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# ACTIVISM

MORE THAN A PASSING PHASE



## Key Takeaways

- Activism is a profound threat to all companies regardless of size, and the global investment community is quite certain it will only continue (and increase in the US primarily, but in Europe as well).
- While institutional investors believe all industries are fair game, most attention is focused on the Energy, Technology, Industrial and Consumer sectors.
- 71% of investors globally believe shareholder activism is a positive force in the equity markets (especially as it prompts management accountability).
- Activist campaigns that force management to shed non-core assets, increase shareholder returns, link pay to performance and eliminate poison pills and dual stock provisions garner the most investor support.
- It's safe to assume one of your shareholders has been contacted by an activist – 51% of North American investors have been contacted at least once (and on average three times).
- It's also reasonably safe to assume that an activist can persuade your shareholders – 43% of those contacted by activists say they were successfully recruited to support a campaign.
- You're a particular target of an activist if your company is chronically undervalued, missing targets and performing poorly on its financial metrics.
- While the investment community is split on the general preparedness of companies, two in five believe management teams are underestimating the threat activists currently pose.
- This notion is buoyed by the fact that a large majority of CEOs and CFOs (69%) admit they are not too concerned about shareholder activism.
- The complacency in the C-suite extends to the IR department, where nearly half of North American IROs are not too concerned either, and an equal amount believes their management and Board are only "somewhat" prepared for an activist.
- Surprisingly, formal policies guiding a company's response to an activist threat are not that common (and mostly limited to large-caps).
- Shareholder activism has cost companies millions, upended careers and shows no sign of abating anytime soon. There is no room for complacency.

## Action Steps

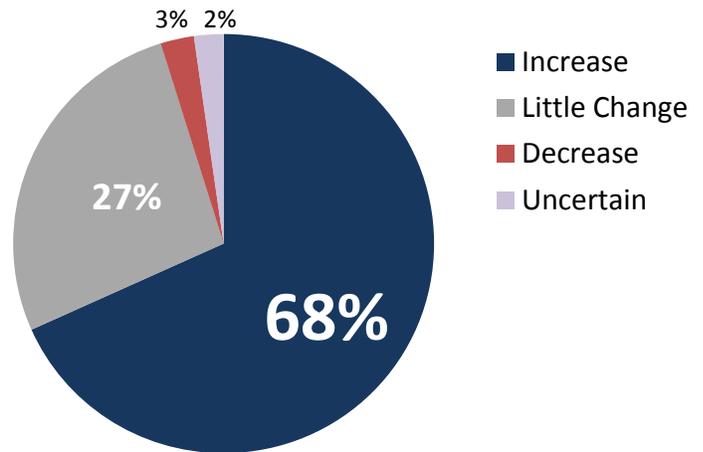
- IROs must be vigilant in knowing their investor base, recognize the signs that can trigger an activist campaign, and realize even top shareholders are in contact with and oftentimes influenced by activists.
- Educate management on the activist risk – their tactics, what drives their interest, the buy-side’s general receptivity.
- Engage rather than ignore activists and confront campaigns promptly – they know your weaknesses better than you think.
  - ✓ Monitor your shareholder base
  - ✓ Identify activists in your space
  - ✓ Keep management informed
  - ✓ Become point person for your company should an activist attack
- Review governance practices at your firm to pinpoint vulnerabilities in advance. Assess:
  - ✓ Board structure and independence
  - ✓ Amount of management oversight
  - ✓ Pay for performance alignment
- Be able to clearly and succinctly explain the benefits and management’s rationale for your capital deployment decisions and, especially, M&A plans.
- Lead the way in developing/keeping current a comprehensive activist plan or policy – a roadmap to follow should a campaign materialize. Ensure that:
  - ✓ Responsibilities are delineated in advance
  - ✓ A core group of outside advisors is lined up
  - ✓ Rules of engagement/SOP are established
  - ✓ Messaging guidelines are clear
- Reach out to IRO peers to learn from any past experiences that could be enlightening to you.
- Activist experts agree that unfettered and unbiased feedback from the investment community is paramount in identifying activist trigger points – well before one knocks on the door.

## Near-Term Expectations for Shareholder Activism

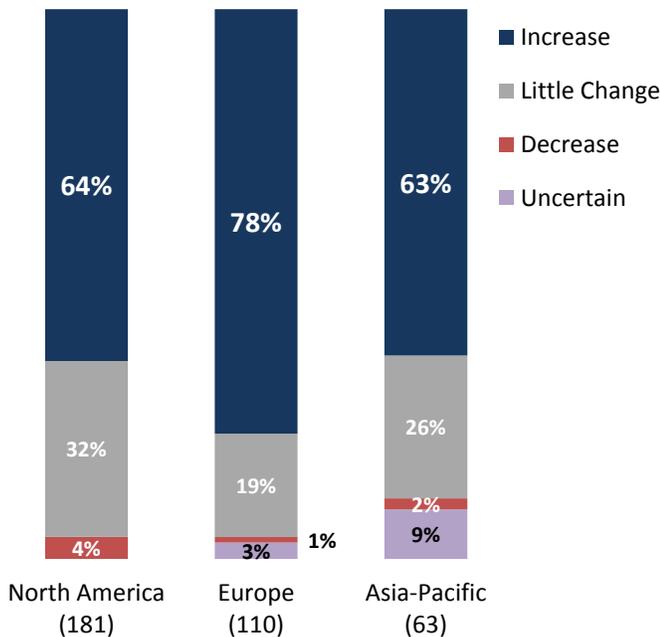
The level of activist activity has ramped up in the last few years, and the investment community believes this is simply the beginning.

The great majority of institutional investors worldwide (68%) expects shareholder activism to increase over the next two years, seemingly becoming the norm, rather than a fading trend.

**Global Buy-side's Expectations for the Level of Activism over the Next Couple Years**  
(N=354)



### BY REGION

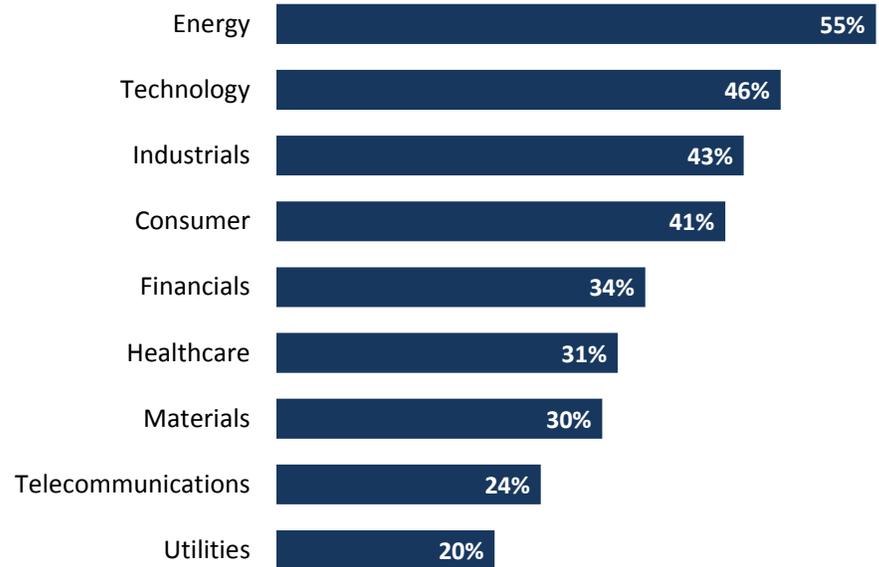


European investors are sensing the wave of activism hitting the US will be coming to their shores over the next two years (see next page).

## Sectors Expected to See the Most Activism over Next Year or Two

(Among total global buy-side; n=354)

Energy, technology, consumer and industrial companies are expected to be in the crosshairs of activists over the next 24 months, and this view is consistent across the globe.

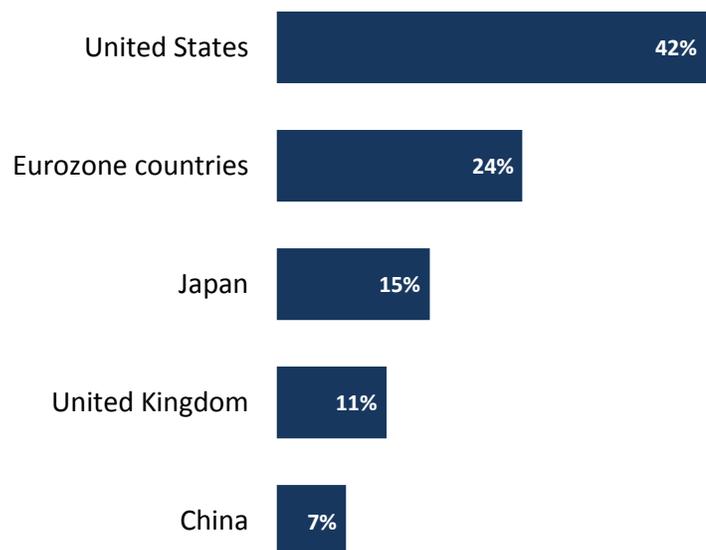


## Countries Expected to See the Most Activism over Next Year or Two

(Among total global buy-side; n=354)

While shareholder activism is largely confined to the United States currently (and expected to continue), views of activism spreading overseas are beginning to grow, particularly in the Eurozone.

*"We are having more and more activity here in Germany."*



## Spotlight on North America: Making Contact

Activists have clearly made inroads into the North American buy-side community, directly reaching out to half of investors regarding a stock in their portfolio (or held by the firm).

**3**

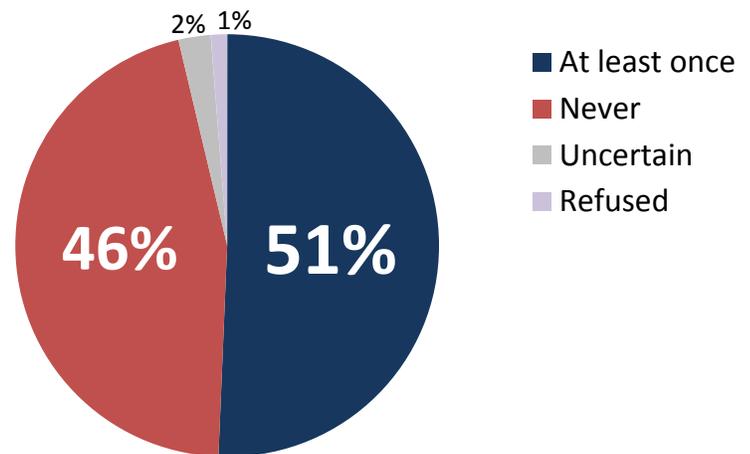
Average number of times contacted by an activist (among those North American investors contacted in past year).

**12%**

Percentage of North American investors that have proactively contacted an activist to voice displeasure about a stock they own.

*"Everything goes in cycles and now activism is active. I try to be proactive and not wait for activists to come to me."*

**In The Past Year, How Often Have Activist Investors Contacted You Directly**  
(N=181)



**43%**

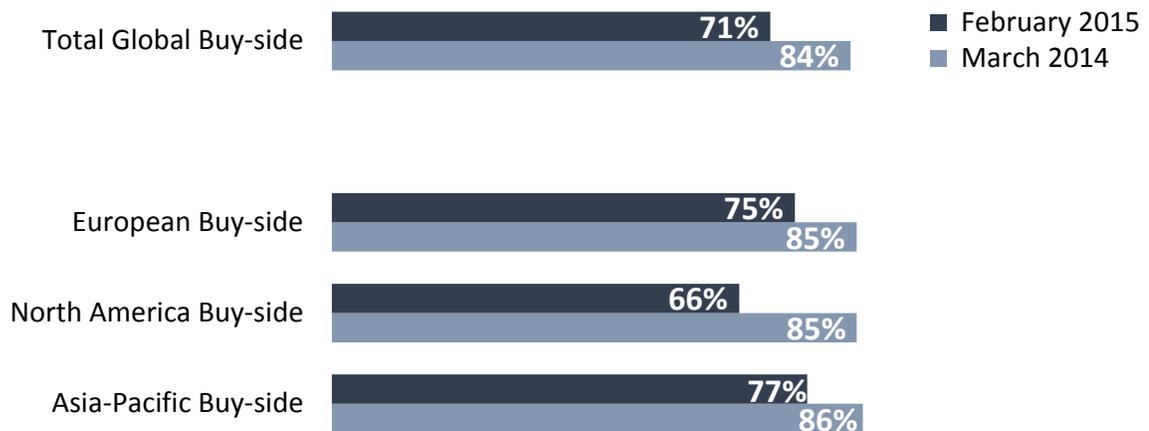
Report that an activist has **successfully** recruited their support at one time on a stock they owned (again, among those who have been contacted by an activist).

*"Activism will stay in focus; it may increase. I think it's becoming more broadly publicized and accepted. Grassroots investors, along with the general media, are demanding change and shareholder activists seem to be the answer."*

## Reception to Activism

The investment community believes shareholder activism is a positive force in the marketplace (71%) – albeit with recent high-profile cases (e.g., DuPont), not quite as adamantly as in 2014. This is a sea change in opinion from 2010 when less than half (43%) of US-based investors believed activism improves a company’s investment appeal.

### Believe that Shareholder Activism is a Positive Force in the Equity Markets



## Why Support Activists?

Aside from being a positive force in the equity markets as a whole, institutional investors worldwide believe activists keep management on their toes and reinforce commitment to shareholders.

*“Activism has the ability to arouse and improve management’s focus, getting them to do the best things for shareholders and increase the company’s potential profitability.”*

### Most Important Positives of Shareholder Activism\*

(North American Buy-side, March 2014, n=181)



\* Multiple responses accepted

## Activist Initiatives

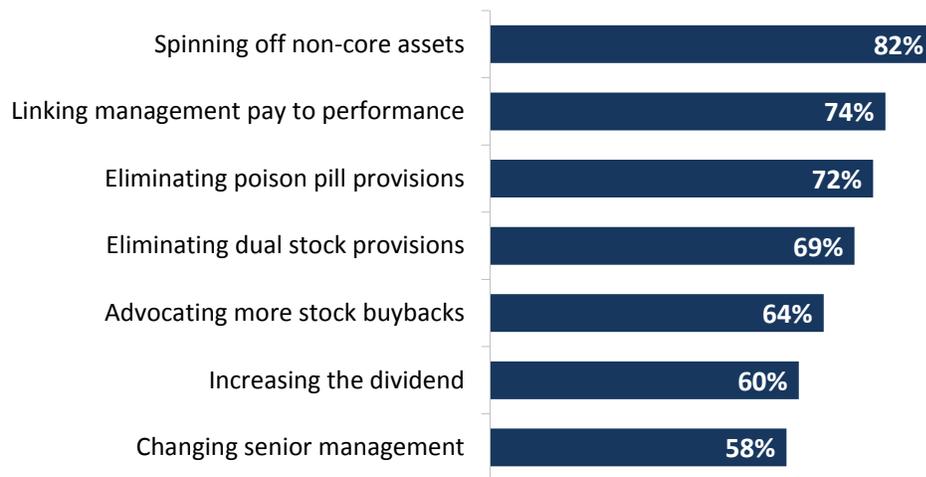
Large majorities of the North American buy-side believe activists are best when they force management to spin off non-core assets or under-performing units and advocate for linking executive compensation to performance, the elimination of the poison pill and dual stocks, and increase shareholder returns.

*"It makes management more responsible and keeps them active to produce on behalf of the shareholders."*

*"The market calls for it. It's good to keep the checks and balances in place so that management can be held accountable and make them represent in a responsible manner."*

### Activist Initiatives that Yield Best Results for Shareholders (Aided)

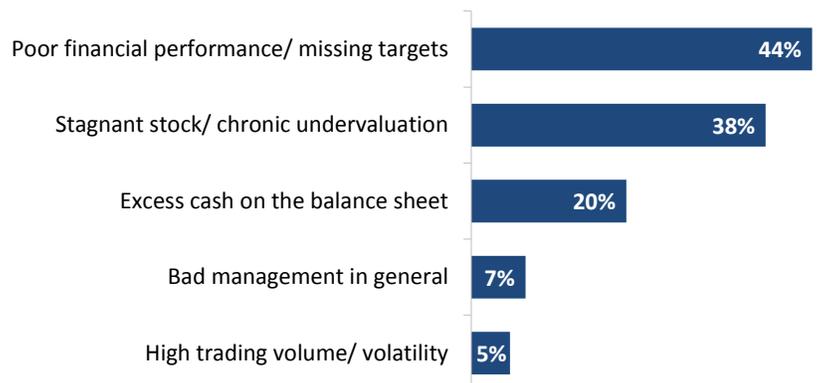
(North American Buy-side, March 2014, n=181)



## Activist Targets

### Telltale Signs of Being Vulnerable to an Activist (Top 5) (Unaided)

(North American Buy-side, March 2014, n=181)

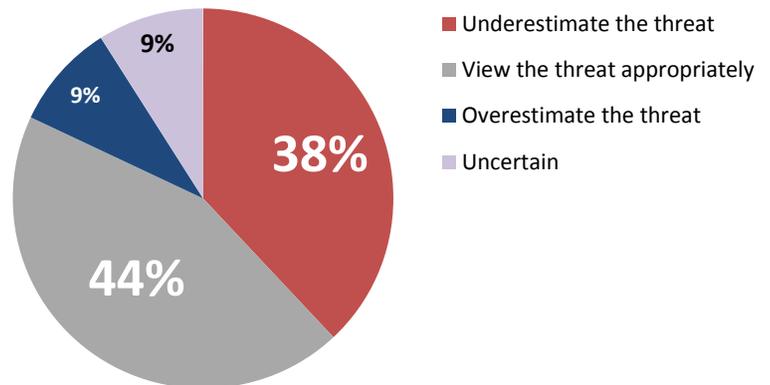


Investors think activists are committed to rejuvenating a stock's valuation and bolstering financial performance.

## The Great Divide

There are mixed views surrounding management and the threat of shareholder activism – 44% believe executives are handling the threat appropriately but nearly as many think management underestimates the threat.

**How Management is Handling the Activist Threat**  
(North American buy-side; N=181)



Coincidentally, Rivel’s December 2014 study of 156 CEOs and CFOs based in North America produced even more problematic findings:

**69%**

Percentage of CEOs/CFOs that said they are **not too concerned** with activism

**Is the C-Suite complacent?**

**Advice from Investors to Management:**

*"I think I would point out that companies even as large as Procter & Gamble have come under attack and if they think they are safe because of their size, they're mistaken."*

*"To ignore the risk you do so at your own peril."*

*"I say to them, worry about it. It's a growing trend in the marketplace and you must answer the questions activists address or pay the price. Pay attention!"*

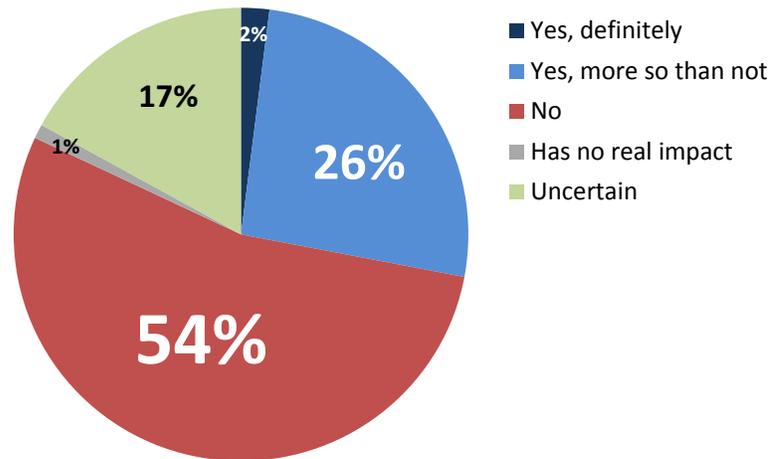
*"Pay attention on a daily basis in your sector and you need to know you're vulnerable at all times."*

*"Don't be complacent. Activists' influence is growing."*

## The IRO's View on Activism

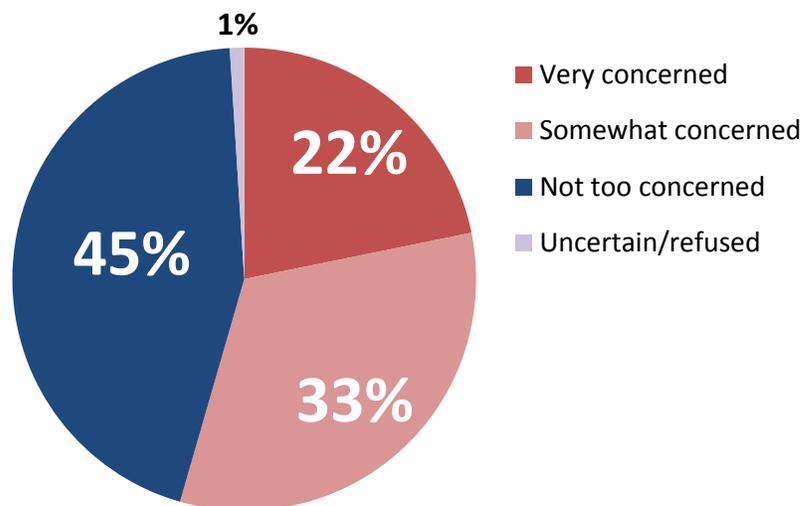
Contrary to the buy-side view, over half of North American IROs do not believe the rising trend of shareholder activism is in the best interests of investors.

**Is the Rise in Activism in Equity Investors' Best Interests?**  
(Among North American IROs, May 2015, n=178)



And, while more than half of these IROs report some level of concern about their companies being the target of an activist, fully 45% share the "not too concerned" stance seen in the C-suite.

**Self-reported Levels of Concern about Company Being Targeted by Activists**  
(North American IROs, May 2015, n=184)



Despite the large majority of CEOs and CFOs saying they aren't concerned about the activist threat in December 2014, IROs are sensing these executives' concerns are shifting.

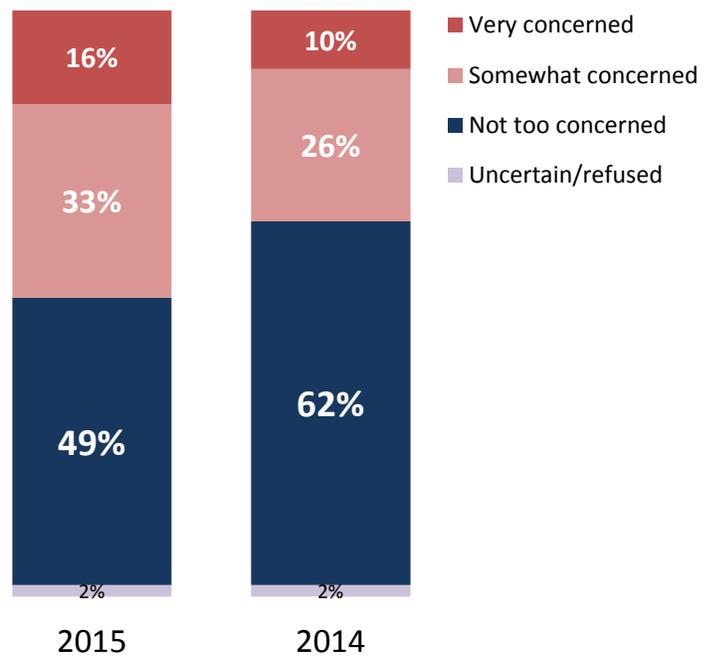
The current split between not concerned and at least some level of concern is now even.

Merely a year ago nearly two out of three IROs said they didn't perceive their management teams as overly concerned with activism.

Are management teams starting to respond to the real threat presented in the daily headlines or simply paying lip service?

### How IROs Perceive Their Management's Level of Concern with Activism

(North American IROs)



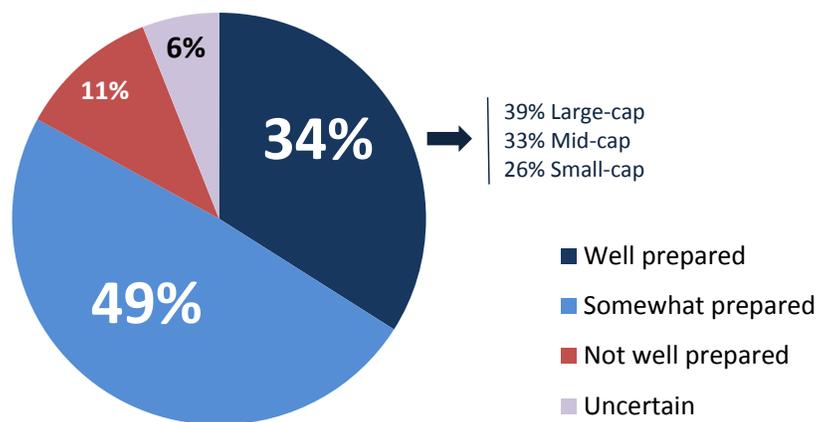
### Activism Preparedness

While action will speak louder than words, there does appear to be some preparation on the part of management and the board for handling an activist campaign (especially at larger-cap firms).

However, with the potential for a multiple million dollar defense and jobs being on the line, "somewhat" prepared will probably not suffice.

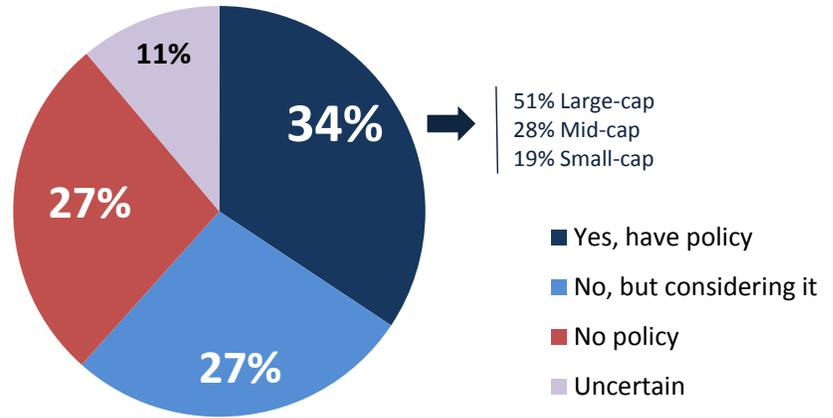
### How Well Prepared are Management and the Board for Dealing with Activist Investors

(North American IROs; N=184)



**Prevalence of Formal Policy for Dealing with Activists**  
(North American IROs; N=184)

Outside of large-cap companies, formal policies or contingency plans for dealing with an activist campaign are not common at the moment, but may become so going forward.



Clarification of who does what, who to contact externally and the rules of engagement are the most prevalent features of the activist response policies currently in place.

*"Engaging and communicating frequently with activist AND proactively seeking support from largest investors. Leveraging frequent and ongoing investor interaction and support for company strategy."*

*"When to involve the board; who should be the person(s) responding to the inquiries; when to involve third parties & which third parties."*

*"Don't ignore activists. Engage with them as appropriate. Stick to the facts. Articulate the vision."*

**Most Distinctive Features of Activist Response Policy**  
(Unaided) (North American IROs; N=81)

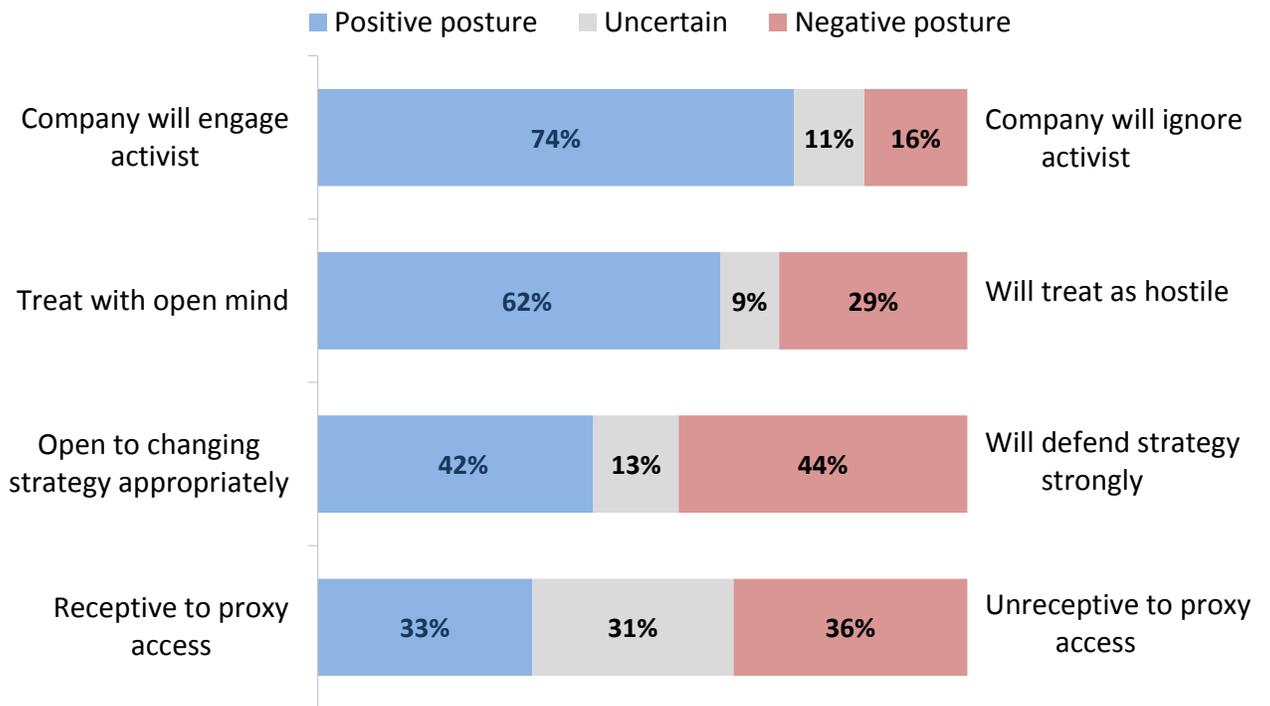


## Dealing with the Activist

Most companies appear willing to engage the activist and treat them with an open mind. However, a dichotomy surfaces when discussions about the strategy and proxy access occur.

### Overall Posture toward Activist Investors

(Aided) (North American IROs; N=179)



**46%** of North American IROs have dealt with activist investors in the past

## How Activists Gain Support

As seen previously, activists are constantly in touch with investors, and in the fights IROs have been through, several note activists garnered support from other shareholders by contacting them directly, and by continuing a line of dialogue with senior management.

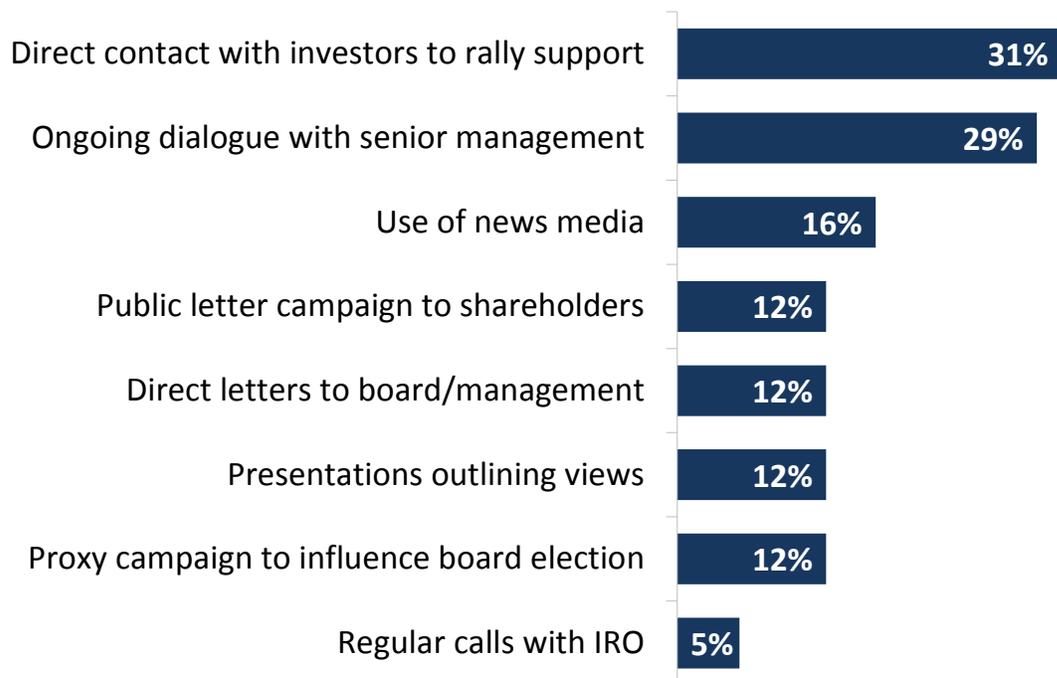
*"Primarily consistent communication with management."*

*"Speaking with other shareholders and non-holders to get them interested in holding stock and supporting their positions."*

*"Dialogue with management (with potential threat of publicity, public letters to board, shareholders)."*

### Most Effective Tactics Used by Activists in Seeking Support

(Unaided) (Among North American IROs who have dealt with activists)



## Reasons Companies Were Targeted

Strategy, capital allocation and stock underperformance are the key factors in spurring activist campaigns. Relative to 2014, IROs more often report activists are casting a sharp eye on performance.

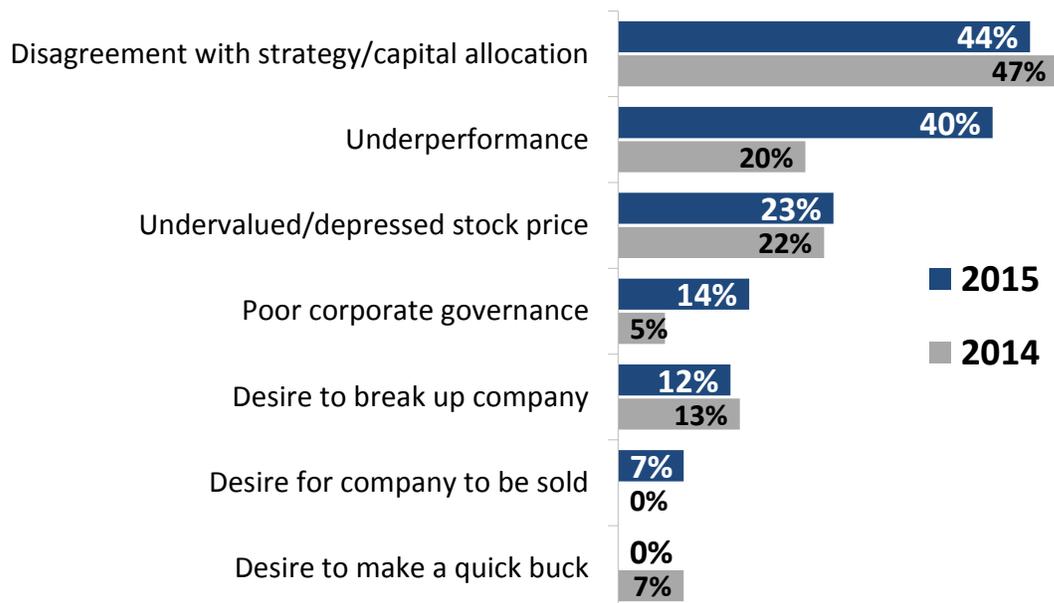
*"The activist felt that management was not listening to their concerns so the matter was made public to all shareholders for discussion."*

*"Capital structure and cash deployment. When they bought into our shares in the summer of 2013, we were relatively under-levered and had an opportunistic share buyback program – they advocated for a high dividend payout ratio and leveraging up the company."*

*"Perceived excess capital to deploy. Some thoughts on how to improve business results by selling certain divisions or changed channel strategy."*

### Why Was Your Company Targeted by Activist(s)?

(Unaided) (Among North American IROs who have dealt with activists)



**5%** of shares outstanding = median position of the activist

## The IRO's Role

IROs that have had first-person experience with an activist cite their role in developing the messaging strategy, engaging the activist directly and to serve as the point of contact for investors.

*"Messaging with investors regarding our strategy and obtaining feedback of concerns to evaluate where shareholders stand in their views (who is aligned with activists)."*

*"Initial contact with activists, coordinated advisors (Joele Frank, etc.), coordinated internal and external communications, worked with management in keeping the board informed and participated in scenario planning."*

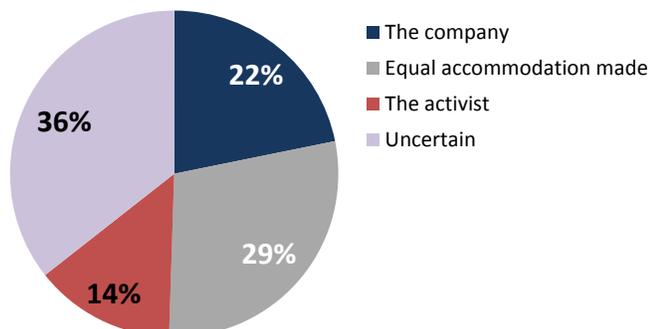
### IRO Responsibilities in Responding to an Activist Attack (Unaided) (Among North American IROs who have dealt with activists)



## In The End ...

While opinions are certainly colored by the outcome, IROs that went through an activist battle are mixed in their view on the winner.

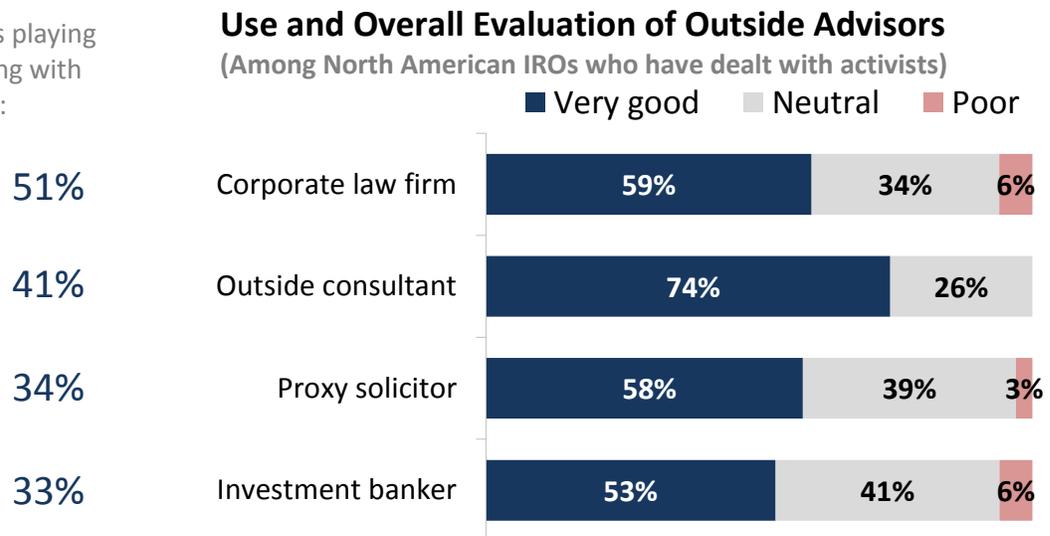
### Whose Needs Have Ended Up Being Served at the End of the Activist Campaign? (North American IROs who have dealt with activists)



## Evaluating Advisors

Lawyers and outside consultants are singled out as playing an important role defending against activist campaigns, and companies are generally very satisfied with the services provided by outside advisors overall.

Frequency identified as playing important role in dealing with activist threats by IROs:



**FIRMS CITED MOST OFTEN:**

**Corporate Law Firm**

Wachtell Lipton  
Skadden Arps

**Outside Consultant**

Joele Frank

**Proxy Solicitor**

Mackenzie Partners  
Innisfree  
D.F. King

**Investment Bank**

Goldman Sachs  
Morgan Stanley

## Methodology

*Activism: More than a Passing Phase* is a compilation of data compiled from various audiences over the course of a year.

### **IRO studies in April 2014 and May 2015**

Rivel conducted a study of 408 IROs worldwide in April 2014 regarding their experience with shareholder activism. The interviews were conducted online between March 31 and April 3, 2014. The most current IR activism study was completed at the behest of NIRI and incorporates views from 184 IROs in North America in the second half of May 2015.

### **Global Buy-side studies in March 2014 and May 2015**

In April 2014, 350 in-depth telephone interviews were conducted among buy-side investment professionals around the world (181 in North America). These interviews were completed by Rivel's executive interviewers. The follow-up survey included 354 telephone interviews of buy-siders globally (with 181 again completed in North America) conducted during the first quarter of 2015.

### **CEO/CFO study in December 2014**

C-Suite Perspectives on IR was completed online over the course of Q4 2014. The questionnaire was distributed to senior IROs at over 2,000 North American companies which included virtually the entire S&P 1500 and TSX 60. IROs, in turn, relayed the questionnaire to their CEOs and CFOs. In total, more than 200 CEOs and CFOs agreed to participate with 156 submitting completed questionnaires before the survey window closed.

Analyses were led by veteran research professionals and guided by senior consultants who regularly meet with and advise the top echelon of US, European and Asian corporate executives.

*A note about the data in this report: Throughout the report, charts and graphs are presented to convey findings as clearly as possible. Due to questions where multiple responses are acceptable and/or computer rounding of data, percentages do not always add to 100%.*

## About Rivel Research Group



**6,500+**

**Investment Community**  
interviews annually

**150+**

**Custom** perception studies  
conducted annually

- Founded in 1991 by Art Rivel, who invented the Investor Relations perception study (circa 1972).
- Rivel Research Group is the only firm that specializes in delivering actionable insight based on in-depth measurements of the investment community and value-driven research.
  - **Only company to maintain a 20-year normative database.**
- Rivel's highly experienced staff provides the well-informed, unbiased and strategically relevant intelligence companies need to effectively communicate with such important constituencies as sell-side analysts, buy-side analysts, portfolio managers, asset managers, the financial media and other influential audiences.
  - **Our consultants have presented to over 1,000 management teams and 300 boards of directors.**
- The comprehensive information that Rivel supplies enables companies to evaluate performance, formulate strategy and identify opportunities to achieve corporate objectives directed toward these groups.
  - **We work with half of the S&P 100 and our clients span every market cap, sector, industry and region.**

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