Activist Insight

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# Activism Monthly

*...your monthly digest of activist investment*

**Welcome to May's edition of Activism Monthly.** This month we review the performance of companies following activist exits, examine shareholder activism in France and take a closer look at Clinton Group's involvement at Stillwater Mining Company.

## Feature: Activists leaving companies in good shape

**In previous editions of Activism Monthly, Activist Insight has highlighted the potential of activist investors to create significant gains in shareholder value at targeted companies during the lifetime of their investments. This month, we look at how shareholder activism affects the performance of company stocks once an activist shareholder has exited its position.**

On average, the performance of stocks in which an activist investor has exited its position since 2010 have closely tracked the market during the time of the activist's involvement with the company. These stocks have returned an annualized 4.1% on average compared with an average annualized return of 4.5% from the S&P 500 index (as of May 2, 2013). Interestingly, however, our data shows that activist-targeted stocks have outperformed the S&P 500 by an annualized 4.3 percentage points since the date of the activist's exit, suggesting activists imbue a lasting positive effect on shareholder value at the companies they leave behind.

Notable examples of situations in which activists have exited a stock which has gone on to outperform the market include Starboard Value's campaign at small-cap healthcare company Surmodics Inc. (Fig 1). The company saw an impressive 119.1% increase in its share price in the 22 months after Starboard first publicly disclosed its holding in November 2010, owing in part to a successful share repurchasing campaign led by the activist, but Surmodics has gone on to experience a 29.4% further rise in its share price in the seven months since Starboard's exit, outperforming the S&P 500 by 18.5 percentage points.

It is, however, large-cap companies that have generally fared the best, outperforming the S&P 500 by an average of 13.1 percentage points after an activist has exited its position. Indeed, JANA Partners' push for a spin-off at Marathon Petroleum in late 2011 may have contributed to an increase in the issuer's share price of 22.4% in the period between the activist's Schedule 13D and its exit three months later, but Marathon shareholders have gone on to enjoy a 72.0% increase in share price in the 15 months since then, outperforming the S&P 500 by 53.0 percentage points.

While it is difficult to fully attribute the outperformance of stocks since an activist's exit to the work achieved by the activist during its involvement with the company, the data certainly offers an argument against the outdated notion that activists seek only short-term value extraction, and instead suggests activists may help companies to create long-term value for shareholders.

*Fig.1. Notable Performances of Stocks 'Post-Activism'*

| Activist | Company | Annualized stock return since activist exit | Annualized S&P 500 return since activist exit |
|---|---|---|---|
| Starboard Value | Surmodics Inc. | 54.5% | 19.1% |
| JANA Partners | Marathon Petroleum | 55.7% | 15.3% |
| ValueAct Capital | Immersion Corp. | 84.2% | 19.1% |
| Elliott Management | Iron Mountain | 28.0% | 20.9% |
| Pershing Square | Fortune Brands | 61.2% | 20.9% |

## Activism goes global... *France*

France has seen a number of high profile activist campaigns with home grown investors such as Guy Wyser-Pratte and Vincent Bolloré exerting pressure on French companies. French companies have also been attracting interest from foreign activists including Governance for Owners, Sageview Capital and Trian Fund Management. Perhaps one of the most prominent cases of shareholder activism in France was Knight Vinke's campaign at Suez. The European focused activist campaigned against the terms of the proposed merger of Suez with state controlled GDF and also successfully pushed for a spin-off of Suez' water utility business. Knight Vinke eventually sold off its stake to Albert Frère, a Belgian entrepreneur, for between €39 and €40 per share, having paid an average price in the low €20s for the stake.

French law states that shareholders are able to call an EGM if they hold more than 5% of the company's shares. Additionally, any shareholder can request company documents including financial statements. Shareholders are also able to request additional items on a general meeting's agenda; the percentage required varies according to the size of a company's share capital.

The level of shareholder activism still remains low in France when compared to the US. It is thought that this could be down to the French public authority's disinclination to loosen control of important industrial and business sectors, which leads to the cost of activism increasing, in turn reducing the profitability of activism.

**Global Activism Spectrum:**

# News in brief: our monthly round-up

## New Investments in April:

| Activist | Company | Stake |
|---|---|---|
| Clinton Group | Gleacher & Company | 7.70% |
| JANA Partners | Ashland | 7.40% |
| Starboard Value | TriQuint Semiconductor | 7.80% |
| Stilwell Value | Jefferson Bancshares | 5.60% |
| JANA Partners | Oil States International | 9.10% |

## In the News:

James Mitarotonda will join the board of The Jones Group as activist shareholder Barington Capital reached an agreement with the fortune 500 fashion company. Mitarotonda, who is the chairman and CEO of Barington, will stand for election at the company's annual meeting as the board expands to eleven members. "I am pleased to join the board of The Jones Group, a well-respected company with significant potential for future growth. I support the recent initiatives the company has taken and I look forward to working with my fellow directors to build value for all Jones Group stockholders," he said.

Office Depot has announced that it will hold a special meeting to gain approval from shareholders for its proposed merger with rival Office Max in the wake of weak first quarter results. The meeting will be held "as promptly as reasonably possible" as the SEC is still currently reviewing the details of the merger. The stationery retailer's sales profits have fallen by 5.4% to $2.72 billion in the latest quarter. Activist hedge fund Starboard Value has nominated six candidates to Office Depot's board and will continue to seek representation regardless of whether or not the merger goes through.

# Campaign to watch...

## Clinton Group - *Stillwater Mining Company*

The disagreement between the New York-based activist hedge fund and the South Montana mining company started in December last year when Clinton Group sent a letter to Stillwater's board insisting that they make changes to their strategy, operations and management. Clinton accused management of having a "bloated cost structure and marketing budget" and making a series of "strategic missteps" and "destructive acquisitions". The activist concluded that Stillwater's shares were dramatically undervalued and should be trading at between $21 and $23, compared to the $12.70 closing price on the date the letter was sent.

On February 26, 2013, Clinton notified Stillwater of its intent to nominate a slate of eight directors at the company's 2013 annual meeting. These directors were named a month later, at a time when Clinton owned a 1.2% stake in the company, and included former democrat governor Brian Schweitzer. Clinton also wanted ratification of the appointment of KPMG as the company's independent registered public accounting firm for 2013, and an amendment of the company's amended and restated bylaws to require supermajority voting for certain board actions. The website 'www.tapstillwater.com' was set up where Clinton outlined the reasons for why it felt there should be change at Stillwater.

A 40-page presentation produced by Clinton detailed analysis of Stillwater's 'underperformance', stressing that during the twelve-year tenure of CEO Frank McAllister, stockholders lost more than $900 million due to costs rising and the ounces of metal produced for market declining. Stillwater's decision to transform the company from a pure-play, US-based platinum group metal mining company to a "mid-cap diversified mining company" was described as a "woeful mistake".

Proxy advisory firms Institutional Shareholder Services and Glass Lewis both gave their backing to Clinton's slate, both attributing Stillwater's significant underperformance as a "compelling case" for change. On May 1, 2013, the day before the AGM, news emerged that Clinton had turned down a last minute settlement offer from Stillwater proposing that the board would be reconstituted to include four nominees from Clinton and four from Stillwater. Clinton group rejected the offer saying it would not entertain any further discussions ahead of the meeting.

However the results of the proxy vote revealed that shareholders had only voted four of Clinton's nominees onto the board, one of which was Schweitzer, while CEO Frank McAllister was among the four re-elected directors. Clinton was quick to point out that its four elected nominees received the four highest vote totals, with the two directors who had served on the board for less than a year obtaining the next highest totals. This led Clinton managing director Greg Taxin to comment, "We are pleased that six of the eight directors are essentially new to the board and are confident that there will be a solid, cohesive majority on the board to implement the change stockholders have demanded."

# 13D Digest April

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|---|---|---|
| Activist 13D's | 10 | ↑ |
| Activist 13D/A's | 49 | ↓ |
| New Activist Funding | $818,494,537 | ↓ |

# 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.