



Operational Activism on the Rise

October 2020

COVID-19 has exposed underlying fragilities in many businesses that may have been disguised over recent years. As Warren Buffett famously said, it is only “when the tide goes out” that you find which companies and management teams are most exposed. “Before the pandemic, broadly favorable market conditions and inexpensive capital allowed management teams to kick the can down the road on transformation initiatives. The pandemic has put tremendous near-term stress on certain businesses and forced them to urgently address strategic priorities,” says [Ashley Myles](#), Senior Director at Alvarez and Marsal (A&M).

Investors of all stripes pride themselves on being able to identify patterns and pinpoint themes to guide investment decisions. Activist investors are no different. At the recent virtual 13D Monitor Active-Passive Investor Summit, the activist ecosystem highlighted that the significant noise generated by COVID-19 has created new nuances and posed additional challenges for activists. “It certainly appears that there are fewer common threads signposting activist opportunities. The companies that are likely to be targeted are an eclectic mix,” says [Joseph Berardino](#), A&M Managing Director.

Without doubt, there will be organizations that do not survive the pandemic. However, there is another cohort of companies that boast sound fundamentals but have misfired operationally and potentially exhibited signs of poor governance since the onset of COVID-19. These businesses are in the crosshairs of activists. “Our latest A&M Activist Alert analysis indicates that companies in industrials, healthcare and technology may be of particular interest to European activists over the next 12 months,” says [Malcolm McKenzie](#), A&M Managing Director.

So should CEOs and boards anticipate duelling with a wave of hostile activists? Not necessarily, according to A&M Senior Director [Jim O'Donnell](#), who believes that we are seeing a more collaborative relationship between activist investors and the companies they seek to influence. “Activists are holding positions for longer periods and seeking to constructively engage boards rather than taking purposely confrontational stances.”

Adopting a conciliatory attitude is nothing new for activists working in Europe. “Activist investors seeking to build positions in European markets have learned to adopt a more constructive approach in order to match the expectations of the market they are operating in – a “one style suits all” approach is doomed to failure,” says Mr. McKenzie.

Activist investors on both sides of the Atlantic recognize that operational transformations are a key ingredient to unlocking shareholder value. An A&M analysis of 245 activist campaigns since January 2017 found that those which focused on transformation outperformed market indices by 3.4 percent over two years. (Over the same period, campaigns that focused primarily on changes in governance underperformed by 2 percent.)

“In recent months, A&M has helped implement many operational transformations for organizations that may otherwise have faced real peril. The share price of one leading consumer goods company has rebounded from a nadir of low single-digits to many times that figure today. Leading institutional investors are now taking positions in the company, underlying its long-term viability,” says Mr. Berardino.



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Transformations and restructurings can be uncomfortable for businesses with operational weaknesses, but they can also present rich opportunities. As [Ron Orsini](#), A&M Managing Director, says, “A&M specializes in helping organizations make the tough but necessary decisions to rebound from positions of operational inefficiency.”

With corporate disruption at levels not seen for many decades, Mr. McKenzie’s view is that activist investors are actively identifying opportunities to drive operational change and building their positions in target companies. “In this environment, the organizations that can think like investors or shareholders may be positioned best to respond to external challenges.”

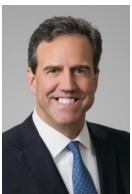
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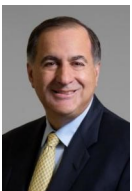
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