

The Perfect Shareholder Base

Prof. Philip Joos

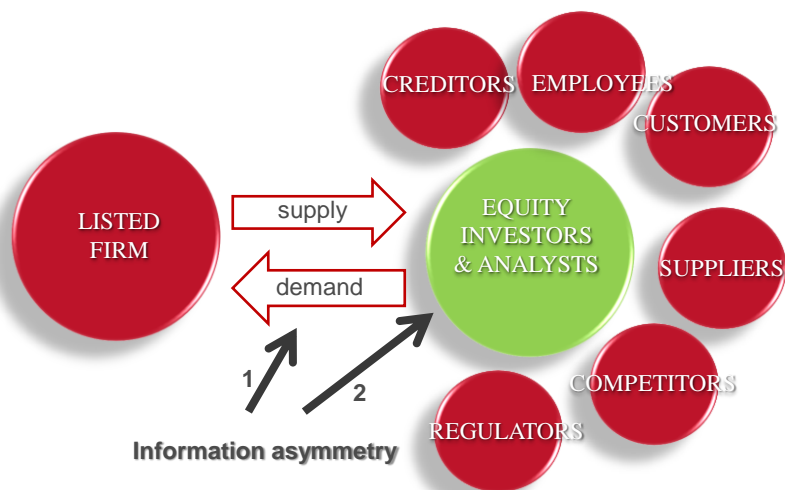
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PAN-EUROPEAN IR CONFERENCE
BRUSSELS



NEVER STOP ASKING

IR conference – the information game



Shareholder base and information asymmetry

Robert Merton **investor recognition hypothesis** [incomplete information]
 number of investors who are *familiar* with a firm **UP**

liquidity **UP** & expected return **DOWN**

value of the firm **UP**

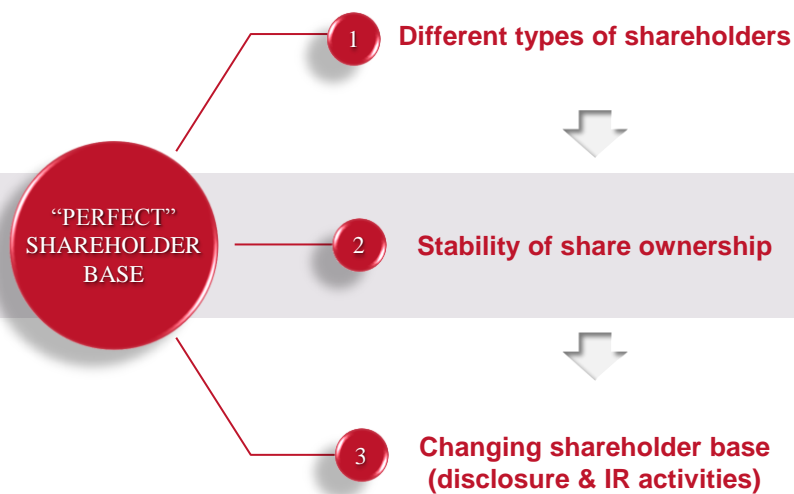
Key economic consequences of greater information asymmetry

- higher stock price volatility
- increased cost of capital (due to higher perceived risk)
- more noisy signal of underlying firm value
- more difficult to use stock based compensation
- higher litigation risk
- worse corporate governance (monitoring)

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Three Topics



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1. Shareholder base – investor types

- Family owners (founders) – alignment vs. expropriation
- Institutional investors

Differences along several dimensions: investment style, sophistication, investment horizon, degree of activism, foreign vs domestic

- Pension funds
- Mutual funds
- Hedge funds
- Corporates
- Retail investors
 - Average retail investor underperforms due to behavioral biases (eg: self confidence)
 - Least informed trading behavior

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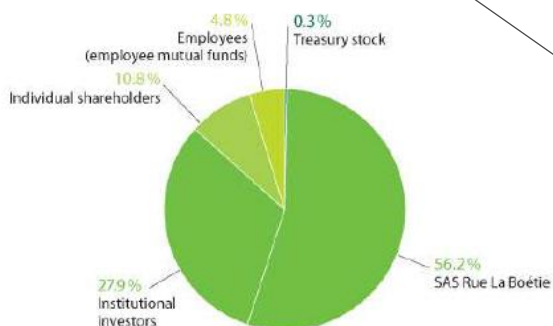
2. Stability of ownership

Share ownership

Crédit Agricole S.A.'s ownership structure enables it to approach development with a view to long-term value creation.

Together, the Regional Banks have long-term control over most of Crédit Agricole S.A.'s capital via SAS Rue la Boétie. This stable ownership structure enables Crédit Agricole S.A. to pursue a long-term policy of sustainable, profitable growth.

Crédit Agricole S.A. ownership structure (at 31 December 2011)



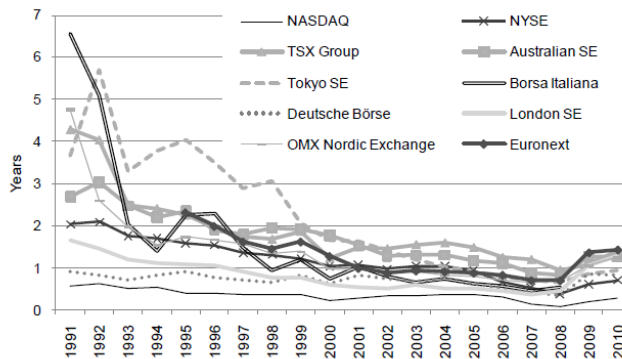
“Together, the Regional Banks have long-term control over most of Crédit Agricole S.A.’s capital via SAS Rue la Boétie. This stable ownership structure enables Crédit Agricole S.A. to pursue a long-term policy of sustainable, profitable growth.”

Last update: February 2012

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2. Stability of ownership

Figure 2. Average Holding Period - Selected Exchanges



Note: Average holding periods are calculated as market capitalisation (average between two end-of-year data) divided by the value share trading. Data for Borsa Italiana end in 2009 after its merger with London SE to form the London Stock Exchange Group; for 2010, London SE data are consolidated into London SE Group after merger with Borsa Italiana in 2010.

Source: OECD, World Federation of Exchanges (2010a,b).

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2. Stability of ownership

- Stable ownership: why does duration matter?
 - **PRO**: allow management to focus on LT value (no myopia)
 - **PRO**: investor benefits from monitoring the firm
 - **CON**: extract private control benefits at the expense of transient investors
 - **CON**: lax monitoring (inactive)
 - **CON**: lack of short-term investors limit influence of governance by trading (e.g. put pressure on management by selling stock)

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2. Stability of ownership

- Academic evidence

- Europe: Lardon, Beuselinck & Deloof (May 2013) “stable ownership during financial crisis” 29 EU countries / 2005-10

- Stable block ownership

- leads to higher returns during crisis, but not before or after crisis
3.5% return increase per 6 months longer ownership (avg is 9 months)
 - Works for both stable family & institutional ownership
 - stable *institutional* blockholder larger effect in countries with low minority investor protection
 - Firms with less stable ownership experience larger selling pressure (prices drop below fundamental value)

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2. Stability of ownership

- Empirical evidence

- US: Chakrabarty, Moulton & Trzcinka (Apr 2013) “Institutional holding periods”
 - Look at 4000 institutionals in period 1999-2009
 - 96% of institutional funds engage in round-trip trades lasting less than 1 month
 - 7% of trade volume from round-trip trades lasting < 1 month
 - 23% of trade volume from round-trip trades lasting < 3 months
 - Shorter holding periods during periods with greater volatility

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How communication can change shareholder base

- IR consulting firms: attracting certain type of investors (often targeting institutional investors with long investment horizons)
- How to attract institutional shareholders?
 - Different form of disclosures: disclosures related to stock volatility
 - French firms start communicating with English disclosures
 - Voluntarily adopting more stringent disclosure rules
 - Mandatory adoption of IFRS – role of foreign shareholders
 - Corporate social responsibility reports (CSR)
 - Direct access to management / IR program

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How communication can change shareholder base

ACADEMIC EVIDENCE

- Bushee & Noe (2000)
 - Increased voluntary disclosures (US sample 1982-96)
 - Lower price impact of trades (due to lower info asymmetry)
 - Affects profit making opportunities (lowers private info?)
 - Public data screens for active corporate governance mechanisms
 - Improved voluntary disclosures attract aggressively trading institutional investors and increase stock price volatility
- Bushee & Miller 2012
 - IR strategy: Increased disclosure vs. direct access to management
 - *Small-mid cap firms [low visibility]* hiring IR consultants experience:
 - More institutional investors (able to avoid undesirable transient investors)
 - More analyst coverage, media coverage, improve market valuation

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References

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