Activist Insight

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Activism Monthly

...your monthly digest of activist investment

Welcome to February's edition of Activism Monthly. This month we compare activists Carl Icahn and Bill Ackman and take a closer look at Elliott Management's involvement at Hess Corporation.

Feature: Icahn vs. Ackman: Tale of the Tape

January saw an extraordinary conflict between two of activism's heavyweights come to a dramatic head as Carl Icahn and Bill Ackman squared off live on-air over their respective long and short investments in supplements company Herbalife. This month, Activism Monthly runs a comparative rule over the two activists.

Strategy

Of the two activists, Icahn currently has the largest long equity portfolio with 18 ongoing activist investments, while Ackman's portfolio is more concentrated with 9. In terms of approach, Icahn has employed a variety of activist strategies in an attempt to unlock value in companies, seeking board representation in seven different companies in 2012 alone and attempting to takeover four companies in the same year, including his successful tender offer at CVR Energy. Ackman attempted to remove the CEO of two companies in 2012 with mixed success, realising his objectives at railway firm Canadian Pacific with the replacement of Fred Green with Hunter Harrison but failing to remove Robert McDonald at Procter & Gamble. Both activists pushed for companies to sell themselves to a third party in 2012, with Icahn notably emerging victorious at Amylin following its acquisition by Bristol Myers Squibb Co in July. Icahn's activist investments would appear the more diversified having spread his portfolio evenly across five sectors, including materials, consumer goods and healthcare, whereas over half of the companies in Ackman's portfolio operate in the services sector alone. Both portfolios are currently heavily focused on North American issuers.

How have the activists performed recently?

Both activists have produced some truly emphatic returns in recent years. Icahn's investment in online streaming company Netflix in October 2012, where he is expected to launch a proxy contest for control of the board, has already returned an estimated 182% (accurate at the close of markets on February 1st), while his ongoing activist campaign at CVR Energy has so far returned approximately 90%. These investments alone represent an estimated gross return of $2.4 billion combined.

Ackman is no stranger to the aggressive short selling approach he is adopting at Herbalife having successfully campaigned and bet against MBIA, the municipal bond insurer, between 2002 and 2008 in a deal that earned his firm more than a billion dollars in profits. However, he has also shown astuteness in the long equity market with successful ongoing campaigns at railway firm Canadian Pacific (CP) and General Growth Properties (GGP), the US real estate investment trust. Ackman's Pershing Square Capital Management has so far generated an estimated gross return of over $1.4 billion through its activist involvement at CP since October 2011 while its investment in GGP in the same period has produced estimated returns in excess of $900 million.

Who has fared best in Herbalife so far?

Ackman is widely believed to have shorted the stock at $53-a-share, according to analysts' estimates. However, while the position currently held by Icahn remains unclear, another high profile activist investor can provide us with a clue as to the long performance of the stock. At odds with Ackman's assessment, Dan Loeb of Third Point Partners established a long position in the stock, which is believed to have cost him just $32-a-share after the stock plummeted by around 40% following a damning presentation on the firm by Ackman in December. Herbalife shares closed on $35.06 at the end of trading on Friday 1st February, marking gross returns on investment of 51% for Ackman and 10% for Dan Loeb, handing the short seller the early advantage. Given the recent high profile successes of both Icahn and Ackman, the ongoing situation at Herbalife will be fascinating to observe.

News in brief: our monthly round-up

New Investments in January:

Activist	Company	Stake
Clinton Group	Natural Tandem	5.20%
Starboard Value	Calgon Carbon	7.70%
Carl Icahn	Transocean	5.61%
Laxey Partners	Africa Opportunity Fund	2.35%
Stilwell Value	United Community Bancorp	9.20%

In the News:

Starboard Value has written a letter to the board of Wausau Paper putting forward three nominees for election at the tissue and paper manufacturer's 2013 annual meeting. The activist also urged Wausau to put itself up for sale following the company's announcement that it would carry out a review of its paper business, which was responsible for over half of Q3 sales last year. Starboard already has two representatives on the board.

Michael Baker Corp. will be exploring strategic alternatives following a $24.24-a-share takeover bid from private equity firm DC Capital Partners. The professional services firm's board of directors has appointed a committee which will be advised by Houlihan Lokey and Jones Day. Activist investor Crescendo Partners sent a letter to Baker last month advocating that the company sell itself but dismissed the DC bid as too low and said they should be looking for a share price of over $30-a-share.

Campaign to watch...

Elliott Management - *Hess Corporation*

Following Elliott Management's announcement that it may purchase over $800 million worth of shares and seek board seats at Hess Corporation, the global energy company announced that it would spin-off its fuel storage terminal network and leave the refining business. Hess' revelation that it will close its refinery in New Jersey by the end of February and look for a buyer for its 19 storage terminals caused the company's share price to rise 6.1% to $62.48-a-share at the close of the New York Stock Exchange on January 28th. The following day Elliott submitted a letter to shareholders asking them to elect its five nominees (all current or former Elliott executives) onto the energy company's board, causing Hess' share price to rise by 9%. Furthermore Elliott suggested the decision to spin-off its fuel storage terminal network was insufficient and that Hess should also sell its retail operation and spin-off its assets in the Bakken Shale region of North Dakota. The letter also criticised the board for "underperformance" and "a lack of focus".

However, chief executive officer John Hess has spoken out, saying that he would rather the company take a "balanced approach" by maintaining a number of its offshore and onshore assets. Hess believes that on their own, the Bakken and Utica Shale assets "would not be self-funding and could not get access to the credit markets".

Fellow activist shareholder Relational Investors also became involved, supporting Elliott Management's calls to sell many of the company's assets. Ralph Whitworth's hedge fund owns a 2.7% stake, making it one of Hess' ten largest shareholders. Relational stated in a letter that it would be "disappointed" if Hess forced a proxy fight over director nominations.

13D Digest January

Activist 13D's	7	↑
Activist 13D/A's	53	↓
New Activist Funding	$196,943,932	↓

Activist Insight...

Activist Insight aims to provide the most comprehensive global information source on activist investment including news, profiles of activist firms, performance benchmarks and more.