‘Poison pill’ strategy

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In news– Twitter is trying to fend off a hostile takeover bid by one of its shareholders, Tesla’s Elon Musk, by invoking an old strategy called ‘Poison pill’.

What is poison pill strategy?

- The method, known as a “poison pill” in the finance world, essentially **allows existing shareholders to purchase freshly issued shares in a company at a discount to the trading price**, effectively making any possible buyout plan extremely costly and prohibitive for the party planning a hostile takeover.
- **In this case, the move will prevent anyone from having more than a 15 per cent stake in Twitter** by allowing existing shareholders to buy additional shares at a discount.
- **The poison pill strategy was developed by New York-based law firm** Wachtell, Lipton, Rosen, and Katz in the 1980s.
- **The term stems from the practice of spies carrying a poison pill that they could ingest if captured by the enemy**, preventing them from extracting knowledge through torture or other means.
- While the **poison pill strategy is bad for all shareholders in the near term,** it also makes it difficult for the hostile party to buy all of the new shares.

Types of poison pills-

The flip-in and flip-over poison pill tactics are the two sorts of strategies. The flip-in option is the more popular of the two options.

Flip-in poison pill:

- Allowing all shareholders, excluding the acquirer, to purchase additional shares at a discount is known as a flip-in poison pill strategy.
- While purchasing additional shares offers stockholders with immediate profits, the strategy dilutes the value of the acquiring company’s limited number of shares already owned.

Flip-over poison pill:

- The flip-over strategy allows shareholders of the target company to purchase shares of the acquiring company at a significantly reduced price.
- Because it threatens to dilute and devalue the stock of the corporation attempting to take over the target, the tactic functions as a hostile takeover defence.