



## Investor Activism – The Icahn Effect

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### ABSTRACT

*Investor Activism is the way in which shareholders usually acquire or hold the securities and run campaigns against the Target company with a purpose or effect of changing or influencing control of the firm. Shareholders acting to monitor or even improve company performance in one form or another may prove an important factor in the effectiveness of corporate governance. Some argue that investor activism works in the best interests of common shareholders. By holding large amount of stocks, they influence the Boards to enhance the shareholder value. Others say that activism may be with selfish motives i.e. doing what is in activist best interests. In this backdrop, the current paper examines the influence of shareholder activism on stock price movements during the campaign period.*

**Keywords : Shareholder Activism, Activist Investor, Activist Campaign, Carl C. Ichan Author & Copyright Holder**

Investor Activism is the intervention by shareholders in the running of a company. It is the way in which shareholders usually acquire or holds the securities with a purpose or effect of changing or influencing control of the Target firm. Shareholders acting to monitor or even improve company performance in one form or another, may prove an important factor in the effectiveness of corporate governance.

Some argue that investor activism works in the best interests of common shareholders. By holding large amount of stocks, they influence the Boards to enhance the shareholder value. Others may say that activism may be with selfish motives i.e. doing what is in activist best interests. This is because, in general, Activist Investor is considered 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. This piling up of large amounts stock in short period of time, tend to give the Target firm's stock price an upward push making it to attractive to other investors. Individuals and firms start buying the stock in the hope of earning profits. This could push the stock price up and up thereby benefiting common shareholders. In addition, Activists' demands for strategic changes in the Target firm, also increases the shareholder value.

With this backdrop, the current paper examines some of the campaigns lead by American billionaire investor and prime activist shareholder, Carl C. Icahn, and tries to explain its effect on share price during the campaign period.

### Sample Campaigns

The study considered the activism campaigns lead by Carl Icahn in the recent past i.e. year 2010 to October 2011. The sample examines 5 campaigns, including 4 closed campaigns and 1 active campaign. The closed campaigns considered again include all the plausible variants of campaign result: Success, Settlement, Withdrawn, and Failed.

Following is the list of sample campaigns:

Target Company Name	Campaign Result	Launched Date	Closed Date	Stock Movements Interval
Mentor Graphics Corp. (NasdaqGS: MENT)	Success	May-27-2010	May-12-2011	Jan 10 - Oct 11

Dynegy Inc. (NYSE: DYN)	Settlement	Oct-12-2010	Dec-15-2010	Jun 10 - Mar 11
The Clorox Company (NYSE: CLX)	Withdrawn	11-02-2011	23-Sep-11	Dec 10 - Oct 11
Lions Gate Entertainment Corp. (NYSE: LGF)	Failed	Jul-20-2010	Dec-17-2010	Mar 10 - Mar 11
Chesapeake Energy Corporation (NYSE: CHK)	Active	Dec-17-2010	-	Sep 10 - Oct 11

### Campaign Wise Analysis

1. Mentor Graphics Corp. (NasdaqGS: MENT)

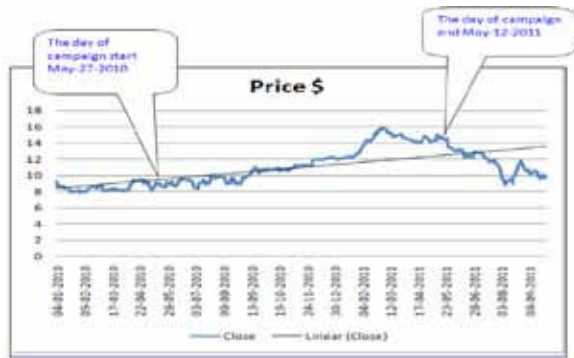
Campaign Result	Launched Date	Closed Date
Success	May-27-2010	May-12-2011

Profile: Mentor Graphics Corporation is in Electronic Design Automation (EDA) Tools business, having annual sales of about \$800 Million. It is headquartered in the USA and is listed in NASDAQ (MENT). Mentor Graphics has been present in India since 1997. At the beginning, there was only an R&D office in Hyderabad. Today, Mentor Graphics has offices in Noida, Bangalore and Hyderabad. In addition, Noida and Hyderabad house 2 R&D centers.

### Campaign Snapshot:

On May 27, 2010, Icahn disclosed 6.86% "active" ownership in Mentor Graphics in a regulatory filing to Securities Exchange Commission of U.S. Further, he nominated 3 persons for election as directors to the Company. Later, Icahn came up with a conditional proposal to acquire all of the outstanding shares of the Company other than those it already owns in cash. Mentor rejected the offer saying it was an undervalued offer. Icahn has made several other attempts like offering conditional loans etc but the Company keep on rejecting them. Subsequently, Icahn started proxy fight to elect his directors to the Board of Mentor Graphics and in May 2011 announced that his 3 nominees were elected to the Board in the Annual Meeting.

Price Movements (including few months before and after, and during the Campaign period)



Interpretation: As aforementioned, we could see the effect of activism on the stock price clearly. The trend line shows an inclining trend in stock price during the activist campaign. Moreover the stock price has seen an upward push during the campaign closing period i.e. the proxy fight days: Dec 2010 to May 2011. After Icahn won his slate of directors to the Board of Mentor Graphics, we could see that stock price experienced a declining trend. This is usually because of disposing active stake after the campaign by activists.

**2. Dynegy Inc. (NYSE:DYN)**

Campaign Result	Launched Date	Closed Date
Settlement	Oct-12-2010	Dec-15-2010

Profile: Dynegy provides wholesale power, capacity and ancillary services to utilities, cooperatives, municipalities and other energy companies in 6 states in its key U.S. regions of the Midwest, the Northeast and the West Coast. The Company's power generation portfolio consists of approximately 11,600 megawatts of baseload, intermediate and peaking power plants fueled by a mix of coal, fuel oil, and natural gas.

**Campaign Snapshot:**

On Oct 22, 2010, Icahn disclosed 9.95% "active" ownership in Dynegy Inc in a regulatory filing and seeks to have conversations with representatives of the Company to discuss the Company and the recently announced agreement to merge with an affiliate of The Blackstone Group. Icahn said that he does not believe that the consideration agreed to in the proposed merger is adequate. Later, Dynegy announced that Board of Directors of the Company has approved an increased consideration, under certain circumstances, related to the merger, as well as recommended stockholders of the Company to vote FOR the amended merger agreement. In reaction, Icahn announced that he will vote against the Company's proposed merger. Subsequently Dynegy entered into an agreement and plan of merger with the Icahn Enterprises L.P., a firm owned by Icahn putting a full stop to the campaign.

**Price Movements (including few months before and after, and during the Campaign period)**



Interpretation: We could see that stock price experienced a downward trend till August 2011. In August, Blackstone Group agreed to acquire the Dynegy for \$544 million, as well as

agreed to sell 4 of Dynegy's natural gas-powered generating plants to NRG Energy for about \$1.4 billion to repay some of its debt and provide additional liquidity to Dynegy after the merger. Shareholders saw the deal as sweetheart deal. We could see its affect on the stock price being stabilized. Again, when Icahn announced his views on the deal, stock price declined. The plausible reason for this would be stockholders sensing a campaign from Icahn hindering the deal. Further, when the Board approved the increased consideration, the stock price observed an upward trend and continued.

**3. The Clorox Company (NYSE:CLX)**

Campaign Result	Launched Date	Closed Date
Withdrawn	11-Feb-2011	23-Sep-11

Profile: The Clorox Company is a manufacturer and marketer of consumer products. Its primary brand names include namesake bleach and cleaning products, Green Works natural cleaners, Armor All and STP auto-care products, Fresh Step and Scoop Away cat litter, Kingsford charcoal, Hidden Valley and K C Masterpiece dressings and sauces, Brita water-filtration systems, Glad bags, wraps and containers, and Burt's Bees natural personal care products. The Company manufactures products in approximately two dozen countries and markets them in more than 100 countries. Clorox was founded in 1980 and is based in U.S.

**Campaign Snapshot:**

On Feb 11, 2011, Icahn disclosed 9.08% "active" ownership in The Clorox Company in a regulatory filing and in July 2011, Icahn made a proposal to acquire all of the issued and outstanding shares not owned by the Icahn for \$76.50 per share net in cash. In reaction, Board of the Company concluded that Icahn offer was neither credible nor adequate. Further Icahn keep on increasing the proposal to acquire, as well as nominated his own slate of directors, including him to be elected as directors to the Company's Board in the coming annual meeting of shareholders. Reacting to this the Company urged its shareholders to vote for the Board nominees. Subsequently, Icahn decided to withdraw his slate of directors after concluding that a considerable base of shareholders would not support its stated campaign at this time.

**Price Movements (including few months before and after, and during the Campaign period)**



Interpretation: The stock price trend line during the campaign period is almost linear. There wasn't any affect on the stock price with the entry of an activist shareholder and the offer to acquire. Seems the shareholders had a strong trust on the Board. Observing all these developments, Icahn withdraw his slate of directors stating that a considerable base of shareholders would not support its stated campaign at this time.

**4. Lions Gate Entertainment Corp. (NYSE:LGF)**

Campaign Result	Launched Date	Closed Date
Failed	Jul-20-2010	Dec-17-2010

Profile: Lionsgate is a global entertainment company with a diversified presence in motion picture production and distribution, television programming and syndication, home entertainment, family entertainment, digital distribution and new channel platforms. The Company has a television presence in production of prime time cable and broadcast network series, distribution and syndication of programming through Debmar-Mercury and an array of channel assets. Lionsgate has 15 shows on more than 10 networks spanning its prime time production, distribution and syndication businesses, including hits as "Mad Men", "Weeds" and "Nurse Jackie" along with the comedy "Blue Mountain State," the upcoming drama "Boss" and the syndication successes "Tyler Perry's House Of Payne", its spinoff "Meet The Browns," the upcoming "For Better or Worse," "The Wendy Williams Show" and "Are We There Yet?".

**Campaign Snapshot:**

On July 20, 2010, Carl C. Icahn announced that certain of his affiliated entities (the "Icahn Group"), which collectively hold approximately 37.9% of Lions Gate Entertainment Corp.'s outstanding common shares, have commenced a tender offer for UP TO ALL of the outstanding common shares of Lions Gate. The purchase price in the Offer is USD \$6.50 per share in cash. Among other customary conditions, the Offer is conditioned on Lions Gate not entering into any material transaction outside of the ordinary course of business (including any acquisition of assets over \$100 million and any issuance of securities other than upon the exercise of currently outstanding options) and all rights issued or issuable under the poison pill adopted by Lions Gate's board of directors on July 1, 2010 being cease-traded or otherwise eliminated. Further, Icahn Group announced it intends to seek to replace all or the lion's share of Lions Gate's board of directors with the Icahn Group's nominees. In December, 2010, Icahn Group announced that the offer by Icahn entities has expired. Subsequently, Lions Gate Entertainment Corp. announced that the shareholders voted to elect all of the Company's director nominees.

Price Movements (including few months before and after, and during the Campaign period)



Interpretation: We can see the appreciation in stock price from the day Icahn commenced a tender offer to till the end of the campaign. When Icahn's offer had expired and shareholders voted to elect all of the Company's director nominees, stock price experienced a dip and a downtrend was started.

**5. Chesapeake Energy Corporation (NYSE:CHK)**

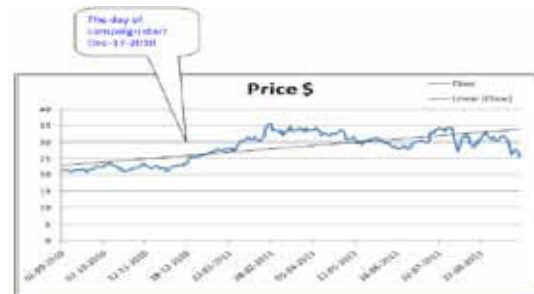
Campaign Result	Launched Date	Closed Date
Active	Dec-17-2010	-

Profile: Chesapeake Energy is the active producer of natural gas, and oil and natural gas liquids. It is also active driller of new wells in the U.S. Headquartered in Oklahoma City, the company's operations are focused on discovering and developing unconventional natural gas and oil fields onshore in the U.S. Chesapeake owns positions in the Barnett, Haynesville, Bossier, Marcellus and Pearsall natural gas shale plays and in the Granite Wash, Cleveland, Tonkawa, Mississippian, Bone Spring, Avalon, Wolfcamp, Wolfberry, Eagle Ford, Niobrara, Bakken/Three Forks and Utica unconventional liquids plays. The company has also vertically integrated its operations and owns midstream, compression, drilling, and oilfield service assets.

**Campaign Snapshot:**

On December 17, 2010, Icahn announced an "active" stake in Chesapeake Energy saying that the shares were acquired in the belief that they were undervalued. In addition, he stated that he intends to seek to continue to have conversations with the Company's management to discuss the business and operations of the Company and the maximization of shareholder value.

Price Movements (including few months before and after, and during the Campaign period)



Interpretation: The stock price chart clearly shows the affect of activist shareholder's investment. Chesapeake's stock witnessed an upward tick and continued. Though September, we can see the upward trending line.

**Conclusion**

Both the campaigns on Mentor Graphics Corp. (success) and Dynegy Inc (settlement) clearly show us that their stock prices observed an uptrend during the campaign periods. On the other hand, the campaign on The Clorox Company (withdrawn) has not shown any significant influence on the stock price. The plausible reason for this seems to be the objectives of the activist are not perceived to be in the interests of common shareholders. Icahn withdrew his campaign stating that a considerable base of shareholders would not support its stated campaign at this time. Further, the campaign on Lions Gate, though failed, witnessed a sharp increase in share price during the campaign period. In the same lines, the stock price of Chesapeake Energy also witnessed a sharp increase, as well as an uptrend during activist's investment even though no actual campaign was kicked off by the activist.

Investor activism can have a positive influence on the stock price value if run in the best interests of common shareholders. Piling up of large amounts stock in short period of time by Activists' tend to give the Target firm's stock price an upward push making it to attractive to other investors. Individuals and firms start buying the stock in the hope of earning profits. This could push the stock price up and up thereby benefiting common shareholders. On the other hand, Activists may also unload the large amounts of stock in a month if they do not consider it as strategic making the stock price to experience to dip. So investors should keep this in mind when they want to copy an activist's buying or selling.

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