Thesis

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1 Introduction

Much attention has been recently given to the current Securities and Exchange Commission reporting requirements for Schedule 13D, governing the disclosure of beneficial ownership interests in excess of five percent of outstanding common stock of a U.S. public company (Giglia, 2018). Amongst other causes, it is due to the fact that the targeted corporation experiences significant gains when the partial acquisition is announced (Akhigbe et al., 2007).

In fact, many event studies have been conducted for analysis of what happens to the target's stock when there is such a filing. Whereas Collin-Dufresne and Fos (2015) observed a positive significant market reaction upon a more general sample of Schedule 13D filings, Brav et al. (2008) have shown a favorable market reaction – 7%-8% average abnormal returns in the (-20|20) event window – particularly to Schedule 13D's filed by hedge funds during the period surrounding the initial Schedule 13D. Similar results have been shown by Klein and Zur (2009) who observe 10.2% average abnormal stock returns specifically for hedge fund targets. With regards to the samples of general and hedge-fund filings, the runup is even higher if the acquirer is a private investor or a non-financial corporation (Brigida and Madura, 2012). This is matching with Akhigbe et al. (2007) findings who observed greater gains for the target's stock if the partial position was initiated by a corporate bidder.

Beyond the effect these filings have on the target's stock, Akhigbe et al. (2007) observe that partial acquisitions, if carried out by corporate investors, are more likely to result in a full acquisition when compared to all other activist investors. This is equivalent to the findings that within the mass of Schedule 13D filings, institutional investors are unlikely to pursue a complete takeover whereas corporations are potential full acquirers (Brigida and Madura, 2012). Hence following their minority stake (expressed by a SC 13D filing) in the target, corporate bidders have a higher probability of ultimately acquiring it (Greenwood and Schor, 2009). But in order to carry out a full acquisition, corporate investors need to be in the state of sufficient financial strength. Although there is not much debate on whether schedule 13D filings elicit a market reaction, it is still largely unanswered where this upward drift in the target's stock price comes from (Greenwood and Schor, 2009). Greenwood and Schor (2009) address this issue by presuming that the runup is a reflection of investors' expectations of the target firm being acquired at a premium to the current stock price. Another approach to address this issue is presented by Akhigbe et al. (2007), mentioning that the market reaction is associated with the size of the announced partial position and the degree of the target's free cash-flow.

Because filings submitted by corporate investors, compared to all other investors, are followed by larger average abnormal returns, it seems out of the pool of filings they have the highest impact. If additionally, these filings are characterized by a higher probability of full acquisition which is dependent on the investors financial strength, attention of analysis in understanding the upward drift should be channelled towards the financial condition of the corporate investor. Based on these studies, the economic significance of corporate cross-holdings in the context of investor activism is apparent and the link between the financial condition of the investor and the subsequent abnormal returns on the target stock is an important issue to examine.