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## WHAT ARE ACTIVIST INVESTORS AND PRIVATE EQUITY LEARNING FROM EACH OTHER?

A relentless focus on operational efficiencies, top-line growth and return on investment – all these private equity priorities have now become activist investor territory in listed companies.

Traditionally, private equity firms took underperforming companies private in order to give them time to transform, away from the quarterly reporting schedule and publicity that goes with being public.

Now activist investors are seeking to make the same kinds of changes while companies remain public, pursuing seats on the Board in order to influence strategy and fix problems they have identified. These hedge funds, which in the main, used to rotate their portfolio when unhappy with their investments, are getting in on the act, seeking operational improvements as a way of generating returns and staying invested longer.

Of recent examples, Trian's Nelson Peltz may have lost his proxy battle to [win a seat on P&G's board](#), but David Taylor, CEO of the consumer goods giant, said after the vote that he would "continue to listen" to Peltz and acknowledged that "there is a desire to see us move faster."

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**DAY 2 IS STASIS. FOLLOWED BY IRRELEVANCE. FOLLOWED BY EXCRUCIATING, PAINFUL DECLINE. FOLLOWED BY DEATH. AND THAT IS WHY IT IS ALWAYS DAY 1.**

**Jeff Bezos**  
Founder and CEO of Amazon

To be sure, activists still like M&A – last month, Dutch soft drinks bottler Refresco agreed to a \$1.9 billion takeover by Paris-based private equity firm PAI Partners and Colombia Investment Management, after its activist shareholder Wyser-Pratte urged the company to restart talks when it rejected PAI's first offer.

However private equity today is "about hard work and building something" rather than "financial engineering," Marco de Benedetti, co-head of Carlyle's European buyout group, said in [a recent interview](#) with the Financial Times.



This convergence allows us to look at what private equity and the activists now have in common:

### 1) Be pro-active

“One of the things I love about the private equity model is that they’re pro-active,” says Nick Alvarez, Managing Director of Private Equity Performance Improvement at Alvarez & Marsal. “They manage their investments in a very hands-on and active way. They don’t allow delay and procrastination about why things aren’t happening.”

### 2) Have a Plan B (and C)

Once a company is continually assessing progress, it will quickly see which areas of its operations are failing to meet objectives. What private equity firms do very well is to look ahead and have a range of options at hand, says Alvarez.

“A pro-active appraisal will involve asking yourself: what’s the plan if what we think is going to happen *doesn’t* happen?” he says. “We’re trying to grow the top line or cut cost and get to an EBITDA target but what if we encounter unforeseen headwinds? In those cases, private equity has Plan B or Plan C.”

Without those plans in place for the worst-case scenario, it can take months for companies to act

decisively when their strategy isn’t working out, says Alvarez.

### 3) Get outside help

“There is great value to be derived from an outside-in perspective,” says Kevin Redmon, Managing Director of Alvarez & Marsal’s Corporate Performance Improvement practice.

Just as many activists seek to influence strategy by taking board seats at the companies they invest in, private equity owners “bring in best-of-class thinking, whether that’s an outside consulting firm or individual operators,” says Alvarez.

“The best managers are always challenging themselves to see what others are doing, either people in their own industry or other industries,” he adds.

### How A&M can help

The goal of both private equity owners and activist shareholders is to provide the best possible return for investors. Increasingly, both groups have focused on doing so by improving a company’s performance and profitability.

Our expertise in corporate transformation and our Boardroom relationships help companies to view themselves more objectively with a bias for action before an activist approaches.

## GOT A QUESTION? CONTACT AN INFLUENCER

ANSWERS ARE ONE CLICK AWAY



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