Shareholder activism

Strategies for mitigating risk and responding effectively
Contacts

Henri Leveque  
**Partner, US Capital Markets and Accounting**  
**Advisory Services Leader**  
(678) 419-3100  
h.a.leveque  
@us.pwc.com

Colin Wittmer  
**Partner, Divestiture Services Leader**  
(646) 471-3542  
colin.e.wittmer  
@us.pwc.com

Jakub Olszowski  
**Managing Director, PwC Deals**  
(646) 471-5348  
jakub.olszowski  
@us.pwc.com

Julian Brown  
**Managing Director**  
**PricewaterhouseCoopers Corporate Finance LLC**  
(646) 471-1198  
@us.pwc.com

Martyn Curragh  
**Principal, US Deals Practice Leader**  
(646) 471-2622  
martyn.curragh  
@us.pwc.com

J. Neely  
**Partner, Strategy& (formerly Booz & Co.)**  
(216) 696-1674  
@strategyand.pwc.com

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Executive summary

Today’s activist shareholders are ramping up pressure on companies and their boards to demonstrate clear strategic vision and a roadmap for maximizing value. Activist funds typically buy stakes in public companies and use these positions to advocate significant change to the strategic direction, operations, governance, or financial structure of the company. While all activists have their proprietary methods of analyzing target companies, many look for underperforming assets that may be creating a drag on overall stock performance.

More recently, a number of activists have advocated the divestiture or break-up of one or more business lines as a way to unlock shareholder value and generate cash that can then be allocated to higher-growth areas of the business or returned to the shareholder. Management teams are often unprepared to deal with challenges from shareholder activists and have difficulty dedicating the time and resources needed to effectively evaluate, plan, and execute the strategic options they present.

The increase in shareholder activism has motivated many companies to become more proactive about examining their portfolios and capabilities and determining what fits both strategically and financially. Taking a page from the activists’ playbook, they are honing shareholder communications and telling a compelling story about their vision for success. Companies that can not only articulate their strategy, but demonstrate that it is grounded in a well-considered assessment of both their asset portfolios and their capabilities, are most likely to minimize the risk of becoming the target of a shareholder activist.

In this paper we take a hard look at a number of important questions for any company that finds itself the object of a shareholder activist’s advances:

• What motivates shareholder activists?
• What is a typical activist strategy?
• How can an activist campaign affect a target company?
• What are some strategies for preventing an activist campaign?
• If an activist does come knocking, how should a company respond?
Activism on the rise

Over the past four years there has been a substantial increase in shareholder activism (see Exhibit 1). Assets under management by activist vehicles grew from approximately $30 billion in 2008 to over $100 billion in 2014.1 In 2014 alone, these funds raised $14 billion of new money which represented 20% of all the inflows into the hedge fund market.2

The number of activist campaigns also rose significantly from 2009 to 2012. While there were declines in the number of campaigns in 2013 and 2014, the companies that activists targeted were significantly larger than those pursued in prior years. In addition, beginning in 2013, there has been a strong push for divestitures, including carve-outs and spin-offs. These tend to be more challenging for corporations to respond to, given their transformative nature and the time and effort required to plan, prepare, and execute effectively.

Exhibit 1
Activist campaigns by the numbers

Source: Thompson Reuters, with PwC analysis
What is motivating the rise in shareholder activism? Probably the most compelling reason for the increase is that activists are achieving significant returns for their funds’ shareholders and outperforming the market (see Exhibit 2). An analysis of the top five activist funds shows that, on average, they are achieving returns that are far superior to those of any of the standard indices, including the Russell 3000, the Dow Jones Index, and the S&P 500, all of which had excellent runs in 2013 and 2014 (see Exhibit 3). Because of their exceptional performance, a significant amount of capital is flowing into these funds, and activists are gaining credibility for their ability to bring about positive change for the shareholders of companies they target.

There has also been a fundamental shift in shareholder sentiment. Activists are no longer seen as the villains or the corporate raiders. Instead, they are viewed as legitimate investors who are seeking broad increases in shareholder value. This acceptance is reflected at the regulatory level as well. Recent rule changes by the US Securities and Exchange Commission have provided greater opportunity for shareholders to vote, making the activist’s job much easier when it comes to effecting change.

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**Exhibit 2**

Reasons for increased activism

1. **Delivering returns:** and outperforming the market
2. **Market place acceptance:** no longer viewed as corporate raiders but as the good guys, pushing for shareholder value
3. **Sophisticated approach:** highly qualified director nominees, detailed plans for improving value supported by robust analysis and models
4. **Effective messaging:** activists excel at effectively communicating their strategy to the market
5. **Big impact with low investment:** in terms of capital invested and time required to achieve required return
Today’s activists are both sophisticated players and successful in exerting influence. They have shown that they can not only propose highly qualified board members, but that they have the clout to get them elected. Activists have also been adept at messaging, effectively communicating detailed roadmaps for how companies can optimize performance and improve business value.

Finally, there is a lot of inexpensive debt available in the marketplace today, making it possible for activist funds to borrow in order to increase their investment in a target company. This gives them greater influence at a relatively low cost. While there are certainly more complex and sophisticated approaches, the aggressive use of debt to generate better shareholder returns is the strategy most activists have adopted in recent years.

Exhibit 3  
Returns for top five activist funds versus S&P 500 (2014)

<table>
<thead>
<tr>
<th>Top activist funds</th>
<th>Returns</th>
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<tbody>
<tr>
<td>1</td>
<td>45%</td>
</tr>
<tr>
<td>2</td>
<td>40%</td>
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<td>3</td>
<td>39%</td>
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<td>23%</td>
</tr>
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<td>18%</td>
</tr>
<tr>
<td>RUA</td>
<td>14%</td>
</tr>
<tr>
<td>DJI</td>
<td>11%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>15%</td>
</tr>
</tbody>
</table>

Shareholder activism can be used to describe a wide range of investing strategies. Generally speaking, activism can be divided into three main categories (see Exhibit 4).

Exhibit 4  
Types of activist investors

**Theme-based activists**
- Raise funds that target compliant companies
- Influence exerted mainly through publicity

**Large long-term institutional investors**
- Pension funds, insurers, large money managers
- Seek to use influence to improve returns on existing investments

**“Active” Activists**
- Activism as central investment premise
- Sharp focus on capturing “quantum leap” value uplift
- Purchase largest stake possible while shares are still “undervalued”
- Make returns by forcing execution of the value-enhancement event(s)
**Theme-based activists**

Theme-based activists invest in companies that meet certain standards or that promote a certain social agenda, such as sustainability and the environment, social responsibility, or human rights (for example, the treatment of foreign workers). These investors exert their influence primarily through publicity.

**Long-term institutional investors**

Institutional investors such as pension funds, insurers, and large money managers have begun to take a more active role in the companies they invest in, primarily by voicing their opinions about certain elements of corporate governance, especially management compensation, or sometimes strategy. Institutional investors tend to invest for the long haul, so they are particularly vocal when they believe that a company’s activities are damaging its reputation or long-term value. Their focus is not so much on influencing a step change in a company’s value as it is on protecting that value.

**“Active” Activists**

A more narrow definition of shareholder activists, and one that is the focus of this paper, is investors who use activism as the driving force for generating value in the funds they manage. These activists have a simple objective: to make a better-than-market return on their investing.
How activists invest

The activist approach is similar to what a large leveraged fund would attempt in a management buyout. The difference is that activists are deploying less capital to achieve that return. A normal leveraged buyout fund would seek to acquire the company in order to force change. Activists try to bring about change from a minority shareholder position. It is an extremely aggressive form of investing.

There are three basic phases to activist investing (see Exhibit 5). First, activists look for situations where they believe the value of a company’s shares is lower than it should be and where they think they can capture a step change in that value. They will then begin buying shares, accumulating the largest stake possible before publicly announcing their ultimate equity stake and intentions.

The next phase is where the activist truly shines—the promotion of the agenda for change. The activist’s initial announcement comes in the form of a 13D filing, revealing their position, their rationale, and their proposed plan of action. They then work to push through their ideas for a new corporate strategy by demanding to negotiate with the board. If negotiations do not result in action, there is an escalation process. The activist will advocate for sufficient board representation to move forward with their agenda. The next level of escalation is a threat of proxy action, which allows the activist to perform a market test and solicit support for their agenda with key shareholders. They can then take the results of that test to management, thereby effecting change without actually going through the full legal process of a proxy fight. If unsuccessful, typically things progress into the full-blown legal action of a proxy fight aimed at forcing through the proposed changes. Once the activist obtains a vote of confidence, they will compel the company to execute the new strategy. In the final phase, the activist exits the position—on a significant uplift if their approach proves fruitful.
Exhibit 5  
The activist process

There is not always a full proxy fight. If, at any of these stages, the activist is successful at promoting their agenda, then the process will flip straight through to the execution of the value uplift strategy followed by the exit. Likewise, activists may exit after delivering a proxy threat if they believe they don’t have sufficient shareholder support. Interestingly, activists rarely lose money at this point because all or parts of their thesis typically resonate with the market, raising the company’s share price.
The fallout from being targeted

Once an activist reveals their interest in a company, the impact is sometimes substantial. There are three main ways a target company can be affected (see Exhibit 6). The first is management distraction. These are public battles. Even the early stages tend to be played out on the front pages of the business press, and the public relations toll can be devastating. If the activist’s position is that the management team is underperforming, this can actually turn into a self-fulfilling prophecy because the process of responding to an activist campaign can distract management from the day-to-day running of the business.

The second impact is financial. The legal and advisory costs of a proxy battle can soar into the $10 million to $20 million range. This doesn’t include the internal resources and time spent interacting with advisors, which can potentially double the cost. Finally, there is the business disruption itself. Relationships with suppliers and customers can be negatively influenced. Employee morale suffers, and top talent may start heading for the exits; it can also be difficult for management to attract top talent during periods of uncertainty.
On average, it takes about eight months for a full proxy battle to be resolved. Given the associated costs and potential damage that can occur over such a protracted period, it is critical that management make a concerted effort to mitigate the risk of attracting activist attention and prepare for the possibility by assessing exposures, evaluating strategic alternatives, and formulating a response in advance.

Exhibit 6
Activist impact on a target company

Management distraction
- Public battle could span many months
- Self-fulfilling prophecy: management distraction weakens business performance

Cost
- Legal and other advisor costs could total $10m to $20m if a proxy fight ensues

Business disruption
- Potential negative effect on company’s supplier and customer relationships
- Uncertainty impacts management and employee morale
Why activists come knocking

Before thinking through potential risk mitigation approaches, it is important to understand what draws activists, including the process they use to identify, target and peruse potential opportunities.

The first thing to recognize is that there is no typical target profile. The company can be small, medium, or large. Activists are also industry-agnostic. They take a very broad approach and have been involved in quite a few different industries over the past few years. Even quasi-government entities can be activist targets.

What activists are looking for are companies where management is either unable or unwilling to address issues that seem apparent to the market, investors, or analysts. There are a number of indicators activists tend to look for (see “Activist targeting criteria”). The most obvious of these is poor stock market performance compared with peers. A related criterion is poor financial performance. Suboptimal capital structure is another problem that draws activists. For instance, if a company has too much cash on its balance sheet, or it is not leveraged properly, or it is an outlier with respect to its peers and is without a story to explain why, then it is probably going to get a knock on its door.
But the story goes beyond financial metrics. For example, when a company has a weak pipeline of new products coupled with a lackluster track record for innovation, it can become a potential candidate for activists. The absence of a coherent strategy also puts companies in the running. Management needs to be able to explain how the company is harnessing its capabilities to thrive in its chosen markets.

Turnover in leadership is another red flag, and an activist threat can be a particular challenge for an incoming management team, because it can take time for a new team to get its bearings and articulate a strategy. If an activist comes in and tells a better story than the one management is telling, management’s hands may be tied before they can throw the first pitch. Of course, transparency, consistent messaging, and open communication are important regardless of whether management is old or new. Without these, companies can be fairly certain that they have a bull’s eye on their backs.

How can companies determine whether or not they are a target? The best approach is to understand their competitive position and benchmark with their peers on both qualitative and quantitative measures—including valuation, historical performance, and capital structure. This self-assessment should not be a one-time event. Rather, continuous monitoring and ongoing dialogue with industry counterparts, analysts, and key shareholders will give companies a clear sense of where they stand and whether they may be vulnerable to an activist attack.
Activist-proofing the organization

Shareholder activists target companies when they detect weaknesses in their strategies or how they are implementing those strategies. In other words, getting strategy right and communicating it to the market is the best initial line of defense. Focusing on the following three areas will not only mitigate the likelihood of an activist attack, but will ensure a company is prepared should one occur:

• **Strategy**: Developing a clear plan that is aligned with a company’s capabilities. It is the companies that lack focus that are apt to flail about, underperform, and attract the notice of activists.

• **Proactive portfolio optimization**: Making portfolio optimization an ongoing business process rather than a reactive one. Rationalizing a company’s portfolio is often the main focus for shareholder activists.

• **Communication**: Maintaining transparency and establishing a well thought-out shareholder engagement and communications strategy. Open communication and telling a clear story will help win the hearts and minds of shareholders and investors.

Companies that can get all these elements working in lock step outperform the competition and in many cases become industry disruptors that are difficult to beat.
We use a framework called a “capabilities-driven strategy” and a concept that we refer to as “coherence” to illustrate how companies can win in the marketplace. Examining strategy through a coherence lens will surface the same threats and opportunities that are likely to occur to activists when they are evaluating a company as a potential target.

Coherence describes the close meshing of three important elements of a company’s strategy: its core value proposition to customers, or how it chooses to create value for customers; the products and services that fit with this model; and finally, the company’s capabilities system—the things the company is able to do in delivering those products and services to customers that set it apart from the competition (see Exhibit 7).
Types of capabilities

Table Stakes Capabilities

Required in order to operate within an industry, for example:

- Every consumer products company must market its products
- Every oil company must meet environmental and safety requirements
- Every telecom operator needs to develop and reliably maintain its network technology
- Every chemical company needs to produce commodity and specialty chemical products within a standard product-quality range

Distinctive Capabilities

Unique to each company’s identity, linked to its strategy, and hard for competitors to copy, for example:

- A leading media company’s excellence at marketing to youth
- A leading snack food company’s direct-to-store delivery system
- A leading retailer’s logistics system that is designed to drive down costs
- A leading technology company’s innovation network

Capabilities are the glue that holds the business system together, and getting them aligned is extremely important. While companies do many things, only a handful of capabilities are truly differentiating. Capabilities are actually a combination of things that, when assembled in a particular way, can be very hard to replicate. They can include processes, tools, knowledge, skill sets, human capital, or even how a company is organized. Grouped together, capabilities define the way that work gets done, and they become a part of a company’s DNA.
There are two major categories of capabilities that companies deploy (see “Types of capabilities”). The first are ones that every organization needs in order to play—so-called table stakes capabilities. Companies must have them, but these capabilities will not differentiate them in the marketplace. For example, every consumer products company needs to be able to market its products. But having a marketing capability as a consumer products company is akin to keeping the lights on; unless the company has some unique way of reaching customers, or it has the advantage of a brand built up over many years, then marketing expertise is just the cost of doing business. Similarly, every oil company is under pressure to meet environmental safety requirements. Failing to do so can create serious problems, but successfully meeting those standards doesn’t help an oil company win in the marketplace, unless it is coupled with something else. Likewise, telecom operators need to develop and reliably maintain their network technology. But that is not what lets them outperform their peers.
The other set of capabilities are those that are truly distinctive. For example, in the media space, certain companies have developed extremely efficient methods for appealing to a youth audience, not just in the United States, but globally. They have been able to build their brand across multiple outlets and franchises, extending their capabilities systems into many different types of markets, from entertainment to hospitality.

In the food industry, there is probably one leading snack food company in the United States that has built up an efficient direct-to-store delivery system that can reach even the tiniest channels. It uses very small trucks that take small-order quantities to outlets such as convenience stores and gas stations, and it has devised a logistics system that allows it to do this economically. Being able to service channels of this size gives the company an enormous amount of control over what goes on the shelf and how much shelf space it gets versus the competition, which uses a different, less accommodating delivery approach. The company is purposefully focused: it is careful not to expand into items like beverages or heavy products with slow turns that would tax its delivery capability. As a result, this capability has been a powerful business engine; it permits the company to reach more outlets than the competition and achieve higher consumption of its products at extremely attractive margins.

Another example is a leading retailer that built the preeminent industry logistics system at a time when retailers didn’t necessarily think about logistics as a competitive advantage. It developed that capability to such an extent that it was able to command the lowest price points in the industry, which ultimately catapulted it into a dominant position within just a few decades.

If one looks at the leaders and the disruptors in almost any industry and asks why it is they have been able to win in the marketplace and why the competition has failed to replicate their success, the answer is fairly consistent: They do two or three things—possibly three or four—exceptionally well and they do them differently from anyone else in the industry. It is these things that have become the core of their business engine.

This observation is borne out in a number of studies, including several conducted by Strategy&. It applies to company performance that is achieved both organically and inorganically through mergers and acquisitions. Studies that examine organic performance generally chart some type of portfolio coherence score against a measure of financial
Exhibit 8
Coherence premiums in company and M&A performance

Company-level performance linked to coherence

Portfolio Coherence Score

Total shareholder return is superior for deals that leverage capabilities

Leverage

Enhance

Limited fit

Sources: Capital IQ; Bloomberg, Strategy & Business

performance (see the left-hand chart in Exhibit 8). The portfolio coherence score is an assessment of the company and the degree to which it a) has a clearly identified capability system, b) has products and services that fit well with that capability system, c) allocates resources to support those capabilities, and d) articulates its strategy effectively to the financial and business community. Financial performance is an easily measured and recognized financial metric such as EBIT. Time and again, what we see is that companies with a coherent strategy tend to outperform their peers.

The same story holds for inorganic growth. The right-hand chart in Exhibit 8 shows that companies that factor capabilities into their deals tend to generate above-average returns. When management at a company with a well-defined capability system use this as a filter for buying another company, they know exactly how that company and its capabilities fit into their own business system. They are then able to
leverage those capabilities to either grow the acquired business faster or to take it into different market segments, producing better returns than the target could on its own. Enhanced deals are somewhat trickier, because in those situations fit is not the objective; rather, the target company has something special that the acquiring company wants. It may, therefore, take a little more engineering to plug the target company into the acquirer’s capability system, but the result can be attractive returns. The worst-performing deals are those in which companies acquire targets whose capabilities are a poor match with their own. Those deals actually tend to destroy value.

Companies that choose to split into separate businesses present a compelling example of how a capabilities focus can drive value. Business separation is also a sweet spot for shareholder activists. In fact, within the past few years, external pressure on companies to consider separation has increased substantially. For example, a global food company, in part due to activist pressure, chose to split into two different businesses, one a snack company and one a grocery company (see Exhibit 9). The business models for the two entities were quite different. One was a direct-to-store delivery model, while the other was the warehouse-to-market model of traditional grocery goods. The innovation cycles were also dissimilar, as were the economics of

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**Exhibit 9**

An example of coherence

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**Global foods company**

- Revenue $32 B
- Global snacks and confections
- Heavily reliant on direct-to-store delivery for daily refresh of product at shelf
- Focused on immediate consumption channels

**Snack company**

- Revenue $32 B
- Global snacks and confections
- Heavily reliant on direct-to-store delivery for daily refresh of product at shelf
- Focused on immediate consumption channels

**Grocery company**

- Revenue $16 B
- North American food staples
- Warehouse-based route to market with lower-velocity goods
- Focused on traditional food and mass channels
delivery. The decision to split the two businesses was grounded in a conviction that doing so would allow each to focus on developing its own capabilities system, thereby optimizing its business model.

But how does a company go about analyzing whether it has a coherent strategy? One way is to administer a coherence test—a checklist of questions built around the coherence model—that probes either a company’s ability to articulate a coherent strategy or its success at formally integrating the strategy into the fabric of the business through such activities as budgeting, investment, and resource allocation (see “Does your company pass the coherence test?”).

**Proactive portfolio optimization**

Of course simply describing a strategy is the easy part. It’s rare for a company’s management to say “we have no strategy” or “we don’t know what our strategy is.” Where companies tend to fall down is in effectively executing the established strategy—especially making the tough choice of deciding not to do something, or at the very least, deciding on the three or four things that matter the most and then committing to invest disproportionally in those. This is the essence of strategy coherence, and using coherence as the yardstick for determining capital allocation is at the heart of portfolio optimization. The framework shown in Exhibit 10 shows how a company can use strategic and capabilities coherence to set the boundaries for its portfolio of businesses.

To use the framework a company must first assess the coherence of each business within a portfolio and establish some metric of financial performance (for example, revenue, profitability, net cash flow, ROI, etc.). It can then evaluate each business with respect to these two metrics, plotting them within the axes of the framework. If a business in the company’s portfolio registers high coherence with high financial performance, it is a leading candidate for growth and expansion. If it doesn’t fit within the company’s capabilities system and is also performing poorly, it is probably better off in some other company’s portfolio. For underperforming businesses that are well-aligned with the company’s capabilities, the goal is to nurture them to health. Those that fall somewhere in the middle should be reconfigured to align with capabilities and grown selectively.
## Does your company pass the coherence test?

<table>
<thead>
<tr>
<th>Can we state it?</th>
<th>Do we live it?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Way to Play</strong></td>
<td><strong>Capabilities System</strong></td>
</tr>
<tr>
<td>• Are we clear about how we choose to create value in the marketplace?</td>
<td>• Are we investing in the capabilities that really matter to our way to play?</td>
</tr>
<tr>
<td><strong>Capabilities System</strong></td>
<td><strong>Product &amp; Service Fit</strong></td>
</tr>
<tr>
<td>• Can we articulate the three to six capabilities that describe what we do uniquely better than anyone else?</td>
<td>• Do all our businesses draw on this superior capabilities system?</td>
</tr>
<tr>
<td></td>
<td>• Do our organizational structure and operating model support and leverage it?</td>
</tr>
<tr>
<td></td>
<td>• Do our strategy documents reflect this?</td>
</tr>
<tr>
<td></td>
<td>• Does our performance management system reinforce it?</td>
</tr>
<tr>
<td><strong>Product &amp; Service Fit</strong></td>
<td><strong>Alignment</strong></td>
</tr>
<tr>
<td>• Have we specified our product and service “sweet spot?”</td>
<td>• Do most of the products and services we sell fit with our capabilities system?</td>
</tr>
<tr>
<td></td>
<td>• Are new products and acquisitions evaluated on the basis of their fit with the way to play and capabilities system?</td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Alignment</strong></td>
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</tbody>
</table>
**Optimal owner perspective**

What this kind of portfolio analysis comes down to is taking an outside-in perspective for each business and asking the question, “Are we still the optimal owners for this business or would it generate more value if someone else owned it?” If management determines that the company is no longer the optimal owner, yet the value of the business is high, then the company is better off selling the business to a buyer that can leverage its capabilities system to maximize the value of that business. The company will get a high return on the divestiture and be able to redeploy that capital against better-aligned activities.

The same thinking applies to the buy side: Companies should be looking at acquisitions with an eye toward how the target company’s capabilities match up with their own and how they will be able to use and integrate those capabilities to create value. Often, in their search for attractive acquisitions, management overlooks divestiture opportunities. As a result, they can be taken off-guard by shareholder activists who are continually looking for businesses that are a poor fit with their current owner and could achieve higher returns with a different one.

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**Exhibit 10**
**Defining the boundaries of your portfolio**

![Diagram](image-url)

- **Above par**
  - **Divest**
  - **Align and grow selectively**
  - **Grow and expand**

- **Below par**
  - **Manage to divest/discontinue**
  - **Leverage coherence or divest**

**Financial potential**

- **Coherence with capabilities system**
  - **Low**
  - **High**

**Grow or acquire products and services that leverage your distinctive capabilities**
**Being proactive**

This brings us to one of the most important aspects of portfolio optimization: It needs to be proactive. It is not an annual or a quarterly exercise. Portfolio optimization can only deliver on its potential as a strategic tool if it is an ongoing activity that can reveal opportunities before they come to the attention of others.

Detecting opportunities early will also help a company command the best deal value possible. Deal value is how much prospective buyers would be willing to pay if they were the optimal owner. It will generally be higher if the timing is right, the deal is carefully planned, and the business has been well managed. On the other hand, deal value will be considerably lower if the business is performing poorly, if there has been a negative change in the marketplace, or if the deal is hastily thrown together in response to the demands of an activist shareholder. External pressure should not be the impetus for divesting non-core businesses.

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**Exhibit 11**

Engagement, communication, and transparency are keys to success

To engage shareholders and, in particular, activists:

- Maintain regular dialogue with key shareholders and make sure you understand their issues
- Have a script prepared for inbound calls
- Address activists directly and in a timely fashion
- Communicate the full spectrum of strategic options and articulate the benefits of your current strategy

When you lack transparency the results can be detrimental:

- Allows activists to tell a story that is more compelling than yours
- Could be interpreted as a lack of strategy or direction
- Management’s analysis and strategic decision making is not recognized when it takes place behind the scenes
How do companies ensure that portfolio optimization is an ongoing business activity? One way is through use of some of the highly sophisticated business intelligence and data analytics tools available today. These tools allow companies to look at information at a far more granular level than they have been able to in the past. Furthermore, because they analyze data in real time on a continuous basis, they can alert companies to both acquisition and divestment opportunities.

For example, at PwC, we have developed some proprietary tools that allow us to take massive amounts of industry data and pull it into dashboards that have been custom-designed around a company’s selected metrics. These dashboards take data such as company value, market information, and metrics of particular importance to shareholders and activists (e.g., revenue growth relative to peers, individual business unit performance, etc.) and present this information in a usable format that can be manipulated and analyzed.

**Communication and transparency**

It is hard to emphasize enough the importance of open communication as an antidote to activist scrutiny. Historically, corporate executives have adhered to the view that the less said, the better. But today that argument no longer flies. Companies need to start thinking about how they are going to engage differently with shareholders, not just in tightly scripted venues like analyst meetings and conference calls, but via more open, two-way forms of communication.

Executives often struggle with how transparent they should be in their communications. Are they saying something that might benefit the competition? Are they giving away trade secrets? But if we flip the equation and look at what happens when companies consistently hold their cards close to the vest, then the drawbacks of rejecting transparency become clear.

When it comes to shareholder activists, proactive engagement is more important than ever. Company management needs to not only know who these individuals are—they need to seek them out so they can understand their perspectives and concerns. A chief weapon of activists is their ability to tell a better story than a company’s management—it is their best route to the hearts and minds of shareholders. Companies that can articulate their strategy—and make a compelling case for why it’s the best approach—have a far better chance of convincing shareholder activists to choose a different hunting ground.
Conclusion

Aggressive tactics from shareholder activists are proving fruitful in achieving superior returns. The pressure from shareholder activists is not likely to go away any time soon, and companies of all sizes and in all industries need to be on alert. To avoid disruption, corporate executives need to think like activists and activist-proof their businesses (see Exhibit 12). A well-articulated strategy, supported by a proactive assessment of the company’s existing portfolio, is central to this approach. By telling a clear story and openly communicating with shareholders and investors, companies can minimize the risk of becoming a target of activists and ensure their strategic agenda remains front and center.

Exhibit 12
Think like an activist

Review your business through the activist’s analytical lens

Use your “inner activist” as a yardstick against which strategy and execution are measured
Endnotes


Strategy& is a global team of practical strategists committed to helping you seize essential advantage. We do that by working alongside you to solve your toughest problems and helping you capture your greatest opportunities.

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