Why All the Insider Selling at Home Capital Group Inc.?

Description

Insider selling in most companies is typically nothing to worry about. Executives and management of publicly traded companies often receive stock options as compensation and typically cash them out when the options vest.

The cases that are worrisome are those involving large amounts of stock, those where the stock sales seem to align with various capital structure decisions made by senior management, or, in extreme cases, where it appears management attempts to prop up the stock price to allow the insider stock sales to go through at higher prices.

At **Home Capital Group Inc.** (TSX:HCG), an interesting series of events have taken place over the past year that investors should be aware of. Screen captures of the stock sales and Dutch auction can be found below.

February 11, 2016: Home Capital Group announced at its Q4 2015 earnings call it would repurchase $150 million of common shares via a Dutch auction. The stock price traded as low as $25.36 on this day.

March 8, 2016: The Dutch auction commenced with a price range of $34-38.

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April 15, 2016: The Dutch auction is completed. The average price paid by Home Capital was $37.60.

May 26, 2016: CEO Martin Reid sold 30,000 shares at a closing price of $34.30 for total proceeds of $1,029,000, less commissions and fees.

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September 8-12, 2016: Corporate Director John Marsh sold 175,000 shares between $28.55 and $29.26 for total proceeds of $5,030,000, less commissions and fees.

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It appears that the CEO and one of the directors of Home Capital had excellent timing with their stock divestitures, as the price of Home Capital's shares have continued to decline, despite continued share buybacks after September 12. Additional rounds of share buybacks have been announced subsequent to these sales by Mr. Reid and Mr. Marsh, as soon as September 14, according to the company's share-buyback program.

I find this timeline very concerning for the following reasons.

Let's assume the former CEO and current director of Home Capital believed in the business and announced and completed the share repurchase in February/April 2016 because the shares of the company were undervalued and they wanted to return value to shareholders. Knowing that this would be the first of more share buybacks, it does not follow that these individuals would sell their stakes so soon after the first buyback was completed, as they would reasonably anticipate additional appreciation due to their belief in the solid fundamentals of the business as well as their knowledge of future share buybacks down the road.

While Mr. Reid's sale (41 days following the completion of the buyback, near the stock's 52-week peak) appears suspicious on these grounds, it can be said that Mr. Marsh's sale may be more suspicious for two reasons. First, the transaction took place at approximately the same stock price as before the buyback, potentially signalling he believed the shares were overvalued before the buyback.

Second, Mr. Marsh sold his $5 million worth of HCG shares only two days prior to voting on approving another buyback. These share repurchases should, in theory, have continued to bolster the company's stock price, meaning either they knew something we didn't, or they just happened to need the cash at just the right time.

Regardless, investors may not have to worry about as many large buybacks in the future due to the company's capital requirements and the need for management to keep extra cash on the books to cover the additional risk of the business' non-prime lending portfolio.

Stay Foolish, my friends.

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