

ENGAGING WITH ACTIVIST INVESTORS

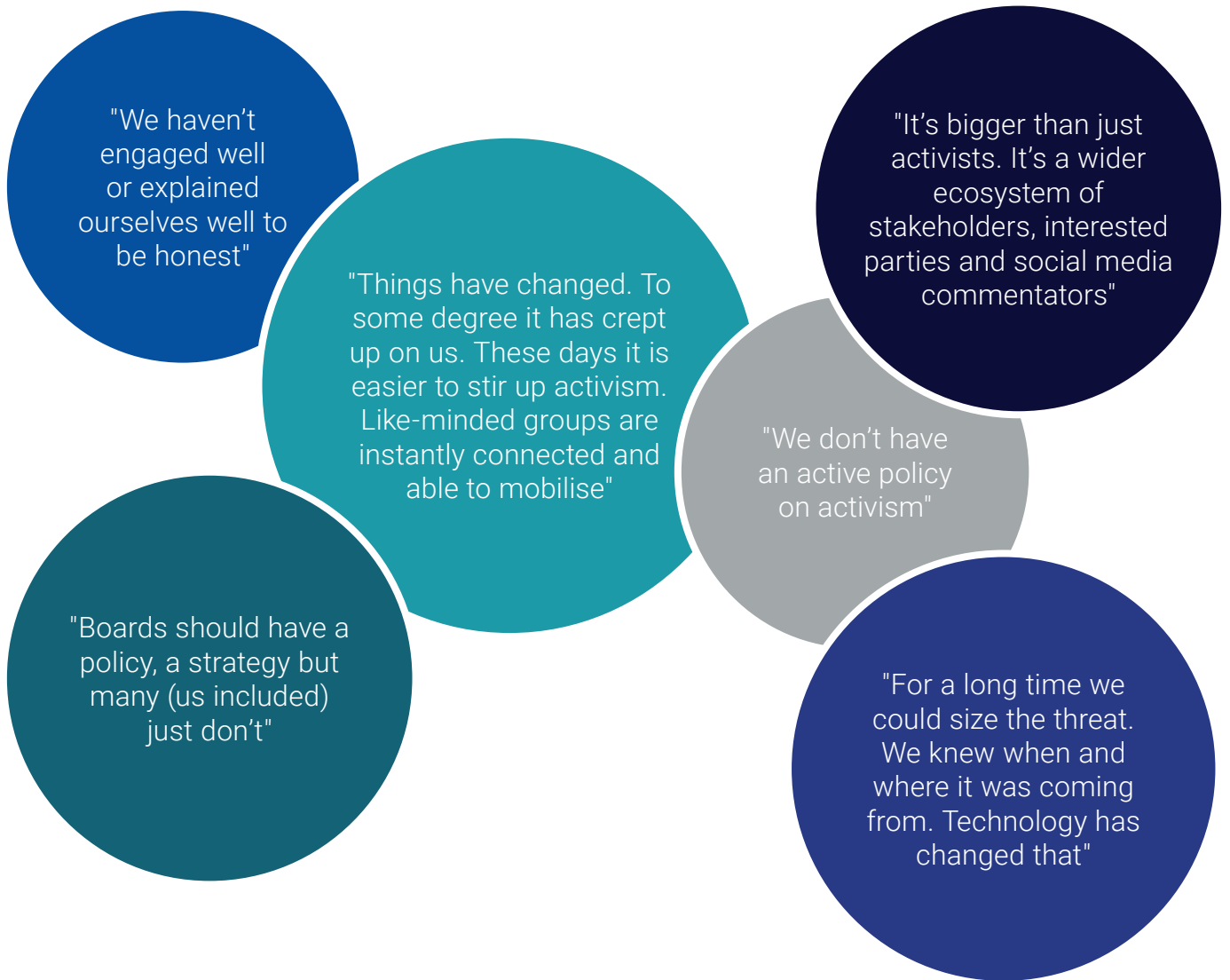
As European executives' concern over activism rises, over half admit they lack a clear strategy to deal with approaches.

With the continued prominence and success of activist investors across Europe, our survey of over 500 public company board-level execs finds that while the majority of companies are concerned, only one third feel that they have the expertise to deal with an activist approach.

Speaking on condition of anonymity, we gained an honest insight into these worries, which fall under three main themes: internal strategy and capabilities, cost barriers and the changing nature of the activist threat.

MANAGEMENT'S THREE FEARS REGARDING INVESTOR ACTIVISM

- 1** Lack of internal strategy for dealing with activism
- 2** Cost barriers to preparedness
- 3** The changing nature of the activist threat



**COMMENTING ON THE SURVEY,
ERIC BENEDICT, UK LOCAL MARKET LEADER FOR ALIXPARTNERS, SAID:**

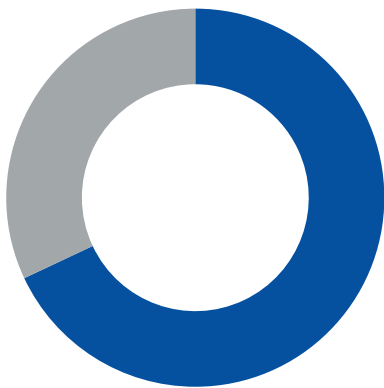
"While public companies recognise that activism is on the rise, there is a lack of clarity as to the pre-emptive steps they should be taking to protect themselves. The fact that so many are uncertain as to how to prepare means the door is increasingly ajar for activist entry. It is important to note that activist approaches are very rarely founded upon ideas which are not visible to, nor under the direct control of, management teams. These approaches consistently focus on five key themes; core vs non-core, cost savings, capital structure, cashflow and corporate governance. A rigorous, and constant, focus on these areas is the key to success in warding off the activist threat. To meet this growing challenge executives must adopt, and constantly exhibit, the same 'outside-in' approach as those stalking them by marrying critical thinking with decisive action. The ability of boards to adopt an activist mindset of their own is the key to success."

THE TIME FOR HONEST REFLECTION

Findings and verbatim quotes from 500 public company board level executives across the UK, France, Germany, and Italy

QUESTION 1: Does the rise of investor activism concern you?

"Here's an issue – the world of policy and regulation has become ever more volatile and dynamic. So in response we group together and speak through industry mouthpieces. But this sometimes compounds the problem because activists often desire transactional, specific replies and instead we deliver slick and general group communications. There is a disconnect."¹



68%

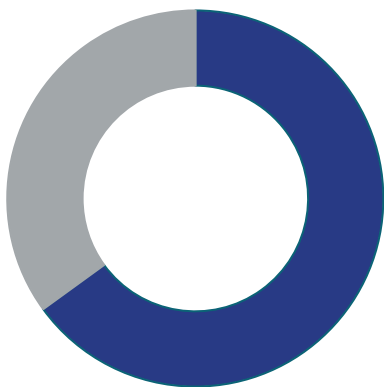
companies are reporting concern about the rise of investor activism

KEY SECTORS:

Oil & Gas, Automotive, and Financial Services

QUESTION 2: How has the importance of managing activism changed in the last 12 months?

"We are trying to catch up – but it feels like we are behind the curve."¹



65%

companies are reporting that the importance of managing investor activism has increased in the last 12 months

KEY SECTORS:

Telco, Pharmaceuticals, Retail, and Consumer Goods

1. Quotes taken from anonymous PLC leader interviews undertaken during December 2018 by Explain the Market on behalf of AlixPartners

QUESTION 3: Do you have a clear strategy for dealing with Investor Activism?

"We just don't have a real strategy at the moment."¹



53%

companies are reporting a lack of a clear strategy for dealing with investor activism

KEY SECTORS:

Retail, Energy, and Financial Services

QUESTION 4: How do you assess your in-house level of expertise when it comes to dealing with investor activism and other forms of activism?

"Part of the problem is the impact of actually having a strategy. When you formalise it means you immediately need to start baking things into plans that have cost and margin implications. In fact, even the process of understanding the implications brings cost..."¹



32%

companies are reporting low levels of expertise at dealing with investor activism

KEY SECTORS:

Construction, Financial Services

QUESTION 5: When it comes to managing activism over the next 12 to 24 months – do you expect to need expert third party support?

"Trust is a factor. For a long time this has been managed behind closed doors."¹



57%

companies are expecting to require third party help to manage investor activism in the next 12 to 24 months

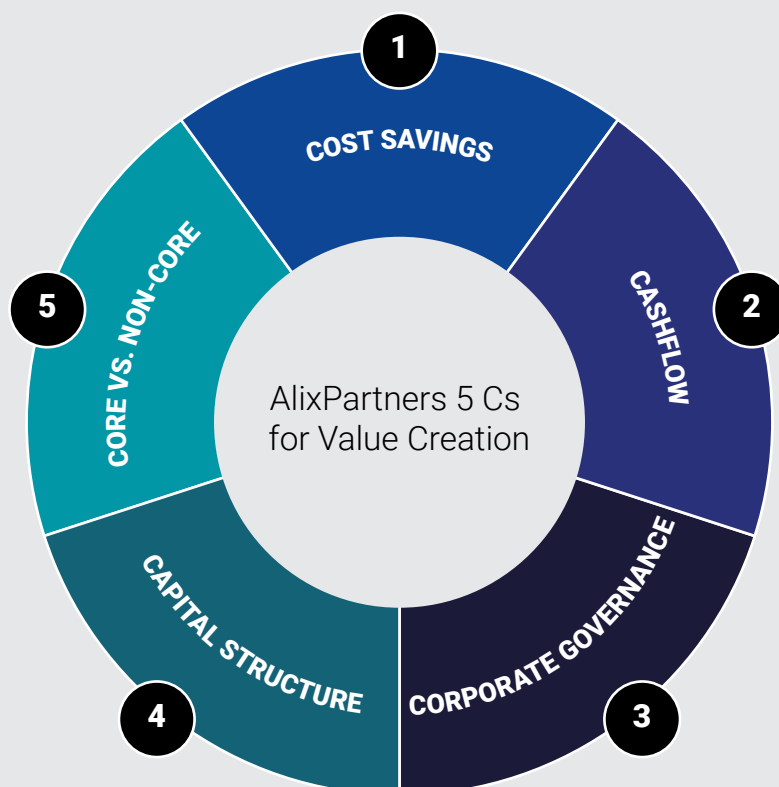
KEY SECTORS:

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CORPORATES VULNERABLE TO AN ACTIVIST PLAY, CAN STRENGTHEN THEIR HAND BY FOCUSING ON THE '5 Cs'

Most corporate boards have plans that address these areas, but the perceived pace and urgency might not satisfy activist investors. This is where we can help.



1. COST SAVINGS

Improve EBITDA and create sustainable value by:

- Reducing the overhead burden to the necessary basics
- Driving greater operational efficiency
- Extracting greater value from the supply chain

2. CASHFLOW

Optimise net cash generation

- Liberate cash through efficient use of working capital
- more robust capex processes to maximise returns
- Redeploy capital to focus on higher ROE activities

3. CORPORATE GOVERNANCE

Strengthen management and boards

- Strengthen and appropriately incentivise management teams

4. CAPITAL STRUCTURE

Raise debt to distribute cash to shareholders

- Debt capacity could be substantially higher under private ownership
- Higher debt leverage improves returns on equity

5. CORE VS. NON-CORE

Sharpen focus by disposing of non-core assets

- Sum of the parts is greater than the whole
- Potential to reduce business complexity
- Reduce exposure to unfavourable sector multiples

ABOUT THE SURVEY

AlixPartners, in conjunction with leading independent research firm Explain The Market, collated responses from 500 public company board level executives across the UK, France, Germany and Italy. Respondents were asked a series of quantitative and qualitative questions as regards their views on the phenomenon of activist investing. The survey was administered online in January 2019 and all responses were anonymized by location and industry sector.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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