

Structure

Leopold Ingenohl

17th March 2018

1 Introduction

1.1 Anecdotal Reference

Objective: highlight the importance of the financial condition – Background

1. HNA
2. "The financial condition of investors is often in the center of financial journalism"
3. build up of around 9.9% stake of around \$4bn in Deutsche Bank in 2017
4. just below the 10% threshold above which stake purchases must be approved by Germany's financial watchdog
5. China's largest private conglomerate which over the past few years invested around \$40bn in businesses around the world
6. Financing of the group has come under strain as a result of an official crackdown on risky financing at acquisitive private enterprises in China
7. Liquidity issues
8. Deutsch Stock down nearly 14% in one year

9. cut down its stake to 8.8
10. Heavily leveraged group
11. drawing scrutiny for the complex financing
12. Potential cash-shortfall
13. S&P global rating downgrade citing a „deteriorating liquidity profile“

1.2 Minority Acquisitions by Corporations

Objective: Why do Companies make minority Acquisitions? – Background

Topics: Characteristics | Motivation | Reasoning

1. Minority acquisitions are an important organizational choice, accounting for around 20% of all acquisitions between 1990 and 2015.(Huang et al., 2017)
2. Minority acquisitions tend to involve the transfer of a sizable portion of the target firm, with a mean purchase of 12%. (Ouimet, 2013)
3. Most firms, private and public, have assets on their books that can be considered to be non-operating assets. The second is investments in equities and bonds of other firms, sometimes for investment reasons and sometimes for strategic ones (Damodaran, 2005)
4. Our results suggest that bidders use minority acquisitions when they confront informational or integration barriers. (Huang et al., 2017)
5. Minority acquisitions can also help to serve as a stepping-stone towards full control. (Huang et al., 2017)
6. A toehold often likely opens the door to a more intensive cooperation between the toehold holder and the target (Povel and Sertsios, 2014)
7. Taking a toehold allows the potential acquirer to interact with the target and its management (Povel and Sertsios, 2014)

8. the possibility that business agreements, alliances, or joint ventures might be reached between target firms and corporate owners. (Allen and Phillips, 2000)
9. A toehold is defined as the raider's ownership stake in the target firm prior to announcing his tender offer. SEC regulation specifies that anyone who acquires 5% of a company's outstanding shares must file Schedule 13(D) within ten days to disclose their identity, the number of shares owned, and their purpose in acquiring the shares. In practice, a bidder can continue purchasing target shares anonymously after hitting the 5% threshold until the disclosure date. (Goldman and Qian, 2005)

1.3 SC 13D Filings - Toeholds & Acquisitions

Objective: Why do they behave activist? Active vs. Passive – Background

Topics: Acquisitions | Friendly Takeovers | Hostile Takeovers | Joint-Venture | Activism | Comparison HF

1. Schedule 13D filings must be made within 10 days of acquiring a beneficial ownership of 5% or greater of the outstanding common stock of a U.S. public company. (Brigida and Madura, 2012)
2. Filing a Schedule 13D allows the investor to behave in an active manner. (Brigida and Madura, 2012)
3. starting with Mikkelson and Ruback (1985), note that mergers and takeovers are often preceded by the acquisition of a minority stake in the target. (Greenwood and Schor, 2009)
4. Implication of intention of possible merger and takeover, means they have to file as activists
5. Definition activist HF as example – In the spirit of Pound (1992), we define an entrepreneurial activist as an investor who buys a large stake in a publicly held corporation with

the intention to bring about change and thereby realize a profit on the investment (Klein and Zur, 2009)

6. If: Acquisitions / friendly takeovers, hostile takeovers
7. Acquire a minority position to access greater information about the target firm and better assess the potential for a majority acquisition. (Ouimet, 2013)
8. Minority acquisitions can also help to serve as a stepping-stone towards full control. (huang)
9. A toehold is defined as the raider's ownership stake in the target firm prior to announcing his tender offer. (Goldman and Qian, 2005)
10. makes the toehold bidder a more aggressive competitor in the presence of rivals. (Betton et al., n.d.)

1.4 Abnormal Returns for the Subject

Objective: Why are corporations interesting? – Problem Statement

Topics: Comparison HF | Source of Runup | Corporate Activism

1. see Thesis.
2. In recent studies of what happens to the target's stock Collin-Dufresne and Fos (2015) observed a positive significant market reaction upon a more general sample of Schedule 13D filings including all investor types. 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. Similar results have been shown by Klein and Zur (2009) who observe 10.2% average abnormal stock returns specifically for hedge fund targets. Furthermore 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. Concluding, all filings are followed by positive market reactions however, those submitted by corporations seem to have a stronger impact.

3. is still largely unanswered where the announcement premium (and the upward drift in stock prices thereafter, for that matter) comes from (Greenwood and Schor, 2009)
4. 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.

1.5 Corporate Investments & Corporate Condition

Objective: Hypothesis – Research Aim

Topics: Abnormal Returns | Financial Condition | Activism | Hypothesis | Conclusion

1. Abnormal returns – Company Condition
2. Bridge: As they file SC13D's they behave in an activist manner which is in the sense of Klein and Zur (2009) the intention to bring about change
3. Hypotheses: In order to be able to bring change, the filer/activist corporation needs to be in a sufficient condition
4. Especially in the case of acquisition: By giving these filings a higher probability of acquisition and tracing the runups back to this assumption, the financial condition of the investor – in order to carry out a possible acquisition – should play an important role. For the reason that a strong investor could increase the likelihood of takeover and hence explain the strong abnormal returns.
5. Based on these findings, the economic significance of activist minority acquisitions by corporation is apparent and the link between the financial condition of the investor and the subsequent abnormal returns on the target stock is an interesting issue to examine.

1.6 Procedure

Objective: What is the structure of the paper?

- 1.