



SHAREHOLDER ACTIVISM IN EUROPE

A&M ACTIVIST ALERT (“AAA”)

2024 INTERIM OUTLOOK
OBSERVATIONS AND PREDICTIONS FOR THE
REMAINDER OF 2024 AND INTO 2025

JUNE 2024

SUMMARY

PRINCIPAL OBSERVATIONS ON THE YEAR SO FAR



01/ THE WAVE OF ACTIVISM REBUILDS AFTER A NEW YEAR LULL

The second half of 2023 saw a wave of shareholder activism push through Europe. Momentum is building again with an increase in activity in April and May, following the usual New Year slowdown in January and February.



02/ FOCUS ON GERMANY AND SWITZERLAND

The U.K. continues to be the most targeted market in Europe, but Germany and Switzerland are attracting ever more attention, accounting for 42% of campaigns versus 32% last year.



03/ SMALLER ACTIVISTS MAKING MORE NOISE

Larger activists often generate more headlines, but it is the smaller (AUM of less than \$2bn) and often newer funds that are launching a greater proportion of campaigns – from 28% in 2023 to 47% this year.



04/ SPEAK SOFTLY (AND RELY LESS ON THE BIG STICK)

The larger activist funds have steadily reduced their use of public campaigns, and instead have put greater focus on private discussions. Being seen as constructive and open minded, rather than hostile, can be a real plus.



05/ PEERS RISE TO THE CHALLENGE

Our analysis identifies a positive “spillover” effect of activist campaigns in non-targeted corporates – close peers of a targeted company show improved financial and operational performance compared to the wider sector.

KEY PREDICTIONS FOR THE COMING 12 MONTHS



01/ M&A WILL LEAD THE WAY

A buoyant M&A market is a key driver of shareholder activism. There are early signs of a rebound in deal activity in 2024, with the value of global M&A rising 30% to \$690 billion in the first quarter¹.



02/ WITH GREATER FOCUS ON P2P

We are seeing increasing interest in public to private (P2P) transactions with Thoma Bravo's acquisition of Darktrace plc being a recent example. Such opportunities will inevitably attract increasing activist interest.



03/ “FIX THEN SELL”

The return of M&A options will offer value generative exit routes, but such value will be maximised by first focusing on operational transformation, and so will be a focus for activists. Now is the time to drive such transformation.



04/ CAPITAL ALLOCATION (INTERNAL VS EXTERNAL)

Activists will increasingly focus on internal vs external capital allocation options. Will internal options (CapEx, R&D, Working Capital) offer better returns than external (M&A, dividends, buy-backs)?



05/ YIELD VS ESG

Environmental and Social goals will continue to be an important area for corporates and their stakeholders. However, we anticipate that a focus on nearer term investment yield will attract greater support and soften the ESG momentum.

¹ As per London Stock Exchange Group

“THE DYNAMICS OF SHAREHOLDER ACTIVISM IN EUROPE ARE EVOLVING. QUIETER IN SOME WAYS, LOUDER IN OTHERS. BUT THE UNDERLYING TREND IS CLEAR – SHAREHOLDERS EXPECT IMPROVED PERFORMANCE AND WILL HOLD THE BOARD'S FEET TO THE FIRE WHEN NECESSARY. MANAGEMENT SHOULD RISE TO THE CHALLENGE.”

Malcolm McKenzie, Chair, Corporate Transformation Services, Europe

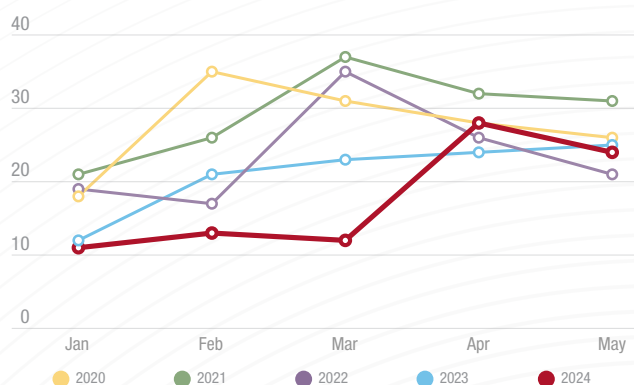
EUROPE 2024

THE SHAREHOLDER ACTIVISM YEAR TO DATE



TRENDS BY COUNTRY, SECTOR AND SIZE OF ACTIVIST

Number of shareholder activist campaigns launched in Europe – by month

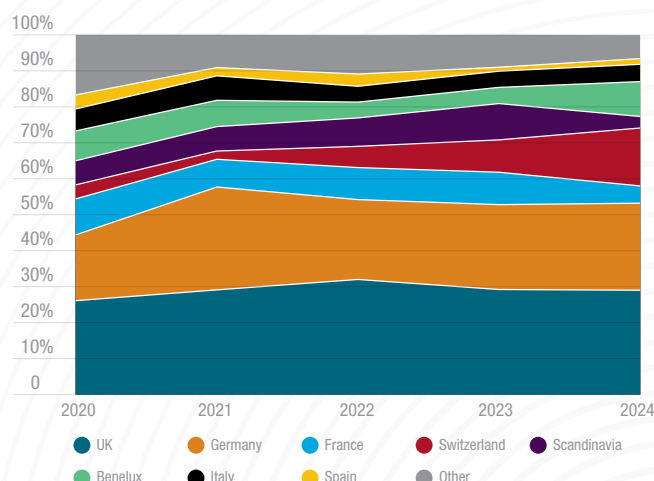


Europe Overview

2024 has seen a relatively slow start for activist shareholder campaigning in Europe. This follows what was a marked acceleration in the second half of 2023. February and March 2024 were particularly quiet months, with activity in April and May then picking up to broadly match levels seen in recent years. Notable campaigns have included those against Elementis plc, John Wood Group plc, Deutsche Post AG, Delivery Hero SE and SoftwareONE Holding AG.

It is notable that the lower levels of activist campaigning in Q1 2024 translated through to a 30% reduction in the number of shareholder resolutions proposed at European AGMs over that period.

Profile of activist campaigns – Country



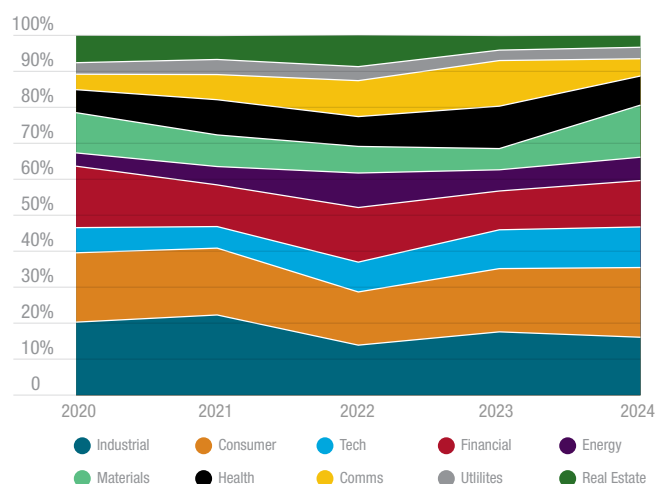
Evolving profile by country

The U.K. and Germany continue to be the largest markets for activism in Europe, but we have seen notable declines in campaigns launched against corporates headquartered in France and Scandinavia.

Conversely, Switzerland has seen a marked increase in activist campaigns such that they account for c16% of European campaigns in the year so far (up from 9% in 2023). Swiss corporates targeted included Glencore plc and Chubb Limited.

Such increases in Swiss activism were as we predicted given the more shareholder friendly corporate law reforms that came into effect in January 2023.

Profile of activist campaigns – Sector

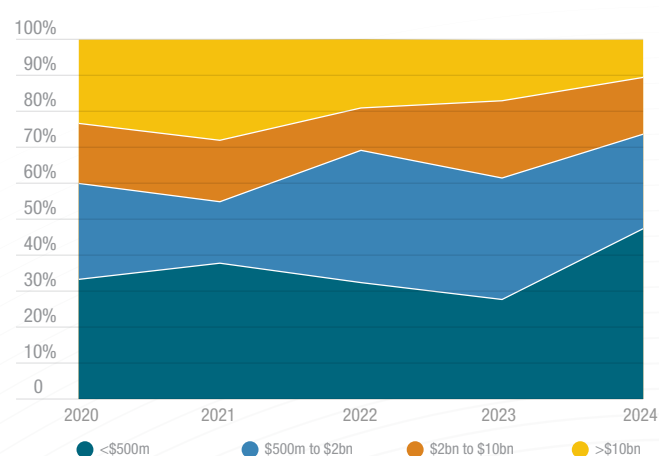


Evolving profile by sector

The Industrials and Consumer sectors remain the most targeted sectors in Europe, with targets including Clarivate plc, Euronav NV, BMW Group AG and Dr Martens plc. 2024 will continue to offer opportunities for activists in these sectors.

The sector that stands out as receiving significantly greater activist focus this year is Materials, accounting for 15% of campaigns in 2024 so far versus 6% in 2023. Targets have included Linde plc and Kenmare Resources plc, as well as Glencore plc as mentioned above. Given the heightened interest in the sector generated by the proposed takeover of Anglo American plc, we anticipate that the rest of 2024 will see further campaigns in the sector.

Profile of activist campaigns - Fund size



Evolving profile by size (AUM) of activist

One clear trend is how campaigns are increasingly more likely to be launched by smaller activists (as measured by Assets Under Management "AUM"). As can be seen in the chart opposite, in 2021 Activist Funds with more than \$10 billion of AUM launched 28% of all campaigns. In 2024 that has fallen to 11%. This does not mean that the larger funds have left the market. Far from it. Rather the trend is for the larger funds to adopt more private approaches – if they can achieve success (measured by outperforming share prices) without public campaigning, then all the better for everyone.



PREDICTIONS FOR THE REST OF 2024 AND INTO 2025

OVERVIEW



01/ BIG PICTURE: OPPORTUNITIES FOR ACTIVISTS WILL INCREASE AS THE M&A MARKET PICKS UP PACE

- Our refreshed A&M Activist Alert has identified 148 corporates that are predicted to be at heightened risk of public shareholder activism over the next 18 months.
- Particular attention will be on M&A. As dealmaking picks up, corporates and their investors will have additional options to seek increased shareholder value. This will act as a catalyst for increased levels of activism.
- At an operational level, maximising returns on capital, and in particular the balance of internal versus external capital allocation, will come under heightened scrutiny.



02/ COUNTRY PERSPECTIVE: A SHIFTING GEOGRAPHICAL FOCUS

- The focus on the U.K., Germany and Switzerland will continue, with targeted corporates seeing campaigns launched by multiple activists. Long-only funds will also be more active and, on occasions, publicly activist.
- We anticipate that France and Scandinavia will show increasing levels of activism as the year progresses but this is from a very slow start to 2024. We are seeing early signs of increasing interest in the Netherlands and also, albeit to a lesser degree, in Belgium.



03/ SECTOR PERSPECTIVE: MULTIPLE OPPORTUNITIES IN MULTIPLE SECTORS

- The consumer, communications and materials sectors are predicted to experience increased targeting by activists, with the anticipated return of M&A being one of the major drivers. The industrials sector will continue to be the most targeted sector, although our analysis suggests that there will be a relatively higher increase in value opportunities in other sectors for activists to target.
- The technology sector will continue to be attractive to activists with cost control, return on capital and M&A/P2P being key areas of focus.

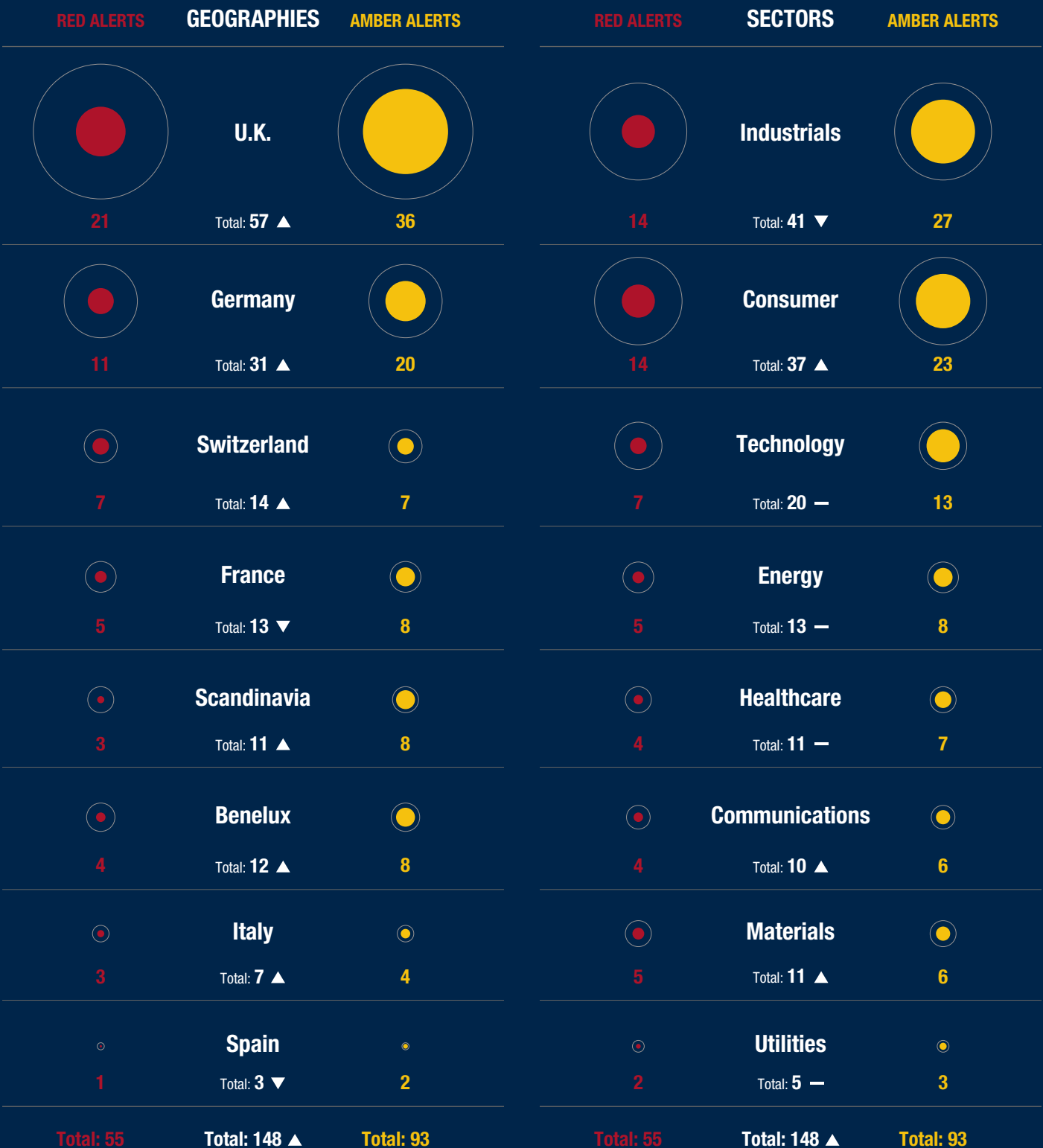
“WITH THE INCREASED FOCUS ON GERMAN AND SWISS CORPORATES, MANAGEMENT AND SUPERVISORY BOARDS IN THOSE COUNTRIES SHOULD BE PREPARED TO BE CHALLENGED. WITH OPEN MINDS IT IS INCREASINGLY THE CASE THAT PRIVATELY ACTIVE SHAREHOLDERS NEED NOT BECOME PUBLICLY ACTIVIST.”

Patrick Siebert, Managing Director, Germany



PREDICTIONS FOR THE REST OF 2024 AND INTO 2025

WHO ARE THE PREDICTED ACTIVIST TARGETS?



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

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

Indicators showing change compared to our January 2024 Outlook ▲ ▼ — up arrow: higher, down arrow: lower, level: level

RISING TO THE CHALLENGE

HOW SOME CORPORATES UP THEIR GAME WHEN SHAREHOLDER ACTIVISTS TARGET THEIR SECTOR

BACKGROUND

Europe has seen repeated instances of shareholder activists focusing their targeting on specific market sectors or indeed sub-sectors. Recent examples include Chemicals (targets including Elementis plc, Corbion NV, OCI NV and Covestro AG), Application Software (Indra Sistemas SA, Beta Systems Software AG and Temenos AG) and Healthcare Facilities (Orpea SA and M1 Kliniken AG).

As illustrated in our AAA Outlook from January 2024, on average activists choose their targets well. Their campaigns are associated with shareholder returns that exceed the broader market, thus increasing shareholder value. So how do other corporates in a targeted sector respond when they see their peers being targeted? Are they left behind, or do they rise to the challenge and generate increased shareholder value?

There have been several studies of such peer response, sometime referred to as “spillover” effect (see for example Gantchev et al from 2018) but these have primarily focused on the U.S. Our analysis here focuses on European targets and seeks to understand how they have responded when their peers are targeted, and what the impact has been for shareholders.

OUR APPROACH

We identified 112 European corporates that had been publicly targeted by shareholder activists in the four years from 1 January 2019 to 31 December 2021. Our focus was on campaigns launched by activist investors who publicly raised concerns around financial performance, operational management or capital allocation. Our aim was to compare the performance improvements by the peers of the targeted corporate with performance improvements by corporates in the wider sector (e.g. if the targeted corporate was in the packaged foods sub-sector, we compared the performance improvements of corporates in that sub-sector, with performance improvements in the wider consumer staples sector). To achieve this, we undertook the following steps:

01/ IDENTIFYING THEIR GLOBAL PEERS

Defined as corporates that were classified as operating in the same sub-sector. For the 112 targeted corporates we identified 1,760 such peers globally, meaning on average each targeted corporate had approximately 16 identified peers.

02/ SIMILARITY ASSESSMENT

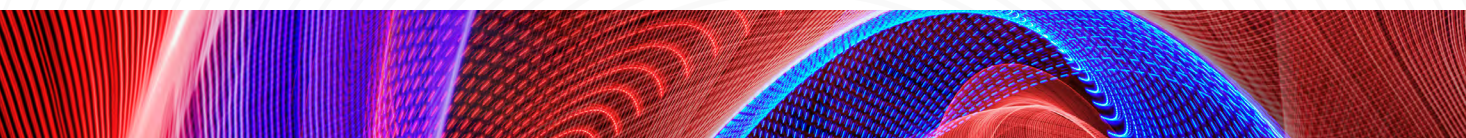
The identified peers were assessed on their similarity to the targeted corporate, based on revenues, market capitalisation, geographic focus and geographic headquarters.

03/ DID THEY RISE TO THE CHALLENGE?

For each targeted corporate we ranked the peer group (those corporates in the targeted sub-sector) based on improvements in financial and operational performance after two years. We did the same for corporates in the wider sector. We then compared the improvements by the top quartile peer group corporates to those by the top quartile in the wider sector.

04/ SHAREHOLDER VALUE GENERATED

To the extent that peer group corporates did rise to the challenge and outperform improvements seen in the wider sector, we reviewed how much shareholder value had been generated as a result.



OUR FINDINGS



01/ SOME PEERS DID RISE TO THE CHALLENGE, BUT NOT ALL

It was notable that the closer the peers were to the target in terms of similarities, the more likely they were to rise to the challenge and accelerate their financial and operational performance. The key similarities identified include revenues and market capitalisation, plus market and geographic focus. If they were headquartered in the same country, that also increased the likelihood of a positive response.



02/ HOW DID THEY RESPOND AND WHAT DIFFERENCE DID IT MAKE?

The top quartile peer group from the targeted sub-sector showed significant financial and operational outperformance compared to the top quartile corporates in non-targeted sub-sectors. Specifically, the top quartile peer group showed significant outperformance in improved revenues, revenue per employee, gross margin, EBIT margin, earnings per share and return on capital. The levels of outperformance are summarised in the table below.

Top quartile corporates - targeted sub-sector vs wider sector

Performance criteria	Annual performance
Revenues	+0.40%
Revenue per Employee	+1.01%
Gross Margin %	+0.37%
EBIT %	+0.81%
Earnings per Share	+9.12%
Return on Capital	+1.29%

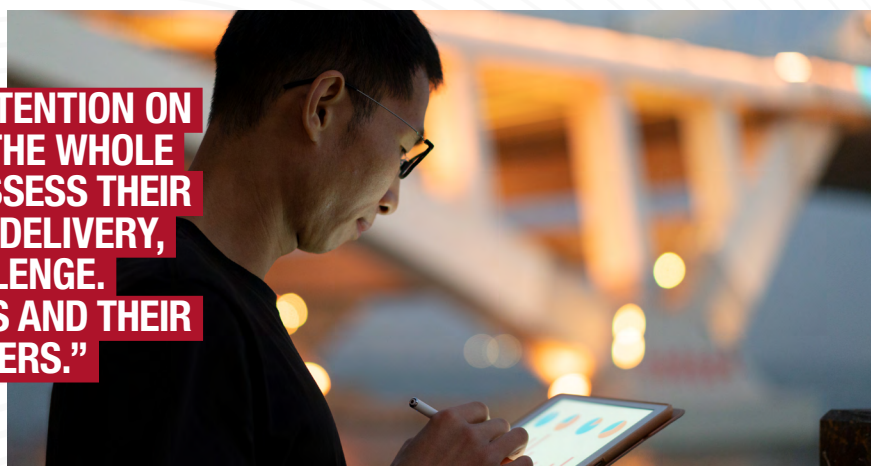


03/ WHAT VALUE WAS CREATED?

For the 440 corporates in the top quartile peer groups (being one quarter of 1,760), the average market capitalisation was \$5.9 billion. With an average outperformance in earnings per share (EPS) of 9.12%, and conservatively assuming an unchanged PE ratio, **the increased shareholder value across the 440 corporates is estimated to be \$237 billion. If all 1,760 peers (whose average market capitalisation was \$6.4 billion) had increased their EPS in the same way, the estimated value increase, again assuming an unchanged PE ratio, would have been in the order of \$1.03 trillion.**

“WHEN ACTIVISTS FOCUS THEIR ATTENTION ON PARTICULAR INDUSTRY SECTORS, THE WHOLE SECTOR SHOULD SIT UP, RAPIDLY ASSESS THEIR OPERATIONAL PERFORMANCE AND DELIVERY, AND RISE TO THE POTENTIAL CHALLENGE. WHEN THEY DO, THOSE CORPORATES AND THEIR SHAREHOLDERS ARE THE BIG WINNERS.”

André Medeiros, Managing Director, U.K.



HOW WE CAN HELP

The A&M Activist Alert has now been running for 7 years and is a valuable early warning system against public activist campaigns. Our model produces detailed results showing the actions individual companies should take to improve their performance and generate enhanced shareholder returns.

Please contact any of our team listed here, or indeed any team member in your local A&M office, to discuss how we can help in more detail. We would be delighted to hear from you.



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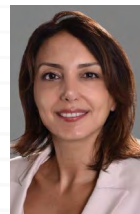
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