Structure

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1 Introduction

1.1 Anecdotal Reference

Objective: highlight the importance of the financial condition – Background

1. HNA
2. China's largest private conglomerate which over the past few years invested around $40bn in businesses around the world
3. "The financial condition of investors is often in the center of financial journalism"
4. build up of around 9.9% stake of around $4bn in Deutsche Bank in 2017
5. just below the 10% threshold above which stake purchases must be approved by Germany's financial watchdog
6. Deutsch Stock down nearly 14% in one year
7. cut down its stake to 8.8%
8. Financing of the group has come under strain as a result of an official crackdown on risky financing at acquisitive private enterprises in China

9. Liquidity issues
10. Potential cash-shortfall
11. Heavily leveraged group
12. drawing scrutiny for the complex financing
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. 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)
3. Minority acquisitions tend to involve the transfer of a sizable portion of the target firm, with a mean purchase of 12%. (Ouimet, 2013)
4. A toehold often likely opens the door to a more intensive cooperation between the toeholder and the target (Povel and Sertsios, 2014)
5. Taking a toehold allows the potential acquirer to interact with the target and its management (Povel and Sertsios, 2014)
6. Our results suggest that bidders use minority acquisitions when they confront informational or integration barriers. (Huang et al., 2017)
7. Minority acquisitions can also help to serve as a stepping-stone towards full control. (Huang et al., 2017)

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 inculding 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?

2 Literature Review

2.1 Schedule 13(D)

Objective: Contextualizing the Thesis

Topics: Historical Background | Information contained | Difference G and D

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. The use of the qualifier ‘beneficial’ is important because related, yet different entities, may have to file a schedule 13D if their combined ownership of the target is 5% or greater and their voting or investment power is combined (Brigida and Madura, 2012)

2. Those investors with activist intentions must file a more detailed Schedule 13D, which along with other information, requires the investor to state its future intentions with respect to influencing control of the company (Giglia, 2018)

3. Exchange Act of 1934 (1934 Act)16 in an attempt to increase regulation of tender offers and accumulations of stock. There were no corresponding regulations in connection with cash tender offer (Giglia, 2018).

4. Of relevance here is section 13(d), which governs disclosures of beneficial ownership interests in excess of five percent of certain classes of equity securities. (Giglia, 2018)

5. Purpose of the filing – Instead, the purpose of the section focused on informing investors about purchases of large blocks of shares acquired in a short period of time by individuals who could then influence or change control of the issuing company (Giglia, 2018)

6. Within the Schedule 13D and 13G filings is information important to this analysis. (Brigida and Madura, 2012)

7. The filing of a Schedule 13G constrains the investor to act in a passive manner. If investors originally file a Schedule 13G, and later decide to become an active investor, they must re-file as a 13D. Schedule 13G reporting requirements are by design less stringent (Brigida and Madura, 2012)

8. A Schedule 13G is a short-form filing that can be utilized if an investor holds a beneficial ownership interest passively, with no intent to change control of the company (Giglia, 2018)

9. A passive investor or qualifying institutional investor who acquires a beneficial ownership of 5% or more of a class of equity securities may file a Schedule 13G instead of a 13D. (Brigida and Madura, 2012)

2.2 Institutional Investor Activism

Objective: What are the findings so far?

Topics: Characteristics AR | Problems in Comparison | Motivation of HF | Activism

1. Short-horizon event studies of stock returns: Many studies have examined what happens to targets firm's stock price when there is a Schedule 13D filing with the SEC (Coffee Jr. and Palia, 2014)

2. U.S. Activism Events

3. Hedge fund activism and proxy fights lie between these two extremes in the "congealing of share votes," as they are associated with toehold investments by the activist that average 8.8%and 9.9%, and are associated with average valuation effects of 5.0%and 6.8%, respectively.(Denes et al., 2017)

4. Specifically, hedge fund targets earn 10.2% average abnormal stock returns during the period surrounding the initial Schedule 13D. Other activist targets experience a significantly positive average abnormal return of 5.1% around the SEC filing window (Klein and Zur, 2009)

5. We find that the market reacts favorably to activism, consistent with the view that it creates value. The filing of a Schedule 13D revealing an activist fund's investment in a target firm results in large positive average abnormal returns, in the range of 7% to 8%, during the (–20,+20) announcement window (Brav et al., 2008)

6. The average announcement return, over all of these events, is 2.36%, about half of that earned by firms that are eventually taken over. (Greenwood and Schor, 2009)

7. 1. The first objective includes events in which the hedge fund believes that the company is undervalued and/or that the fund can help the manager maximize shareholder value.

8. 2. The second category, which represents 17.4% of the full sample, includes activism targeting firm's payout policy and capital structure.

9. 3. The third set of events includes activism targeting issues related to business strategy, such as operational efficiency, business restructuring, mergers and acquisitions, and growth strategies.

10. 4. The fourth category of activist events involves activism urging the sale of the target.

11. 5. Lastly, the fifth set of events includes activism targeting corporate governance.

12. Greenwood: Market Return Model, matching portfolios and CAR; Brav only B&H return VW market index; Klein B&H returns but adjusted

2.3 Corporate 13(D) Filings

Objective: What do they trigger?

Topics: Results (Abnormal Returns) | Explanations

1. but the runup is even larger if the acquirer is a nonfinancial corporation or a private investor.(Brigida and Madura, 2012)

2. Third, among 13D filings, the level of informed trading is higher when the filer is a nonfinancial corporation, private investment firm, intends to merge or acquire, or intends to be an activist investor (Brigida and Madura, 2012)

3. Market-adjusted returns (eret) are higher on days when Schedule 13D filers trade. (Collin-Dufresne and Fos, 2015)

4. At the other extreme, corporate takeovers typically involve the formation of large blockholdings and create large changes in firm valuation that average 15.3% (Denes et al., 2017)

5. The runup reflects takeover rumors generated from various public sources, such as Schedule 13(d) filings with SEC disclosing stake purchases of 5% or more in the target, media speculations, and street talk (Betton et al., n.d.)

6. Partial bids initiated by corporate bidders are more likely to result in a full acquisition, and the size of the acquired stake and the level of institutional ownership are positively linked to the probability of acquisition.(Akhigbe et al., 2007)

7. Without exception, BIDCORP is positive and significant. Partial positions taken by corporate bidders (BIDCORP) generate significantly higher gains to the PTs. This result may reflect the hubris-based view (Roll, 1986) that corporate bidders are likely to overpay in the event of a full takeover. (Akhigbe et al., 2007)

8. Within the sample of 13D filings, some of the acquirers are corporations that are potential fullacquirers, while other acquirers are institutional investors that are not likely to pursue a complete takeover . (Brigida and Madura, 2012)

2.4 Minority Acquisitions

Objective: Why do Corporations invest in others?

Topics: General Objectives | Definitions | Motivation | Minority Acquisitions | Toehold

1. 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)

2. Block ownership by corporations is unique relative to block ownership by institutions or individuals because of the possibility that business agreements, alliances, or joint ventures might be reached between target firms and corporate owners. (Allen and Phillips, 2000)

3. Blockholdings – First, block ownership might be useful in aligning the incentives of the firms involved in alliances or joint ventures (Allen and Phillips, 2000)

4. Minority acquisitions tend to involve the transfer of a sizable portion of the target firm, with a mean purchase of 12%. (Ouimet, 2013)

5. Allen and Phillips (2000) and Fee, Hadlock, andThomas (2006) show that minority acquisitions can mitigate incomplete contracts and thereby facilitate cooperation between two independent firms (Ouimet, 2013)

6. Acquire a minority position to access greater information about the target firm and better assess the potential for a majority acquisition. (Ouimet, 2013)

7. Our results suggest that bidders use minority acquisitions when they confront informational or integration barriers.(huang)

8. minority acquisition if less than 50% are acquired

9. target financing (overcoming asymmetric information and certifying the target for other ouside investors), real options (acquire minority acquisition to better assess the target for a potential majority acquisition), relationship-specific investment incentives (concerned with the holdup-problem, integrated ownership to remove threat of opportunistic renegotiation)

10. The underlying logic is that such deals could both help the bidder to enforce incomplete contracts and to gather more information before launching a bid for full control. (huang)

11. Minority acquisitions can also help to serve as a stepping-stone towards full control. (huang)

12. We show that minority stakes are also useful in mitigating some of the risks likely to affect takeover deals that involve greater information asymmetry (huang)

13. Toehold: purchasing an ownership interest in a target firm prior to initiating merger-and-acquisitions discussions - threshold of owned shares is debatable

14. 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)

15. A firm contemplating making a bid for the target may also decide to purchase target shares – a toehold – in the market at the pre-bid (no-information) target share price. (Betton et al., n.d.)

16. toeholds are much more common in hostile than in friendly takeovers. While 11% of initial bidders have toehold when the target is friendly, 50% of the initial bidders in hostile contests have toeholds (Betton et al., n.d.)

17. A toehold provides an opportunity to interact with the target and its management and in the process get a better sense of the possible synergies from a merger or takeover. (Povel and Sertsios, 2014)

18. The case for acquiring a toehold before initiating a takeover bid is compelling. The toehold not only reduces the number of shares that must be purchased at the full takeover premium, it may also be sold at an even greater premium should a rival bidder enter the contest and win the target. (Eckbo, 2009)

19. explore using the Capital IQ data, but it would be an interesting question for future research. We make some suggestions: A toehold often likely opens the door to a more intensive cooperation between the toeholder and the target, such that the toeholder learns

more about the target's operations and prospects than regular suppliers or customers could hope to discover (without a toehold). That may happen because the toeholder negotiates the right to nominate one or more directors, who have direct access to the target's executives (a non-toeholder would not have that option), or through cooperation at the level of operations (by sharing production facilities or distribution networks). (Povel and Sertsios, 2014)

20. Moreover, the sample-wide frequency of short-term toeholds—defined as target shares purchased within six months of the offer—is only 2%. In sum, toehold benefits notwithstanding, toeholds acquired as part of an active bidding strategy are almost nonexistent. (Betton et al., n.d.)