

## Avis Utilizes Poison Pill to Protect Against Creeping Control

By Nicole Danesh, J.D. Candidate 2019 | February 13, 2017

Avis, a unit of the [Avis Budget Group](#), recently adopted a poison pill over concerns about creeping control. On January 23, the car rental service instituted the poison pill to block hedge fund [SRS Investment](#) (“SRS”) from obtaining more than 10 percent voting power. SRS is Avis’s largest shareholder with a 28.5 percent interest in the company—a majority of which is composed of cash-settled derivatives and options. The hedge fund currently owns 9.7 percent of the common stock and recently chose not to renew a deal from last January that precluded it from adding to its current interest.

While Avis’s precise motives are unclear, the company is most likely acting out of fear that its stock buyback plans would give SRS too much control without requiring the hedge fund to pay a premium in exchange. SRS already holds a board seat and was granted the right to recommend an independent director last year. While there are no outward conflicts between Avis and SRS, the poison pill, combined with SRS’s refusal to extend its standstill agreement, is a clear indicator that the two are waging a battle for greater influence.

Avis could be exercising heightened caution because of what happened last year to its competitor, Hertz. Activist investor Carl Icahn upped his stake in Hertz to [14.3 percent](#) which allowed him to grow his influence—despite already being the largest shareholder. Perhaps Icahn’s ability to get seats on Hertz’s board while heavily influencing its management structure have put Avis on alert and led to the recent poison pill. Accordingly, Avis may be working to prevent a similar feat by SRS.

A possible alternative response, suggested by the [New York Times](#), would be for Avis to suspend buybacks and return extra cash with a one-time payout. While this may be a useful alternative solution, it does not guarantee that SRS will not acquire more shares in the public space and continue to increase its control. Nevertheless, it might be the first step in allowing Avis and SRS to cooperate better for the remainder of 2017.