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No Long-Term Value From Activist Attacks

An important new study by Ed deHaan, David Larcker and Charles McClure, [*Long-Term Economic Consequences of Hedge Fund Activist Interventions*](#), has found that on a value weighted basis, long-term returns are “insignificantly different from zero.” And, nearly all of the positive long-term returns are concentrated in companies that are acquired in the two-year period following the activist attack. Also, the authors found that there is no evidence that activist attacks result in long-term improvements in accounting performance measures including, return on equity, return on net operating assets, profit margin, asset turnover, and spread over borrowing costs. They concluded, “In sum, across a large battery of appropriately-matched tests, we fail to find consistent evidence that activists drive changes in accounting-based operating performance.”

The following are the overall conclusions of the study:

Given that we find no evidence of improved operating performance, a final set of descriptive analyses investigate which (if any) of the traditional explanations for activist interventions *do* produce long-term positive stock returns. The 1,455 firms included in our operating performance tests experience insignificant [value weighted] mean two-year returns of -2.3%. Descriptive evidence based on ex-post outcomes finds that firms with asset sales, a CEO change, or board turnover tend to have neutral to negative abnormal long-term returns, while firms with high future payout tend to experience neutral to positive changes in shareholder value. Overall, we find little evidence that commonly discussed strategy and governance motivations for activist interventions have consistent associations with improvements in shareholder wealth.

This study basically refutes the “empirical evidence” cited by some academics as support for their approval and encouragement of attacks by activist hedge funds. In addition, it provides support for approval and implementation of defenses against such attacks.

Martin Lipton

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