



Activist investors: gaining the activist's edge

Gaining the insight, not the inquisition, of an activist investor's lens on your business

Recent trends

The uncertainty in markets as seen over the last 24 months from unexpected geopolitical forces—COVID-19 and the crisis in Ukraine—has moderated public activist investor activity.

The predicted re-weighting of some of activist investors' most substantial demands towards markets outside the US has continued to come to pass, with M&A becoming a more regular campaign feature outside the US than within.

A reduction in full frontal assaults on companies has both anecdotal and data support demonstrating a greater proportion of demands around business change rather than personnel changes.



Uncertainty has tempered activists' appetites for public campaigning for now

Since 2020, uncertainty from COVID-19, inflation, and now the crisis in Ukraine has curtailed the number of companies publicly targeted with demands, whilst high valuations in the US have reduced bargain opportunities for activists.

With 'dry powder' to deploy, this may indicate more campaigns are playing out in private – and more 'constructivist' in nature.

Number of companies publicly subjected to activist demands



Notes: (1) Removal or addition of personnel to the board or executive. (2) Includes M&A, capital structure or operational change, remuneration, environmental, social demands. (3) "Pershing Square 3.0" [Pershing Square Annual Report 2021](#)

Source: Activist Insight data, Deloitte analysis

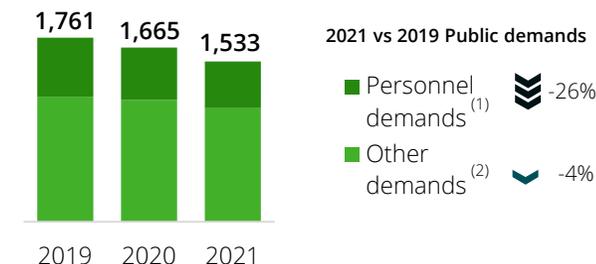


A more 'constructivist' landscape?

When considering the demands activist investors make on their targets, those on personnel changes are down significantly, in contrast to other demands.

Bill Ackman, of Pershing Square, has stated⁽³⁾ that he is no longer keen to campaign aggressively in the public.

Number of demands issued by Activist Investors

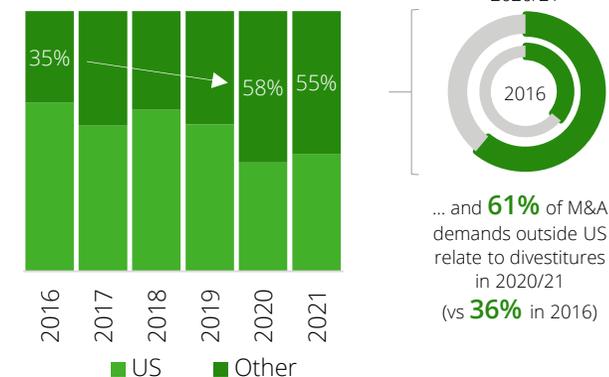


M&A demands continue to grow in Europe and Asia

Amongst demands for M&A, non-US targets are approaching 60% compared to less than 40% five years ago.

Meanwhile, divestitures have increased from barely 1 in 3 to more than half of M&A demands.

Location of companies targeted with M&A related demands



Coming of age for environmental demands

Environmental and social topics are growing their share of demands, becoming a principal line of a campaign as evidence is emerging that company valuations and financial performance are correlated to ESG performance.

High profile Greenhouse Gas (GHG) focused wins and campaigns, especially against Big Oil, are a notable front that has begun to bear fruit for activist investors.

Avoiding the activist's crosshairs

With activist investors now a feature of most developed economies their deployment of capital in single-digit public company shareholdings, accompanied by demands for change and improvement, are regular occurrences across North America, Europe, and Asia. Their ability to disrupt pre-existing strategies and put pressure on boards and executives is something most say they would rather have avoided. But how?



The silver bullet: The ideal way to avoid the activist is to simply not provide the business case. To state the obvious, however, sector leading shareholder returns are not easy to deliver. If you have the time, applying the activist investor lens is a constructive start.



Acting on negative events: Negative corporate events, from failed M&A or corporate mis-management to ESG failures or negative votes at the AGM, provide activists with scope to criticize. Make sure the company response is clear and measured.



Creating the window: In the interim, various tactical measures may help to alleviate the risk they turn up, and reduce the impact they have.



Communicating with stakeholders: Activists need allies amongst institutional investors. Make sure they don't find them by engaging with them on strategy and performance.



Assessing the board: A stale board or one with missing skillsets and experience, may not provide the challenge to management, but can instead provide the chance of a bridgehead for an activist.

Developing an activist's mindset

Applying an activist investor's mindset and lens to your own business can highlight opportunities or shortcomings in an existing strategy. It is better to have these on the table whilst a company still has the space to manoeuvre.

The activist mindset has a number of attributes that can bear fruit when applied to an existing company and its strategy:



Sooner is better than later: Make proactive changes early rather than delaying tough decisions, or waiting for the future to unfold.



Be open to outside perspectives: Energy is best spent on transformation, not battling to prevent outside influence.



Rewards of real challenge outweigh the risks: Driving dramatic change in strategy is comparatively high-risk and low-return for board members; the risk is not the same for activists.



Facts don't lie: Activists are much less likely to be swayed by interpretations and narrative, instead focusing on "the cold hard facts" that show the true economics of a business and ensuring the financial transparency to see them.



Margin over revenues: Management can suffer from a 'bigger is better' bias—sometimes at the expense of profitability and margin.



Straightforward can be best: The highest rewards can sometimes be obtained by basic and tactical interventions, instead of complex, higher-order strategies.

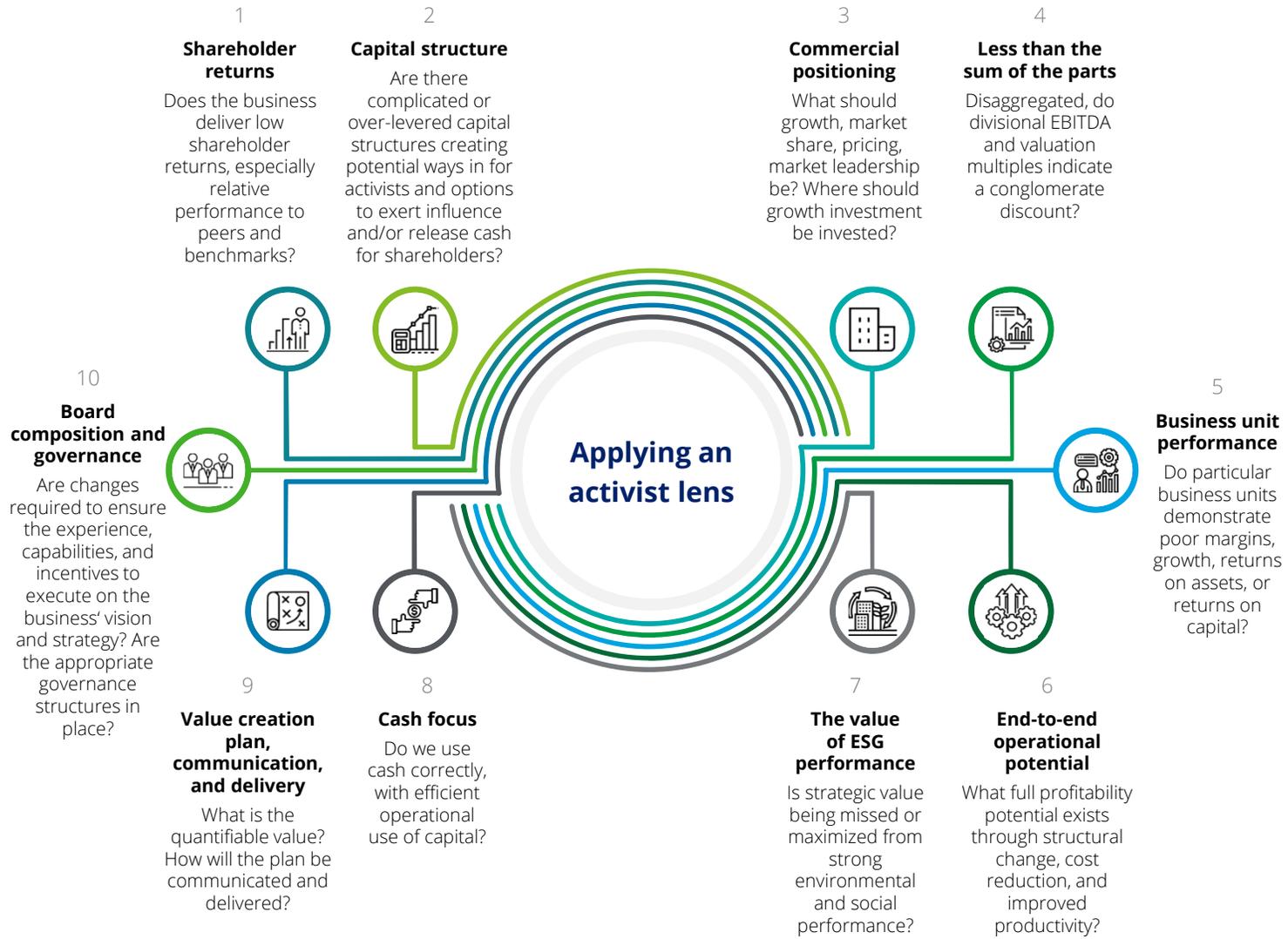


Value can come from many places: Activists, like their Private Equity cousins, are agnostic to where value comes from. They are ready and willing to embrace new sources of value, as shown with increasing reference to environmental value, as the market has rewarded ESG out-performers with higher valuations.



Target efforts effectively: While boards may focus at the business-unit level, the most effective solutions may reside at the sub-division level—and efforts at the 'wrong' level can erode significant shareholder value.

How to be your own activist



How Deloitte can help

One of the most significant strengths activists have is that coming from outside a company, they are unencumbered by inertia, vested interests, and emotional attachments.

Companies might want to consider looking at themselves in a similarly detached way, to spot weaknesses and unexploited opportunities, and root out inefficiencies that can detract from shareholder value.

Deloitte can help companies carry out the strategic **self-assessments** to support their value creation opportunities, divestments, and “disruptive” M&A, which targets small, fast-growing businesses and technologies to capture innovation-led growth. The infographic on the opposite page details the **ten key areas** a board should consider.

Where we've helped:

 **Industrials**

Carve-up and value creation planning to maximize investor value in anticipation of activist investor interest.

 **FMCG**

Strategy re-design and implementation amid an activist investor's campaign.

 **Aerospace & Defense**

Carve-out of non-core unit driven by activist investor demands.

 **Pharma**

Value creation lens diagnostic through to implementation to avoid activist investor interest.

 **Industrials**

Carve-out of non-core division mid-campaign.

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