

Proposal Bachelor Thesis

Leopold Ingenohl

14th February 2018

1 Introduction

Much attention has been recently given to Schedule 13D Filings, the beneficial ownership form many investors must file to report their equity holdings, identifying them as active investors Giglia (2018). One reason for that is based on the investor, representing an increased likelihood of the firm becoming a takeover target (Brigida and Madura, 2012). Brav et al. (2008) have shown positive and significant average abnormal returns around the filing date as market reflections to investor activism.

In particular, Akhigbe et al. (2007) have shown that stakes acquired by corporate investors, are more likely to result in a full acquisition of the target. By applying (Brav et al., 2008) findings, filings from corporate investors should lead to high abnormal returns. In fact, Brigida and Madura (2012) claim that non-financial corporations have a runup (the abnormal return around the filing date) almost 13 percent higher compared to financial corporations.

The strong relation between schedule 13D filings of non-financial corporations and their respective market reaction is the motivation behind this paper.

2 Objective of the Paper

The main objective of the paper is to determine how important - to participants on the stock exchange - the financial condition (strength) of the engaging activist investor is. In particular, the financial structure of non-financial corporations that have filed a Schedule 13D (Bell, 2017). For the analysis of this relation, key figures computed from the last filed report of the investor will be paired with the respective abnormal returns around the 13D filing date. I could not find literature on parameters determining a company's financial strength/condition. A possible application could be Piotroski's f-score (Piotroski, 2000).

The hypothesis could be stated as the following: The higher the interdependence between the financial structure of the investor and the abnormal returns, the more important is the investors' financial power to other participants on the market.

In a second step, partial results of the previous analysis could be used to compare the financial structure of the filer (investor) with that of the target. The aim of this section would be to identify possible effects of different "financial investor/target ratios" - e.g. do corporate investors only target poorly performing firms (Klein and Zur, 2009)? (to be discussed!)

3 Procedure of Analysis

1. Generate a representative sample of SC 13D Filings based on the following restrictions / qualifications
 - (a) Both, subject and filer, have to be non-financial corporations (characteristics/filter will soon be defined such as 10K-Filings). For instance, no private investment firm and an exclusion of filings from non-financial and utility industries (Brigida and Madura, 2012).
 - (b) Both, subject and filer, have to be listed in the COMPUSTAT and CRSP data bases.
 - (c) The sample is restricted to filings from 1995 up to ?.
 - (d) to be discussed
2. Gather the COMPUSTAT data corresponding to the corporations of the previously filtered sample of 13D Filings.
3. Allocate key financials to both, subject and filer.
4. Gather the corresponding stock date-data via CRSP.
5. Estimation of the abnormal returns, based on the previously compiled stock data thorough an event study (Ang and Zhang, 2011) (Fama and French, 1992) (Kolari and Pynnönen, 2010).
6. Merging of investors' key financials with CRSP data.

Relevant Literature

- Akhigbe, Aigbe, Anna D. Martin and Ann Marie Whyte (2007). Partial acquisitions, the acquisition probability hypothesis, and the abnormal returns to partial targets. *Journal of Banking and Finance* **31**(10), 3080–3101.
- Ang, James S. and Shaojun Zhang (2011). *No TiEvaluating Long-Horizon Event Study Methodology*tle. Tech. rep., pp. 1–38.
- Bell, Jeffrey B. (2017). CHECKPOINTS :
- Brav, Alon, Wei Jiang, Frank Partnoy and Randall Thomas (2008). Hedge fund activism, corporate governance, and firm performance. *Journal of Finance* **63**(4), 1729–1775. ISSN: 00221082. DOI: 10.1111/j.1540-6261.2008.01373.x. arXiv: arXiv:1011.1669v3. URL: <http://dx.doi.org/10.1111/j.1540-6261.2008.01373.x>.
- Brigida, Matthew and Jeff Madura (2012). Information Leakages Prior to 13D Filings. *Atlantic* **12**(2), 23–39.
- Fama, E. and K. French (1992). The Cross-Section of Expected Stock Returns. *The Journal of Finance* **47**(2), 427–465. ISSN: 1540-6261. DOI: 10.2307/2329112. arXiv: 1011.1669.
- Giglia, Kristin (2018). *A Little Letter, A Big Difference: An Empirical Inquiry Into Possible Misuse Of Schedule 13G/13D Filings*. **116**. 1, pp. 105–145. URL: <http://www.jstor.org/stable/43681849>.
- Klein, April and Emanuel Zur (2009). Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors - KLEIN - 2009 - The Journal of Finance - Wiley Online Library. *Journal of Finance* **LXIV**(1), 187–229. ISSN: 0022-1082. DOI: 10.1111/j.1540-6261.2008.01432.x.
- Kolari, James W. and Seppo Pynnönen (2010). Event study testing with cross-sectional correlation of abnormal returns. *Review of Financial Studies* **23**(11), 3996–4025. ISSN: 08939454. DOI: 10.1093/rfs/hhq072.
- Piotroski, Joseph D. (2000). Value Investing : The Use of Historical Financial Statement Information to Separate Winners from Losers. *Journal of Accounting Research* **38**(Supplement), 1–41. URL: <http://www.jstor.org/stable/2672906>.