

Parker Drilling Revises Reverse Split Ratio

Parker Drilling (PKD) [announced today](#) that it has amended its proxy statement related to delisting its company.

Previously, PKD's plan was to execute a 1-for-100 reverse stock split in which holders of less than 100 shares would be cashed out at a price of \$30 per share.

Given increased trading volume in the stock driven by small shareholders hoping to be cashed out, I (and others) had speculated that PKD may decrease its cash out price to minimize the cost of the transaction.

Instead of lowering the cash out price, PKD took a different approach. It reduced its reverse splits ratio from 1-for-100 to the following range: 1-for-5 to 1-for-100.

If PKD ultimately proceeds with a reverse split of 1-for-100, then the optimal strategy is to hold on to your 99 shares as they will be cashed out at 1-for-100.

However, if PKD ultimately proceeds with a reverse split of 1-for-5, then the optimal strategy is to sell 95 shares at the current price and hold onto 4 share because they will be cashed out at \$30 per share.

My Thoughts

As one subscriber described it to me, this is basically a game of chicken. The company wants to be able to delist for the lowest price possible.

In order to delist, the company can have no more than 300 shareholders after its reverse split.

If the company were to proceed with the 1-for-5 reverse split, it's highly unlikely that it would be able to decrease its shareholder base to 300 or less.

If the company were to proceed with the 1-for-100 reverse split, it would be able to decrease its shareholder base to 300 or less.

My best guess is that PKD should be able to proceed with a slightly lower reverse split ratio (for instance, 1-for-90 instead of 1-for-100) as some shareholders who previously owned more than 100 shares have likely sold some or all of their shares to lower their position to 99 shares or less.

My recommendation is to sell 49 shares at the current price, \$17.30, and hold on to your remaining 50 shares as I believe these shares will be cashed out at \$30 per share.

How did I decide to hold onto 50 shares? I don't have a precise formula, but I think it's prudent to sell some shares as I believe the final reverse split ratio will be lower than 1-for-100.

There is still uncertainty related to this transaction, but I believe it gets completed, as the company is motivated to delist and believes its shares are deeply undervalued.

If I am wrong and the reverse split ratio is 1-for-50 or less, then I will be stuck with the majority of my shares.

If this happens, I'm ok owning illiquid PKD shares. Because ultimately, I believe the company re-lists or is sold at a significantly higher price (in 2-5 years). Further, the position is relatively small for me.

Disclosure: I own 50 shares of PKD.