



Shareholder Activism In Europe

A&M Activist Alert (“AAA”)

2023 Interim Outlook

Observations and projections for the remainder of 2023 and into 2024

July 2023

Summary

Principal observations on the year so far



Momentum is building – Each month of 2023 has seen a greater number of activist campaigns launched than the month before. And more funds are entering the fray – we are now tracking 102 funds adopting activist tactics in Europe.



Shareholder activist campaigns are increasingly focusing on five key European markets – The UK, Germany, France, Switzerland and Scandinavia saw 81% of activist campaigns in 2023, up from 68% in 2019.



Communications, Technology and Healthcare sectors have seen the largest increase in focus from activists – Cost reduction and capital allocation and management have been major areas of focus for activists in these sectors, with the rising cost of capital being a key driver.



More environmental campaigns than ever before – The first five months of 2023 saw 12 investors launch 17 environmental campaigns in Europe – a 143% increase on the same period in 2019.



“If you can’t sell, fix” – Reduced M&A opportunities have given rise to increased demands for corporates and their Boards to deliver operational, strategic and capital transformation.

Key predictions for the coming 12 months



Activist momentum will continue to build – market volatility, increasing activist appetite and demands for increased yield from long-only investors, all combine to indicate that a wave of activism will arrive in Europe as we move through the rest of 2023 and into 2024.



The “Big 5” markets of the UK, Germany, France, Switzerland and Scandinavia will remain the prime focus for activists – Weakened operational and financial performance across many western European corporates offer multiple opportunities for activist intervention.



Consumer, industrial and technology corporates will be favoured hunting grounds – Companies in these sectors will face multiple challenges including needing to improve their return on capital and capital allocation, and rethink their cost structures.



Campaigns with environmental or social objectives will add further to the Gordian knot of challenges facing Boards – Public perceptions and consumer expectations will continue to ensure that environmental and social campaigns do not abate.



Since 2020 we have seen huge market volatility, and such periods of turmoil often lead to a boom in activist activity. With activism in the US reaching record levels in 2023, Boards should be preparing for the wave of activism to arrive in Europe over the next 12 months.”

Malcolm McKenzie Chair, Corporate Transformation Services, Europe

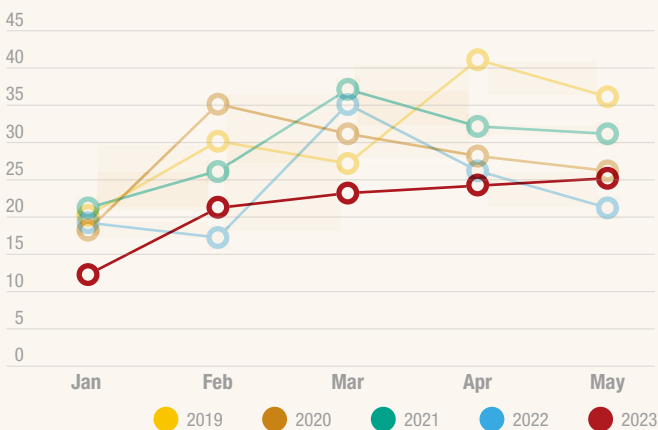
2023 – The Shareholder Activism year to date

Europe Overview

While 2023 saw a relatively slow start for activism in Europe, with just 12 new campaigns in January, each subsequent month saw an increased number of actions. This trend continued into May with the number of campaigns exceeding those seen in May 2022.

Previous years have seen a small decline in the number of campaigns launched post the AGM proxy voting season in March & April. This has not happened in 2023. Momentum is building and will continue to build over the next 12 months.

Number of Shareholder Activist Campaigns launched in Europe – by month

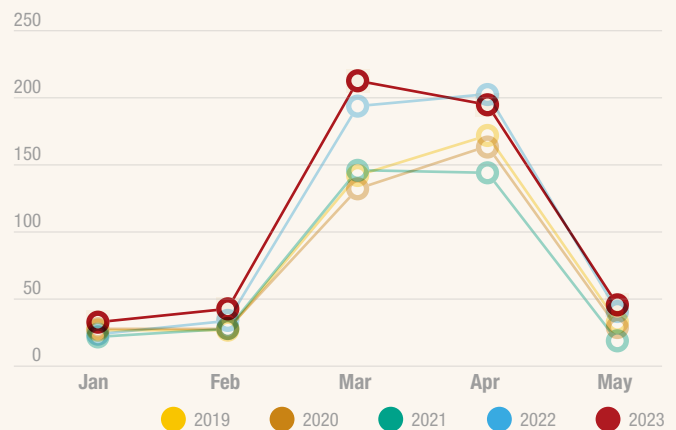


US Comparison

There is a marked contrast when comparing the levels and profile of activism in the US this year to that in Europe. So far the US has seen a higher number of campaigns compared to the busy first half of 2022.

It is also clear that activist campaigns in the US in the first half of each year are heavily focused on the AGM proxy voting season. This reflects the much greater prominence and importance of proxy fights in the US compared to Europe.

Number of Shareholder Activist campaigns launched in the US – by month

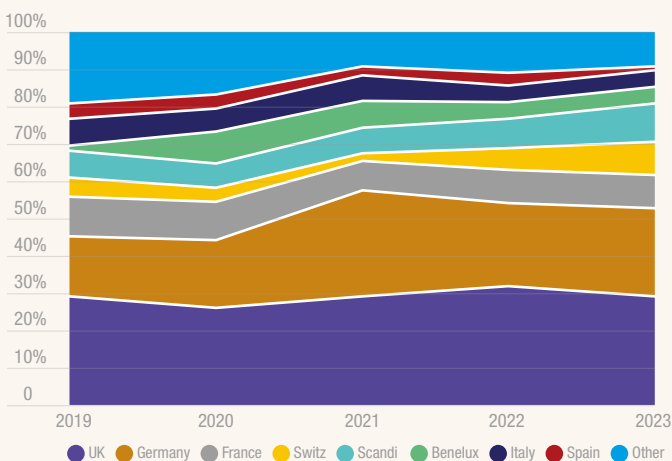


Evolving profile by country – Europe

2023 has seen the continued attractiveness of UK and Germany to activists. Campaigns have included those against HSBC, Shell and BP in the UK, and Deutsche Bank, RWE and BASF in Germany.

There is a steady concentration of shareholder activism by the UK and Germany (accounting for c50% of campaigns between them) but also across France and increasingly Switzerland and Scandinavia. Swiss corporate law reforms came into effect in January 2023, which have the potential to facilitate yet further activism.

Profile of Activist Campaigns – Country

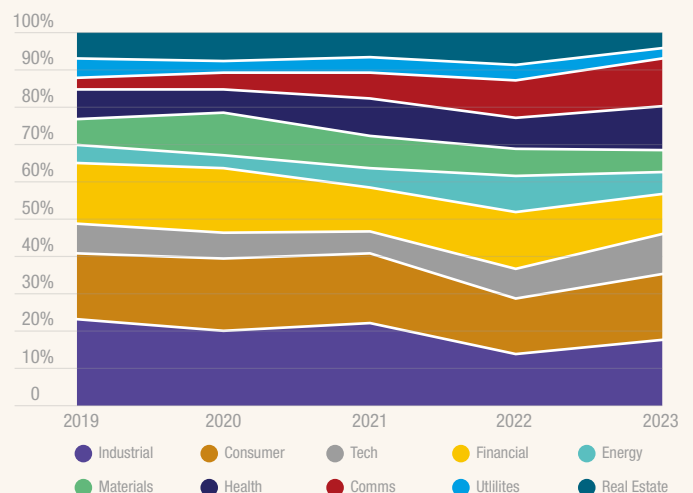


Evolving profile by sector – Europe

The rise of campaigns against Communications and Technology corporates in Europe was a notable dynamic in 2022 and this continued into 2023. Targets have included Vodafone in the UK, Cellnex in Spain and Temenos in Germany. This year has also seen a rise in campaigns in the Healthcare sector including further demands being made of Bayer, Alkermes and Abcam.

Having seen a relatively reduced focus in 2022, the large Industrial and Consumer sectors have both seen increased attention in 2023 with targets including Airbus, Carlsberg and Nestlé.

Changing Profile of Activism – Sector



A focus on Environmental and Social campaigns

Observations on the year so far

The continued rise of environmentally focused campaigns against European corporates is evident. Even during years when activist campaigning overall was suppressed, such as in 2020 and 2022, the number of environmental campaigns has continued to grow. 2023 has seen that trend continue. This is partly driven by an increasing number of ethically driven investors using shareholder activism to achieve their goals, including ShareAction, Follow This and As You Sow.

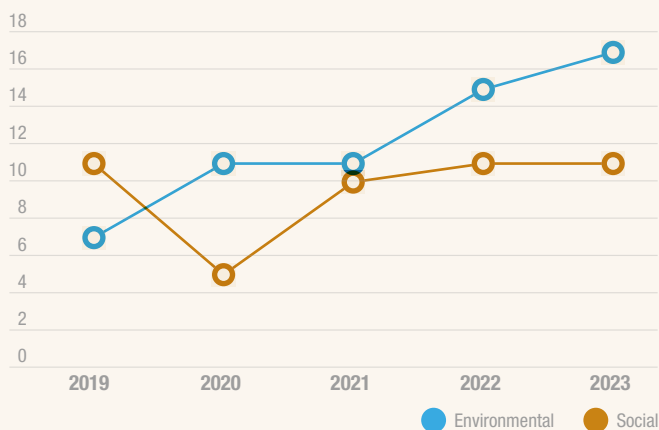
Socially focused campaigns have not seen a similar rise this year, but have remained relatively consistent in number since 2021.

Campaigns by country

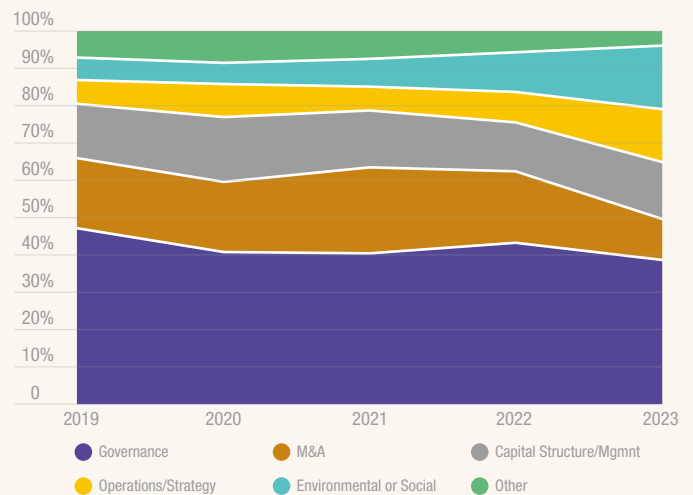
The growth of “E&S” campaigning can be clearly seen when analysing the changing profile of activist demands. From accounting for 6% of demands in 2019, they account for 17% in 2023 so far.

In contrast, there has been a significantly reduced focus on M&A demands. This reflects the slower M&A market overall. Instead, activists have turned more to corporate transformation campaigns focused on operational, strategic or capital management opportunities. When the M&A market returns, those corporates that have transformed and honed their performance will be more attractive targets, or stronger acquirors.

Environmental and Social Campaigns in Europe – first five months of year



Changing Profile of Activist Campaign Demands



“

Since 2019, the average number of separate campaigns faced by targeted European corporates has increased by 25%. Boards are increasingly facing demands on multiple fronts from different investors. They will need to balance these demands carefully or risk coming under yet more pressure.”

André Medeiros

Managing Director, United Kingdom

Predictions for the remainder of 2023 and into 2024



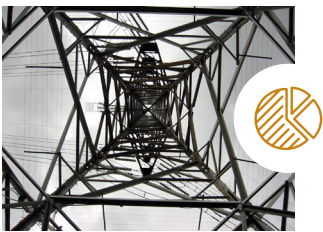
Big picture

- European activism will continue to build momentum through 2023 as market turmoil creates opportunities for activist intervention. We expect that the next 12 months will see a marked increase in the number of activist campaigns launched in Europe.
- Our refreshed A&M Activist Alert has identified 143 corporates that are predicted to be at heightened risk of public shareholder activism, unless remedial action is taken and improved results delivered. Board members are welcome to contact us and discuss the AAA analysis, insights and predictions for their own corporate.



Country perspective

- Activist focus on the “Big 5” markets in Europe (UK, Germany, France, Switzerland and Scandinavia) will continue. UK and German corporates will again be the most targeted, particularly given that, on average, they underperform their global peers in driving gross margins, returns on capital and revenues per employee.
- French and Swiss corporates will also remain in the activist’s sights, with relative underperformance against global peers most evident in EBIT%, cash margins and returns on equity.



Sector perspective

- The consumer, industrial and technology sectors will continue to receive increased activist attention. Operational underperformance, both at corporate and divisional levels, will be under close scrutiny.
- As the cost of capital increases, more corporates will risk seeing their return on capital fall below the associated costs, thus generating negative economic value. These corporates and their boards will be challenged to increase their returns or release the associated capital back to shareholders.



Environmental and Social

- As the transition towards net zero becomes more urgent, environmentally focused activist campaigns will continue to be launched. These are much less likely to incorporate demands for shareholder resolutions than those in the US, and so are less tied to the AGM season. We will therefore continue to see campaigns launched through the rest of the year.
- Socially focused campaigns will also increase, albeit likely at a slower pace. Industrial and, particularly consumer, corporates will see the majority of such campaigns as supply chain transparency, diversity and inclusion rise up the agenda.



The rising cost of capital will be a major driver of shareholder activism in Europe through the remainder of 2023 and into 2024. Driving ever greater capital, structural and operational efficiencies, with incentive structures to match, will be essential if corporates are to avoid becoming the activists next target.”

Patrick Siebert
Managing Director, Germany



Whilst activism in the communications and technology sectors has attracted headlines over recent months, the next 12 months will see the industrial and consumer sectors face the greatest number of activist campaigns. These sectors offer a wide range of levers to improve corporate performance, and activists will be pushing corporates to pull them.”

Guillaume Martinez
Managing Director, France

Contacts



Malcolm McKenzie
Chair, Corporate Transformation
Services, Europe
+44 20 7663 0433
mmckenzie@alvarezandmarsal.com



André Medeiros
Managing Director, United Kingdom
+44 7341 655 323
amedeiros@alvarezandmarsal.com



Patrick Siebert
Managing Director, Germany
+49 89 710 40600
psiebert@alvarezandmarsal.com



Fernando De La Mora
Managing Director, Spain
+34 91 781 5521
fdelamora@alvarezandmarsal.com



Guillaume Martinez
Managing Director, France
+33 62 684 2225
gmartinez@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 1,446 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 3,642 of their global peers, and the resulting predictive model successfully predicted 48% of the corporates publicly targeted by activists since January 2018. 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:

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



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With over 7,500 people providing services across six 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.

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