

# Is Shareholder Activism Good for Shareholders and Companies?

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RIETI – ECGI – WBF Webinar

May 2021

# Outline of my talk:

- How much public activism is there internationally?
- How do activists choose targets?
- How successful are activists in achieving specific outcomes?
- Are specific outcomes tied to performance (alpha)?
- Quiet vs. public activism: the case of Japan
- How should companies prepare for an activist shareholder?

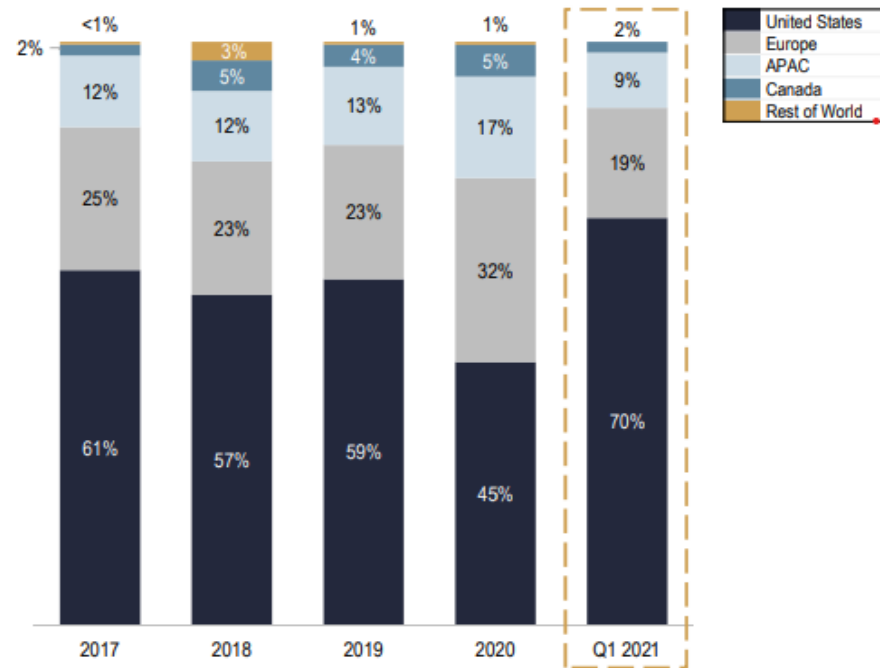
# Regional share of activist activity

## Regional Breakdown of Global Activity Highlights U.S. Rebound

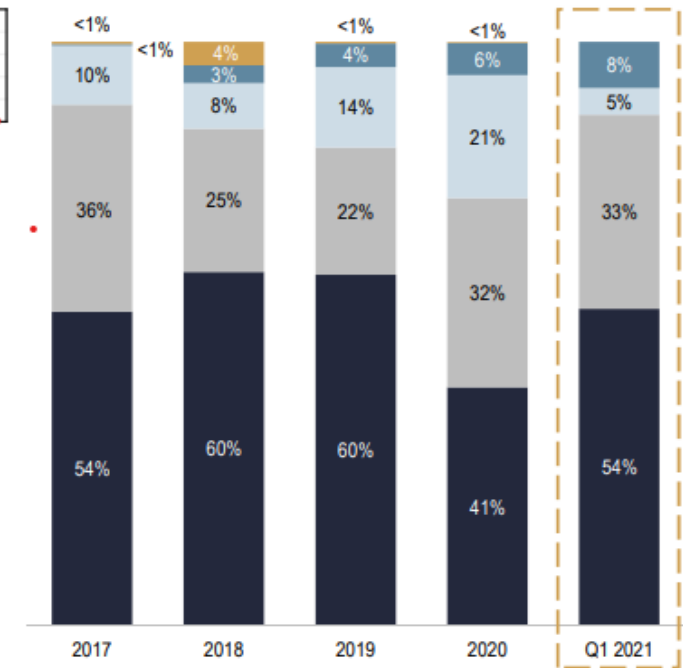
(\$ in billions)

U.S. activity surged in Q1 2021, representing 70% of the number of global campaigns, a five-year high; capital deployed in the U.S. also increased, representing 54% of capital deployed, an increase from 2020 and a return to multi-year averages

Regional Breakdown of Campaigns Initiated by Year



Regional Breakdown of Capital Deployed by Year



LAZARD

Source: FactSet, press reports and public filings as of 3/31/2021.

Note: All data is for campaigns conducted globally by activists at companies with market capitalizations greater than \$500 million at time of campaign announcement; select campaigns with market capitalizations less than \$500 million at time of announcement included during the COVID-19 pandemic-induced market downturn. APAC includes all of Asia, Australia and New Zealand.

# U.S.: Notable Q1 2021 Public Campaign Launches and Developments



(\$ in billions)

Launch Date	Company / Market Cap	Activist	Highlights	Launch Date	Company / Market Cap	Activist	Highlights
2/21	 labcorp \$24.1	 JANA PARTNERS LLC	<ul style="list-style-type: none"> <li>In February, JANA disclosed a 0.8% stake and media reports suggested that JANA may be pushing for the Company to spin off its Covance clinical research business</li> <li>Later that month, the media reported that JANA had nominated an undisclosed number of Directors to the Board</li> <li>In March, the Company launched a strategic review and JANA withdrew its nominations</li> </ul>	2/21	 TreeHouse \$2.8	 JANA PARTNERS LLC	<ul style="list-style-type: none"> <li>In March, JANA disclosed a 7.5% stake and its intent to nominate three Directors to the Board</li> <li>JANA reported that it had engaged in discussions with the Board regarding capital allocation, operations, governance and a potential sale</li> <li>In March, a settlement was reached and two independent Directors – including John Gaior, one of JANA's initial nominees – joined the Board</li> </ul>
2/21	 KOHLS \$8.3	 ANCORA™  LEGION PARTNERS  Macellum  4010	<ul style="list-style-type: none"> <li>In February, the activist group filed a joint 13-D revealing a 9.5% stake</li> <li>The activists nominated nine Directors and urged the Company to reduce its inventory and do a sale-leaseback of non-core assets</li> <li>In March, the group reduced its slate from nine to five Directors and criticized the Company's pay practices</li> <li>In April, the group issued a public letter further criticizing the Company's forward strategy</li> </ul>	2/21	 iff \$33.7	 SACHEM HEAD	<ul style="list-style-type: none"> <li>In February, the media reported that Sachem Head built a \$1bn stake in the Company and nominated four Directors to the Board</li> <li>In March, an agreement was reached under which Sachem Head will have the option to have its founder Scott Ferguson appointed to the Board later this year</li> </ul>
2/21	 Principal \$15.0	 ELLIOTT	<ul style="list-style-type: none"> <li>In February, Principal announced a settlement agreement with Elliott wherein Principal appointed a new Director and agreed to cooperate with Elliott to appoint an additional Director by September</li> <li>In addition, Principal announced that it would launch a strategic review of its business mix, capital management and capital deployment options</li> </ul>	12/20	 ExxonMobil \$172.9 <sup>1</sup>	 ENGINE NO.1  CALSTRS  DE Shaw & Co	<ul style="list-style-type: none"> <li>In January, Engine No. 1 formally nominated four Directors to the Board less than two months after writing a letter to the Board criticizing performance and gaining the support of CalSTRS</li> <li>In March, Inclusive Capital Partners' Jeff Ubben was appointed to the Board along with former Comcast executive Michael Angelakis</li> <li>Later that month, it was revealed that the total costs associated with the ongoing proxy fight were expected to be more than \$65mm</li> </ul>
2/21	 FirstEnergy \$18.6	 ICAHN ENTERPRISES LP	<ul style="list-style-type: none"> <li>In February, FirstEnergy announced that it had received a letter from Icahn stating that he intended to purchase a stake in the Company of between ~\$184mm and ~\$920mm in value</li> <li>In March, a settlement was reached and two Icahn representatives – Jesse Lynn and Andrew Teno – joined the Board</li> </ul>	10/20	 CORTEVA \$24.2	 STARBOARD VALUE	<ul style="list-style-type: none"> <li>In January, Starboard nominated eight Directors to the Board, citing poor operational performance and the need to replace CEO Jim Collins</li> <li>In February, CFO Gregory Friedman announced that he would step down, but would continue to serve in the role until a successor was named</li> <li>In March, a settlement was reached and three Starboard nominees were appointed to the Board</li> </ul>



























LAZARD

Source: FactSet, press reports and public filings as of 3/31/2021 (except for selected April updates).  
1 Represents market cap as of earliest activist initiation.

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# Non-U.S.: Notable Q1 2021 Public Campaign Launches and Developments

(in billions)

Launch Date	Company / Market Cap	Activist	Highlights	Launch Date	Company / Market Cap	Activist	Highlights
3/21	 \$1.0 	 <b>Alta Global</b>	<ul style="list-style-type: none"> <li>In February, Petrus stated that the Company should remain independent or pursue the Crédit Agricole transaction only if the offer was raised to €15-21 / share or higher</li> <li>In March, Alta Global urged Crédit Agricole to increase its offer, as it believed that the bid of €10.50 / share did not represent the fair value</li> </ul>	1/21	 \$1.8 	 <b>MONETA</b>	<ul style="list-style-type: none"> <li>In January, Petrus Advisers issued a presentation and sent a public letter to the Board stating that the proposed merger with PPF Group lacked transparency, and urged shareholders to vote against the proposed acquisition and against the potential acquisition of Air Bank</li> </ul>
3/21	 \$23.8 	 <b>BLUEBELL</b>	<ul style="list-style-type: none"> <li>In March, BlueBell sent a letter voicing concerns over the appointment of Pier Padoan as Chairman designate, arguing that the former politician's ties to Italy's Democratic Party could create conflicts of interest, and also questioning the potential acquisition of Monte dei Paschi for similar reasons</li> </ul>	1/21	 \$7.1 	 <b>SANDON CAPITAL</b>	<ul style="list-style-type: none"> <li>In January, Sandon Capital sent a letter urging the Company to examine spinning off its lottery business from its wagering arm</li> <li>In March, the Company rejected offers for its wagering and media business and instead launched a strategic review for the unit</li> </ul>
2/21	 \$10.7 	 <b>ICAHN ENTERPRISES L.P.</b>  <b>GLENVIEW</b>	<ul style="list-style-type: none"> <li>In February, Icahn revealed that he intended to engage in discussions with the Company about its ongoing strategic review and Board representation</li> <li>One day later, Glenview urged the Company to undertake a breakup</li> <li>Later that month, a settlement was reached and Icahn was awarded two Board seats, including one to Brett Icahn</li> </ul>	1/21	 \$6.0 	 <b>SNOW LAKE CAPITAL</b>	<ul style="list-style-type: none"> <li>In January, Snow Lake Capital called on the Company to sell a fifth of its China business to a strategic partner, arguing this transaction would "deliver significant shareholder value" to both companies</li> </ul>
2/21 & 1/21	 \$45.4 <sup>1</sup> 	 <b>ARTISAN PARTNERS</b>  <b>BLUEBELL</b>	<ul style="list-style-type: none"> <li>In January, Bluebell demanded the separation of the Chairman and CEO roles and for the Company look for a new CEO given structural underperformance</li> <li>In February, Artisan called on Danone to take steps to improve performance and later urged it to shakeup its portfolio of brands, separate the Chairman and CEO roles and replace its CEO</li> <li>In March, the Chairman and CEO resigned from both roles</li> </ul>	11/20	 \$24.5 <sup>1</sup> 	 <b>ELLIOTT</b>	<ul style="list-style-type: none"> <li>In February, Elliott publicly called on Sampo to distribute half of its 15.9% stake in Nordea to shareholders and sell the remainder for cash by the end of the year</li> <li>Later that month, Sampo announced that it would materially reduce its holding in Nordea over the next 18 months</li> </ul>

AZARD

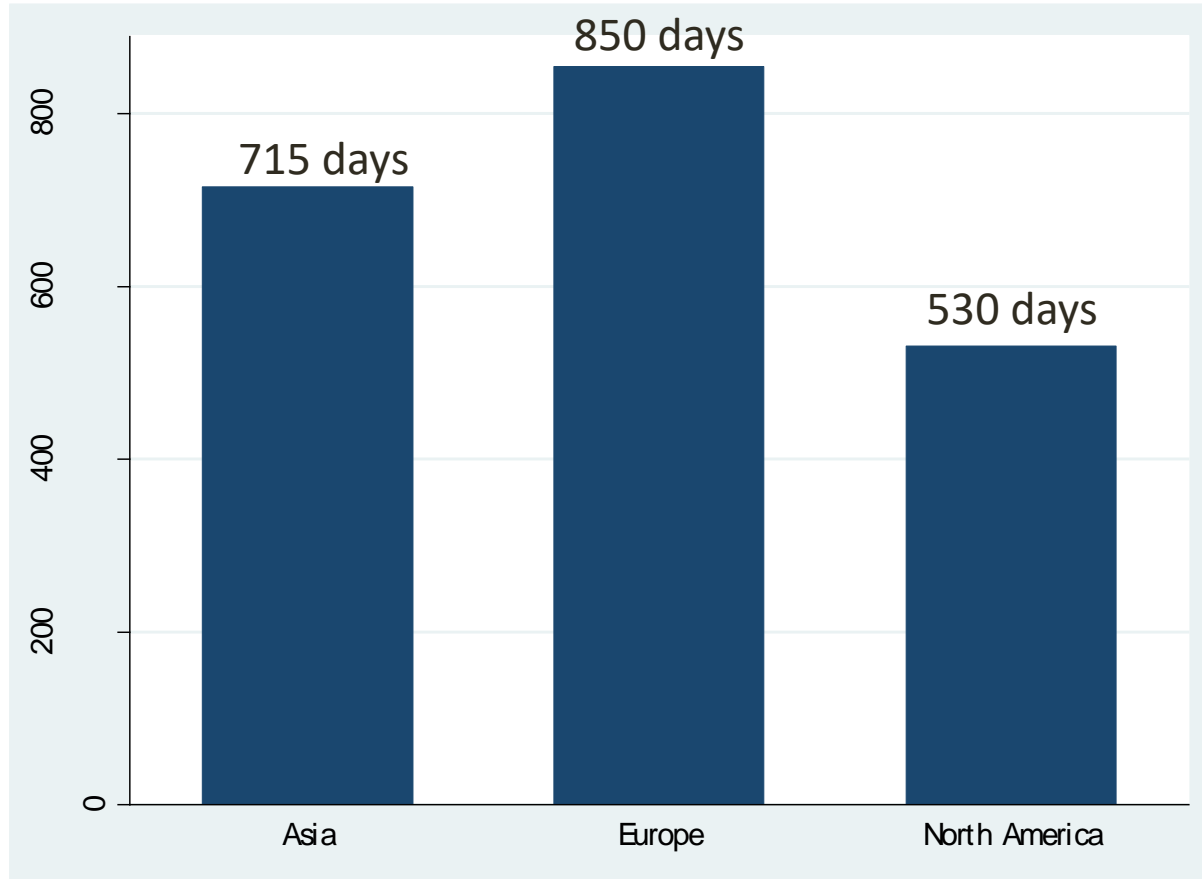
Source: FactSet, press reports and public filings as of 3/31/2021.  
 1 Represents market cap as of earliest activist initiation.

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# How do activists choose targets?

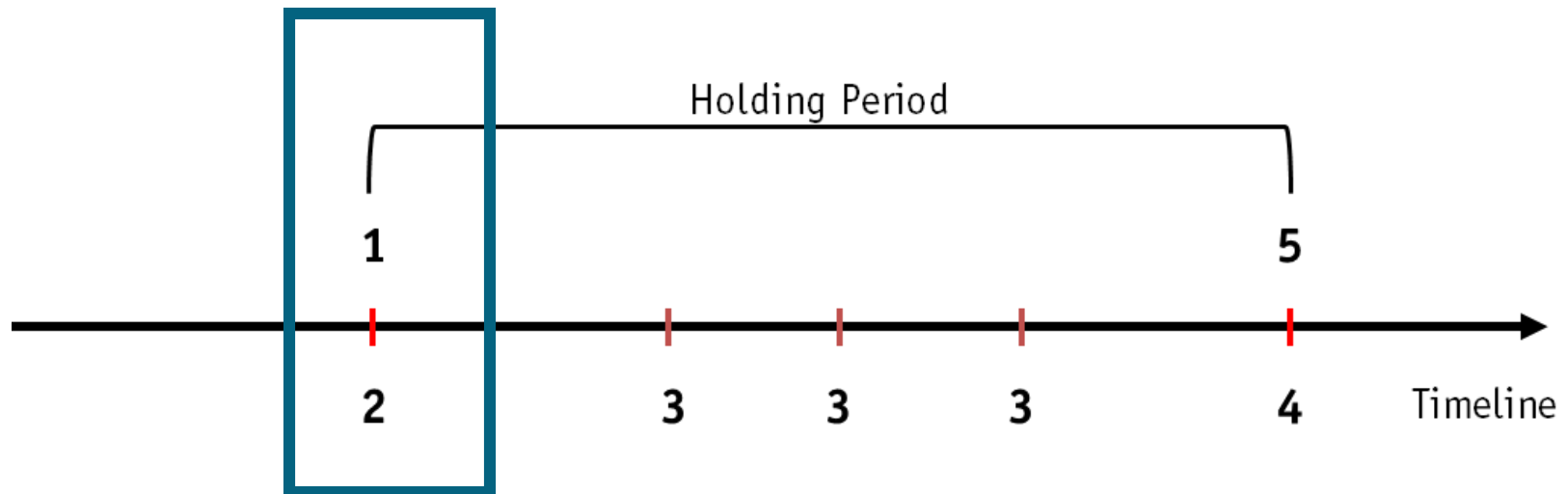
- Small activist: targets smaller listed companies that are underperforming with a founder/inside blockholder & which have governance issues
- Large activist: targets large (liquid) listed companies under performing (value to unlock) to execute change in strategy: a demerger, distribute excess cash, going private, poor governance. Changes in board possible but not necessary.
- Elliott targeted Whitbread to demerge CostaCoffee from Premier Inns. Knight Vinke targeted ENI to unbundle an energy conglomerate.
- Common denominator: well researched target, with good due diligence. Includes talking to many stakeholders (includes ex employees, customers & suppliers)
- How easily can you amass a block?

# Average engagement period: entry to exit, in days



Source: Becht, Franks, Grant, Wagner (2017), RFS

# Performance of activist engagements: Entry



1: Engagement assumed to start

2: Block disclosure (regulatory or voluntary)

3: Engagement outcomes

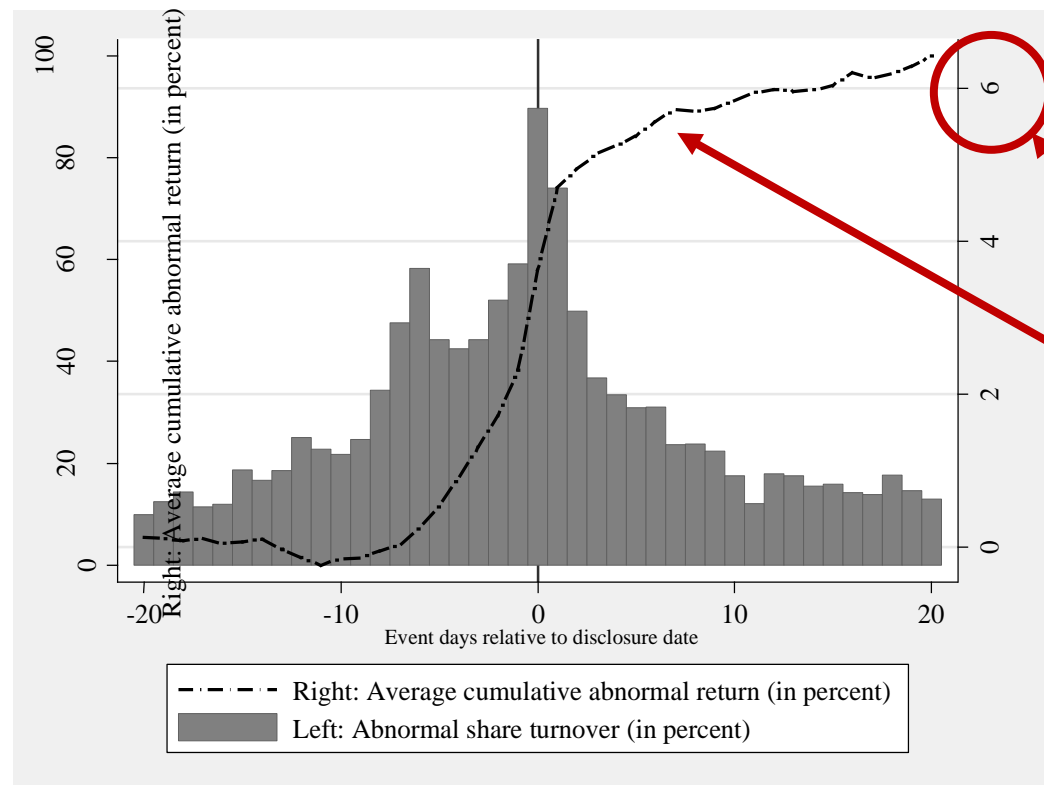
4: Block reported to be sold

5: Engagement assumed to end

Source: Becht, Franks, Grant, Wagner (2017), RFS



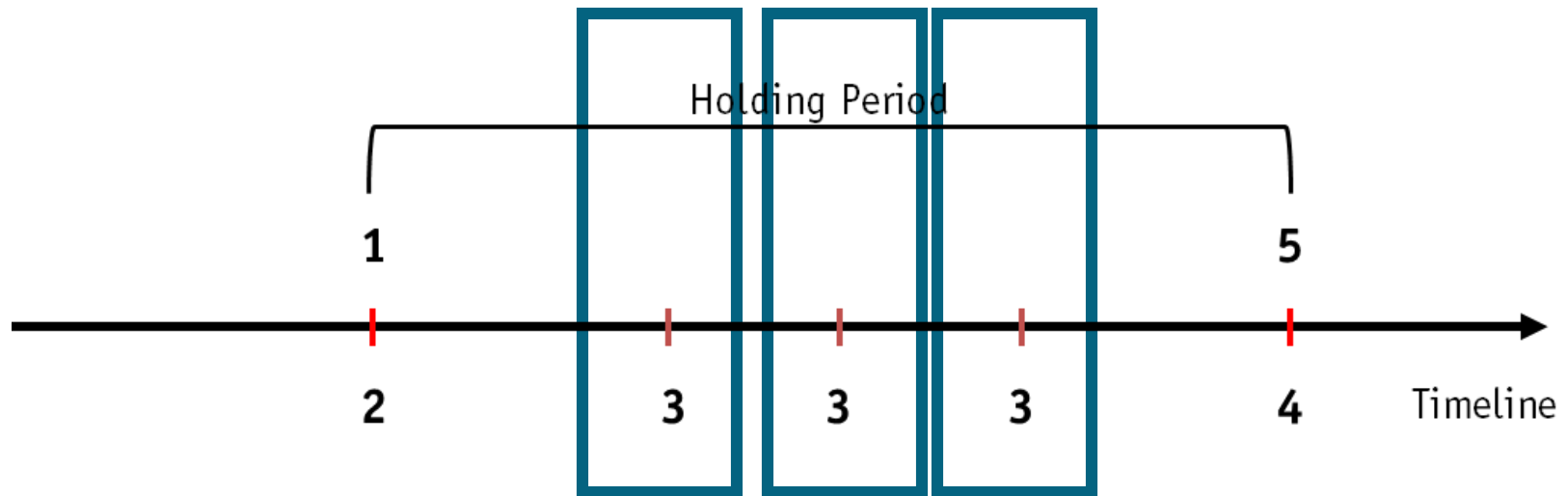
# Abnormal returns from activist engagement announcements



Abnormal return of roughly 6% around the initial activist announcement

Average cumulative abnormal returns around the initial filing date or the first press disclosure date of engagements, market model adjusted. The event window is (-20, +20) days, where day zero corresponds to the filing or press disclosure date. Factor loadings are estimated over 250 trading days preceding the event window, using country-specific domestic market returns, with a minimum of 150 daily observations (1,617 out of 1,740 sample deals have sufficient data). Also shown is abnormal trading activity in the target's equity during the event window, where trading activity is abnormal share turnover calculated relative to average turnover during 250 trading days preceding the event window.

# Outcomes



- 1: Engagement assumed to start
- 2: Block disclosure (regulatory or voluntary)
- 3: Engagement outcomes
- 4: Block reported to be sold
- 5: Engagement assumed to end

Source: Becht, Franks, Grant, Wagner (2017), RFS

# Outcomes in Europe and N. America are similar, Asia disappoints

## Abnormal returns around engagement outcomes by region

Region	Outcome	Event window: (-10,10)			Event window: (-20,20)		
		Abn. Ret.	SE	N	Abn. Ret.	SE	N
Asia	All outcomes	4.03**	[1.91]	38	2.72	[3.48]	38
	Board	-1.03	[5.56]	6	-4.20	[10.6]	6
	Payout	2.34	[2.22]	15	-1.62	[3.98]	15
	Restructuring	8.03*	[3.65]	9	4.60	[4.07]	9
	Takeover	3.33	[8.16]	4	1.15	[13.7]	4
	Multiple+Takeover	13.7***	[0.10]	2	1.70	[9.42]	2
	Multiple+NoTakeover	5.60	[21.0]	2	51.7	[25.1]	2
Europe	All outcomes	8.32***	[1.43]	183	8.77***	[1.74]	183
	Board	1.75	[2.90]	43	4.03	[4.19]	43
	Payout	-0.21	[1.56]	12	1.30	[3.06]	12
	Restructuring	5.53***	[1.81]	33	5.25**	[2.09]	33
	Takeover	9.87***	[1.88]	54	10.8***	[2.25]	54
	Multiple+Takeover	27.3***	[7.51]	16	25.1**	[9.45]	16
	Multiple+NoTakeover	11.9**	[5.27]	25	10.3*	[5.93]	25
North America	All outcomes	5.89***	[0.72]	629	5.97***	[0.90]	629
	Board	4.62***	[1.07]	223	4.80***	[1.56]	223
	Payout	1.47	[1.30]	107	-0.11	[1.83]	107
	Restructuring	5.56**	[2.48]	76	5.87**	[2.81]	76
	Takeover	9.29***	[1.48]	129	9.54***	[1.64]	129
	Multiple+Takeover	15.0***	[4.34]	40	16.2***	[4.76]	40
	Multiple+NoTakeover	5.49**	[2.66]	54	6.89**	[3.25]	54

## But are things changing in Japan? Toshiba

- Emergency capital issuance in 2017 raised foreign ownership to 70%.
- Activist 3D Investment Partners acquired 7.2% of Toshiba, 4.2% in March 29, 2021 from Harvard University Endowment Fund.
- Effissimo Capital Management owns 9.9%
- Effissimo has opposed board of Toshiba & voted against election of President Kurumatani in 2020. Reappointed by only 58%.
- In March 2021 Effissimo led a majority of investors to vote for an investigation into voting irregularities at Toshiba's EGM.
- CVC Capital partners, UK investment fund, has just made a \$20 billion buyout for Toshiba to take it private.
- "I have no doubt that CVC's interest is genuine: there isn't a private equity house that wouldn't like to do a deal like this," said one of the company's large investors. "The real issue is whether we are hearing about it now because there is a civil war within Toshiba and this is being used by one of the sides as a weapon."

## Public versus private activism: GO Japan's (quiet) engagements

- 39 firms engaged between 2009 and 2018
- Closed-door engagement. Does not go public at all!
- Not a fund, but an agent for pension funds/ institutional investors in both Japan & Europe
- Engagement agenda items (156):
  - » Board structure (independent board members): 31
  - » More efficient use of cash & payout policy: 29
  - » Company strategy (sales of unprofitable business/ new investment, M&A): 49
  - » Abolition of takeover defense: 11

## Outcome of GO Japan engagement (agenda items):

- Board: 22 items (71%)
- Cash efficiency & payout: 20 items (69%)
- Business strategy: 20 firms (41%)
- Abolition of takeover defense: 4 firms (36%)
- Generally much higher success rate than public activism
- But does not demand takeovers or going private

# Public activism by activist fund: agenda items

Start Year	Engagements	Board	Payout	Strategy/ asset sales	M&A/ Against- M&A	Abolish takeover defense	Others
2000	1	0	1	0	0	0	0
2001	2	2	2	1	0	0	0
2002	0	0	0	0	0	0	0
2003	10	1	3	0	1	0	1
2004	13	2	8	1	3	0	0
2005	15	3	8	2	4	1	0
2006	5	0	4	0	0	0	1
2007	11	1	5	1	3	0	3
2008	4	0	2	0	2	0	0
2009	1	0	1	0	0	0	0
2010	0	0	0	0	0	0	0
2011	0	0	0	0	0	0	0
2012	1	0	1	0	0	0	0
2013	6	3	1	1	1	0	0
2014	6	1	4	0	1	1	0
2015	10	3	8	5	1	0	0
2016	9	0	8	3	0	0	0
2017	14	5	8	4	1	1	4
2018	16	8	11	5	1	2	1
2019	11	4	5	0	0	2	1
Total	135	33	80	23	18	7	11

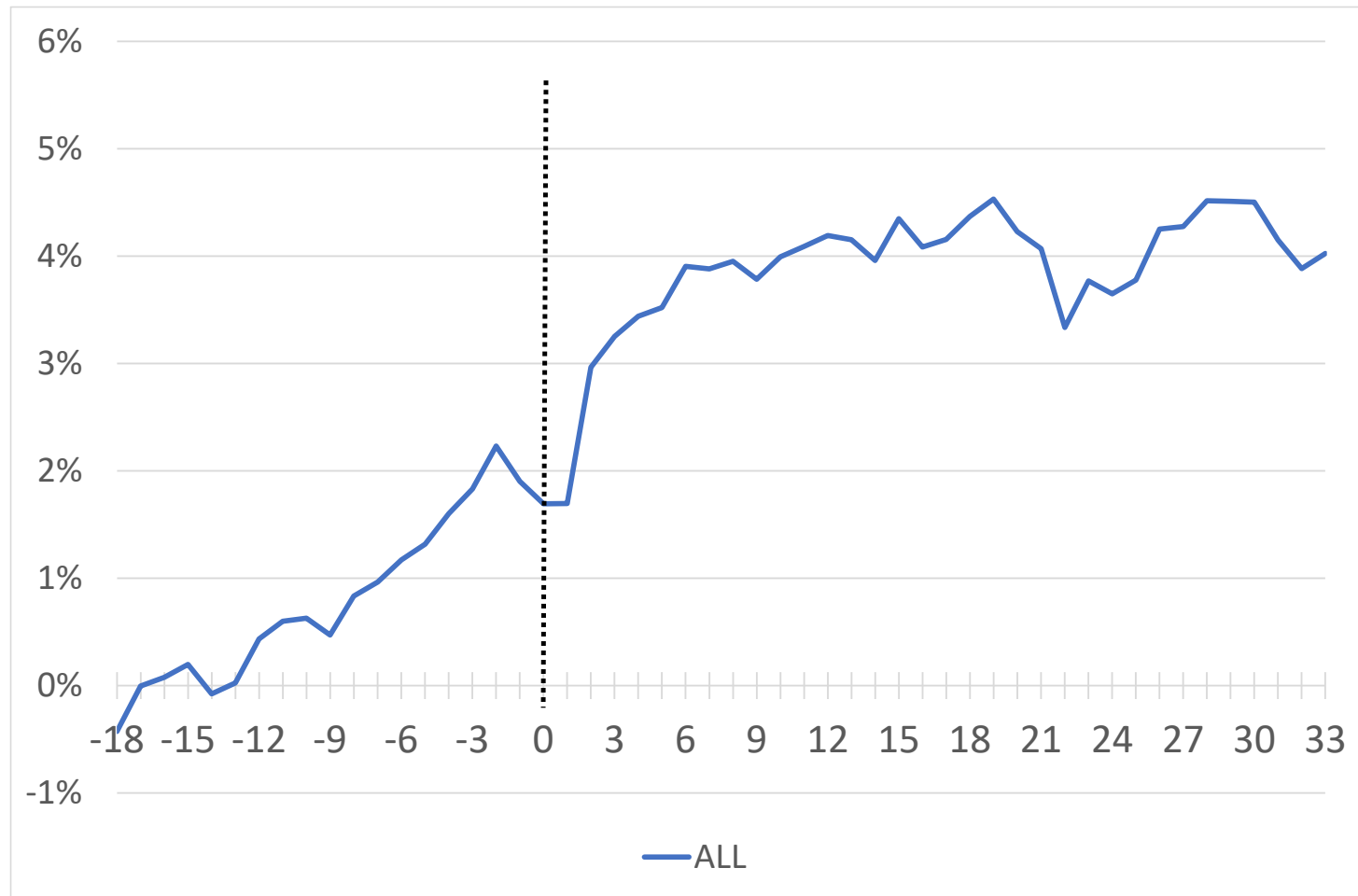
Source: Becht, Franks, Miyajima, Suzuki 2021

Start Year	Engagements	With at least one outcome	Engagement Success Rate	Board	Payout	Strategy/asset sales	M&A/Against-M&A	Abolish takeover defense	Others
2000	1	0	0.0%	0	0	0	0	0	0
2001	2	1	50.0%	0	1	0	0	0	0
2002	0	0		0	0	0	0	0	0
2003	10	4	40.0%	1	2	0	1	0	0
2004	13	3	23.1%	1	2	0	0	0	0
2005	15	8	53.3%	2	4	0	2	0	0
2006	5	0	0.0%	0	0	0	0	0	0
2007	11	3	27.3%	0	0	0	3	0	0
2008	4	2	50.0%	0	1	0	1	0	0
2009	1	0		0	0	0	0	0	0
2010	0	0		0	0	0	0	0	0
2011	0	0		0	0	0	0	0	0
2012	1	0	0.0%	0	0	0	0	0	0
2013	6	3	50.0%	1	0	1	1	0	0
2014	6	2	33.3%	1	1	0	0	0	0
2015	10	6	60.0%	2	3	0	1	0	0
2016	9	4	44.4%	0	4	0	0	0	0
2017	14	3	21.4%	1	0	0	0	0	2
2018	16	5	31.3%	1	3	0	1	0	0
2019	11	1	9.1%	0	0	0	0	0	1
Total	135	45	33.3%	10	21	1	10	0	3

Source: Becht, Franks, Miyajima, Suzuki 2021



# Abnormal returns (CARs) around outcome announcement for GOJ



Source: Becht, Franks, Miyajima, Suzuki 2021

# GOJ engagement vs. public activism

- Why does GO Japan achieve higher success rates?
- Possible reasons for the difference
  - » Quiet dialogue leads to more open discussion and acceptance of the agenda
  - » But public activists may also engage quietly (under-estimation of the success rate)
  - » GO Japan agenda is less aggressive from the perspective of the target company

Source: Becht, Franks, Miyajima, Suzuki 2021

## Some qualifications:

- Activism may create costs for other stakeholders
  - » Some evidence of this for debtholders
- Activist pressure may induce undesirable managerial behavior
  - » Short termism
- There are spillover effects to activism
  - » Competitors to targeted company suffer losses.
  - » Other companies with high probability of being targeted respond & improve efficiency

## How should companies prepare for an activist shareholder?

- Based upon our research, activists create outcomes that are on average valuable for shareholders
- Results suggest value increase is not short term

‘Activist investors lead a quiet revolution’  
(Financial Times)

- Other asset managers becoming more active
- Anticipate the activist
  - » You can change the probability of becoming a target.
  - » Implement their agenda if value creative.
  - » Talk to your shareholders; sleepy shareholders are not an advantage.

# Conclusions

- There are similarities across countries
  - » Activism has gone mainstream
  - » Activism seems to improve shareholder value
  - » Activism performance crucially depends on achieving outcomes
- Results suggest a significant role for shareholder activists in value-creating governance changes around the world
  - » Activists are (partially) replacing the market for corporate control
  - » Public versus private activism
- The real issue is – how active should mainstream institutional shareholders be?
  - » We cannot rely just on the new shareholder activists
  - » Activist funds still represent less than 1% of global equity Assets Under Management.