires a certain percentage of stock the rights are activated. The flip-in poison pill permits the current shareholders, except the acquirer, to buy more shares of the issuing company at a discounted price. The flip-in poison pill plan discourages a hostile investor or group from buying a minority stake in the firm because it dilutes their ownership interest in the firm as more target share are issued.

**Flip-over Plan:** Under the flip-over poison pill plan, the shareholders are given a common stock dividend in the form of rights to acquire the firm’s common or preferred stock at an exercise price above the market price. Whenever the bidder acquires a certain percentage of stock the rights are activated. The rights flip over and allow the holders to purchase the acquirer’s shares at a heavy discount.

In this case study, on June 06, 2014, when the holding of a private equity investor Carl Icahn\(^1\) (Icahn) rose to 9.4\(^\%\)^, Family Dollar adopted one-year shareholder right plan with a trigger of 10\(^\%\)^ holding. Under this plan, the acquisition would be expensive to an individual or a group because when an investor's or a group's stake exceeded 10\(^\%\)^ of the company's shares, it would issue new shares to its remaining investors except the holder of 10\(^\%\)^ stake.

2. What are the other alternative takeover defense strategies?

The alternative takeover defense strategies could be for pre-offer and post-offer defense strategy. Under pre-offer defense three strategies can be used such as Poison Pill, Shark Repellents and Golden

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1 Carl Celian Icahn is an American businessman, private equity investor and chairman of Icahn Enterprises. Icahn Enterprises is a public traded firm. He is an activist investor, who is known for acquiring large stake in companies and compels their boards to make changes in companies.


Parachutes. Under post-offer defense, the company can use Greenmail, White Knights, Employees Stock Ownership Plans, Leveraged Recapitalization, Share Repurchase Plan and Corporate Restructuring.

3. What was Dollar Tree underlying strategy for such acquisitions?

Dollar Tree was set to become the second largest retail chain store in the US after the acquisition of the Family Dollar business. It would have more than 13,000 stores in 48 states\(^4\) and Canada. The revenue would be more than US$ 18 billion\(^5\) after the merger of both businesses. According to analysts, Dollar Tree planned to compete with Wal-Mart Stores, Inc. (Wal-Mart)\(^6\). Wal-Mart and Dollar General each operated approximately 11,000 stores in the US. The employee strength of the merged store would be 145,000\(^7\). It was expected that the merger would be able to generate an estimated US$ 300 million\(^8\) per year from 2018 through synergies.

4. What is opinion of major shareholder?

Icahn was not satisfied with this merger strategy. He said that shareholders of Dollar Tree benefitted more in comparison with Family Dollar investors. Whereas, Icahn made profit of more than US$ 100 million after the announcement of the acquisition of the Family Dollar by Dollar Tree. In other way, Icahn estimated that his profit would be around US$ 200 million\(^9\) if Family Dollar would be acquired by Dollar General. Icahn stated in his statement, “While we continue to believe there are a handful of potential buyers who could realize greater synergies through a combination with Family Dollar and are hopeful that one or more of them will surface as a result of today’s announcement.”\(^10\)

\(^6\) Wal-Mart Stores, Inc. (Wal-Mart) was opened in 1962 by Sam Walton in Rogers, Arkansas. It was incorporated in October 1969. It is an American multinational retail corporation which operates chains of large discount department stores and warehouse. It operated 11,000 stores under 71 banners in 27 countries. It employees strength is approximately 2.2 million. During financial year 2014, Wal-Mart generated revenue of US$ 473 billion.
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