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Superior vs. Inferior Voting Shares: Price Premium or Discount?

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This paper analyzes the price difference between superior voting (SV) and inferior voting (IV) shares for three dual-class firms: Farmer Mac as a big price discount case, Fox as a price similarity case, and Heico as a big price premium case. We show that the price difference is mainly affected by the control benefit, while voting power and liquidity are also relevant factors. We suggest that the control benefit can be revealed by examining share accumulation and firm performance.

Keywords: superior voting (SV), inferior voting (IV), price premium, price discount, dual classes

Introduction

Most publicly traded companies in the U.S. have a single class of common stock, while others have dual or multiple classes. A typical dual-class firm issues two classes of common stock shares: the superior voting (SV) class, and the inferior voting (IV) or restricted voting (RV) class. The SV has full or concentrated votes, and the IV, diluted votes or no vote at all. About 6% of U.S. firms, 30% of British firms, and 10% of Canadian firms have a dual-class structure.[1] Among the initial public offerings (IPOs) on U.S. exchanges, more than 13.5% in 2015 have a dual-class structure, 12% in 2014, and 1% in 2005.[2] As H. DeAngelo and L. DeAngelo (1985) stated, the dual-class ownership is an intermediate organizational structure which fits somewhere between the polar cases of the dispersed-ownership public corporation and the closely held firm. According to Smart and Zutter (2003), acquisitions within five years of the IPO occur more frequently for single-class firms than for duals. Therefore, the dual-class structure arises primarily as control-protection or anti-takeover devices.

Usually, SV shares are not publicly listed or traded. For instance, when some social media firms (including Facebook, Zynga, and Groupon) went through a dual-share IPO during 2011-2012, their SV shares were held privately and their IV shares were traded publicly. Such a dual-class structure is described as a two-edged sword.[3] On the one hand, it may entrench management, leading to a negative effect on the company's value. On the other hand, it may allow management to ignore short-term market pressures and withstand takeover attacks in order to make risky investments for the long term.

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[1] See Smart and Zutter (2003), Loughran and Ritter (2004), Howell (2008), and Gompers, Ishii, and Metrick (2010) for the U.S. firms, Megginson (1990) for the British firms, and Amoako-Adu and Smith (2001) for the Canadian firms.

[2] See the article *The Big Number* by Kristin Lin in the *Wall Street Journal*, August 18, 2015.

[3] See the article *Dual-Class Shares, A Two-Edged Sword* by John Bussey in the *Wall Street Journal*, August 19, 2011.