

Summary

Meincke, Sven, and Nippel, Peter

“Optimal Subscription Price in Rights Offerings”

When planning to raise new equity capital listed firms in Germany almost always buy insurance against the risk of failure by signing an underwriting agreement with a bank, even in case of rights offerings. We calculate the fair price for this insurance and for the rights which can be considered as call options. We show that for arbitrage free valuation of the underwriting contract and the rights the subscription price is irrelevant for shareholders wealth. This holds notwithstanding the fact that the fair value of the underwriting contract rises with an increasing rate if a higher subscription price is chosen. Not until the analysis is extended by considering some market imperfections and taxes we make a case for a “high” subscription price.