Case Study: BMC Software

Key Takeaways

- In May 2012, Elliott nominated five highly qualified candidates to the Board of Directors of Houston-based BMC Software, believing that the current management and Board were not focused on maximizing shareholder value.
- Over the next 12 months, Elliott engaged in a pro-active effort to have BMC acquired by a strategic buyer or other third party.
- During this process, Elliott Management worked continuously with BMC's leadership constructively to redirect strategy to maximize shareholder value and protect stockholders' best interests, ultimately raising the company from its status-quo position.

The Facts

- On May 14, 2012, BMC Software, Inc. announced that Elliott Management acquired a beneficial ownership of 5.5 percent of its common stock and that it was planning to nominate a slate of five nominees at the company's 2012 annual stockholders meeting and that it has proposed the board convene a special committee to pursue a sale of the company. Shares in BMC rose 8.7 percent in response to the news, its biggest single-day gain since October 28, 2008. In a May 15, 2012 letter to BMC's board of directors, Elliott portfolio manager Jesse Cohn explained that, after six months of research into BMC's services, customers, and assets, Elliott believed BMC faced an increasingly difficult future if it were to remain a standalone public company, quoting its persistent stock underperformance and lack of scale in a changing marketplace. On May 16, Cohn sent a letter to BMC's board of directors, contending that the board had not been in stockholders' best interests and that Elliott fully intended to pursue its strategy to maximize value.
- After continued dialogue and letters between BMC and Elliott Management regarding director nominees for BMC's board, Elliott increased its ownership of BMC stock to 6.5% on May 25, 2012. A few days later, Elliott filed a 36-page shareholder presentation with the Securities and Exchange Commission outlining its vision for BMC. Elliott reiterated its belief that BMC's inherent value could be maximized through an acquisition. Cohn sent a letter to BMC stockholders criticizing the board's short-sighted corporate defense strategy with the goal of maintaining status quo and stressed that BMC was in critical need of new directors, therefore making the case for its slate of director nominees.
- 7/2/2012: BMC and Elliott reached a settlement agreement. Per the terms of the agreement, BMC increased the size of its board from ten to twelve and nominated two of Elliott's four nominees and Elliott agreed to a standstill provision. Elliott increased its ownership of BMC stock to 7.7% in August and then to 9.6% in January of 2013, making it BMC's largest shareholder. After continuous pro-active efforts, BMC announced that it would sell itself to a group of investors led by Bain Capital, Golden Gate Capital, the Government of Singapore Investment Corporation and Insight Venture Partners in a $6.9 billion transaction on May 6, 2013. The $6.9 billion acquisition worked out to $46.30 a share, which was about a 15 percent increase above share prices when Elliott disclosed its investment.
- In the press release announcing BMC's agreement, Jesse Cohn said, "Elliott applauds the BMC Software board and executive leadership for delivering this value-maximizing outcome for stockholders, which both contains a go-shop provision and reflects what we believe is a substantial premium to BMC's unaffected stock price." (Press Release, 5/6/13)

Crucial Metrics

- 5/6/2013: BMC announced it had to be acquired by a private equity group led by Bain Capital and Golden Gate Capital for more than $6.9 billion. The $6.9 billion acquisition worked out to $46.30 a share, which was about a 15% increase above share prices when Elliott disclosed its investment.