10 Signs Your Company is About to be Acquired

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Disclaimer: This post does not constitute financial advice. Author has a long position in Gilead and Clover. Do your own due diligence before making an investment.

People talk about insider trading a lot, but probably not enough. It's rampant. It's everywhere. It's not just company insiders. Banks and hedge funds can have advanced knowledge of mergers and buyouts.

Often times an investment bank will facilitate a merger. They're paid huge sums of money to do this.

Someone always talks. Buyouts and mergers always leak. There are telltale signs months in advance that you use to your advantage.

Here are 10 signs that your company might about to be bought out.

1. Management stops defending the stock price.

CEOs usually have a large stake in the company. Sometimes massively large. Whatever skin you've got in the game, they've got more.

If their stock drops inexplicably from $60 to $40, the CEO is taking a massive hit to their net worth.

If the company isn't coming out with positive PR, or trying to reassure investors, it's possible they've already signed a deal to sell for $90. After all, what difference does it make if it the stock treads water between $40 and $60? In the CEO's mind, the deal is done.

Companies don't like to see their stock prices plummet because it makes it harder for them to borrow money, or issue shares to raise capital. It's also a matter of prestige. Being the CEO of a billion-dollar company is a bigger deal than being the CEO of a company worth 875 million.

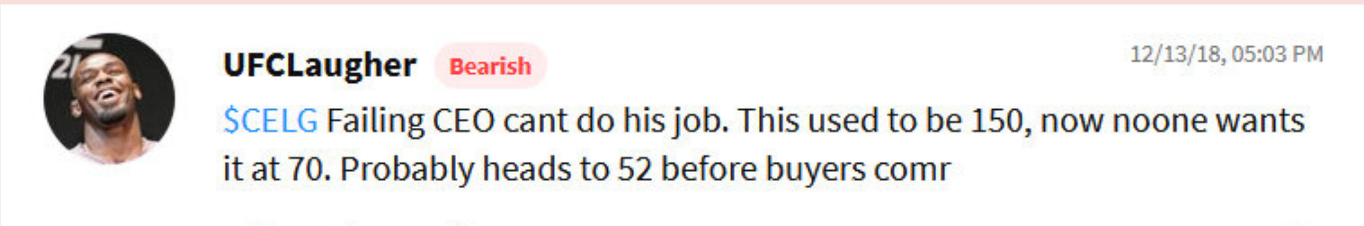
Sometimes before a merger, Wall Street will crush a stock to shake out the ordinary investors. Their goal is to own as many shares as possible. If you own this stock, Wall Street can't own it.

So, what is the company's management saying? Are they being silent while the stock price plummets, or are going on a expletive-ridden tirade like Clover Health CEO, Vivek Garipalli?

A quiet CEO is hiding something. Especially if a merger is already agreed upon. They don't care about the stock price anymore, because in their heads it's not $40 or $30, or -22%, or whatever. The stock price in the CEO's head is $90, so what's there to panic about?

2. Social media posts are overly bearish and calling for the CEO's removal.

Before Celgene was scooped up by Bristol Myers, you would see a lot of comments like this on the message boards:



Bears often like to post crap like this. “CEO is terrible. If the CEO was replaced, everything would be great.”

Posts like this accomplish two things.

One: It scares new investors from starting a position in the stock, because nobody wants to invest in a company with bad management.

Two: It conditions current investors into thinking that replacing the CEO will fix the company. Then, when the buyout is announced, current investors will be more likely to support it.

3. Wild fluctuations in stock price.

Generally speaking, stocks shouldn’t move that much on a day-to-day basis. Especially in the absence of news. Unfortunately, the rise of cryptocurrency, tech, and meme stocks has conditioned some investors into think that wild swings are the norm.

They aren’t.

Most stocks have a market cap of less than 2 billion.

Let’s say your stock has a market cap of 1 billion. Today it dropped 7%.

That’s a haircut of $70 million dollars.

You need to ask yourself, “Is this drop warranted by anything?”

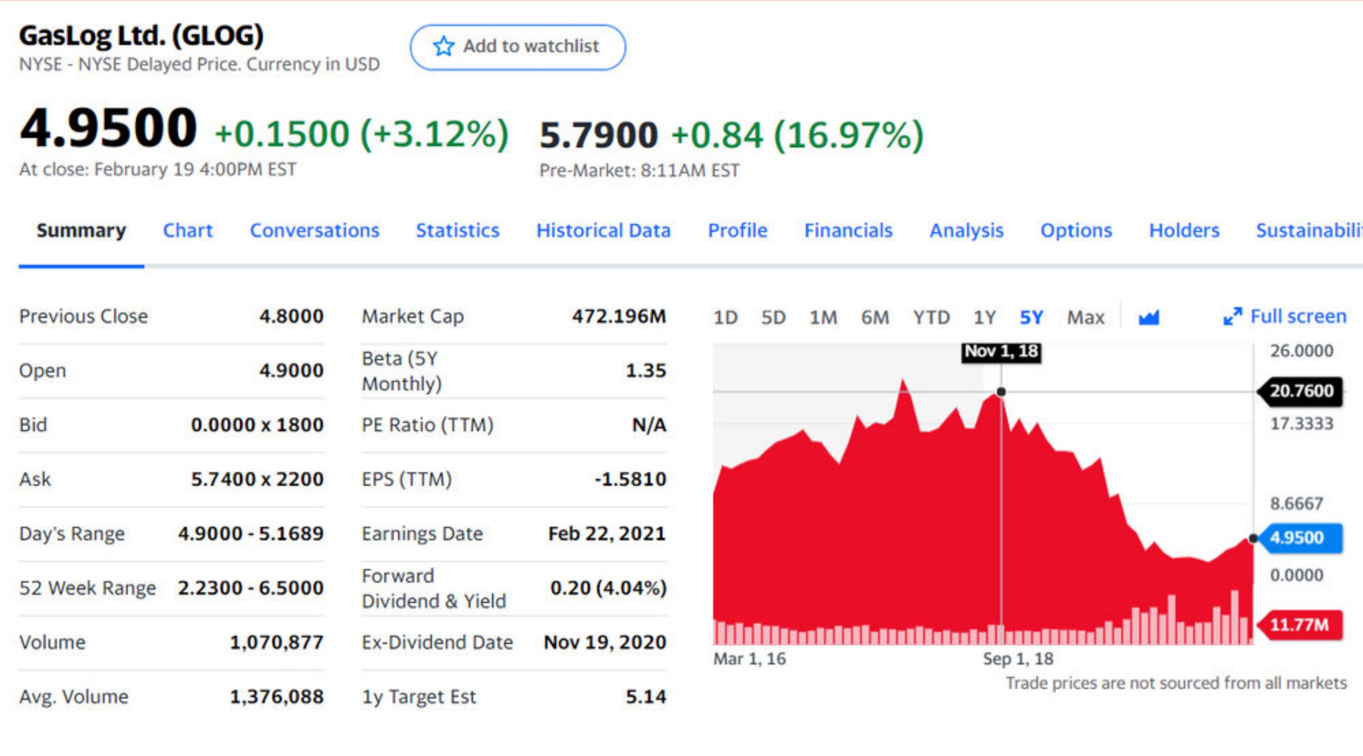
What’s the news? What’s the sector doing? What’s the market doing? What’s the competition doing?

What could possibly warrant a company losing $70 million dollars in market cap? (Which could be years of revenue.)

If you can't find an answer, then it's more likely your stock is being manipulated. True, it could have been overvalued to begin with, but when you're trying to establish whether your company is about to be bought out, you're not looking for one sign, you're looking for several.

Upwards price action can also be indicative of a buyout. If your stock was crushed down to multi-year lows but has been inexplicably rising the past few months…you might be looking at a buyout. Market makers have a lot of patience. They can spend years in the red because they know for a fact that a payday is coming

Just look at GasLog. This stock was trashed down for years, but then it started rising. This was a clear case of buyout theft.



The stock price went from $2.38 to $4.95, before being taken private by BlackRock at $5.80. (Which for various reasons is terrible.)

Buyouts can be agreed upon months, or even years in advance. The Celgene buyout was more than a year in the planning. The CEO sat by and did nothing as his stock price collapsed by more than 60%. Take a look at the chart.

4. Large amounts of phantom premium are on the table.

Buyouts usually come with large premiums. The question is, how much of that premium is real, and how much is phantom? (Fake.)

In a free market, if your stock is trading at $100, and the buyout is $150, that's a 50% premium.

But in today's market, Wall Street is more likely to smash your stock down to $75, and then organize a merger at $150. ($50 real premium, $25 phantom.)

This creates an illusion that your stock is being given a 100% premium.

To calculate phantom premium, you first need to establish a fair value for your stock.

What are its peers trading at?

What sort of PE ration do other stocks get?

If you, and others, believe your stock should be at $50, but it's trading at $25, you've got 100% in phantom premium available for market makers to push a merger with. The higher the phantom premium for them to play with, the more likely a buyout is.

Higher premiums are exciting. Shareholders tend to vote yes on things when they're excited.

Imagine you've been sitting on a stock that's been bleeding out for a year. Then someone comes around and offers to take it off your hands and double your money.

At this point you're so frustrated with the stock agree to sell because the stress has been too painful.

5. Sneaky option trades.

There's a lot of talk about unusual options volume, but that isn't the only thing you should be looking at. When examining the options action on a stock, pay close attention to the low-volume, high-priced trades.

10,000 contracts is a lot of contracts. This draws attention.

But what if the price for each contract is only 5 cents? That's only a $50,000 trade.

100 contracts doesn't sound interesting. That sounds ordinary. But if the price of each contract is $50, that's a $500,000 trade.

The person who made the larger trade probably has better information. You see this a lot with long-term options (LEAPS).

I'm a lot more interested in what the guy who drops $500,000 on a play is thinking, than the guy who drops $50,000.

If market makers are shaking the tree (dropping your stock several % to trigger stop-losses) then make sure to comb through the options charts after the market closes. You might find some interesting trades.

I've seen stocks get nuked 10% and then someone immediately buys millions in call options. The next day the stock is recovers. This type of behavior should be illegal, but it's not.

6. "Sell this, buy that."

Fake users on message boards are always trying to mess with you. These people can be bots or paid trolls employed by hedge funds or banks.

In the case of a buyout, their goal is to get you to sell. They do this in many ways, but the “Sell this, buy that,” technique is quite common.

They’ll say something like, “I’m so glad I sold $XYZ1 and bought $ABC2.”

Or, “This stock is garbage, I sold it and made my loss back with $ABC2.”

Their goal is to funnel you into a stock that appears to be good. The chart is almost the complete opposite of your stock. While yours has been inexplicably in the red for weeks or months, this new stock they’re pedaling is always in the green.

$ABC2 looks amazing. It’s up almost every day. It’s rallied 100% this year. All the social media posts are bullish.

But if you were to dig into the company a bit more…you’ll often find it’s not that great. Although it’s not necessarily a fraud. They might make some money, but never enough to justify their lofty valuations. Wall Street pumps these semi-fraudulent companies, funnels frustrated investors into them, and then dumps their position.

Months later, while you’re still bagholding $ABC2, someone buys out $XYZ1.

Wall Street screwed you. And all those users that told you $XYZ1 was the next best thing have deleted their posts or vanished entirely.

7. Bizarre price action prior to upcoming milestones.

Companies must report earnings every three months. These events are expected. Earnings can be a blowout, or they could be a bust. Both will affect the stock price.

But there might be other more important events on the horizon. Drug readouts, important contracts, product launches, major world events, etc.

Milestones can be almost anything that will might vastly affect your stock price. If you're invested in a company, you must be aware of all its upcoming milestones, because Wall Street will play games to mess with your head.

If a big event is coming up, Wall Street might tank the stock prior to it. This creates the illusion that they have insider information and they know it's going to be bad. They're abusing the efficient-market hypothesis. You see the stock dropping, think that something is wrong with the business, and you sell.

"I'll just wait on the sidelines," you say. "See what happens with the big event. If it goes well, I'll get back into the stock because it'll probably only jump a few percent."

But what actually happens is the buyout comes before the big event. You see this in biotech all the time. Companies have an important phase 3 trial coming to conclusion soon. They've seen the initial data and they know its great. They've also shared this data with the companies bidding to buy them out.

The bidders know that once the data is released, the stock will jump huge. So, they need to act quickly. Before the milestone is reached, the company is bought out.

Thinking you were being smart, you waited to buy. But that's what they wanted you to do. By waiting, you left more stock on the table for Wall Street to gobble up.

This is why if you believe in a company, you must buy it, hold it, and avoid looking at it on a day-to-day basis. I find this easier if you own a lot of companies.

It's impossible to keep an eye on 30 businesses. There's just not enough time in the day.

8. Resignations by high-level management or board members.

In a vacuum, the resignation of key members of a company can be seen as a bad thing. It begs questions like: If the company is doing well, why are they leaving? Where are they going? What's wrong with the business?

But, if you believe that your company is planning to merge, or has secretly already agreed to merge, and the announcement might not be for several months, then the resignation of key employees can be seen as bullish.

This is true if you think the employee who resigned would know about the merger, and might also be redundant in the new company.

When companies merge there are cost savings. Supply chains are merged, technology is shared, and many employees are let go. You don't need two chief financial officers, or two chief medical officers. There will be some redundancy.

These people might have already been informed that their job will be eliminated, or they might have figured it out by themselves. Not wanting to be unemployed for any amount of time, they exit prematurely.

If they're a high-level insider, they probably own stock in the company. Check out the insider transactions. If they held their stock, but left the company…that can be a major tell.

Would you keep your stock if your company forced you out for "incompetence?" Probably not.

But if you knew a buyout was coming, then absolutely you'd hold your stock. It'd be foolish to sell otherwise.

9. Your company is unloading assets that won't fit well into a merged company.

This one can be a bit trickier because you'll need to do a lot of research.

First you'll need a list of assets the company has been dumping. This could be a lot of different things. Buildings, vehicles, technology, patents, trademarks, unrenewed leases, etc.

In a merged company, some of these assets might be less valuable or even worthless. So they want to get them off the books for top dollar as soon as possible.

While it can be difficult to establish a link between an asset sale and a buyout, here's an easy tip: If the sale or abandonment of a company asset makes you scratch your head and say, "Why on Earth would they do that?" that's probably a good sign. If other investors are also confused, that's even better.

From your perspective, the asset sale is bizarre. But from the company's perspective, it makes total sense. Those assets won't be needed in the new company.

If you suspect that these assets are being unloaded for a merger, then you should start looking at potential buyers. If your company declined to renew their lease on a warehouse, then who else in your sector has lots of warehouse space available?

Remember, mergers and buyouts can be years in the making. While your company is preparing for the merger, the buyer is as well.

Your goal is to establish a link between the asset dumping, and another company that wouldn't need those assets. If you can establish several good links, then you might be looking at an upcoming merger.

Usually in a merger the acquired company will jump big time, and the buyer will drop a bit. This is to be expected because the buyer is taking a risk by paying a buyout premium. This risk doesn't always pay out.

In a perfect world, you would short the buyer, and buy more of the company you think is going to be acquired. But this can be a dangerous game if you're wrong about anything. Tread carefully.

10. Your stock has become disconnected from reality

Let's say your stock's fair value is $80. Your company earns $2 in profit per share, per quarter. There are about 91 days in each quarter. This means your company is adding about $0.022 per day to its fair value.

In a perfect world this would be reflected in your stock price. Each day of the week your stock would go up $0.022. On Friday it would go up by $0.066 to account for the weekends.

Obviously there are other factors at work, but this type of thinking should give you an idea of where your stock should be heading, and how quickly.

It becomes painfully obvious that your stock is being manipulated if instead of going up a little bit each day, it goes down a big amount.

The larger the spread between what’s happening, and what should be happening, the larger the chance of a buyout.

Another disconnect is sentiment.

Imagine you own a car lot. Your business is booming. Your customers are happy. Your employees are happy. You’re thinking of opening a second lot because business is great.

One day you show up to work and find protestors outside of your car lot. They’ve got signs like: “This company is garbage.”

“This company is going bankrupt, they won’t honor your warranty.”

“I bought a car here and it exploded.”

None of this is true, but your sales start dropping. Customers are avoiding your car lot. Your insurance rates go up. Employees are frustrated and some of them quit.

Months of this go by and you’re pulling your hair out. Everything is terrible now. You try to get a loan from the bank, but they visit the car lot, see all the protestors, and don’t want to loan you money.

It's Friday, and you've just had the worst sales day of your life.

Right near close, a skinny man named Jim walks into the store. Jim says, "Hey, bud, I heard you were having a rough time. I own the used car lot on the other side of town. I've been thinking of expanding and you have a great location here. I'll take it off your hands if the price is right."

Now it all makes sense. It was Jim that sent the protestors. He was intentionally trying to tank your business so he could buy it for cheap.

This happens on the stock market quite a bit. But instead of protestors it's fake comments and price target downgrades.

Like in April 2020, when Goldman Sachs analyst Paul Choi slashed his price target on Immunomedics from $24 to $5. The stock dropped 12.35% to $9.34.

The reason for the double downgrade was the FDA had found some quality control issues at one of Immunomedic's manufacturing sites.

Six months later, Immunomedics was bought out by Gilead Sciences for $88 a share.

The disconnection was: Does a quality control issue at a single manufacturing site warrant an 80% haircut to a price target?

Heck no.

And those are things you need to watch for. The more ridiculous the price action, and the more ridiculous the reasons behind the price action, the more likely your company is to be bought out.

Wall Street is a treacherous place. Or, as Obi-Wan Kenobi put it, "You will never find a more wretched hive of scum and villainy."

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