

# Shareholder activism

## Who, what, when, and how?

### Spectrum of shareholder activism



#### Hedge fund activism

- Growing number and size (AUM exceed \$100 B globally)
- Want changes in company strategy, operations or financial/capital structure, and will seek changes in executive management or board to achieve goals

#### “Vote no” campaign

- Targets single director, group (e.g., specific committee members), or whole board
- Rarely successful in ousting director, but effective in encouraging other governance and director changes

#### Shareholder proposal

- Over 750 proposals filed in 2014 proxy season
- Involves wide range of investors and broad range of topics
- How a company does or does not react to these proposals (especially those supported by a significant percentage of investors) can lead to more aggressive activism

#### Say on pay

- Least aggressive
- Involves widest range of investors
- Centered on executive compensation, but low shareholder support for a company’s plan can lead to more aggressive activism

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### What can a company do?

#### Prepare

- Critically evaluate all business lines and regions as an activist would; this may mean aggregating data differently
- Monitor the company’s ownership and understand which investors are likely to support an activist
- Evaluate risk factors (See PwC’s separate Shareholder Activism Risk Assessment Tool)
- Develop a shareholder engagement plan tailored to the company’s unique shareholder base, board, and potential risk factors

#### Respond

- Objectively consider the activist’s ideas (as one mainstream investor said, “good ideas can come from anyone”)
- Look for areas around which to build consensus (in 2014, most companies approached by activists found some areas of agreement)
- Proactively engage with key shareholders to tell the company’s story (be able to explain why the company’s course of action is in the best long-term interests of all investors)

## Shareholder Activism Risk Assessment Tool

		Hedge Fund Activism	"Vote No" Campaign	Shareholder Proposal	Say on Pay Engagement
Financial factors	Underperformance (1-, 3-, and 5-year TSR) relative to peers	●	◐	◐	◐
	Low market to book value	●	◐	◐	◐
	Underperforming sector, market, or business line	●	◐	◐	◐
	High cash reserves (vs. historic and peer norms)	●	◐	◐	◐
	Well-regarded brand; sound ROA	●	◐	◐	◐
Governance profile	"Dominant" CEO/insufficiently independent board	◐	●	●	◐
	"Stale" board	●	●	●	◐
	"Zombie directors"	◐	●	●	◐
	No action on prior shareholder proposal receiving majority support	◐	●	●	◐
	>20% negative prior say on pay vote	◐	◐	●	●
	Classified board	◐	◐	●	◐
	No shareholder engagement program	●	◐	◐	◐
	Significant media and/or analyst criticism about an acquisition, regulatory action, or problematic product launch	◐	◐	◐	◐
	Sustainability or corporate social responsibility outlier	◐	◐	●	◐
Investor base	>70% institutional ownership; low insider/controlled ownership	●	●	●	◐
	Largest 10 investors includes those who invest in activist hedge funds	●	◐	◐	◐

Source: PwC analysis

◐ Low risk   ◐ Moderate risk   ◐ High risk   ● Greatest risk