



The Shareholder Activists' View | 2015 Second Annual (Part II of II)

Strategic Communications
FTI Consulting

FTI Consulting and Activist Insight surveyed 24 activist firms which collectively have engaged in more than 1200 activist events in 10+ countries, including funds that have been involved in some of the largest and most high-profile activist situations of the past year. This is FTI Consulting and Activist Insight's second annual activism survey following last year's "The Shareholder Activists' View."

Part I of the survey included some key takeaways on appetite for and cooperation with activism in the marketplace, as well as geographic opportunity:

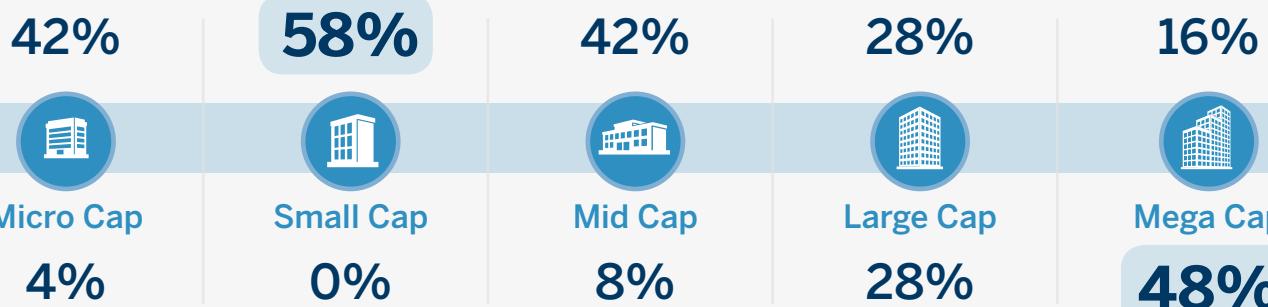
- Activist funds are continuing to raise capital, adding to the estimated \$169 billion in focused activist funds as activism continues to expand beyond the US;
- The view by activists that institutional shareholders will move from supporters of activism to partners with activists in 2016; and
- Year-over-year data has shown that activists increasingly believe that the US activism landscape is getting crowded and that they see Canada and Europe as ripe territories for activism.

Part II explores the themes and opportunities activists expect in the year to come, and the changing investing habits and tactics they plan to employ.

Activist investors see Energy as the sector to concentrate on in 2016 and, despite the headlines, most activists believe the best activism targets are not Mega-Cap stocks, but rather micro- to mid-cap stocks.

Over 60% of investors surveyed identified small-cap companies as a market range with significant opportunity for shareholder activism. In contrast, few investors see significant future opportunity in the large and mega-cap space, 30% and 17% respectively. Although several proxy fights in the \$50 billion+ market cap space have garnered a large amount of media attention in the past year, according to Activist Insight data, companies in the \$10 billion+ range have accounted for just 13% of all activist targets since 2010. In contrast, 71% of companies targeted had a market cap of less than \$2 billion, which lends credence to the sentiment of these activists.

Percentage of Investors Who See **Significant** Future Opportunities for Shareholder Activism

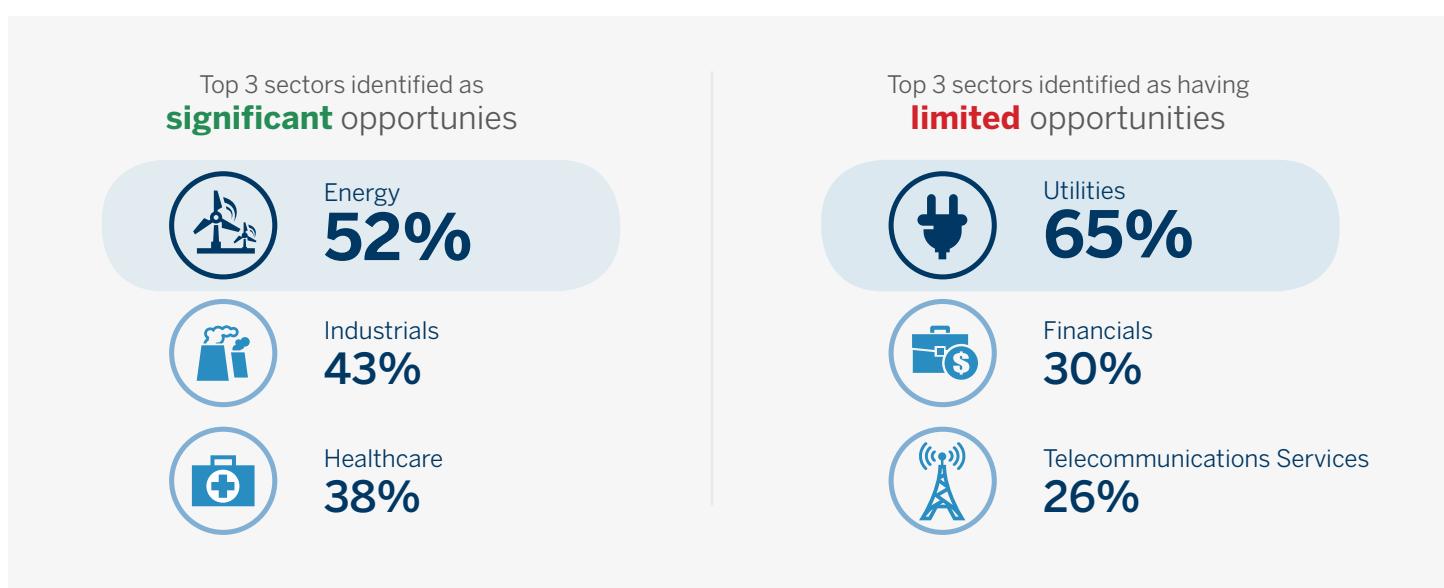


Percentage of Investors Who See **Limited** Future Opportunities for Shareholder Activism

Most respondents (totaling 44%) identified Energy as the sector that is most undervalued, yielding added opportunity for gains. In contrast, 35% of investors identified Healthcare as the most overvalued.

It is perhaps unsurprising then that the sectors seen as most promising for shareholder activism are Energy and Industrials. Likely because of depressed valuations, Energy is seen as an area for opportunity. Although there has been quite a bit of activism in the Industrials space, Energy activism was at a low in 2015 as commodity price issues negatively impacted the industry. It appears that activists are ready and waiting for signs of growth in this sector before beginning to engage.

There were mixed responses on the Healthcare sector – while 38% of respondents identified it as an area with significant opportunity for shareholder activism, 23% of respondents saw it as an area with only limited opportunity. This appears to come from a healthy debate within the activist community as to whether further consolidation in this industry is likely, with those believing there to be more room for consolidation seeing the opportunities.



Merger activism and operational activism are expected to be the predominant campaigns over the next twelve months and activists are almost universally finding it easier to reach settlements with management teams.

The sectors identified as opportunities also correlate with the types of tactics activists anticipate growing in the year to come. Activism aimed at either increasing consideration in an announced merger ("bumpatrage") or attempting to stop an announced merger are widely perceived to be the type most likely to increase. Nearly 80% of investors surveyed think merger activism will rise in the coming year. This has already been hinted at with recent engagements at AOL/Yahoo and successes with Staples/Office Depot.

80%
of investors think
merger activism
will rise in the coming year

63%
of investors think
operational activism
will rise in the coming year

Operational activism is also seen as a fruitful area for activist pursuit, with 63% of investors surveyed indicating an expected increase. Recent examples in the operational space include Pepsico, Advance Auto Parts, GE, DuPont, and Mondelez, to name just a few.

Despite high-profile cases that might suggest the opposite (i.e. DuPont), activists are finding it easier to reach settlements with management teams. Over 90% of activists surveyed indicated that they found it less difficult to reach settlements with activist investors compared to previous years. This increase in settlements no doubt corresponds to: the last two years of activists winning almost two thirds of proxy contests that resulted in a vote; activists remaining in stocks for a longer duration, which decreases Board concerns that activists are purely event driven; and the increasing behind the scenes support for activists by large institutions, which greatly influences a Board's response.

Keep in mind that many activist campaigns are happening behind closed doors. With the increase of activism within large-cap stocks, an activist may never reach the 5% ownership disclosure threshold. This gives the activist and company an opportunity to engage outside the public spotlight, and managing these meetings is critical for both management and the activist.

Although suspected to be short-term investors, activists surveyed indicated their average holding period was three years. Additionally, most activists expect to enter at least three new campaigns in 2016.

Over 85% of activists expect to be involved in three or more activist campaigns over the next twelve months. In fact, two respondents anticipate double-digit involvement. This is in line with data from 2015 where 31 activist funds targeted at least 3 companies. Coupled with the data from Part I of our survey, which indicated that activists plan to continue raising capital and putting it to work, this reinforces the contention that the current spate of activist campaigns is unlikely to slow.

Activism is likely to be less event-driven in the future given that those surveyed expected an average holding period of at least three years. This is a 100% increase in holding period from an activism survey we conducted just two years ago and corresponds to a shift away from balance sheet activism and towards operational activism. That said, when questioned, most of these same activists said there would be an increase in M&A activism next year. Therefore we may see this holding period decrease if M&A activity slows in 2016.

Average Investor Holding Period is

3 Years

Now
(3 years)



2 years ago
(1.5 years)

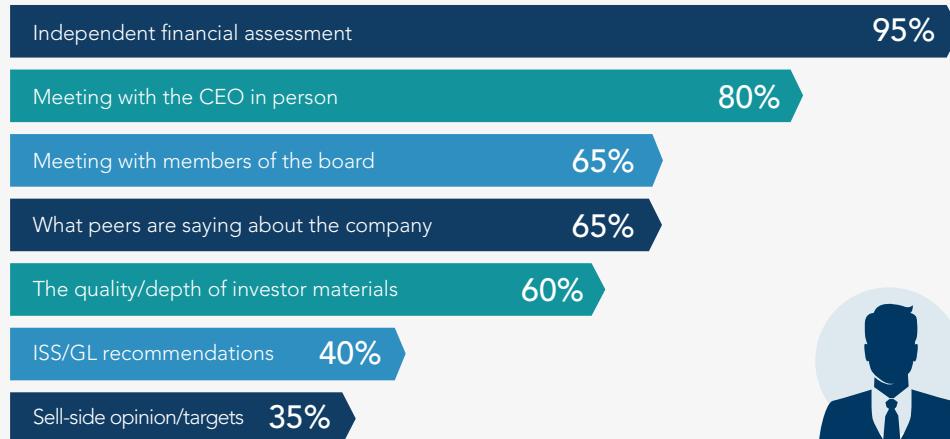


Faced with a complicated economic climate, activists are looking at a number of different strategies to create value. These include forcing overpopulated markets to consolidate and focusing on operations in industries with stable revenues. This survey suggests both types of activism are likely to affect energy and industrial stocks in particular.

- Josh Black

Although capital continues to pour in, activist funds are taking their time with allocation decisions. Roughly half of the activists with whom we spoke with indicated that they observe a company for at least six months before making an investment decision.

Forming Your Opinion About the Company



95%

of activists said an **independent financial assessment** helps form their opinion about a company

80%

of activists indicated that **meeting with the CEO in person** is critical to forming their opinion about a company



45% of activists are researching companies for a period of greater than six months before making an investment. Companies, which often meet with various activists on non-deal roadshows, should be aware that the activist they met with a year ago and never heard from again might be the activist that is buying shares today. This is particularly true while activist fund flows remain positive.

What is an activist investor doing before an investment? Due diligence. Not surprisingly, 95% of activists said that an independent financial assessment helps form their opinion about a company. More interesting is that 80% of activists indicated that meeting with the CEO in person was critical to forming their opinion.

The length of the ownership holding period, the increase in operational activism, and the increased time spent conducting due diligence show that activism continues to change. As the capital that supports activism grows, activists are able to be even more sophisticated and patient in their approach to opportunities.



In the past year, we have seen activists produce several hundred page presentations, conduct detailed forensic analyses, and launch large multimedia campaigns. Companies need to understand that, in order to prepare effectively for engagements with activists, they need to adjust their preparation with competencies that match those being used by activists. Further, companies in jurisdictions where activism has not been as prolific and where institutions have not been as supportive of activism need to prepare for what may already be a different and more activist-friendly landscape.

- Geoff Serednesky

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About Activist Insight

Since 2012, Activist Insight has provided its diverse range of clients with the most comprehensive information on activist investing worldwide. Regularly quoted in the financial press, Activist Insight is the trusted source for data in this ever-evolving space. Activist Insight offers two great products: Activist Insight Online and Activism Monthly Premium magazine, and counts many of the world's leading investment banks, law firms, shareholder communications firms and institutional investors as its clients.

About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. With more than 4,400 employees located in 26 countries, FTI Consulting professionals work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management, strategic communications and restructuring. The Company generated \$1.76 billion in revenues during fiscal year 2014. For more information, [visit www.fticonsulting.com](http://www.fticonsulting.com) and connect with us on [@FTIConsulting](https://twitter.com/FTIConsulting), [Facebook](https://facebook.com/FTIConsulting) and [LinkedIn](https://linkedin.com/company/fti-consulting).

Research Methodology

The Strategic Communications segment of FTI Consulting completed the primary research, surveying 24 activist firms between June and July 2015. The survey sample consisted of economic activist funds that have been engaged in more than 1200 activist events.