Activist Insight

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Activism Monthly

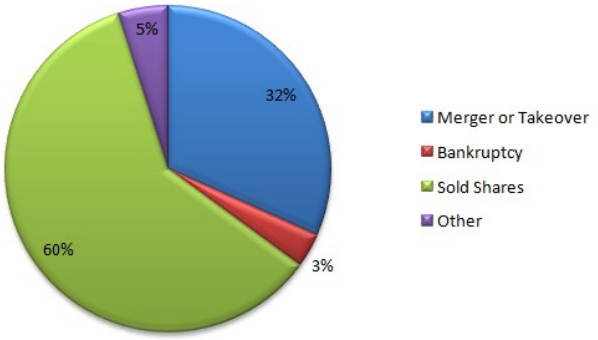
...your monthly digest of activist investment

Welcome to March's edition of Activism Monthly. This month we review activist exit strategies, examine shareholder activism in Switzerland and take a closer look at John Paulson's and PSAM's involvement at MetroPCS.

Feature: M&A facilitates 32% of activist exits since 2010

A well-planned exit strategy is an important consideration for an activist investor given it will often own a substantial shareholding in its target company after an activist campaign. In many cases, the exit itself will form the core focus of an activist's value creation strategy as it pushes the target company towards a merger or acquisition. This month, Activist Insight analyses the frequency of different exit strategies since 2010.

Fig.1: Activist exit strategies since 2010



Activist insight has analysed 385 global exit situations since 2010 in companies in which activists have engaged with management. Perhaps predictably, the most common exit type was for an activist to sell its shares on the open market, which happened on 60% of occasions (Fig. 1). Open market sales aside, mergers and takeovers were by far the highest denominators for activist egressions. Companies were acquired or formed part of a merger in 32% of situations, with high profile examples including Elliott Management's recent exit from Warnaco after the New York-based company was acquired by industry counterpart PVH Corp. Of these acquisitions, private equity firms formed the buyer in almost a quarter of cases, including TPG Capital's purchase of Par Pharmaceuticals in a move orchestrated by activist shareholder Relational Investors. Other listed companies, meanwhile, accounted for the buyer in over half of all acquisitions of companies invested in by activists.

The bankruptcy or administration of a target company has accounted for a noteworthy 3.38% of activist shareholder exits since 2010, including Crystal Amber's campaign at UK sports retailer JJB Sports. The remainder of other exit types for activists includes activist themselves acquiring the company, which has accounted for just over one percent of activist exits since 2010. Liquidation, delisting or being taken private, winding-down and finally stock buybacks complete the less frequent exit types.

Selling shares has become a more frequent exit strategy for activists over the past couple of years, increasing from 55% of all activist exits in 2010 to 62% in 2011 and 63% in 2012. The frequency of takeovers and mergers has decreased over the same period from 34% of all activist exits in 2010 to 30% in both 2011 and 2012. Listed companies have less frequently purchased the target company in activist situations over time as they accounted for 62% of acquisitions in 2010 compared with 41% of acquisitions in 2012.

Looking to 2013, a number of activists are currently campaigning for a merger or acquisition of their target companies, including Audley Capital at Curanum AG and Crescendo Partners at Michael Baker Corp. If successful, these deals will follow the likely high profile acquisition of Gardner Denver by private equity firm KKR in a move which will facilitate the successful exit of activist investor ValueAct Capital, which has pushed for a sale of the company since the resignation of CEO Barry Pennypacker in July 2012.

Activism goes global... *Switzerland*

Shareholder activism is beginning to grow in Switzerland as foreign activists look to unlock value in Swiss companies. UK-based activist Laxey Partners has often targeted Swiss companies, including Altin AG and Implenia AG, where it was unsuccessful in a takeover attempt. Other notable activists that have entered into the Swiss market include Knight Vinke with its investment in Xstrata and more recently Carl Icahn who has invested in Transocean Ltd.

Goldenpeaks Capital has been at the forefront of Swiss-based activist investors since its formation by Adriano Agosti in 2006. The Zug-based firm holds a concentrated portfolio and takes an active ownership approach to its investments which have included automated storage solutions and materials handling systems manufacturer Kardex and Electronic Equipment company Volex Group Plc.

One of the biggest issues discussed by shareholders in Switzerland is 'say-on-pay.' With many Swiss shareholders deciding not to exercise their right to vote on such matters, shareholder activism has been rare in the past. However, say-on-pay is now becoming a priority for shareholders as executive compensation becomes more and more controversial.

Changes in corporate law in Switzerland could favour activists in the future. At the beginning of 2012, the Swiss federal parliament adopted a bill to amend Swiss corporate law that includes new rules on corporate governance. The bill has since been passed, approving rules that give shareholders a binding say on executive pay, banning golden hellos and goodbyes, requiring annual re-elections for directors and threatening criminal sanctions for non-compliance. The passing of the act, which the Swiss government has a year to convert into law, is expected to shift the balance of power more in favour of activist shareholders. However, it is expected that the boards' positions at Swiss companies will remain strong.

Global Activism Spectrum:

For details of our online service where you can find more data & news visit *www.activistinsight.com* to arrange a product trial.

News in brief: our monthly round-up

New Investments in February:

Activist	Company	Stake
Relational Investors	SPX Corporation	8.76%
Stilwell Value	HopFed Bancorp	7.40%
Marcato Capital	Lear Corp	5.20%
Corvex Management	CommonWealth REIT	9.75%
Mill Road Capital	Cache Inc	3.20%

In the News:

Audley Capital has filed a notice that it is to seek five seats on the 10-member board of Alabama-based coal mining company Walter Energy. Walter Energy has responded by urging stockholders to back its slate of 10 director nominees and ignore Audley's solicitation for votes. It has also stated that its board and management team remain fully committed to creating value for all shareholders through the successful execution of the company's strategy.

Starboard has sent a letter to the board of Office Depot restating its belief that the significant value of its 50% joint venture interest in Office Depot de Mexico is not fully reflected in its stock price. Starboard stated that it believes the board should promptly obtain consent from OfficeMax to immediately explore a sale of its interest in Office Depot de Mexico after receiving an offer for its stake on February 15th. Starboard added that it intends to continue to engage in discussions with management, the board and shareholders of Office Depot regarding representation on the issuer's board.

Campaign to watch...

Paulson & PSAM - *MetroPCS*

Activist shareholders P. Schoenfeld Asset Management (PSAM) and Paulson & Co. have put the proposed merger of MetroPCS and T-Mobile in doubt by revealing that they will vote against the merger on its current terms. PSAM initially came out in opposition to the merger at the beginning of February, citing the exchange ratio of shares for MetroPCS shareholders as unfair. The fund subsequently filed proxy materials urging shareholders to vote against the merger and return the white proxy card.

Paulson & Co., a 9.9% stakeholder of MetroPCS then announced at the end of February that it would also vote against the merger due to the high levels of debt likely to be incurred by MetroPCS as a result of the proposed merger. Paulson & Co. also added that it believes that the company is worth more as a stand-alone company and should remain so while looking for opportunities for higher value strategic transactions.

The combination of T-Mobile and MetroPCS would provide MetroPCS shareholders with $4.06-per-share as well as an approximate 26% ownership stake in the combined company. MetroPCS has argued that the merger would create the leading value wireless carrier in the U.S. which would provide sustainable long-term value for shareholders.

The deadline for the U.S. department of justice to object to the merger under U.S. antitrust law has now passed but the proposed merger still requires approval from the FCC and the Federal Committee on Foreign Investment, together with approval from MetroPCS shareholders. The shareholders are set to meet on April 12th to vote on the merger after it was pushed back from March 28th by MetroPCS in order to correct an 'administrative error.'

13D Digest February

Activist 13D's	10	↑
Activist 13D/A's	50	↓
New Activist Funding	$3,167,074,400	↑

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.