

# An International Study of Shareholder Activism: Does it pay?

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# 1. Some issues

1. Is shareholder activism an answer to the problem of 'ownerless corporations' in stock markets like the UK & US?
2. Does Japan need shareholder activism?
3. Are activists short termist?
4. Do we want the law to encourage activism? How do we do it?
5. Should we reward longer term shareholders with superior voting rights and/or dividends?
6. Can we reward shareholders who monitor?

# What Are Typical Activist Demands?

- **Traditional Activists** (Pension Funds, Insurance Companies)
  - dismantle takeover defenses
  - split role of chairman and CEO
  - stop “undesirable” corporate practices
- **“New” Activists** (Focus and Hedge Funds in “Raider” tradition)
  - restructure, typically through divestitures
  - pay-out cash
  - replace management and/or board
  - sell company to highest bidder

# Who are the Activists?

- Traditional Activists
  - Pension funds
    - Direct or through service providers (e.g. ISS)
  - Insurance companies
  - (some) mutual funds and index trackers (ETF)
- “New” Activists
  - Focus funds
    - long only positions
  - Hedge funds
    - specialised and “opportunistic” activists
  - Corporate “raiders”

Are some traditional activists becoming more active?

# Hedge Fund Activism Country Studies: Do they add value and if so how?

## United States

- Brav, Jiang, Partnoy and Thomas (2008), *JF*
  - 2001-2006 : 236 activist hedge funds, 882 unique targets, 1059 events
- Greenwood and Schor (2008) *JFE*
  - 1994-2006 : 177 activist funds, 990 events
- Klein and Zur (2008), Clifford (2008), Boyson & Mooradin (2007)

## Japan

- Hamao, Kenji, Matos (2010)
  - 1998-2009 : 34 activist funds, 916 investments
- Uchida and Zu (2008) 41 interventions of two aggressive funds

# Clinical Studies of Private Activism

## United States

- Carleton, Nelson and Weisbach (1998), *JF*
  - *TIAA-CREF letter writing campaign*

## United Kingdom

- Becht, Franks, Mayer, Rossi (2009), *RFS*
  - *Clinical study of the Hermes U.K. Focus Fund*

# This Study

- Estimates abnormal returns: buy and hold returns for a large sample of activist interventions
- Distinguish between anticipation of activist results (disclosure returns) and returns to actual outcomes
- Compares returns from public versus private activism (Europe only)
- Addresses the issue of how much jurisdiction matters?

# Two Hand-Collected Datasets

- Public Engagements Database
- January 1997 to December 2010
  - 15 European countries
  - 3 Asian countries (Japan, South Korea, Hong Kong)
  - North America (Canada and the United States)
- Proprietary Fund Database
  - information on public and private engagements
  - Five funds included at the moment [but only to end 2007]
  - 57 private and 74 public engagements

Is private activism more profitable than public activism?

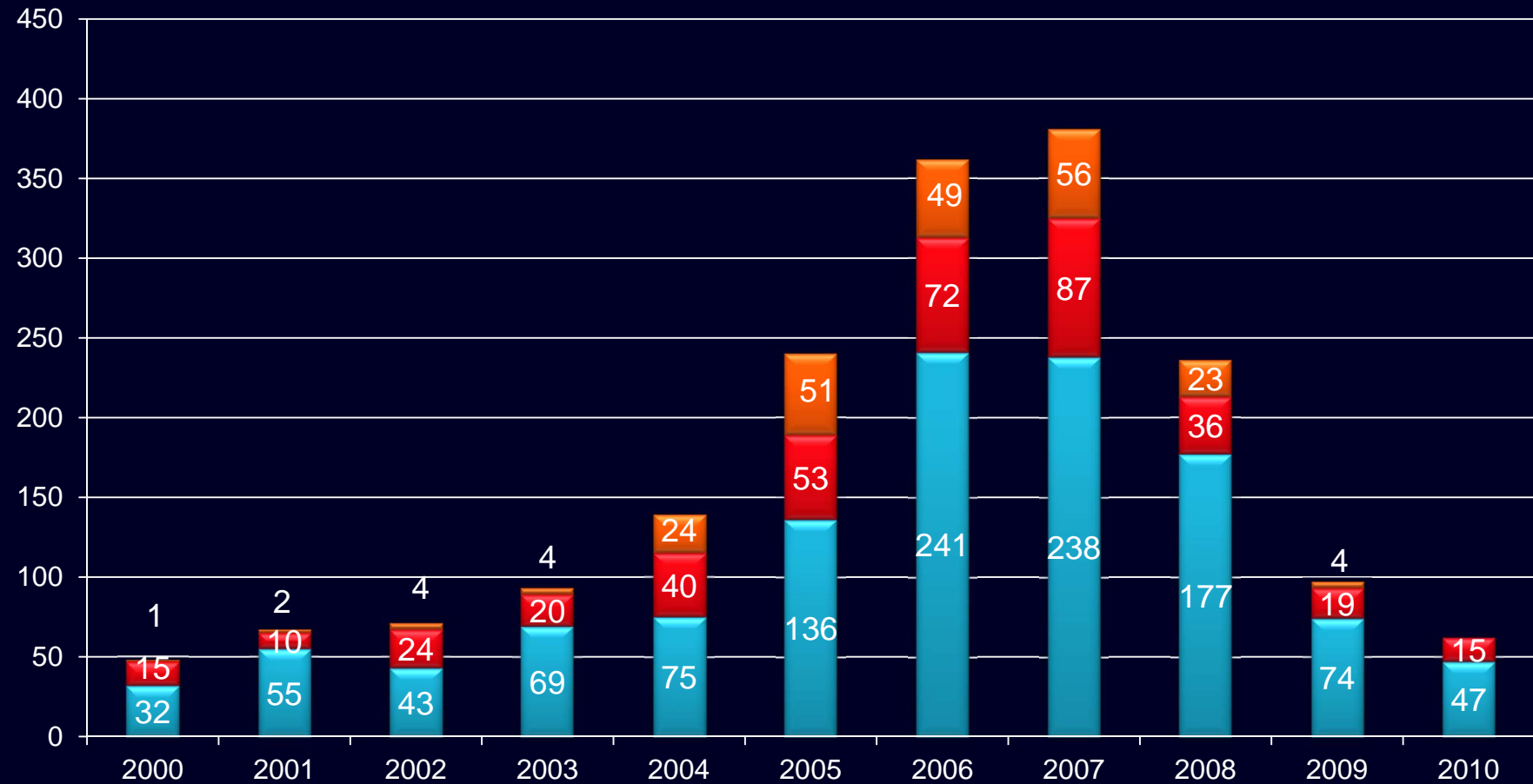


# Public Database Coverage

- Europe
  - 2000-2010 : 390 cases
- Asia
  - 2000-2010 : 218 cases
- North America
  - 2000-2010 : 1187

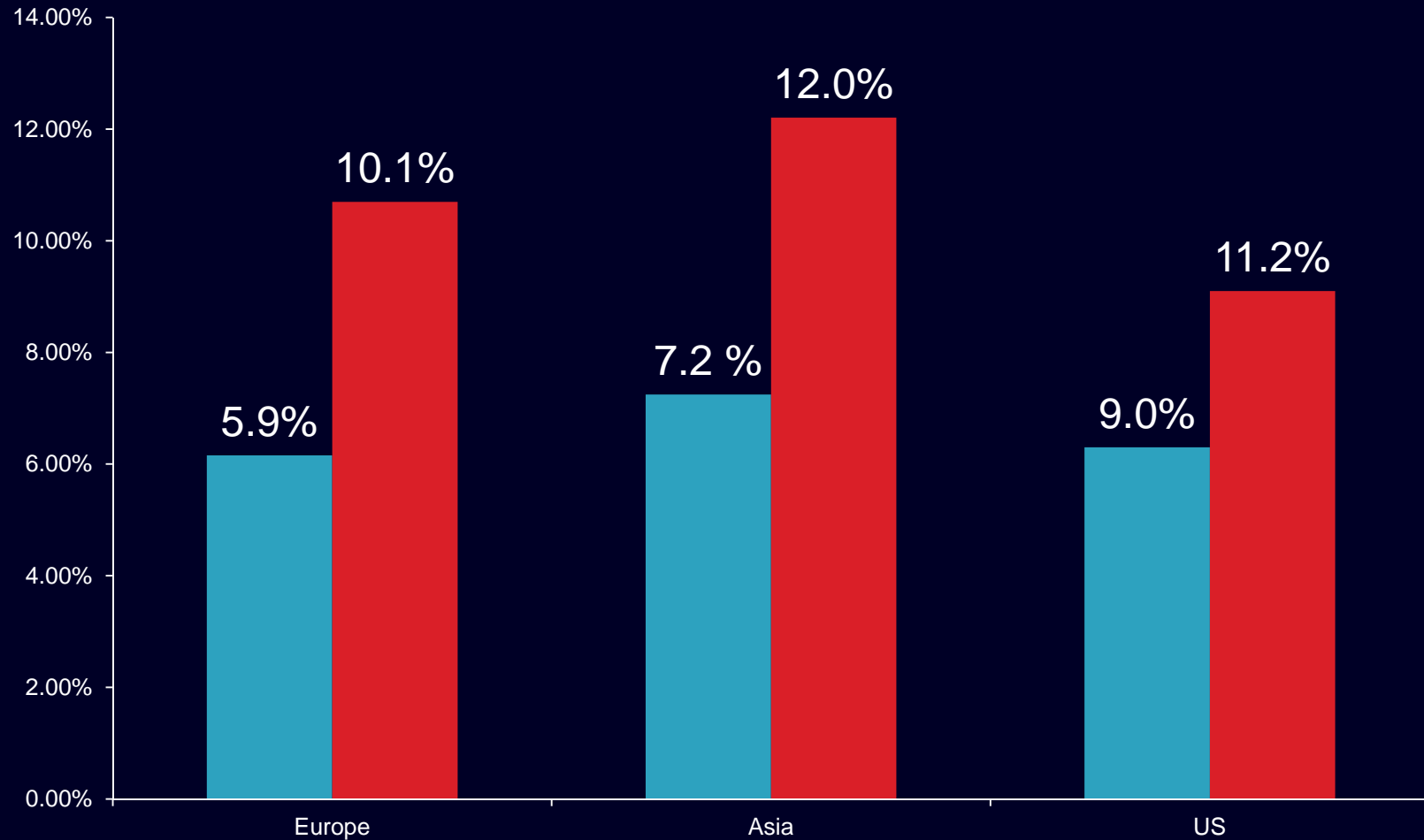
# International Public Activism Cases Initiated

■ North America ■ Europe ■ Asia

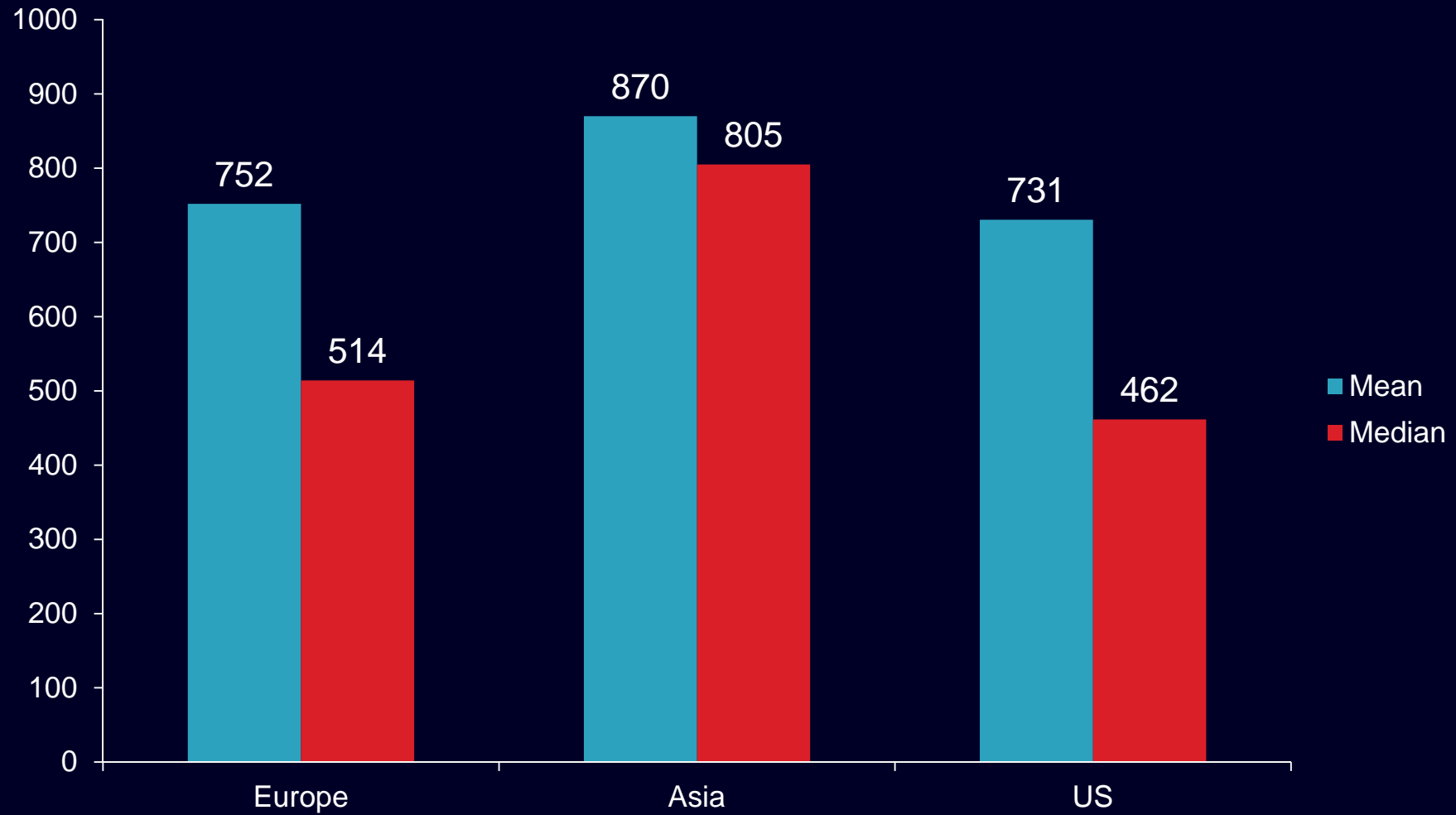


# Average Stake Size

(red : median; blue : mean)

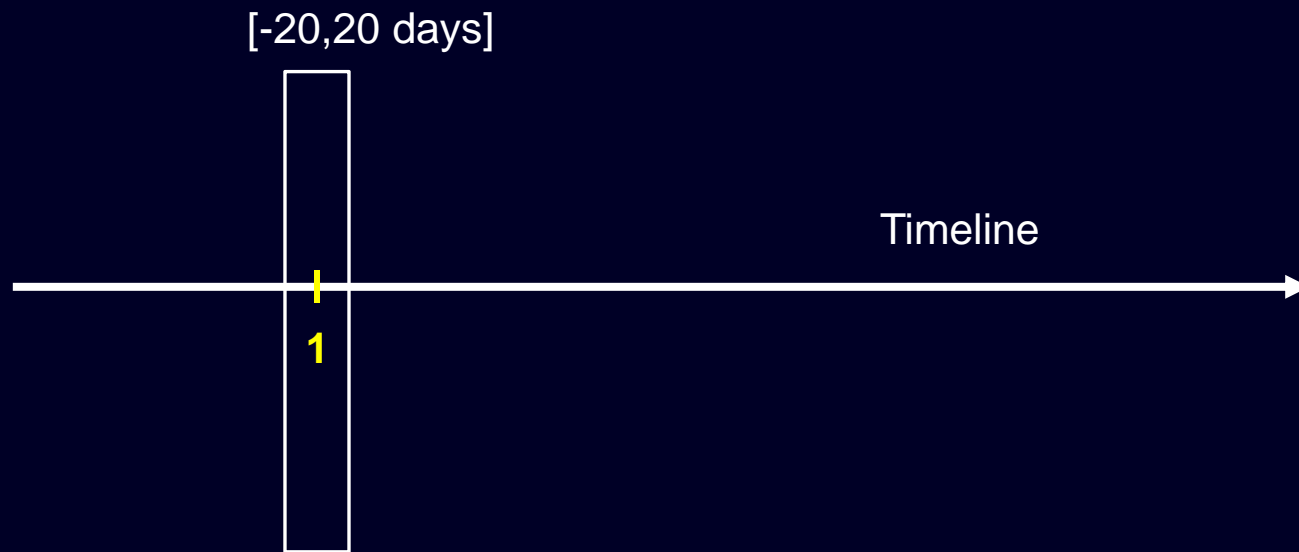


# Average Holding Period (Days)



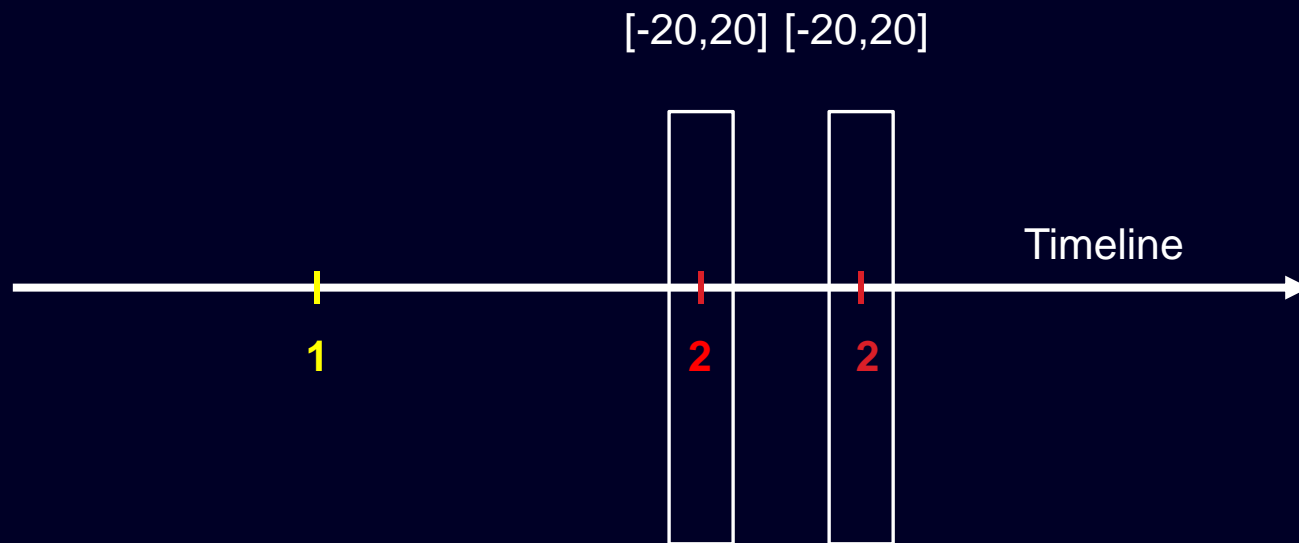
## 2. Public Database Results

# Abnormal Returns around Disclosure Window of Activist Block



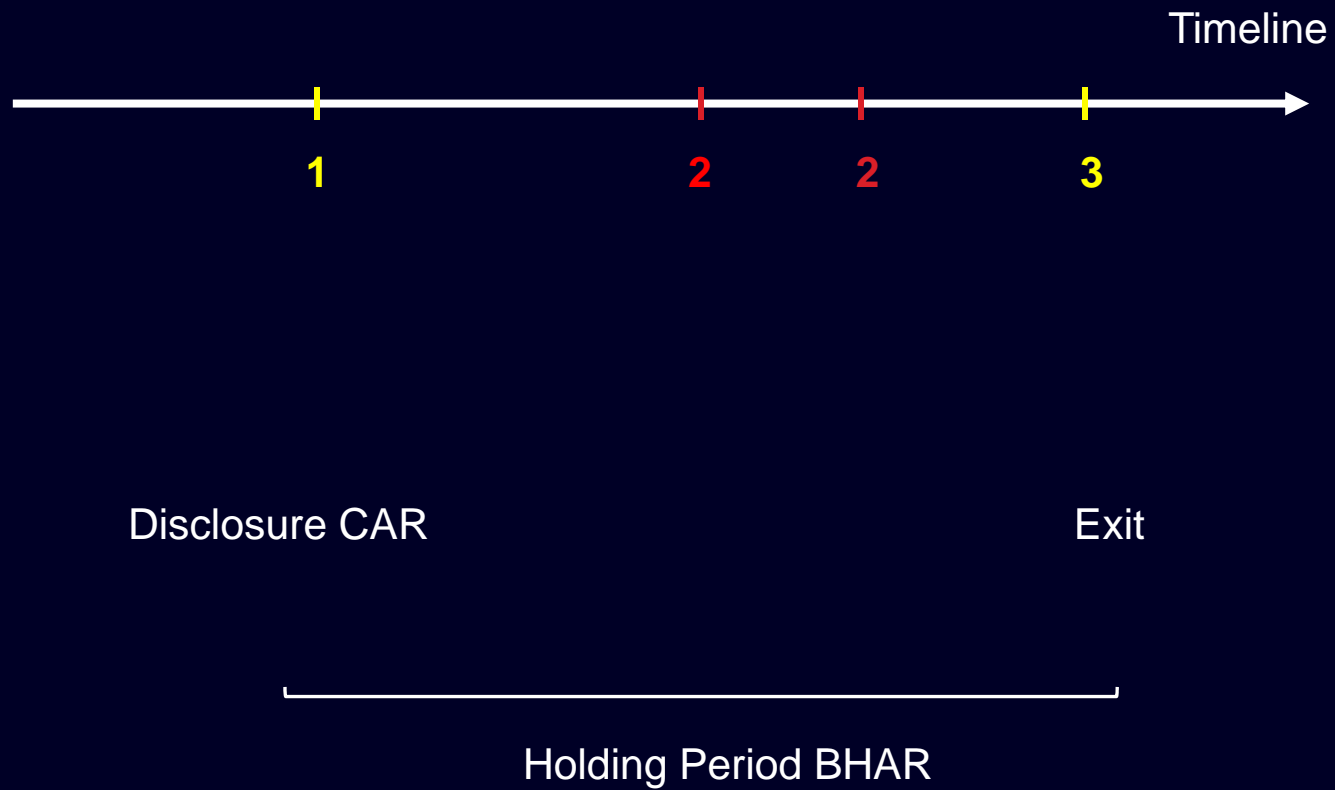
1 : 5%+ block disclosed

# Abnormal Returns around Disclosure of Activist Outcomes (e.g. sale of assets, CEO change)



2 : engagement outcomes linked to activism

# Buy & Hold Returns (pre-transactions costs)





# Abnormal Returns Around Disclosure of Activist Block – Date 1

Country	Study	Number of Events ¥ Period	CAR
United States	Brav et. al. (2008)	1,059 targets 2001-2006	7.2% [-20,+20]
United States	Greenwood and Schor (2008)	980 targets 1993-2006	3.6% [-10,+5]
Japan	Hamao, Kenji and Matos (2010)	916 targets 1998-2009	1.8% [-5,+5]

Stock market seems to welcome announcement of a stake by activist. But what does it expect?

## Date 1: Block Disclosure Cumulative Abnormal Returns (CARs) by Region and Fund Style:

	N		CAR [-10,10]	CAR [-20,20]
Europe	308	Mean	5.5%***	7.4%***
Asia	185	Mean	6.9%***	7.5%***
North America	1,118	Mean	7.0%***	7.5%***

Large abnormal returns in all jurisdictions particularly where the Activist has the stated policy of actively engaging.

## Date 1: European and Asian Block Disclosure CARs by Engagement Approach

	N		CAR [-10,10]	CAR [-20,20]
Hostile	296	Mean	4.9%***	6.2%***
Cooperative	67	Mean	2.6%**	3.9%**

Hostile engagements are expected to be more profitable than cooperative ones. Why?

## Date 2: European Outcome Disclosure CARs: different responses to different outcomes

	N		CAR [10,10]	CAR [-20,20]
All	181	Mean	10.8%***	13.3%***
Board	52		1.8%	3.1%
Payout	23		3.4%*	6.6%**
<b>Restructuring</b>				
Takeovers	60		15.1%***	18.9%***
Others	46		6.1%***	4.0%**

## Date 2: Asian Outcome Disclosure CARs:

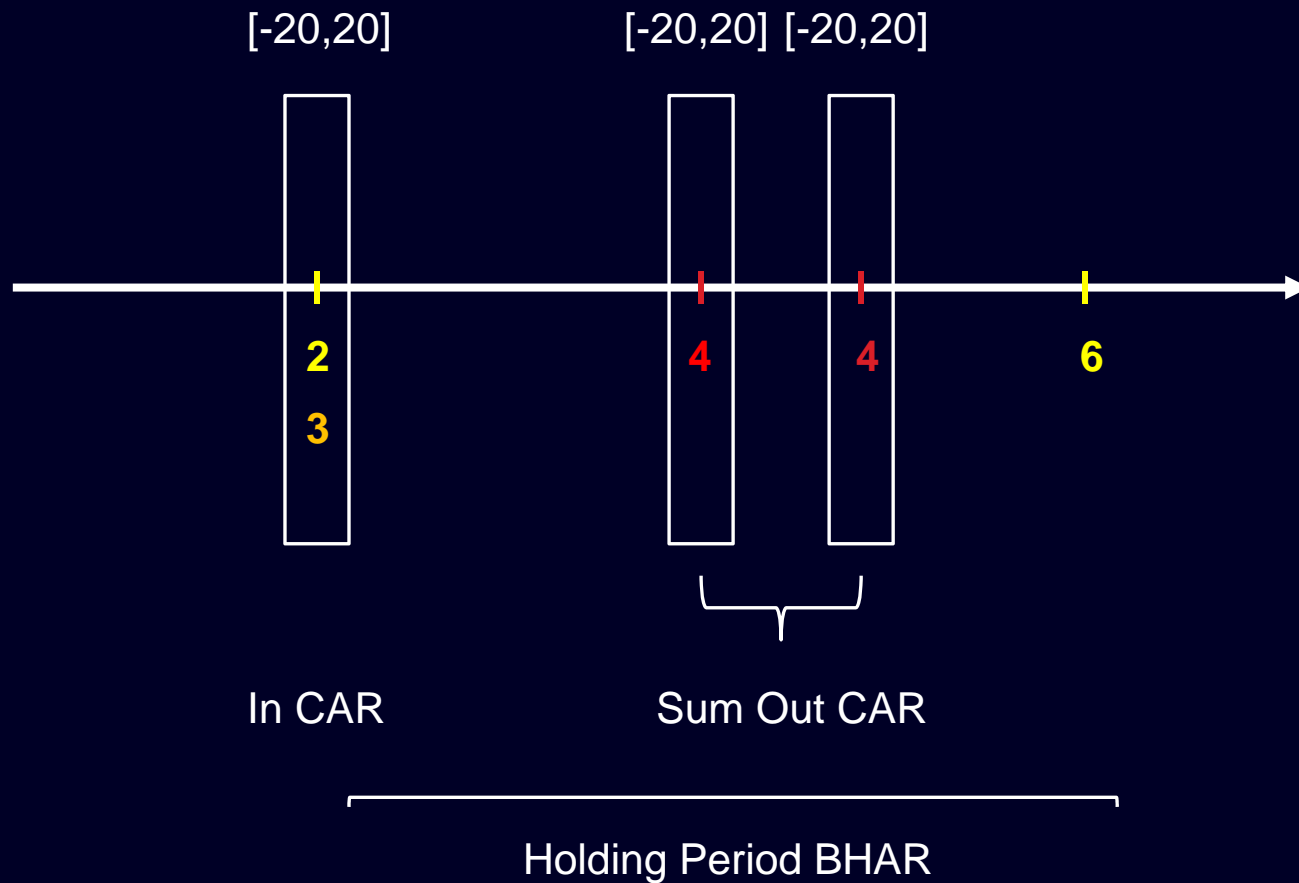
	<b>N</b>		<b>CAR</b> <b>[-10,10]</b>	<b>CAR</b> <b>[-20,20]</b>
<b>All</b>	<b>39</b>	<b>Mean</b>	<b>3.3%**</b>	<b>3.5%**</b>
Board	8		-1.3%	0.1%
Payout	16		4.7%**	3.6%**
<b>Restructuring</b>				
Takeovers	5		6.4%*	6.9%
Others	10		4.2%**	3.2%**

## Date 2: US Outcome Disclosure CARs:

	N		CAR [-10,10]	CAR [-20,20]
All	619	Mean	9.6%***	10.1%***
Board	230		5.1%*	2.7%*
Payout	120		2.0%*	0.7%
<b>Restructuring</b>				
Takeovers	182		15.7%***	15.0%***
Others	87		7.6%***	12.1%***

If activist's returns come primarily from takeovers, are they performing a useful functions and if so why?

# Decomposition of Holding Period Returns



# Decomposition of Market Adjusted Buy and Hold Abnormal Returns: 2000 - 2010

	N	Disclosure Abnormal Returns [-20,20]	BHAR from 20 Days Post Disclosure to Exit	Sum of Abnormal Returns around Outcomes [-20,20]
<b>Europe All</b>	331	7.0%***	17.3%***	N.A.
<i>With Outcomes</i>	166	8.9%***	28.3%***	10.8%***
<i>No Outcomes</i>	165	6.1%**	6.6%*	0.0
<b>Asia All</b>	190	8.7%***	13.3%***	N.A.
<i>With Outcomes</i>	32	33.7%***	22.6%***	3.9%
<i>No Outcomes</i>	158	9.9%	4.5%	0.0



# Decomposition of Buy and Hold Abnormal Returns

	<b>N</b>	Disclosure Abnormal Returns [-20,20]	BHAR from 20 Days Post Disclosure to Exit	Sum of Abnormal Returns around Outcomes [-20,20]
<b>US All</b>	1134	7.5%***	34.1%***	N.A.
<i>With Outcomes</i>	595	8.9%***	36.8%***	8.7%***
<i>No Outcomes</i>	539	4.2***	31.6%***	0.0

# European Fund Proprietary Database

1. Informs us as to the profitability of private  
Versus public activism.
2. Provides better estimates of returns to activism because  
We know precise purchase and sales prices

# Proprietary Data: Fully Observed **Private** Engagement



1 : 1st share purchase    2 : Mandatory Disclosure (?)    3 : outcomes linked to activism    4: position closed

## Dates 1 to 4: Fund Database Buy and Hold Returns

	Engagements 1997 to 2008		Annualised	
N=131	BHR Raw	BHR CAR	Ann. BHR Raw	Ann. BHR AR
Mean	24.8%***	8.3%**	11.9%***	4.0%*
<i>Private</i>	22.5%*	10.0%	14.8%**	6.2%
<i>Public</i>	26.5%**	6.9%	9.6%*	2.1%

## Date 3: Fund Database Outcome Disclosure CARs:

	<b>N</b>		<b>CAR [-10,10]</b>	<b>CAR [-20,20]</b>
<b>All</b>	<b>319</b>	<b>Mean</b>	<b>3.2%***</b>	<b>5.0%***</b>
Board	88		1.4%	2.9%**
Payout	42		3.0%**	4.6%***
Restructuring	189		4.0%***	6.0%***
<i>of which</i>				
Takeovers	20		14.4%***	18.3%***
Others	169		2.8%***	4.5%***
<b>Private</b>	<b>124</b>	<b>Mean</b>	<b>5.4%***</b>	<b>8.3%***</b>
<b>Public</b>	<b>195</b>		<b>1.7%**</b>	<b>2.9%***</b>

# Conclusions

- Activism is profitable for target shareholders
- Activism is costly for the activists
- Takeovers are more profitable than other restructuring but still significant?
- Activists frequently put companies “in play”
- Do we want to encourage more activism?
- Why is activism so different in Japan?

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