COMMENT FROM breakingviews

No WaMu Loss Yet for TPG

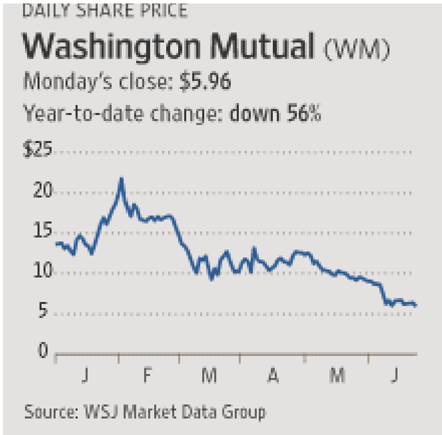
Infusion Terms Protect Firm If Thrift Goes to Well Again; Compensation for Shortfalls

June 24, 2008; Page C12

Washington Mutual's shareholders may have felt sore about its sweetheart deal with TPG. In early April, the thrift raised $7 billion from the private-equity firm and certain existing shareholders. The deal included stock at a big discount and in-the-money notes convertible into stock. Now that WaMu's shares stand more than 30% below the price at which TPG invested, should shareholders take comfort in the fact that TPG is shouldering some of the losses?

Not really. TPG is protected if WaMu has to raise more money within 18 months of the deal with the buyout firm. If the Seattle bank sells more than $500 million of stock or stock-linked securities at less than $8.75 a share, the already-discounted price at which TPG invested, the company is required to compensate TPG fully for the difference. The other big shareholders participating in the deal have a similar safety net lasting nine months.

Associated Press
Washington Mutual CEO Kerry K. Killinger



TPG, which isn't allowed to sell its WaMu securities for at least 18 months, will lose if the company's stock falls and the thrift doesn't raise additional capital. But falling financial-stock prices lately have been a sign that shareholders fear capital is insufficient to absorb further losses. WaMu wouldn't be the first financial company to go back to investors for more.

If that happened, pre-existing shareholders would be heavily diluted. Some portion of any cash raised -- or maybe, as an alternative, a barrow-load of free shares -- would have to be used to compensate TPG. If further stock-price weakness followed and WaMu tried for yet more capital, it could kick off a vicious spiral. TPG is better protected than other shareholders and could even end up owning most of the thrift's shares.

Shareholders gather Tuesday to vote on aspects of TPG's investment. Unhappily for them, the deal includes a feature that penalizes WaMu if they don't approve it. To be sure, WaMu's hand was very weak. Still, shareholders should make sure the company's bosses hear their protests.

Beware Bubble-Fueled Deals

Companies with high stock prices often are tempted to use their shares to buy inexpensive-looking targets. The commodities boom has given this strategy new life -- take, for instance, BHP Billiton's recent $150 billion offer for rival Rio Tinto. Now, U.S. agricultural-goods company Bunge has agreed to trade $4.4 billion of its paper for Corn Products International. Such deals can, however, be unfriendly to the buyer's shareholders.

Bunge's deal, for instance, looks slightly value-destructive for its owners. Bunge says the combination should generate $100 million to $120 million in annual "cost cuts and incremental profit." If the deal lives up to that potential, the extra profit would be worth perhaps $840 million today for shareholders. That is less than the roughly $970 million premium Bunge is paying.

So why proceed? Well, Bunge's stock was up 50% from a year earlier Friday, adding $5 billion to its market value, while shares in Corn Products -- which has less sway over its products' prices -- haven't budged. The diverging share-price trends make the valuation gap look tiny.

PEOPLE WHO READ THIS...

Also read these stories:

- Barclays Faces Investors' Questions
- High Time for Rights Offer
- Driving Away Oil Speculators May Not Help
- Money Managers Turn Bearish
- Time to Reunite Banks and Wall Street Dealers?

COMPANIES

Dow Jones, Reuters

Washington Mutual Inc. (WM)

PRICE	6.02
CHANGE	0.22
	12:44a.m.

Bunge Ltd. (BG)

PRICE	107.20
CHANGE	-2.53
	12:44a.m.

The problem, though, is that stock-for-stock acquisitions of this kind don't always work. A recent paper by academics Baruch Lev and Feng Gu suggests they tend to destroy value. Moreover, the two found that stocks of companies that use paper to make acquisitions after their shares have run up in price subsequently perform worse than those of peers that stay on the sidelines. In other words, the headaches from slamming together two companies outweigh the benefits of paying with wooden nickels.

Bunge may succeed in making the best of the combination -- Corn Products' business is closely related to its own and could act as a useful hedge. Yet shareholders, perhaps fearing a more typical outcome, sent Bunge's shares down 9.4% Monday. A few more market reactions like that could cool company bosses' ardor for all-stock acquisitions, even if they are sitting on bubble-boosted shares.

--Lauren Silva and Robert Cyran

RELATED ARTICLES FROM ACROSS THE WEB

Related Articles from WSJ.com

- CenturyTel Dividend to Jump Jun. 25, 2008
- Business World Jun. 25, 2008
- Today's Markets Jun. 23, 2008
- Responding to Activist Investors, Companies Give Poison Pill More Punch Jun. 18, 2008

Related Web News

- Tuesday's biggest gaining and declining stocks Jun. 24, 2008 marketwatch.com
- US food giants in $4.4bn tie-up Jun. 23, 2008 news.bbc.co.uk
- Bunge to buy Corn Products for $4.4 billion: report Jun. 23, 2008 news.yahoo.com
- Stocks in the Spotlight Tuesday - Barrons.com Jun. 11, 2008 online.barrons.com

More related content *Powered by Sphere*

EMAIL THIS FORMAT FOR PRINTING MOST POPULAR ORDER REPRINTS

YAHOO! BUZZ DIGG THIS MY SPACE Get RSS Feeds GET RSS FEEDS

Return To Top

/** **/