

Activism and active engagement on the agenda

A recent IR Society breakfast briefing considered how companies can be prepared for activist investors. Here, **Martin Railton** summarises some of the key themes.

On Wednesday 28th February we held an IR Breakfast Briefing on the topic of shareholder activism at the Berenberg offices. One of the main objectives of the panel was to better understand how active and activist engagement differs, and hear perspectives from the buy side, investor relations, and communications experts. The panel was moderated by Evdokia Petrakopoulou, head of global corporate governance, M&A, and activism at S&P Global with invited guests: Robert Schuchna, partner at Cevian Capital; Jocelyn Brown, head of governance EMEA & APAC at T. Rowe Price; and Anneke Hoijtink, managing director at FGS Global.

The event was well attended by over 50 IR professionals leaving standing room only for the later arrivals.

Activism is a highly sensitive topic and the ensuing panel discussion proved to be as interesting as it was informative. While it is perhaps convenient to bracket investors into the camps of active, activist, or neither, it's probably more useful to think of investors forming a point on a spectrum of corporate engagement – from the most passive owners of your stock to ones that are active with their engagement, and to those that seek to effect change by fair means or foul.

There were several themes that continued to surface, mainly centred around the benefits of good communication, planning, and consistency of engagement. Understanding who your investors are and how they are likely to behave during AGM time is critical. How you mitigate risks, and then potentially deal with any eventual symptoms of dissatisfaction, comes down to constructive engagement and practical planning. What follows is a synopsis of the major takeaways from the discussion.



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“ Once an activist sets their sights upon you, a well-drilled activist playbook will help you stay calm ”

Be prepared because they will be

The first tool in the armoury is identifying activists on the register. Having a good understanding of how investors voted in the previous AGM is a great way to see who is aligned with your company, and perhaps more importantly, who is not. Voting behaviour can be managed and predicted with the right outreach and communication, so surprises should be kept to a minimum.

Activists are well prepared and will speak with other investors to test their hypotheses and to hopefully garner support. Past employees or other stakeholders may be canvassed. The activist may, or may not, have a sound investment hypothesis but they will be

looking to effect change of some sort. In light of the diligence that the activist will be taking in their research and outreach, it's crucial that IR and management teams are equally well prepared. Sensible planning and effective communication are fundamental to this.

Be clear on who should be involved in the response team

Have a clear understanding of who is in the activist-response group and what criteria will trigger the involvement of different personas. The CEO or CFO have the company to run and should not be distracted from the business side of things unnecessarily. Running through scenarios for different types of approach can help set these criteria and form part of good corporate governance. They can also be planned around quieter periods in the calendar. Be open-minded and test a variety of hypotheses and scenarios.

In terms of the internal activist response team: CEO/CFO, head of communications, legal corporate secretary, members of the finance team, with board or supervisory board included where necessary. From the external side: bankers, law firm, communications consultants, and corporate governance experts who understand how activists operate.

Once an activist sets their sights upon you, a well-drilled activist playbook will help you stay calm, be less likely to act on emotion (don't take it personally!) and prepare the ground for clear, confident, and consistent communications. Not all activism plays out in the public eye but having good relationships with the media can also be invaluable when trying to manage the narrative. Despite the exact nature of the approach, be open to the conversation, listen to the arguments and thank the investors for their input but don't expect them to just go away. Speak with other investors to find out how they

feel and, if necessary, get your top investors to come out in support of you – public shows of support can be really powerful. Try to stay on the front foot and counteract conjecture and inaccuracies with your own facts. Deal with misinformation quickly and extinguish smaller fires before they take hold elsewhere.

Make friends before you need them

Prevention is better than cure so proactive communication with the street can help assuage activist advances before they even happen. Ongoing dialogue with existing and prospective shareholders via non-deal roadshows (NDRs) and corporate governance roadshows are a must.

Trends

The panel also discussed trends they have seen over the last six months, particularly given that activism seems to have been appearing more regularly in the news. Activism and corporate governance related issues are still the primary driver



Eva Petrakopoulou, Anneke Hoijsink, Robert Schuchna and Jocelyn Brown.

(ISS and Glass Lewis also getting more critical), M&A and value creation have also been in the spotlight, with environmental and social activism secondary factors.

Survey responses

In the spirit of active engagement, during the session we asked the audience three questions around activism and their preparation thereof. Interestingly, almost half of the audience confirmed that they had had correspondence from, or

engagement with, an activist in the last 12 months. In terms of preparation for an activist approach, 75% responded that they were 'somewhat prepared' and only 21% described themselves as 'fully prepared'. When it came to the question 'do you feel your management takes potential activist approaches seriously enough for the risks that you see in your business?', a little over a quarter of the respondents said management do not take it seriously enough. ■

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