



# SPECIAL SITUATIONS *with* PENSERRA

## The Value of a Vote

We are starting to see a trend back to multi-class structures as companies want to retain control but have the flexibility to issue stock and not dilute ownership. How do they do this? Issue non-voting shares of course. As more and more companies begin to offer non-voting shares it is time to understand the true value of the vote.

Most stocks typically offer 1 vote per share owned. That is not the case for 500+ global multiclass companies that have separate voting and nonvoting lines. Essentially the value of the vote should be the current spread between the vote and non-vote shares, but there are a handful of variables such as market liquidity, company buybacks and index changes that can distort this valuation at times. Historically this premium averages about 2% but this does not explain the whole story. We see votes trade as high as 100% over the non-vote (company looking for control as cheaply as possible) to inverted situations where the vote trades at a discount to non-voting shares. Regardless to the vote- both classes are fundamentally the same.

- Generally both classes have the same economic rights to all company profits
- Dividends are typically identical for both classes of stock
- In the event of a take over- most structures require the same take out price
- Only material difference is the vote

### Index Representation

- As of 2015, the S&P 500 recognized multi-class securities and added both lines to the index (liquidity permitting)
- Most indexes now recognize both classes of stock

In some cases the vote is absolutely **worthless** but still demands a premium. GOOGLE is a classic example of this situation. They currently have 3 classes of stock.

*Class A (GOOGL) – controls 1 vote per share*

*Class B (not traded) – controls 10 votes per share*

*Class C (GOOG) – controls 0 votes per share*

If you want to have any say you must own either class A or B. Given class B does not trade you are stuck with buying class A. So, for mere \$18.20 (GOOGL \$971.85 – GOOG \$953.65) you can control a vote.

## The Value of a Vote

Market Capitalization							
Ticker	Security Description	↑ Par Value	Shares Out	Price	Voting Rgt	Market Cap of Class	
11) GOOGL	US Class A	0.0010	297,628,801	971.85	1.0000	289,251,532,427	
12) 1315587D	US Class B	0.0010	47,152,602	962.75	10.0000	45,396,332,025	
13) GOOG	US Class C	0.0010	346,967,110	953.65	0.0000	330,885,184,452	

Source: Bloomberg

Similar structures but **drastically** different valuations. These fluctuations are the result of typically short-term liquidity events occurring in the market. In the case of FOX, the event is a prolonged buyback program where they only can buy back the non-vote shares.

To quantify the true value of the vote in a logical manner is difficult given the market demands a premium for a worthless vote and pays you a 2% discount to take the vote. Overtime there is a mean reversion that occurs once the outside variables subside. The key is understanding the drivers and assessing if the market is pricing the impact correctly.

We continue to see multi-class structures arise as companies want to retain control but have the flexibility to issue stock and not dilute ownership. We have conducted an analysis of a subset of these securities which shows that over time you can add alpha to the position by owning a certain class of stock at a certain time.

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FOX US Equity						Enterprise Value	
Twenty-First Century Fox Inc						Currency USD	
Market Capitalization							
Ticker	Security Description	↑ Par Value	Shares Out	Price	Voting Rgt	Market Cap of Class	
11) FOXA	US Class A Common Stock	0.0100	1,052,334,514	27.18	0.0000	28,602,452,091	
12) FOX	US Class B Common Stock	0.0100	798,520,953	26.74	1.0000	21,352,450,283	

Source: Bloomberg

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