

EUROPEAN ACTIVIST INVESTOR LANDSCAPE

Report prepared by
Nasdaq Corporate Solutions • Advisory Services
Led by Patrick Hughes • Director

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Shareholder activism has been an established investment strategy in the U.S. for some time now; recent headline grabbing campaigns have targeted companies in the technology and consumer goods sectors, amongst others. However, does this mean we will see increasing interest ahead from activist investors in Europe?

Nasdaq Corporate Solutions estimates that activist investors enjoyed a record \$15bn of inflows in 2014 and beat their general hedge fund counterparts by an average of two percentage points in terms of performance last year. For example, Bill Ackman's Pershing Square Capital Management saw an impressive 40% return last year. The successful track record and the growing size of activist funds means that these funds are now able to target larger companies. The average market cap of target companies in 2014 was \$10bn—up from \$8bn a year earlier, according to recent data from McKinsey†.

The rise in assets under management also means there is more activist capital chasing a limited number of opportunities, which has further helped drive interest in Europe. It is estimated that 40% of activist hedge funds globally have either a European or global focus.

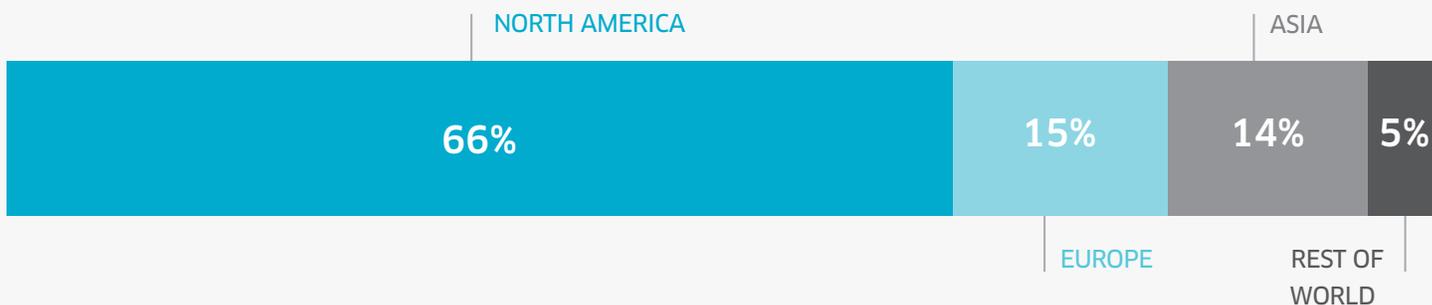
So, when might an activist investor's eye shift to focus on your company? How can IROs be prepared for an approach by an activist investor? How do my company's fundamentals align with activists' typical investment screens? Nasdaq Corporate Solutions examines these questions in order to uncover best practice strategies and the ways in which some IROs have previously prepared for and engaged with this challenging class of investor.

“Our portfolio looks like nothing other people have.... The truth is that we are a fund that is willing to take risk.”

- Chris Hohn, Children's Investment Fund Mgmt.



GLOBAL BREAKDOWN OF ACTIVIST HEDGE FUNDS



By domicile; 40% of activist hedge funds globally have either a European or global focus, according to Prequin hedge Fund Analysis

* Source: Activist Insight, † Source: McKinsey & Company

RECENT ACTIVISTS IN EUROPE BASED ON ACTIVITY /

The data below from Nasdaq Corporate Solutions and J.P. Morgan lists some of the prominent activists invested in European companies and the sectors in which they invest. We excluded traditional asset managers from the list, some of whom can portray “moderate” activist tendencies, such as Davis Selected Advisers, L.P. or Southeastern Asset Management. Nevertheless, it is important to note that activist hedge funds often rely on the support of institutional investors to achieve their aims. Some of the investors that have supported previous activist campaigns might be surprising; Florida State Board of Administration, TIAA-CREF, BlackRock and AllianceBernstein have all backed activist investors’ aims to win board seats in 2014, according to Proxy Insight.

The collaboration of activist investors and traditional asset managers in shareholder proposals is just one of many challenges for IROs in dealing with activist investors. Frequent monitoring of the shareholder base through shareholder analysis is essential in order to stay on top of activist investors. On the following pages, we’ll examine some of the other strategies IROs use to prepare for and engage with activist investors.

ACTIVIST INVESTOR	LOCATION(S)	“NO. OF RECENT CAMPAIGNS **”	PREFERRED SECTORS	EUM (\$BN)
Cevian Capital	Stockholm, London	15	Financials, Business Cyclicles, Industrials	\$12.4
Knight Vinke Asset Management LLC	New York	13	Consumer Staples, Materials,	\$1.2
Elliott Management Corporation	New York, London	11	Media, Technology, Energy, Consumer Staples	\$23.0
Triam Fund Management, L.P.	New York	7	Food & Beverage, Financials	\$6.9
Icahn Associates Corporation	New York	6	Automotive, Technology, Energy	\$35.9
Children’s Investment Fund Mgmt. (UK) LLP	London, New York	6	Financials, Business Cyclicles, Industrials	\$7.9
GO Investment Partners LLP	London	5	Consumer Discretionary, Industrials, Technology	\$1.3
Amber Capital Investment Management	New York	4	Industrials, Consumer Discretionary, Materials	\$2.1
Third Point LLC	New York	4	Healthcare, Technology, Materials	\$11.9
Greenlight Capital, Inc.	New York	3	Technology, Financials, Materials	\$8.5
JANA Partners LLC	New York	2	Technology, Consumer Staples, Healthcare	\$8.3
RWC Partners Limited	London	2	Consumer Discretionary, Healthcare	\$10.0
Crystal Amber Asset Management (Guernsey) Ltd.	Guernsey	14	Consumer Cyclicles, Food & Beverage, Transport	\$0.1

* Since 2010, Source: Nasdaq Corporate Solutions, J.P. Morgan European Activist Database

TOP FACTORS THAT ATTRACT ACTIVISTS /

UNDERVALUED COMPANIES
- low P/E multiples vs. peers

**COMPANIES GOING THROUGH
A MAJOR CHANGE:**
CEO/crisis/restructuring

BOARD COMPOSITION

**UNDERPERFORMANCE -
MULTIPLE QUARTERS
OF MISSED GUIDANCE;**

History of accounting irregularities/governance issues
Essentially, companies that continue to make errors but fail to recognize them.

CONTROVERSIAL CEO:
High compensation, outspoken/
aggressive comments

**HIGH LEVELS OF
CASH/ASSETS**
that can be easily monetized
Declining investor sentiment

Fundamental underperformance relative to industry peers, such as anaemic revenue growth or a growing gap in margins relative to peers, is a frequent trigger for activist investor interest in a stock. Balance sheet optimization, such as large cash balances or recurring restructuring charges are also opportunities for an activist investor approach.

“Activism today is heavily predicated upon a company’s fundamental profile,” says Dan Romito from Nasdaq Corporate Solutions. By identifying common activist profiles, Nasdaq Corporate Solutions arms IROs with analysis and intelligence about their company’s fundamental vulnerabilities and the corresponding activist’s motivations. Specifically, we analyse companies on five fundamental screens:

FIVE FUNDAMENTAL SCREENS OF ACTIVISM

Relative Valuation Activists often pursue investments that are **undervalued** relative to a respective sector benchmark. Nasdaq considers the EV/ EBITDA ratio as a superior indicator of relative value.

Value Creation / Opportunity Cost of Capital “Value” is created when a company achieves a Return on Invested Capital (“ROIC”) that exceeds its respective Cost of Capital. **An activist will also evaluate return on what they deem a company’s potential to be.**

Yield & Payout Nasdaq research indicates that activists generally target companies with **lagging dividend yield when stock performance also reflects either lower ROIC, inferior Growth, and/ or excess Cash on the balance sheet relative to the benchmark.** When presented with a company whose performance is not in-line with perceived risk or potential return, activists tend to demand additional compensation in the form of dividend yield.

Capital Efficiency Activists are often attracted to companies that **exhibit the organic potential to remain independent from the capital markets through cash generation, but misallocate capital to underperforming business units.**

Balance Sheet / Capital Structures In identifying potential targets, activists will seek out companies with capital structures that **struggle to optimize the balance between Yield and what the activist deems an appropriate Growth ratio.** In most cases, this is the result of maintaining excess Cash and / or lagging Long Term Debt on the Balance Sheet.

Assessing your company's vulnerability to activist threats is one way in which Nasdaq Corporate Solutions helps companies preempt or be prepared for activist approaches. Preparedness begins with a vulnerability assessment and IROs can play a critical role in helping prepare a response team along with your legal advisors, management and the board. Understanding the context in which your company operates is also important, especially as each European market has different legal frameworks which can hamper activist efforts (e.g. France's double voting rights and the Florange Law, Germany's two-tier supervisory boards, etc.)

“Many activist firms are methodical; they are precise and they rarely deviate from their strategy.”

- Dan Romito, Nasdaq Corporate Solutions, Targeting

Data from Activist Insight suggests that less than one-third of European activist engagements become public, indicating that the real number of activist engagements are undoubtedly much higher than reported. “Particularly in Europe, more vocal or active shareholders position themselves as ‘constructivists’ rather than activist,” writes J.P. Morgan in their latest report on activism in Europe. Nonetheless, best practice recommendations for IROs to prepare for activism include:

- Stay on top of any changes within your shareholder base
- Maintain strong relationships with your key shareholders
- Identify your firm's weaknesses and which activists are most likely to target them
- Be sensitive to any signs of investor concern
- Share the company's story with the wider public
- Implement clear governance processes
- Have in place a strong response team made up of internal and external experts
- Once the activist is identified, initiate constructive interactions early on to minimize the risk of a public campaign
- Listen to the activists' concerns and demands
- Start lining up investment banks, attorneys, proxy departments and heightened shareholder monitoring

A company's fundamental profile, relative to particular benchmarks, can provide insight into the types of activists a company may attract. Some make the mistake of assuming that only lagging companies are activist targets; continual measurement of a company's performance in the context of peers and future potential is critical.

For more insights about activist investors or the tools Nasdaq Corporate Solutions offers IROs to prepare for activist approaches, please contact your dedicated Corporate Solutions Advisory Services analyst.

Find out more at WWW.NASDAQOMX.COM/CORPORATESOLUTIONS/INVESTOR-RELATIONS-TOOLS/ADVISORY-SERVICES

Sources: Nasdaq Corporate Solutions, Activist Insight, Proxy Insight, Prequin Hedge Fund Analyst, J.P. Morgan, IR Magazine, McKinsey, eVestment, The Financial Times.

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With a global team of experienced analysts covering all major industries, our analysts deliver shareholder analysis, a comprehensive view of trading and investor activity, and insights into how to manage your investor relations outreach efforts.

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Identify the institutional shareholders and/or bondholders in your company and peers. We present this information to you in reports you can immediately share with your Board and management.

INVESTOR TARGETING /

Our Investor Targeting program is designed to help you attract and retain investment capital in today's dynamic marketplace. Work with our Targeting Specialists to effectively prioritize your outreach efforts and communicate your story to the right investors. We offer objective analysis of the investment community, identifying firms and funds that align with your strategy.

PERCEPTION STUDIES /

- Understand how your company is perceived by the investment community;
- Understand how investors view your company's strategy and key initiatives
- Understand how your management is perceived in the marketplace
- Gauge the impact of your IR and communications efforts
- Benchmark perception of your company as an investment against your peers.

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Patrick Hughes is a Director at Nasdaq Advisory Services in London where he leads the team of analysts undertaking shareholder analysis and investor targeting companies in Europe. Patrick joined Nasdaq Corporate Solutions as part of the Thomson Reuters corporate services acquisition in 2013. Prior to this, he held corporate financial communication roles at Citigate Dewe Rogerson and at Burson-Marsteller. Patrick has over ten years combined investor relations and shareholder analysis experience. Patrick graduated from Georgetown University in Washington, D.C. with degrees in French, Spanish and European studies.