



ACTIVIST INVESTORS IN EUROPE

INTERIM OUTLOOK – MAY 2022

A&M ACTIVIST ALERT (AAA)

Introduction

Principal observations

European activism is predicted to grow further and faster, with 155 corporates now predicted to be activist targets – an increase of seven compared to the November 2021 Outlook. However, this overall increase masks a more complex picture.

Key observations:



A “Golden Age” for European activism – Activism in 2022 started with a rush before pausing in March as the horrors of the war in Ukraine unfolded. This pause has pushed some activism campaigns further down the road leading to a small decrease in the predicted imminent Red list targets. However, April saw activist pressures begin to re-emerge and these are forecast to continue building through 2022 and into 2023. The Amber list of predicted targets has increased accordingly.



Market turmoil will add fuel to the fire – Equity, bond and commodity markets have all been in flux through the year thus far. As corporates react to such market disruption we will see winners and losers, laying a foundation for further activism.



The UK continues to be the favoured European hunting ground – Our AAA model predicts a total of 59 corporates that are at heightened risk of activist campaigns over the next 6 to 18 months – an increase of four compared to our November 2021 predictions.



Industrials, Consumer and Energy to be particularly attractive sectors – Pandemic disruption, supply chain complexities, “near-shoring,” inflationary pressures, energy security concerns plus building environmental and social expectations will present a Gordian knot of challenges. Our AAA analysis first identified the importance of ESG factors as a driver of activism in 2019, and they are becoming ever more prominent.



As a retail investor it can pay to follow activists investments – Particularly transformation-focused campaigns and in the UK. However other results (in aggregate) are disappointing, and much depends upon the type of activist campaign, the country in which the corporate is based and, as ever, the timing of the exit from the investment.

“The impact of the war in Ukraine has given activist investors pause for thought, in part for fear of being seen as unsympathetic by launching public campaigns during such disruption. However, as market uncertainty abates, corporate underperformance will be exposed and will ultimately lead to an uptick in activism as value creation opportunities are highlighted more clearly.”

Malcolm McKenzie

Chairman, European Corporate Transformation Services

Activism in 2022 so far

As predicted in our initial Outlook for 2022, the “Golden Age” for activism started this year with a torrent of activist campaigns. European targets included Vodafone, Unilever, Ericsson, Siemens, Bayer, Glencore and BP. By the end of February, the total number of targeted companies across the major European economies had reached 26, a 30% increase on the same period in 2021. The UK was particularly vulnerable showing a 50% increase, whilst the Consumer sector also grew in focus accounting for 23% of targets, up from 20% in 2021. Transformation focused campaigns were also up by 100% with M&A campaigns broadly level. Environmental or Social campaigns increased by 20%.

In March, activism in Europe slowed as the horror of war returned to the continent. The number of corporates targeted was 32% lower than in March 2021. We are now seeing a rebound to the earlier levels of activism, as the underlying pressures that have been driving the surge in activism have not subsided. In fact the seemingly ever-increasing market turmoil is only adding fuel to the activist fire.



A backdrop of market turmoil

European markets have been particularly turbulent in 2022. The shocking invasion of Ukraine has combined with the existing inflationary pressures, lingering pandemic challenges, global supply chain issues and, in the UK, the impact of Brexit, to make 2022 a year of turmoil.

To add to the complexity, country and sector performances have markedly varied. Whilst the MSCI Europe Index fell overall, energy stocks performed well. The start of the year saw European stocks perform better than US markets, which were hit by the “tech wreck” as inflationary and interest rate pressures loomed large. This pattern reversed somewhat in March to then return in April. Communication Services have performed relatively well, while Healthcare share prices have declined a little even whilst Pharmaceuticals held steady. Food retailers have shown more resilience than other Consumer Staples groups.

Ultimately all of this turmoil creates a bedrock of disruption, which in turn becomes a catalyst for more activism. 2022 is set to continue to be a “Golden Age” for shareholder activism.

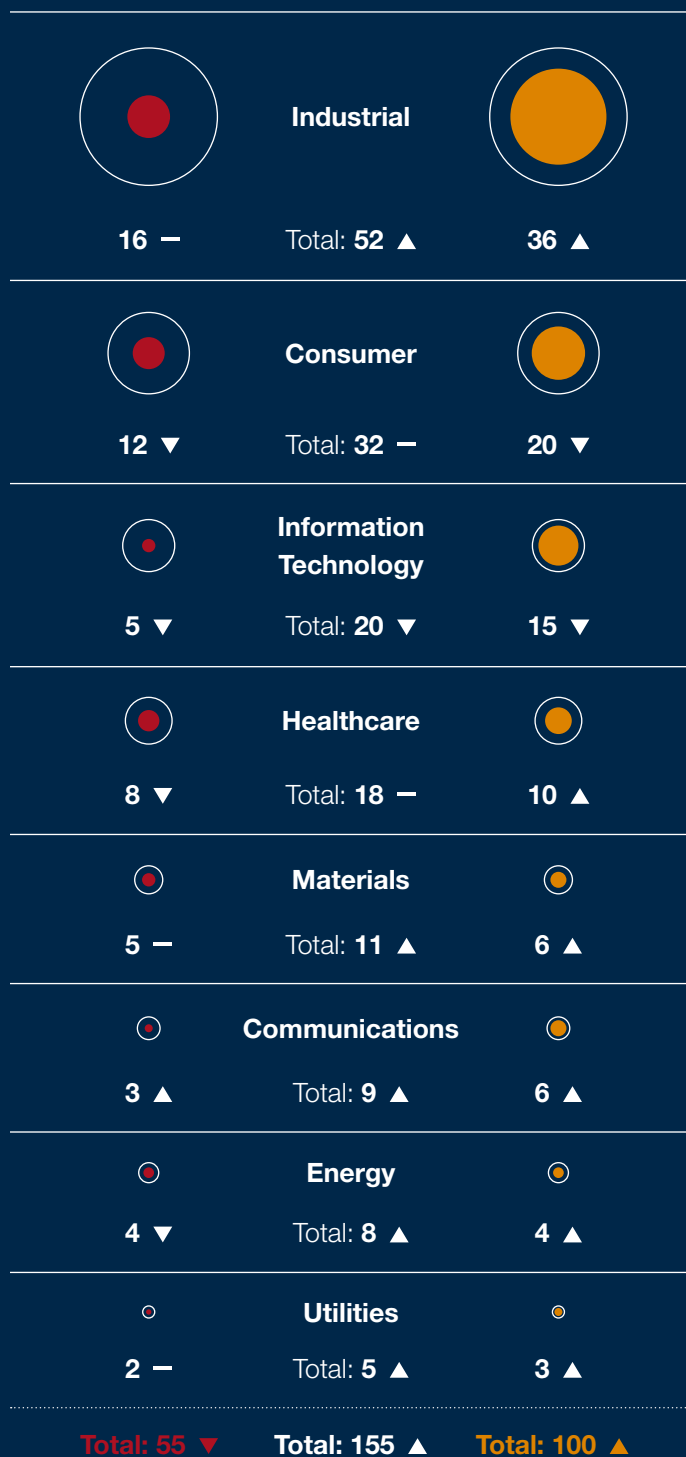
Number of predicted activist targets:

Changing profiles since December 2021 report

Countries (as at 31 April 2022):



Sectors (as at 31 April 2022):

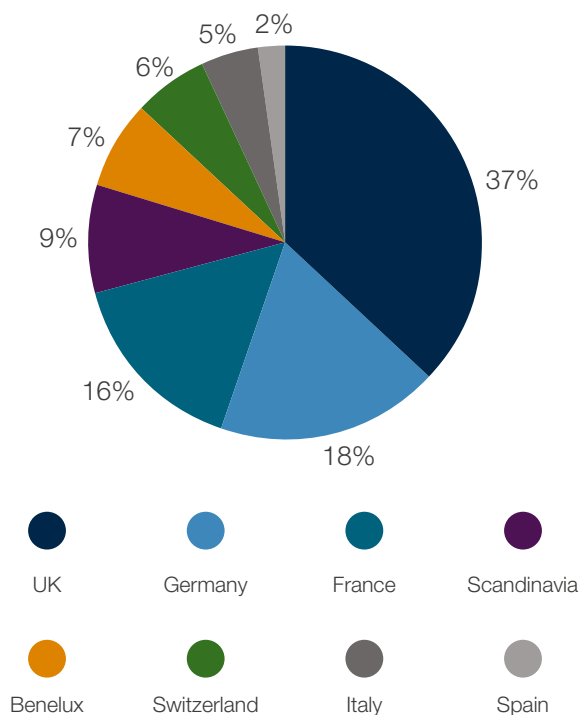


● Red alert indicates that a company is likely to become a target within the next 6-12 months.

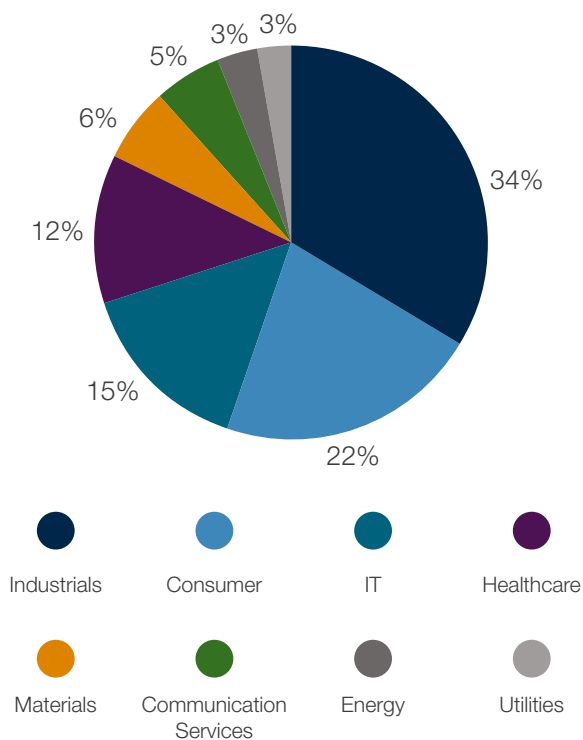
● Amber alert indicates a medium-term risk of becoming a target within 12-18 months.

Indicators showing change compared to our December 2021 report ▲ ▼ —

Countries most at risk – as % of predicted targets (based on total)



Sectors most at risk – as % of predicted targets (based on total)



Notable sub-sectors featuring on the Red and Amber lists include:



Industrials

- Conglomerates
- Industrial machinery
- Heavy engineering & equipment
- Heavy electrical equipment



Consumer

- Apparel, accessories and luxury goods
- Foods, drinks and personal products
- Retail



Healthcare

- Life sciences
- Healthcare equipment
- Biotech
- Pharmaceuticals



Energy

- Integrated Oil & Gas
- Oil & Gas equipment and services
- Renewable energy equipment and services

Does it pay to follow activist investments?

Given the turmoil in equity markets, investment strategies have been challenged. The investment returns generated by activists themselves are typically hard to assess given their likely use of hedging strategies and pre-announcement "below the radar" investments, possibly via prime broker accounts. Nevertheless, as part of our AAA analysis, we have commenced a detailed assessment of the value creation attributable to activist campaigns.

As part of this value creation assessment, our initial focus has been on shareholder returns and whether, for ordinary shareholders, following activists with their investments and public campaigns can be a route to increased returns. Our initial findings are that over the past 3 years, following the average activist investment is unlikely to have been a market beating strategy. However, that very much depends upon the type of campaign, the country in which the target is based and the holding period of the investment. Transformational and UK-focussed campaigns have both (in aggregate) significantly beaten the market.

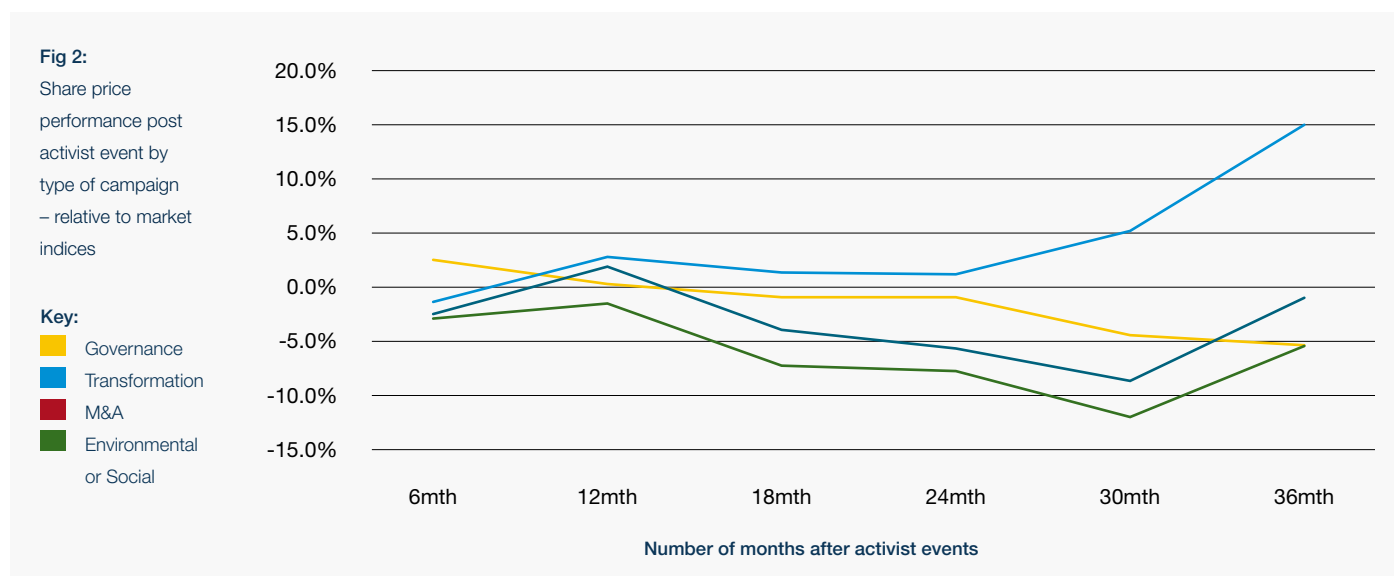
This is not to say that, on average, activists have not added value to the targeted corporate. It may be that broader headwinds have negated the value created, or it may take longer than 36 months to see the value accrue. We will be exploring these hypotheses further in our next update.

The analysis

We analysed the share price performance of 266 US and European corporates that had been the subject of public activist campaigns launched between 1 January 2018 and 31 August 2021. We compared the share price change for those corporates over the three years after the activist campaign started¹, against the change in the Stoxx 600 (for Europe) or S&P 500 (for US) over the same period.

Results by type of campaign

Share Price performance post activist event by type of campaign



- **Transformation focused campaigns** – On average, transformation campaigns have generated the highest relative returns compared to other forms of activism with an outperformance of 15% after 36 months. This performance profile appears to broadly reflect the time for an average transformation programme to deliver real bottom line results. As those results come through, so shareholder value increases. These findings reinforce the conclusions from our previous analysis undertaken in October 2020, which also identified transformation focused campaigns as driving the highest relative returns.

¹ opening share price taken from the end of the week before the campaign started

- **M&A focused campaigns** – Such campaigns start well but then suffer declining performance through to the 30 month mark. However, after three years there is a marked improvement with an underperformance of 8% reducing to 1%. One explanation for this profile is the time taken for an M&A programme, acquisition or divestment, with all its myriad challenges to come to fruition and deliver, or at least partially deliver, the anticipated value.
- **Governance focused campaigns** – These stand out as delivering steadily declining returns over the entire three year period. This is likely linked to the challenge of managing through the pandemic and, for UK corporates, Brexit, whilst also fighting activist demands aimed at making governance changes. Ultimately a recipe for distraction and underperformance, at least in the near term.
- **Environmental or Social focused campaigns** – Notably the lowest returns of all. However, what is also notable is the marked improvement after 36 months. Whilst still negative, the tide has clearly turned as the E or S changes start to bear fruit with enhanced shareholder value. As time moves on, we predict that this turning point will occur earlier as value of the E and/or S initiatives become ever quicker to be recognised by the market.

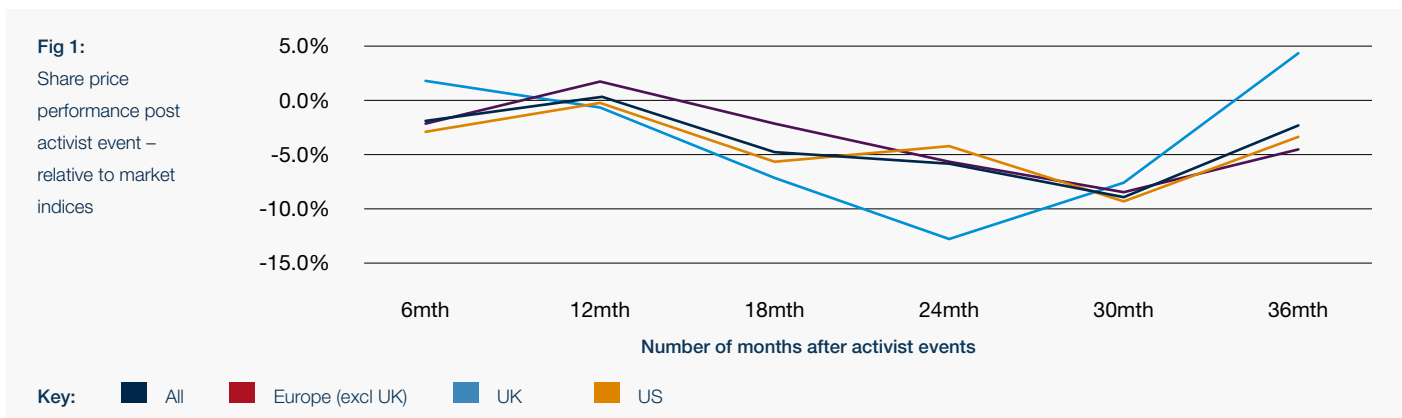
“Transformation campaigns deliver by far the greatest outperformance compared to governance or M&A-driven campaigns, particularly over 3 years. Constructively challenging existing management to really transform their business, and avoiding governance only campaigns can pay big dividends.”

Malcolm McKenzie

Chairman, European Corporate Transformation Services

Results by Country/Region

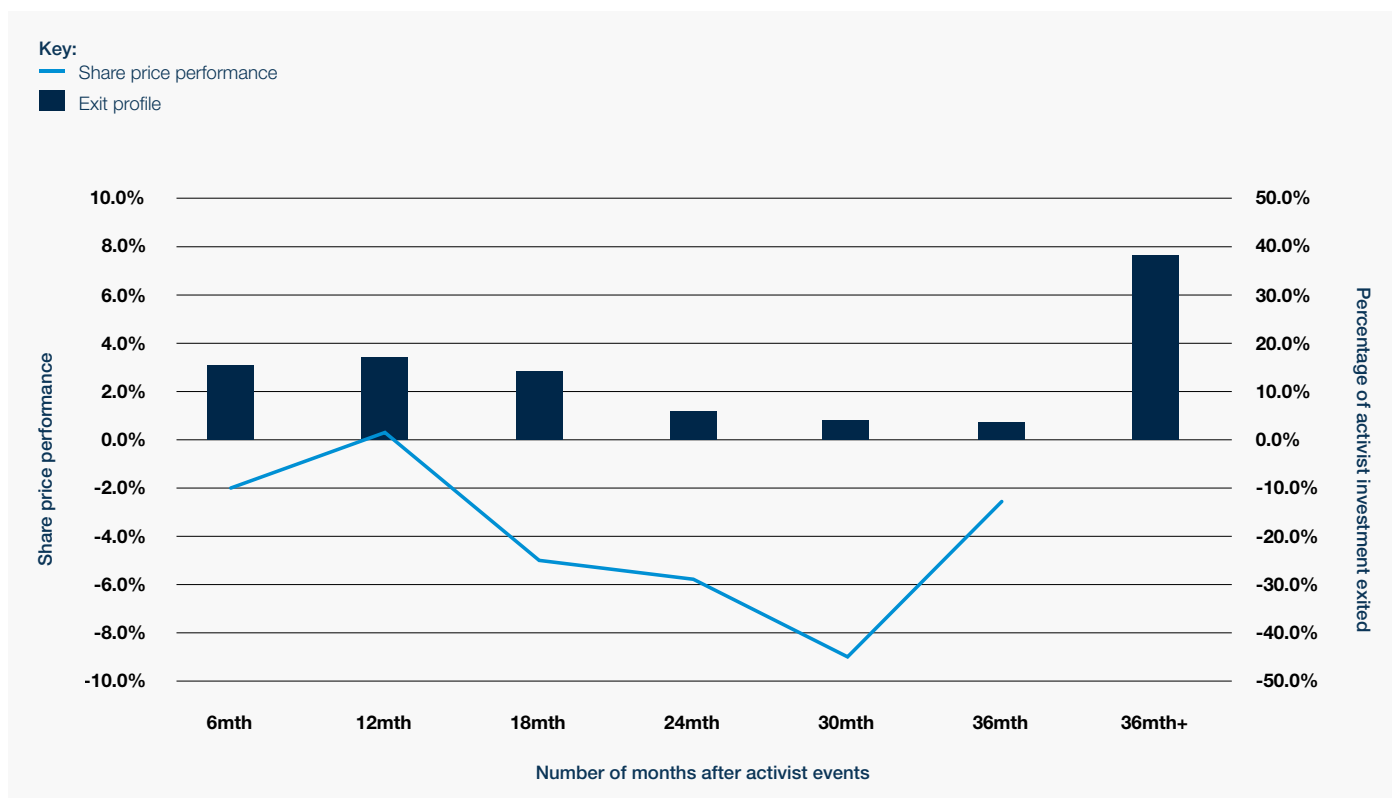
Share Price performance post activist event



- **First six months** – On average, the share prices of targeted companies underperform against market indices. The exception is the UK driven by the relative acceptability of activism in the UK and the low valuation of the UK market.
- **12 to 30 months** – After a promising start there is a marked underperformance across all countries/regions, being particularly notable for targeted UK corporates who underperformed the market by c13%. For many of the corporates analysed, this period coincided with the peak of the pandemic and, for UK corporates, Brexit. It seems that for many of the targeted companies, managing the effects of these major disruptions whilst also facing activist demands has been a challenge too far.
- **36 months** – Improved performance for all. Whilst the returns are still below the broader market overall, the size of the differential has reduced from an average of 8% to 2%. The notable exception to that is the UK where there is an outperformance of 5%. Part of the explanation of this UK performance is the relatively high proportion of value-generative transformation focused activist campaigns in the UK.

Exit Profile for Activist Investments

To complete this initial analysis we also mapped the exit profile for activist investments i.e. how long did the activists stay invested after launching a campaign? We then mapped that average exit profile against the share price performance profile.



The flow of the average exit profile clearly matches the flow of the average share price performance. It is also clearly bifurcated with 85% of the activists either exiting within 18 months or remaining invested for longer than three years.

Given the share performance profile, this seems logical. After 12 months, the activists take a view on how their investment is progressing and its prospects. If they can see a market beating performance ahead, they remain invested and involved, with a refocus of their time horizon to the medium term. If not, or if they have already achieved their goals (or indeed failed to do so), they sell out and move onto the next.

Contact

**Malcolm McKenzie**

Chairman, A&M Europe
Corporate Transformation Services
+44 20 7663 0433
mmckenzie@alvarezandmarsal.com

A&M Activist Alert

The AAA is the most comprehensive statistical analysis of its kind. Now in its sixth year, the AAA model analyses a range of qualitative and quantitative factors for 1,780 corporates with a market capitalisation of US\$200 million or more, listed and headquartered in the U.K., Germany, France, Scandinavia, Switzerland, Benelux, Italy, and Spain. The AAA reviews the performance of those corporates against a further 2,172 of their global peers, and the resulting predictive model successfully predicted the majority of corporates publicly targeted by activists since January 2015. The report is typically published twice yearly and individual companies can check their position on the Alert List by contacting A&M.

For more information and to read our past reports and analysis please go to:

<http://www.alvarezandmarsal.com/de/insights/am-activist-alert>

ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 6,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

To learn more, visit:
AlvarezandMarsal.com

Follow A&M on:

