

Internet Appendix for *Activism and Empire Building*

Supplemental and Robustness Results:

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Figure IA.1. Hedge fund activism

This figure plots the number of firms targeted by hedge fund activists (left axis) and the frequency of activist targeting among Compustat firms (right axis) over 1995-2011. The sample includes all activist targets that remain independent public companies for at least three years after activism. The activism data are from SEC Schedule 13D and FactSet's SharkRepellent.net.

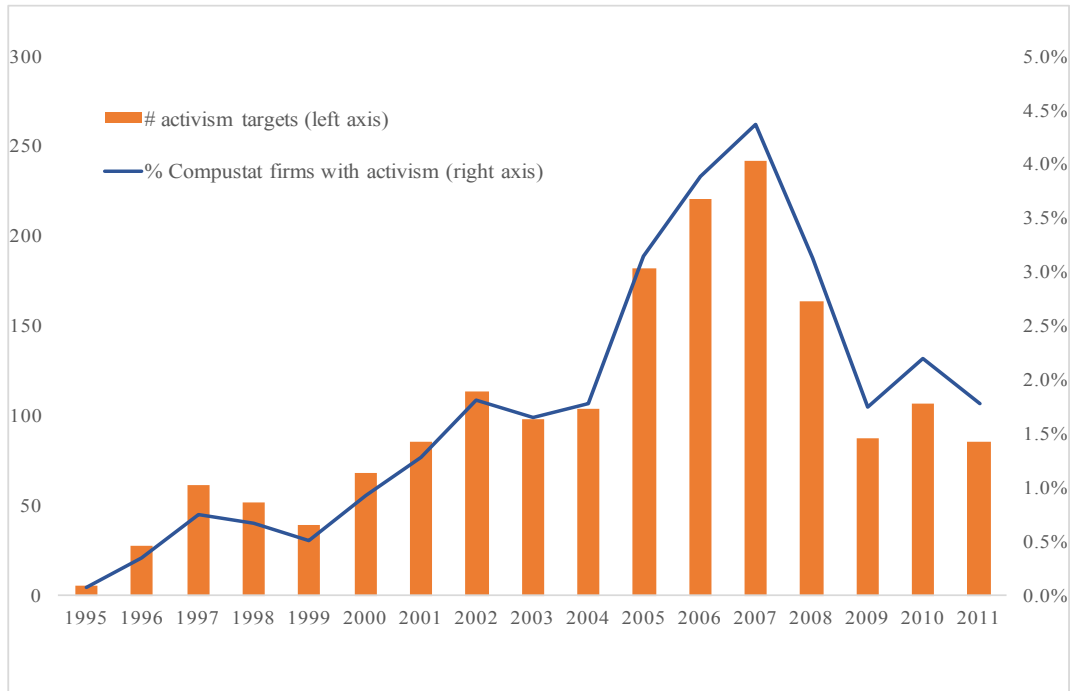


Table IA.1. Firm characteristics of activist targets and non-targets – Matched sample

This table reports firm characteristics of activist targets and non-targets over the sample period from 1995 to 2011. In Panel A, activist targets are matched to non-targets based on industry (Fama-French 48), year, and deciles of market capitalization and Tobin's Q . In Panel B, the matching is performed in the sample of firms with at least one M&A transaction in the past five years. N denotes the number of firms with available data to calculate the reported firm characteristics. All variables are defined in the Appendix in the paper. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level for differences in means.

Panel A. Targets and non-targets matched on year, industry, and deciles of Tobin's Q and firm size				
	(1)	(2)	(3)	(4)
	Activist non-targets (N = 21912)	Activist targets (N = 1197)	Difference in means	
			Difference	t-stat
Firm size	5.226	5.274	-0.048	-0.86
Tobin's Q	0.330	0.320	0.011	0.69
% Inst. own.	0.511	0.518	-0.007	-0.83
Stock return volatility	8.935	8.961	-0.027	-0.16
Illiquidity	0.089	0.084	0.004	1.37
ROA	0.073	0.077	-0.004	-0.67
Book leverage	0.204	0.198	0.007	1.12
Dividend yield	0.011	0.010	0.001	0.50
R&D expenditure	0.048	0.052	-0.003	-0.93
Stock Return	0.072	0.052	0.020	0.44
Sales growth	0.137	0.130	0.007	0.67
Price-to-earnings	13.387	11.607	1.780	0.91
Cash deviation	-0.015	-0.013	-0.003	-0.45

Panel B. Targets and non-targets matched on year, industry, deciles of Tobin's Q and firm size, and prior M&A				
	(1)	(2)	(3)	(4)
	Activist non-targets (N = 1067)	Activist targets (N = 241)	Difference in means	
			Difference	t-stat
Firm size	7.132	7.031	0.100	0.88
Tobin's Q	0.448	0.414	0.034	1.10
% Inst. own.	0.762	0.775	-0.013	-0.78
Stock return volatility	7.086	7.416	-0.330	-0.97
Illiquidity	0.010	0.014	-0.004	-1.49
ROA	0.128	0.135	-0.007	-0.73
Book leverage	0.290	0.298	-0.008	-0.43
Dividend yield	0.007	0.007	0.000	0.13
R&D expenditure	0.037	0.033	0.004	0.87
Stock Return	-0.025	-0.050	0.025	0.47
Sales growth	0.192	0.212	-0.019	-0.68
Price-to-earnings	19.609	18.347	1.261	0.26
Cash deviation	-0.084	-0.069	-0.015	-1.17

Table IA.2. Probability of making an acquisition bid – Active vs. passive ownership

This table reports OLS regressions of the probability of making an acquisition bid. The dependent variables are indicators for making an acquisition bid (or a cash/stock bid) in the next three or five years relative to year t . The sample includes firms held between 1995 and 2011 by at least one activist hedge fund that files a 13F ownership report. *HF Active Stake* is an indicator set to one if the hedge fund has activist intentions (reported in a Schedule 13D in year t), and zero otherwise. All other variables are defined in the Appendix in the paper and are as of year $t-1$. All regressions include industry, year, and hedge fund fixed effects. Standard errors are clustered by hedge fund. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Bid	Bid	Cash bid	Cash bid	Stock bid	Stock bid
	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]
HF active stake	-0.0417** (-2.45)	-0.0405** (-2.06)	-0.0386*** (-3.61)	-0.0341*** (-2.68)	-0.0190*** (-2.92)	-0.0226*** (-2.99)
% Inst. own.	0.1031*** (21.12)	0.1135*** (18.02)	0.0762*** (19.21)	0.0980*** (19.63)	0.0247*** (8.50)	0.0191*** (5.37)
Stock return volatility	-0.0048*** (-17.83)	-0.0058*** (-17.51)	-0.0039*** (-21.92)	-0.0044*** (-21.00)	0.0001 (1.06)	-0.0000 (-0.10)
Illiquidity	-0.3137*** (-10.72)	-0.4140*** (-12.25)	-0.1148*** (-6.20)	-0.1606*** (-6.75)	-0.0504*** (-4.17)	-0.0762*** (-5.06)
Tobin's Q	-0.0518*** (-16.23)	-0.0527*** (-14.33)	-0.0355*** (-15.03)	-0.0364*** (-13.40)	-0.0081*** (-6.24)	-0.0117*** (-8.07)
Firm size	0.0263*** (19.49)	0.0302*** (19.64)	0.0129*** (14.42)	0.0157*** (14.83)	0.0062*** (13.95)	0.0080*** (14.45)
ROA	0.0706*** (9.54)	0.0761*** (8.54)	0.0567*** (9.81)	0.0699*** (10.44)	-0.0070** (-2.14)	-0.0135*** (-3.31)
Book leverage	0.0293*** (4.42)	0.0314*** (3.99)	0.0067 (1.47)	0.0014 (0.23)	0.0300*** (11.26)	0.0340*** (10.55)
Dividend yield	-0.1911*** (-12.48)	-0.2340*** (-13.10)	-0.1419*** (-11.65)	-0.1649*** (-12.30)	-0.0305*** (-4.91)	-0.0484*** (-6.22)
R&D expenditure	-0.0246** (-2.00)	-0.0054 (-0.34)	-0.0262*** (-2.82)	-0.0134 (-1.13)	-0.0134* (-1.95)	-0.0094 (-1.10)
Stock return	0.0122*** (9.29)	0.0106*** (8.72)	0.0059*** (9.15)	0.0051*** (8.00)	0.0059*** (7.18)	0.0058*** (7.06)
Sales growth	0.0424*** (13.59)	0.0529*** (15.11)	0.0100*** (4.58)	0.0128*** (5.38)	0.0238*** (13.05)	0.0235*** (12.01)
Price-to-earnings	0.0000 (0.08)	-0.0000 (-0.13)	-0.0000** (-2.36)	-0.0000 (-0.82)	-0.0000*** (-6.00)	-0.0000*** (-8.89)
Cash deviation	-0.0253*** (-4.21)	-0.0754*** (-11.34)	-0.0308*** (-7.15)	-0.0682*** (-15.03)	0.0225*** (7.37)	0.0220*** (5.78)
Herfindahl index	-0.3653*** (-7.18)	-0.2380*** (-3.91)	-0.1611*** (-4.81)	0.0049 (0.10)	-0.0521** (-2.25)	-0.0597** (-2.03)
Hedge Fund FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	382,374	382,374	382,374	382,374	382,374	382,374
Adjusted R2	0.0802	0.0930	0.0639	0.0768	0.0433	0.0483

Table IA.3. Probability of making an acquisition bid – Switch from 13G to 13D filing

This table reports OLS regressions of the probability of making an acquisition bid. The dependent variables are indicators for making an acquisition bid (or a cash/stock bid) in the next three or five years relative to year t . The sample includes all firms with Schedule 13G hedge fund filers between 1995 and 2011. The indicator variable *13G-to-13D switch* is set to one when the activist hedge fund initially files a Schedule 13G but switches to a Schedule 13D in year t , indicating a change from passive to activist engagement in the same firm. All other variables are defined in the Appendix in the paper and are as of year $t-1$. All regressions include industry, year, and hedge fund fixed effects. Standard errors are clustered by hedge fund. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Bid	Bid	Cash bid	Cash bid	Stock bid	Stock bid
	[$t, t+3$]	[$t, t+5$]	[$t, t+3$]	[$t, t+5$]	[$t, t+3$]	[$t, t+5$]
13G-to-13D switch	-0.0515** (-2.00)	-0.0481* (-1.74)	-0.0401*** (-3.74)	-0.0339** (-2.05)	-0.0200* (-1.94)	-0.0161 (-1.33)
% Inst. own.	0.0500* (1.97)	0.0829*** (2.65)	0.0402** (2.04)	0.0588** (2.09)	0.0196 (1.14)	0.0253 (1.05)
Stock return volatility	-0.0011 (-1.03)	-0.0015 (-1.04)	-0.0020** (-2.58)	-0.0033** (-2.55)	0.0002 (0.40)	0.0007 (0.98)
Illiquidity	0.2762*** (4.01)	0.3171*** (4.08)	0.1155** (2.16)	0.1528** (2.15)	-0.1645** (-2.56)	-0.1930** (-2.33)
Tobin's Q	-0.0217 (-1.59)	-0.0064 (-0.36)	-0.0201** (-2.38)	-0.0196* (-1.76)	-0.0072 (-1.34)	-0.0043 (-0.57)
Firm size	0.0751*** (10.53)	0.0806*** (9.85)	0.0270*** (7.39)	0.0318*** (6.00)	0.0049 (1.48)	0.0059 (1.25)
ROA	0.0029 (0.08)	-0.0184 (-0.38)	0.0093 (0.65)	-0.0328 (-1.28)	-0.0414* (-1.68)	-0.0566* (-1.97)
Book leverage	0.0487* (1.84)	0.0694** (2.08)	-0.0010 (-0.06)	-0.0073 (-0.35)	0.0532*** (3.45)	0.0601*** (2.72)
Dividend yield	-0.1234** (-2.43)	-0.1626*** (-2.64)	-0.0576** (-2.18)	-0.0738** (-2.06)	-0.0451* (-1.86)	-0.0576** (-2.22)
R&D expenditure	-0.1378 (-1.55)	-0.1787* (-1.69)	-0.0752 (-1.49)	-0.1033* (-1.66)	-0.0885** (-2.00)	-0.0919* (-1.77)
Stock return	0.0096*** (3.57)	0.0085** (2.16)	0.0030 (1.42)	0.0064* (1.82)	0.0082*** (3.03)	0.0078*** (2.99)
Sales growth	0.0315 (1.57)	0.0459** (2.30)	0.0193** (2.45)	0.0459*** (4.15)	0.0057 (0.40)	0.0002 (0.02)
Price-to-earnings	-0.0001 (-1.30)	-0.0001** (-1.99)	0.0000 (0.44)	0.0000 (0.55)	-0.0000 (-1.28)	-0.0001** (-2.54)
Cash deviation	0.0222 (0.75)	0.0180 (0.48)	-0.0043 (-0.16)	-0.0185 (-0.51)	0.0742*** (3.65)	0.0821*** (3.34)
Herfindahl index	-0.6832** (-2.32)	-0.4835 (-1.41)	-0.3023* (-1.83)	-0.1917 (-0.95)	-0.3767 (-1.53)	-0.3298 (-1.30)
Hedge Fund FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	71,066	71,066	71,066	71,066	71,066	71,066
Adjusted R2	0.184	0.212	0.0947	0.118	0.0788	0.102

Table IA.4. Probability of making an acquisition or divestiture - Propensity score matched sample

This table reports OLS regressions of the probability of making an acquisition or a divestiture. Activist targets are matched to non-targets using a logistic regression based on firm characteristics – firm size, Tobin’s Q , ROA, sales growth, dividend yield, book leverage, institutional ownership, stock return, and illiquidity. All variables are defined in the Appendix in the paper and are as of year $t-1$. The matched sample is also restricted to firms with at least one M&A transaction in the past five years. The dependent variables in columns (1)-(6) are indicators for making an acquisition bid (or a cash/stock bid) in the next three or five years relative to year t . The dependent variables in columns (7)-(8) are indicators for making a divestiture in the next one or three years relative to year t . *Activist* is an indicator for an activist campaign in year t . All regressions include industry and year fixed effects. Standard errors are clustered by firm. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Bid	Bid	Cash bid	Cash bid	Stock bid	Stock bid	Divestiture	Divestiture
	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+1]	[t, t+3]
Activist	-0.1705*** (-3.39)	-0.1718*** (-3.28)	-0.1050*** (-2.68)	-0.1040** (-2.55)	-0.0445* (-1.96)	-0.0435* (-1.79)	0.1260** (2.17)	0.1183* (1.78)
% Inst. own.	-0.2844 (-1.52)	-0.3233* (-1.76)	-0.2070 (-1.40)	-0.1122 (-0.80)	-0.1180 (-1.13)	-0.0749 (-0.68)	-0.2337 (-1.13)	-0.1489 (-0.65)
Stock return volatility	-0.0121 (-1.15)	-0.0108 (-0.96)	-0.0091 (-1.30)	-0.0116* (-1.78)	0.0034 (0.50)	0.0020 (0.29)	-0.0014 (-0.15)	-0.0064 (-0.63)
Illiquidity	-0.6764 (-0.60)	-0.4365 (-0.35)	-1.1505 (-1.30)	-0.2173 (-0.27)	-0.0649 (-0.18)	0.1974 (0.47)	-0.0216 (-0.01)	-1.3876 (-0.82)
Tobin's Q	0.0149 (0.12)	0.1530 (1.15)	0.0217 (0.23)	0.1212 (1.16)	-0.0430 (-0.91)	-0.0309 (-0.60)	-0.1270 (-1.11)	-0.1698 (-1.34)
Firm size	-0.0117 (-0.33)	0.0348 (0.86)	-0.0160 (-0.57)	0.0013 (0.05)	0.0063 (0.59)	0.0075 (0.63)	0.0997* (1.95)	0.0500 (0.94)
ROA	0.2994 (0.86)	0.0838 (0.22)	0.3380 (1.51)	0.0026 (0.01)	-0.0267 (-0.16)	-0.0385 (-0.22)	-0.1670 (-0.53)	-0.7721** (-2.14)
Book leverage	-0.1249 (-0.87)	0.0623 (0.37)	-0.1232 (-1.08)	-0.0736 (-0.55)	0.0055 (0.10)	-0.0302 (-0.50)	0.2846 (1.35)	0.1403 (0.61)
Dividend yield	-1.0013 (-1.10)	-0.2371 (-0.29)	-0.5271 (-0.72)	0.1955 (0.28)	-0.2190 (-1.04)	-0.2619 (-1.19)	0.9518 (0.88)	-0.1391 (-0.12)
R&D expenditure	-1.6524*** (-2.73)	-1.6567** (-2.26)	-0.9544** (-2.07)	-0.9327 (-1.57)	-0.4935* (-1.87)	-0.3961 (-1.32)	0.1228 (0.18)	-0.3074 (-0.39)
Stock Return	-0.0042 (-0.12)	0.0211 (0.58)	-0.0392 (-1.32)	-0.0405 (-1.29)	0.0012 (0.11)	0.0093 (0.72)	0.0186 (0.52)	0.0287 (0.65)
Sales growth	-0.0588	-0.0012	-0.0300	0.0881	0.0028	-0.0459	0.1383	0.1306

	(-0.58)	(-0.01)	(-0.44)	(1.17)	(0.04)	(-0.65)	(1.08)	(0.92)
Price-to-earnings	-0.0004	-0.0002	0.0002	0.0004	-0.0002	-0.0000	-0.0013**	-0.0010
	(-0.77)	(-0.28)	(0.43)	(0.89)	(-1.16)	(-0.28)	(-2.32)	(-1.62)
Cash deviation	0.7418***	0.3496	0.4489**	0.1395	0.1489*	0.2314**	-0.2912	-0.4939
	(2.98)	(1.34)	(2.11)	(0.59)	(1.74)	(2.24)	(-0.86)	(-1.24)
Herfindahl index	-4.8412*	-6.4670***	-3.9491**	-3.9955**	0.7596	0.8478	-0.2211	-2.2746
	(-1.88)	(-2.75)	(-2.09)	(-2.46)	(1.23)	(1.27)	(-0.08)	(-0.78)
Constant	1.1574**	1.0336**	0.4875	0.5526*	0.1049	0.0447	0.8617*	1.4932***
	(2.49)	(2.25)	(1.60)	(1.75)	(0.56)	(0.22)	(1.75)	(2.64)
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	876	876	876	876	876	876	876	876
Adjusted R2	0.0703	0.0729	0.0882	0.1320	0.0363	0.0282	0.2110	0.2050