Activist Investors - Over half of European public companies lack a strategy to engage

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As European executives' concern over activism rises, over half admit they lack a clear strategy to deal with approaches

- ***Almost 70% of senior executives report concern about the rise of activism***
- ***65% say that the importance of activism has increased – or dramatically increased - on companies' priority lists over the last year***
- ***However, 53% admit that they lack a clear strategy for dealing with activism and only 10% rate their ability to meet the challenge as high***
- ***Boards must focus constantly on "The 5Cs" in their power to combat the activist threat and adopt an ongoing "Activist Mindset" of their own***

London (March 11th, 2019) – With the continued prominence and success of activist investors across Europe, a survey by consulting firm AlixPartners of over 500 public company board-level execs finds that while the majority of companies are concerned, only one third feel that they have the expertise to deal with an activist approach. Speaking on condition of anonymity, AlixPartners has gained an honest insight into these worries, which fall under three main themes.

- **Internal strategy and capabilities**
- **Cost barriers**
- **The changing nature of the activist threat**

1. Internal strategy and capabilities

- 53% of executives admitted that they lack a clear strategy for dealing with activists.
- Only 10% of companies surveyed rated their internal capability to meet the threat of activism as high, with a third of companies suggesting they have low capability in this area.
- Indeed, 57% of all respondents believe that they will need to look to third-party support when managing activism.
- One executive commented, "Boards should have a policy, a strategy but many (us included) just don't."

2. Cost barriers

- One of the perceived major barriers to increased preparedness is cost.
- According to one executive, "When you formalise, it means you immediately need to start baking things into plans that have cost and margin implications. In fact, even the process of understanding the implications brings cost."

3. The changing nature of the activist threat

With the majority of company executives citing an increased concern about the rise of the activist threat, many point to recent changes that facilitate the greater impact of activist approaches. The main enabling force is that of technology as captured by two respondents below:

- "Things have changed. To some degree it has crept up on us. These days it is easier to stir up activism. Like-minded groups are instantly connected and able to mobilise."

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- “For a long time we could size the threat. We knew when and where it was coming from. Technology has changed that.”

“The 5Cs”

- According to AlixPartners research, activists consistently target “The 5Cs”, all of which are in the board’s control and must form an integral part of an organisation’s day to day agenda. These are:
    - Core vs Non-Core – What is our core business and what can we dispose of to return value and improve focus ?
    - Cost Savings - Improving EBITDA by unlocking value across the business and supply chain
    - Cashflow – Liberating cash via working capital and more efficient CAPEX
    - Capital Structure – Can we identify structures to return value and fund improvement ?
    - Corporate Governance – Is our board fit for purpose and adding optimum value ?
- Companies need to be evaluating these areas on a constant basis, not simply as a response. This has to be done dispassionately and with a critical mindset, acting upon any shortcomings to ensure that they are ‘activist prepared’**.**

Commenting on the survey, Eric Benedict, UK Local Market Leader for AlixPartners, said:

“While public companies recognise that activism is on the rise, there is a lack of clarity as to the pre-emptive steps they should be taking to protect themselves. The fact that so many are uncertain as to how to prepare means the door is increasingly ajar for activist entry.

It is important to note that activist approaches are very rarely founded upon ideas which are not visible to, nor under the direct control of, management teams. These approaches consistently focus on five key themes; core vs non-core, cost savings, capital structure, cashflow and corporate governance. A rigorous, and constant, focus on these areas is the key to success in warding off the activist threat.

To meet this growing challenge executives must adopt, and constantly exhibit, the same “outside-in” approach as those stalking them by marrying critical thinking with decisive action. The ability of boards to adopt an activist mindset of their own is the key to success”.

About the Survey

AlixPartners, in conjunction with leading independent research firm Explain The Market, collated responses from 500 public company board level executives across the UK, France, Germany and Italy. Respondents were asked a series of quantitative and qualitative questions as regards their views on the phenomenon of activist investing. The survey was administered online and all responses were anonymized bar location and industry sector.

Please see supporting slide pack for an overview of results and additional verbatim quotes.

About AlixPartners

AlixPartners is a results-driven global consulting firm that specializes in helping businesses successfully address their most complex and critical challenges. Our clients include companies, corporate boards, law

firms, investment banks, private equity firms, and others. Founded in 1981, AlixPartners is headquartered in New York, and has offices in more than 20 cities around the world. For more information, visit www.alixpartners.com.

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