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**TULCHAN  
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**LONDON VALUE  
INVESTOR  
CONFERENCE**

**ACTIVISM IN  
NUMBERS**

# ACTIVISM MONTHLY *Lite*



**Activist Insight**

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# Editor's letter

Josh Black, Activist Insight

It may be a touch ironic that the print magazine you have in your hands is focused this month on how activists are using the internet to further their efforts to shake up corporations. Indeed, activists are increasingly coming online in search of new audiences for their ideas, and I hope you'll agree this makes writing about the potential and pitfalls of social media a timely move.

Our activist interviewee, Sahm Adrangi of Kerrisdale Capital, has been publishing his investment research online for years. When Barington Capital Group took a stake in Darden Restaurants last year, it did not simply upload a presentation to its website but hosted a full-on webcast, led by its CEO James Mitarotonda. Whether this practice will lead to greater interactivity between activists remains to be seen, but it seems unlikely that activists will want to close down any avenue of communication that adds the oxygen of publicity to their campaigns.

Twitter became a big talking point in the activism world when Carl Icahn joined the social network last year, and as comments from his Community Manager for our feature article make clear, he thrives on a crusading spirit in his approach to investing. Indeed, perhaps because they are pithier and more personal, Icahn's tweets are more eagerly awaited than his regulatory filings, though they often contain similar information.

In combative and media-hungry campaigns of the type Icahn specializes in, Tweets are a journalistic delight, requiring little to no editing and often forming a story in themselves. Issuers, which often put considerable restrictions on their social media teams and rarely offer much personality, are likely to be caught flat-footed, although eBay's well-orchestrated response to Icahn's campaign to spin-off PayPal may prove to be a model for the future.

“Future campaigns may also benefit from the personal touch”

Now, with Clinton Group's largely successful campaign at ValueVision Media, we may have entered the age of video. Given that the company operates a TV-shopping network, Clinton Group's decision to make a film of its nominees discussing the campaign made sense.

That said, future campaigns may also benefit from this personal touch, even if the impact will be less than the famous Kennedy-Nixon debate. Personal impressions may not be overwhelmingly important for an investment community used to going through voting decisions at speed, but it could be useful for activists wishing to make a point about the quality of its slate and issuers wanting to emphasize the openness of their boards.

Elsewhere in the magazine this month, we have an overview of The Children's Investment Fund's long-running campaign at Japan Tobacco. For an international team, TCI has a very English patience about its investments, and has been pursuing the full privatization of the company for years. At a time when Japan is seeking a revolution in its corporate culture, the steady stream of activism there should be welcome. But change has been slow to come. As the New York Times reported this week, over 900 Japanese companies hold their annual meetings on the same day each year, ostensibly to make life as difficult for investors as for racketeers.

For those unable to make the exciting array of conferences in London this summer, we have reports from two that hosted their fair share of discussion about activism. I am personally glad to have had the opportunity to speak at events organized by ArrowCon Partners, IR Magazine and the IR Society this month, and to hear many interesting tales of corporates' encounters with activists.

It only remains for me to say thank you for reading, and please don't hesitate to get in touch if you have anything you would like to discuss.

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**Activist Insight**

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# A vital channel

An interview with David Shriver from Tulchan Communications

[How important is it for companies to build a relationship with the media as a kind of forward defense for activism?](#)

Having a reputation for openness and transparency is very important for a company. If you have an activist situation and you don't appear to have wanted to engage in peacetime, you're potentially storing up problems for yourself.

A company's starting point should be to try to be self-aware in understanding how its narrative plays out with key audiences among its stakeholder groups, particularly the media. This helps you be proactive in addressing issues that your stakeholders may have and possibly pre-empting any damage to corporate reputation.

Companies need good relationships with the media for sure. But they also need to understand the feedback loop between the media and the capital markets. One indispensable way to do this is to engage with your shareholders on a regular basis, either directly or through a third party, in order to understand what they are really thinking—rather than what you just think they're thinking.

[How important is it for a company to cast a wide net with its media strategy?](#)

The media represents a vital channel through which the conversation about

you as a company takes place and the big issues are debated. As we often say, if a conversation isn't taking place then you have no corporate reputation. The media conversation about you will take place across a variety of channels including print, digital, broadcast and social media. Successfully engaging with the media requires joined-up communication.

“The media will report the facts, but they need context to give those facts meaning”

The media will report the facts, but will need context to give those facts meaning. Companies that know the main correspondents tend to get a fairer hearing.

However, the days when you could just talk, in a silo, to a small number of key journalists are over. The digitalization of the media means that you need to use all media platforms to tell your story and you can no longer be inconsistent with the narrative you deliver to different stakeholder groups.

Consistency requires, among other things, discipline in delivering your story to different stakeholder groups; getting social media right; and being open and transparent

in your dealings with the media. To repeat, the conversation that takes place about you as a company defines your corporate reputation. That conversation takes place across a variety of media platforms and the self-aware company engages with all of them.

[Activists often seem to make companies defensive. Is there a reason issuers don't always seem to respond robustly?](#)

It's probably the case that some companies are not sufficiently in touch with key stakeholders, including their shareholders, and therefore are taken unawares by the approach of an activist. If you don't appreciate the issues your key stakeholders have, around corporate governance say, you will struggle to respond when a shareholder challenges you and you will always be reactive rather than proactive in addressing the issue.

Sometimes companies can feel they are being persecuted by the media in an activist situation. Dissension between a board and a prominent shareholder is newsworthy and will be reported and it is possible to go away feeling battered and bruised and poorly treated. The antidote to that is being prepared, being open and transparent, and responding robustly to legitimate debate around issues of importance to shareholders.

# “IT’S ALWAYS GOOD IF YOU HAVE A BUBBLE AROUND A COMPANY IF YOU HAVE SOMEONE WHO CAN PRICK THAT BUBBLE”

Does the prevalence of activist investors make it more important than ever for companies to know how investors view them?

I always think that to be forewarned is forearmed. A good way to ensure this is a regular independent perception study that assesses the level of understanding and the degree of support a company has in the investor community for its strategy, its capital allocation policy, and its senior management team. It should identify any issues or areas of concern. It will also identify the positives.

Being a self-aware company is about being conscious of what shareholders really think and a regular strategic deep dive provides companies with the opportunity to address any issues proactively, reinforce and clarify their message, and ensure the investment case is better understood ahead of any activist showing its hand.

Engaging with investors in this way, apart from demonstrating good corporate governance, provides shareholders with a conduit to the board through which their collective voice is heard, which in turn allows them to help shape or influence the debate. Dialogue, engagement and understanding are key in all of this. Having well informed and supportive

investors inside is a crucial element in any activist defence.

Why does the media like activism stories so much? Do they sympathise more with activists?

The media loves a good activist story and that’s not going to change any time soon. First because it’s newsworthy. Second, because it is often about important issues to do with a company’s balance sheet or capital structure which are of crucial importance to the company’s future and well-being. Of course, the personalities involved on both sides can bring to life issues which occasionally can seem quite technical.

Part of the reason activists have been represented as a force for good is that they have focused on fundamental corporate governance issues, which some companies can, on occasion, lose sight of. It’s always good when, if you have a bubble around a company, you have someone who can prick that bubble, and the right that comes with the risk of investing in equities is that you get to hold boards to account. Activists should be praised when they do that.

Do you think activists will use social media, and Twitter in particular, more in future?

In as much as Twitter is increasingly a media channel through which debate takes place about a company, and depending on the strategy an activist wants to employ, I think activists will use it more. Some activists will prefer private engagement, and that may increase as the effectiveness of this approach becomes more evident. But those that want to make the debate more public are likely to see Twitter, and other social media platforms, as an important channel to get their messages across.

***Tulchan Communications is an advisory firm specializing in financial and critical communications that represents both activists and issuers in market communication. It recently acted for F&C Asset Management against Sherborne Investors and is advising Knight Vinke on its engagement with UBS.***

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# London value investor conference

Activists ValueAct Capital and Southeastern Asset Management share their insights

On May 22, London played host to two distinguished activist investors. Activist Insight was there.

## Outsiders in the board room

“We tend to think about our investments in terms of commissions and omissions. It’s not the omissions that keep us up at night.” Mason Hawkins, the founder of Southeastern Asset Management and a noted value investor, kicked the day off with an admonition about ‘the importance of terrific partners’—based in part on William Thorndike’s study of eight successful CEOs, *The Outsiders*. In an era when few stocks are trading at deep discounts, investors are more reliant on the actions of CEOs for their returns, Hawkins warned, but “partnering with a bad leader is a recipe for sleepless nights.”

Southeastern, which managed \$35 billion at the end of March, is loath to call itself an activist investor (one of its portfolio managers, watching the speech, says the firm prefers others to do the shouting and screaming). Nonetheless, the firm had a role in two major corporate changes in 2013. First, at Chesapeake Energy, Southeastern played a role in the premature retirement of CEO Aubrey McClendon. Then, having turned its attention to Dell, the asset manager sought to influence the PC-maker’s capital allocation policies. It was

Hawkins who told Michael Dell to repurchase shares, the investor said, but Dell who took this to extremes.

Attention at the conference was prone to drift to Japan, where Southeastern has invested since the 1998 Asian markets crisis. Despite an unhappy time at Olympus (the firm made money, Hawkins said, despite a huge corporate governance scandal and

“Partnering with a bad leader is a recipe for sleepless nights”

the government blocking the sale of a medical devices unit), it was “difficult to generalize,” with some companies providing relatively good returns on equity.

## ValueAdded

Newly appointed Microsoft board member Mason Morfit also spoke at the conference, emphasizing his firms’ personal networks and focus on executive alignment with shareholders. In 14 years of investing, ValueAct has sat on 37 public company boards. Thanks to a dedicated summer intern, it believes that this gives it connections to 1,214 boards with one degree of separation (i.e. directors who have sat on boards with a ValueAct nominee

and their fellow board members at other companies). That is equivalent to around one-quarter of the public companies in America, and an effort that culminated in a billion-dollar campaign at Microsoft.

Two examples of ValueAct-style activism came in the form of current hot investment Valeant Pharmaceuticals International, and Adobe. At the former, where Morfit was until recently a director, ValueAct made the CEO borrow \$5 million to buy stock. “If he delivered less than 13% TSR [total shareholder return], he’d be the worst paid CEO on the S&P. If he earned 45% he’d be the best,” Morfit said. “He earned about 85% and kept that up.”

At Adobe, ValueAct opted to change the business model from a license-based to a subscription model, Morfit said. The result was a big cut in forward EPS—normally something prized by the market, but in this instance, well-rewarded. Adobe’s stock has increased 154% since ValueAct first disclosed its investment, around three-times the pace of the S&P 500 Index.

Speaking to Activist Insight afterwards, Morfit predicted a downturn in activism, but said ValueAct had been assessing opportunities in the UK and would likely return.



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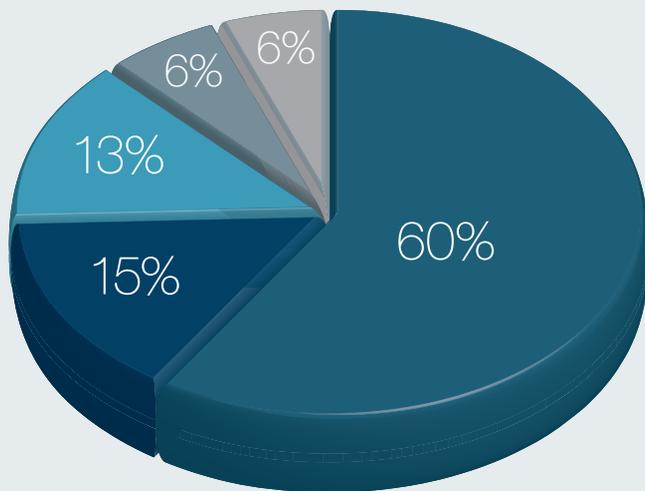


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# Activism in numbers

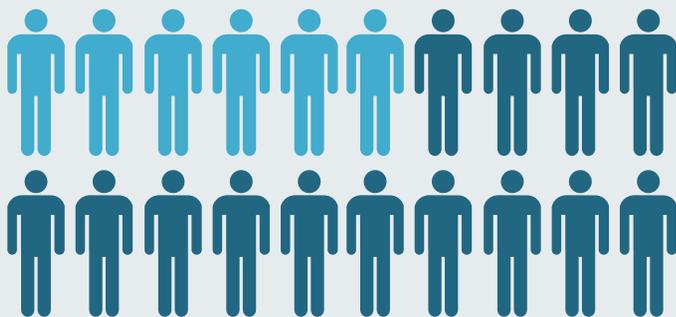
## Activists successful in H1 2014



Activists were at least partially successful in achieving their objectives in 66% of all campaigns initiated and resolved in H1 2014

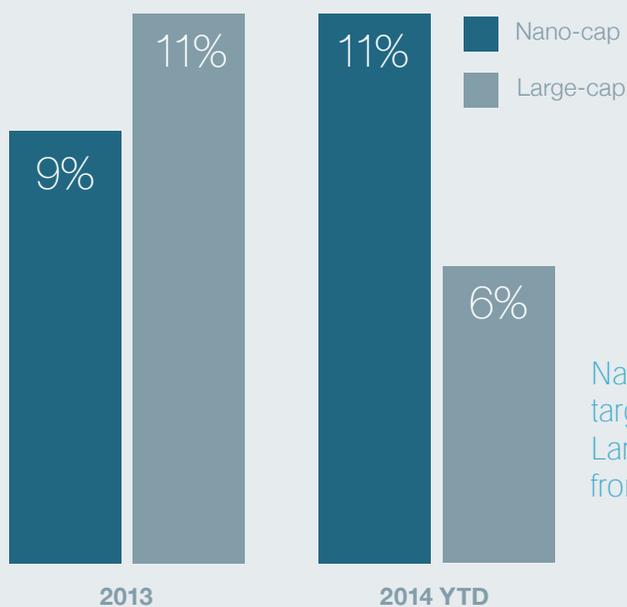
- Activist's objectives successful
- Compromise/settlement
- Activist's objectives unsuccessful
- Activist's objectives partially successful
- Activist withdrew demands

## M&A Activism



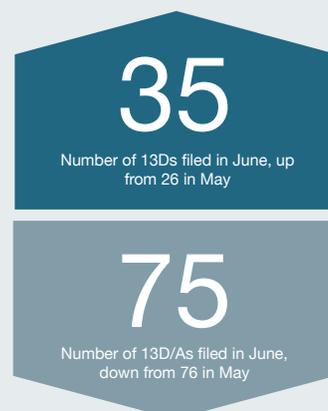
Six activists of the twenty who publicly initiated an activist strategy in June pushed for the sale of the target issuer

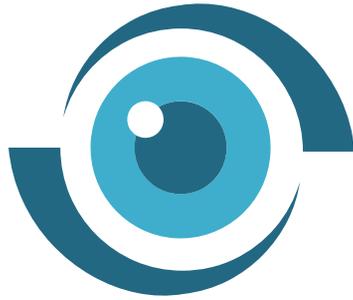
## Nano-cap Activism on the rise?



Nano-caps comprised 11% of activist targets in H1 2014, up from 9% in 2013; Large-caps witnessed a decline in popularity from 11% to 6% over the same period

## 13D Digest





# Proxy Insight

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