

Activist hedge funds

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- Small segment of HF sector.
- Take minority stakes in listed companies (below disclosure levels)
- Two types of activity
 - Strategic re-orientation of companies (divestments etc)
 - Enhance value creation
 - Raise share price
 - Generate cash (for shareholders)
 - Value transfer
 - Share buybacks
 - Special dividends

- Target under-valued but sound firms with good cash-flow but perceived governance problems/under-performing management
- Build up significant minority stake
- Pressure on management by
 - Private meetings
 - Public campaigns in media
 - Target other shareholders
 - Alliances with other HFs

Story 1: Cadbury-Schweppes: the beginning

- UK-based confectionery and drinks MNC. Around 70,000 employees worldwide
- Quaker tradition. Progressive, paternalist employer
- Good industrial relations tradition: unions present, works committees
- Increasingly becoming owned by US investors. Dual-listed in London and New York.

- Trian Fund Management (run by Nelson Peltz) buys 3% in mid-2000s. Interests in food and confectionery
- Views profit margins as too low, and as 2 separate businesses.
- Intense pressure on management @2005/6 to demerge and sell drinks business. Supported by other HF and Qatari SWF.

- Plan to reduce workforce by 7500 and close 15% of factories by 2011 eg Keynsham in UK and transfer production to Poland
- European drinks sold to Lion Capital and Blackstone (PE)
- US drinks sold to PepperSnapple
- Australian drinks to Asahi
- Restructures European management + new board members and senior managers

Little consultation with TU reps.

Difficult to clearly link Cadbury response to HF intervention.

- Cadbury now a 'sitting duck' for takeover by larger food companies
 - US MNC Kraft tables a bid in 2009
 - Shift of shares from US institutions to Hedge Funds. Own 31% by January 2010
 - Trian has shares in both Kraft and Cadbury
 - Takeover occurs in 2010 at 50% premium
- British unions opposed the sale. Little consultation.

- Kraft claimed would keep Keynsham plant open during takeover BUT confirmed closure after the takeover.
- UK unions expect big job cuts across the company
- Big political impact. Proud UK company falls to rapacious US MNC, and finished off by short-termist Hedge Funds. Discussions and formal consultation over revisions to UK takeover laws
 - New public interest provision?
 - Weighted voting to long-term investors?

- Photofinisher (analogue and digital)
- >4000 employees in mid-2000s
- Mainly owned by Foundation and Holding Company (with substantial family ownership)
- Enter the Hedge Funds
 - Lincoln Vale Partners (@10%)
 - Guy Wyser-Pratte (@6%)Then Mar Cap Capital (10%) and K Capital (4.5%) in 2005

- After 2006 HF lose patience with company management
 - Mis-management
 - Ignore shareholders
 - Want a special dividend of Euro 5
- Public campaign in the media
- Early 2007 HFs sue management and chair of supervisory board for collusion over share price movements (to force out HF). Unsuccessful
- Sought extraordinary shareholders meeting. Unsuccessful but focus on 2007 ordinary meeting to replace board members with HF sympathisers

- Company gets support of family and main bank.
- Alliance between workforce, works councils and unions.
- Media battle and public demonstration.
- Board has 87% of shareholders present. 51% mobilised for management (and workforce). 12 hour meeting. 59% express confidence in Cewe Color management
- K Capital and MarCap exit with large losses

- Hedge Funds almost always bad news for labour (because of focus on value transfer).
- Unions and worker reps seek alliances with management?
- Institutional supports for worker participation and representation important.
- Need for cross-border union alliances.
- Unions need to monitor shareholder activity more closely.