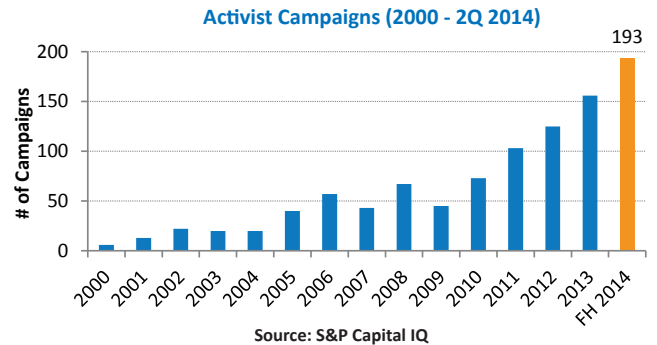


ACTIVISM, READY OR NOT

How IROs are preparing for activist shareholders

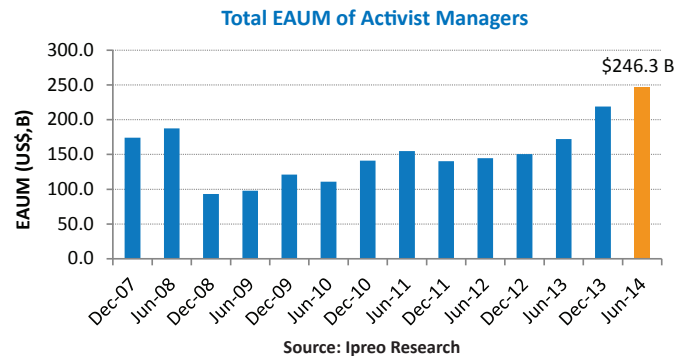
Introduction:

Shareholder activism is a topic of increasing importance, with the number of campaigns launched per year showing a steep and steady increase since 2009. By Ipreo's estimates, the number of campaigns enacted during this timeframe grew by over 160%, with campaigns launched in the first half of 2014 comprising over 25% of the total during the 5-year timeframe. Moreover, since 2012, the total equity assets controlled by activist firms has risen nearly 70%, suggesting increased investor conviction in the strategy and success of activist campaigns.



As managed assets and public attention increase, industry professionals also suggest that investment returns on activist funds also continue to support the strategy. A case can be made that funds employing activist strategies have nearly become their own asset class in some investors' eyes. Speaking to the growing trends in the market, an IRO mentioned to Ipreo, "Activism is going to continue, because it works. Even non-activist shareholders appreciate these guys rattling things up to a certain extent, because they usually have decent success in raising the price of the stock. Non-activist shareholders are taking a closer look at the points these activist shareholders are making."

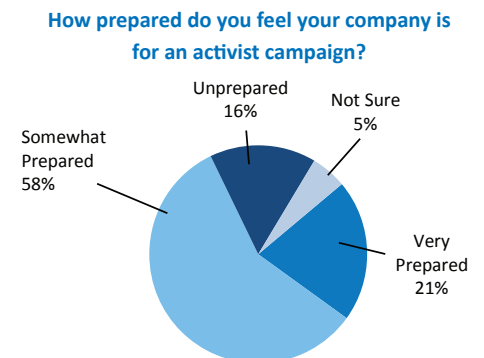
Given the growing prominence of shareholder activism, companies are advised to keep abreast of activist trends and prepare in advance for the event of an activist engagement. There is an abundance of information and discussion concerning how to take those first steps, but the true question is whether or not companies are taking action, and if so, what actions? Ipreo set out to determine if and to what extent companies have prepared themselves in the event of an activist engagement. Moreover, for those companies who have already dealt with shareholder activists, Ipreo sought to determine how their perspectives on shareholder activism have changed.



Key Findings:

After receiving comprehensive survey responses from over 125 investor relations professionals and conducting thorough follow-up interviews with various IROs with experience dealing with shareholder activism, several interesting trends were identified.

- Survey respondents acknowledge that shareholder activism is a growing trend, but they do not always consider themselves a target. Ipreo found that only 30% of the study population considers their company a possible target for activist investors, while 47% of respondents said they have already had a potential activist hold over 1% of their company's shares.
- Levels of preparedness among companies are mixed, as 43% of survey respondents currently do not have a rapid-response plan in place to deal with an activist investor, while 37% of respondents indicate that they have developed a plan for dealing with activists, should the situation arise. Lastly, 20% are currently in the process of developing an internal action plan.

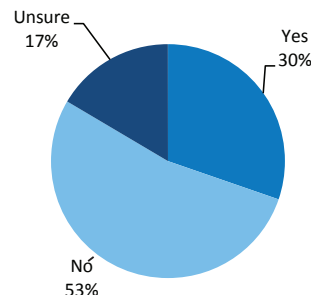


- A majority of participants feel equipped to handle an activist engagement. Specifically, Ipreo uncovered that 58% of respondents feel “Somewhat Prepared” in the event of shareholder activists targeting their company, while 21% said they are “Very Prepared.” Another 21% feel either “Unprepared” or are “Unsure” of their company’s preparedness.
- Ipreo recommends several best practices to thoroughly prepare in advance of activist shareholder engagements. These include:
 - Conducting regular outreach to all shareholders, both active and passive
 - Regularly reviewing a company’s performance from the shareholder’s perspective
 - Outlining a rapid-response plan and identifying the necessary resources to carry out the plan
 - Proactively monitoring activism trends in the market

Survey Overview:

Overall, companies acknowledge that shareholder activism is growing in both size and scope, though they do not always consider themselves a target until they have become one. In fact, Ipreo found that less than one-third of the study population considers their company a possible target for activist investors, while 53% of participants assert that they are not vulnerable to activist campaigns. Additionally, a notable portion of participants admit that they are unsure whether or not their company could be considered a target, suggesting that these IROs and their respective senior management teams have dedicated limited time considering how this issue may impact them in the future.

Do you consider your company a potential target for activist investors?



When probed further regarding factors that could dissuade potential activists from taking a meaningful stake (>1% of shares outstanding) in their company, 40% of participants acknowledge that they could be vulnerable to an activist campaign, as they could not cite any barriers or factors dissuading activist investors from taking a material stake. Of those who remain convinced that there are factors protecting their company from (or that make their company less attractive to) activists, a nearly equal portion cited their company’s ownership structure, size/market capitalization, and regulatory/legal issues. Several respondents also maintain that strong growth and financial performance will shield their company from activist investors.

Turning to the focus of activist investors, a majority of respondents believe that each of the focus categories provided will receive either the same amount or more attention from activists in the future. Strategic direction, corporate restructuring, and cash usage (such as dividends and buybacks) are highest ranked among these categories, while social/environmental issues had the widest dispersion of responses. From these findings, it is clear that the IR community believes shareholder activism is unlikely to abate in the foreseeable future and that activist investors are likely to maintain or increase their scrutiny across a number of key areas.

To what degree do you believe the following topics will be areas of focus for activist investors in the future?

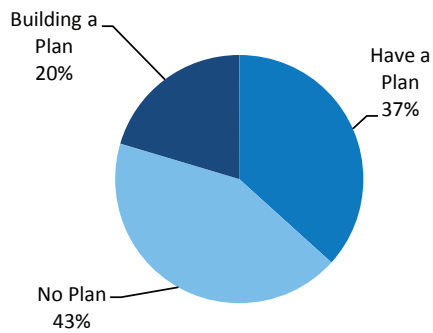
Area of Activist Focus	Much Less	Somewhat Less	Same	Somewhat More	Much More
Strategic Direction	2%	1%	40%	44%	14%
Corporate Restructuring	3%	5%	48%	32%	13%
Cash Usage	2%	1%	32%	41%	24%
Balance Sheet/Leverage	1%	5%	55%	27%	12%
Corporate Governance	2%	14%	42%	30%	13%
Social/Environmental	12%	20%	39%	25%	5%

Beyond respondents’ initial thoughts on their vulnerability to shareholder activists, Ipreo sought to uncover participants’ perceptions of readiness in the event of an activist engagement. Of the study participants, Ipreo uncovered that 43% of respondents currently do not have a rapid-response plan in place to deal with an activist investor, which supports participant thinking that their companies are well protected against activist campaigns. Only 37% indicate that they have developed a plan for dealing with activists, should the situation arise, while 20% are currently in the process of developing an internal action plan.

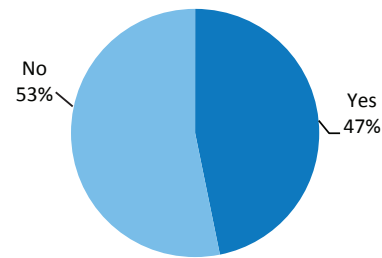
Per Ipreo’s survey, 47% of survey respondents indicate that their companies have had an investor with an activist history take a meaningful stake in their company. Of those respondents with current or previous activist shareholders, 60% said they were engaged by the activist either publicly or privately, while 36% said they had no issues or simply had a constructive dialogue with those shareholders. Less than 4% of respondents said they had no formal dialogue with the activist investor. As one IRO attests, “If you are not being tapped by an activist shareholder, do not have some level of activism in your stock, and there are no hedge funds taking a position, then you are probably unique, because those issues are very prevalent.”

Are these internal discussions and action plans enough when faced with an activist investor? Of those respondents who have taken measures to prepare, most believed that their internal preparations had positioned them well in the event of an activist engagement. However, as determined through candid one-on-one discussions with seasoned IROs who have dealt with activist investors at one or multiple points during their careers, most assert that their teams could have prepared more effectively. As one IRO states, “I don’t care what you do or who you are, you could never be as prepared as you need to be or completely prepared in the event of an activist engagement.”

Does the IR/Sr. Mgmt. have a rapid-response action plan in place to deal with an activist investor?



Have you ever had an activist investor take a meaningful stake in your company's shares (>1% of S/O)?



In the context of your company's overall IR strategy, it is worth considering how senior management and IR will position the company when investors with activist histories request meetings and time with the management team. Survey participants told Ipreo that most companies are already meeting with these investors, as 85% of respondents said they either frequently or occasionally meet with activist firms. Fewer than 7% of those surveyed said they do not meet with investors that have previously engaged other companies, while about 8% were unsure. Indeed, it is prudent for companies to take time to meet with, and listen to, activist investors. While it may not have been the case in the past, activists are now consistently engaging larger companies while holding smaller percentages of the shares outstanding, meaning that market capitalization does not shield companies from the scrutiny of activists. An example of this tendency is David Einhorn and Carl Icahn's 2013 engagement with Apple, as Greenlight Capital and Icahn Associates both publicly agitated Apple's management team while holding less than 0.2% and 0.5% of the shares outstanding, respectively. Apple's market capitalization was over \$500 billion at the end of 2013.

In discussing activism with several IR professionals, the majority indicated to Ipreo that their management teams were somewhat surprised when an activist investor targeted their companies. Industry professionals repeatedly note that the biggest mistakes to which management teams fall victim are not taking activism seriously enough and relying on recent performance to shield a company. Underestimating the tactics, media strategies, and aggressiveness of the activist-investor community were also mentioned as common pitfalls that could lead to a company winding up in an activist's crosshairs. Similarly, one IRO echoes similar sentiments, stating, "Activists have extensive communication, regulatory, and lobbying connections on Capitol Hill at their disposal. And they use them."

Additionally, of the realizations that IROs have made in dealing with activist investors, a handful note that activists can be much quicker and more nimble than companies in utilizing media coverage, which places activists at an advantage. These IROs note that companies tend to move more slowly because they're focused on execution and the day-to-day demands of running a business. Senior management needs to consider what impact public communications have on employees, while an activist can just release new commentary every day to "beat the drum."

Recommendations:

Preparing for the possibility of an activist approach can start by implementing a few best-in-class practices. "At some point, if you're a major firm, you are going to see some activism in your stock," explains one IR professional, "So whether or not firms believe they are a target of activism, they should have a response process as a part of normal IR."

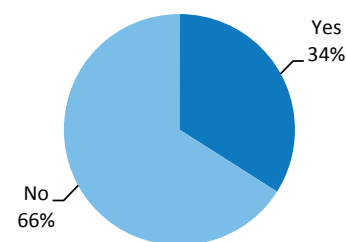
Ongoing Strategy Review

As a starting point, IROs should take a fresh look at their company's strengths and weaknesses from an outsider's perspective, and do so on a consistent basis. Most likely, this is a practice that's already being done on an ongoing basis by senior management. Knowing your firm's strengths and potential weak points is mentioned by several IROs as critical to identifying and preparing for inquiries from all shareholders. More specifically, having a good sense of where shareholders may think the company is underperforming is a key to preemptively addressing issues that could open the door for activist investors.

Once these potential vulnerabilities are identified, a strategy for providing information to the investing public about how management is thinking about and addressing these issues can be developed. Along these lines, if management feels that an internal evaluation has not yielded sufficient results, a more thorough evaluation can be performed by the company's investment bankers, which often have activist defense teams. As a supporting point, one IR executive stresses the importance of being able to quickly rebut activist advances by having a superior grasp of your company's historic financials and operating performance. Knowing your peer group's financial and operational history is also crucial as a comparison point.

Ipreo's survey of investor relations professionals reveals that only 34% of companies have conducted a formal evaluation of their vulnerabilities to shareholder activism, while 66% have not carried out a formal evaluation to gauge their susceptibilities to activism. However, of those participants who have conducted a formal internal evaluation, 97% agree that it was either somewhat or very helpful. Only 3% said they did not find value in doing a formal evaluation of their company.

Has your company conducted a formal evaluation of its potential vulnerabilities to activist investors?



On the other hand, of those survey participants who have not conducted a formal evaluation, 65% either have not considered the option or do not believe it will be a useful exercise. Looking ahead, 20% of the participants in this group state that they plan to conduct a more formal evaluation in the future, while 15% will not, stating that the costs outweigh the benefits. In addition, several respondents indicate that they have not conducted such an evaluation because they were either already engaged by an activist investor or felt they knew what their vulnerabilities could be without conducting a more formalized evaluation.

Ipreo's survey also indicates that IR and senior management teams are the key players in evaluating a company's vulnerabilities, as those groups are involved in informal activism discussions 82% and 77% of the time, respectively. The Board of Directors is included in discussions about 56% of the time, while discussions about shareholder activism reach the business unit level only 11% of the time.

Shareholder Outreach

Another best practice for dealing with activism is consistent shareholder outreach, which is likely already a cornerstone of most IR programs. Proactively maintaining an open and ongoing dialogue with top shareholders is of vital importance should an activist investor challenge management. The IROs interviewed for this study indicate that at some point either before or during engagement, activists were in touch with all or most of their top shareholders. When activists correspond with a company's other top holders, having an existing relationship and the ability to engage in a good dialogue with the top 50% of your IR-active ownership is critical. Moreover, many activist investors have become skilled at using public and private forums to promote their agendas, so it is important to regularly communicate the company's message directly to the decision makers at each institution holding shares.

Ipreo also suggests that IROs maintain contact with passive shareholders. As it relates to investor relations, many of the prolonged activists fights are ultimately decided by the company's other shareholders through a proxy vote. Historically, many companies have not spoken to index and quantitative funds. In addition to the typical relationships with analysts and portfolio managers at the company's top shareholders, Ipreo also recommends engaging the corporate governance/proxy constituencies within both your company's IR-active and IR-passive shareholders. Ipreo previously found that maintaining relationships through either an annual corporate governance roadshow or conference call campaign ahead of the company's annual general meeting yields high rewards for a fairly minimal cost to the IRO.

(Best Practices in Corporate Governance Outreach)

It is also worth considering how the IR team's focus and investor outreach goals may need to be adjusted should a public activist campaign escalate. Based on the feedback received, several IROs indicated that they spent more time with their long-term and existing shareholders, rather than meeting with prospective shareholders, to ensure top shareholders were informed and understood the company's position on all issues. However, depending on the specifics of the engagement, the company's overall shareholder base may churn more quickly than normal, as event-driven investors may supplant longer-term shareholders. Therefore, it is important to spend time identifying and engaging with potential investors or those newly entering the company's top shareholder list.

Rapid-Response Plan

Another critical step in preparing for an activist engagement is to outline a rapid-response plan that can be enacted should the situation warrant an immediate reaction from the company. The goal is to avoid a knee-jerk or delayed reaction that sends unintended messages to external parties. As a starting point, one IR professional suggests mimicking the company's playbook for defending against a hostile takeover by a competitor, given the similarities of the situations. Another option is to involve the company's communication team and add activist shareholder engagements to the list of possible crisis scenarios they're monitoring.

Among the first steps to consider in developing a plan, IR and senior management should identify which members of the team will need to be involved in dealing with the situation as it evolves. Given that the internal dynamics of companies are different, Ipreo recommends establishing a core leadership team comprised of executives that are cognizant of shareholders' concerns and perspectives. In most cases, this involves representation from the C-suite, investor relations, legal, corporate secretary, and PR/communications. Depending on the situation, Board-level involvement may also be a prudent consideration. As suggested by an IRO, delineating those people who are involved in the activist defense

on a day-to-day basis from those that are not will allow the company's division heads to focus on running their businesses effectively during an activist campaign.

Furthermore, external consultants may be needed depending on the particulars of the situations. Many of the IROs Ipreo spoke with recommended evaluating the various services that may be needed ahead of time so trusted resources can be engaged in a timely manner, noting that making a rushed decision may lead to a less than full evaluation of available services. Additionally, the IR professionals we spoke to with prior activist experiences largely agreed that having various external perspectives aided their companies. "We gained a lot of value from our outside advisors," one IRO commented. "This is their area of expertise. All of them have advised and worked on many different activist or hostile takeover-type situations. We had communication consultants, proxy advisors, legal advisors, and investment banking advisors who were all advising us on what we could and could not do legally and what we might do strategically and tactically." Another IRO mentioned, "I have a lot of IR experience, but there is no way I could have handled that situation without the lawyers. So, why wouldn't you bring on the consultants who have been through it? Activism is a crisis situation, so getting a consultant's advice on how to handle it and help answer all the big questions is imperative."

In terms of services currently engaged by the IR community, Ipreo's survey indicates that 80% of respondents engage a stock surveillance firm to monitor their shareholder base in real time. Additionally, Ipreo's survey results show that 45% of respondents have a relationship with either external legal counsel and/or a communications firm, while 44% have a proxy consulting relationship. Additionally, investment banking and investor perception outreach relationships were cited 39% and 35% of the time, respectively.

Communication Strategy

Next, IR and management should have a basic framework in place for how to evaluate issues raised by activists either publicly or in private. Assuming the primary players and external resources needed have been identified, the company will need to evaluate the activist investor's platform on a point-by-point basis to assess its merits and validity. In public situations, the company may also be faced with research or analyst presentations released through various media outlets. The specifics of these interactions will vary greatly depending on the investors involved and their agenda for a given company, but a few noteworthy points were repeated by the IROs with whom Ipreo spoke.

IR professionals asserted that this process was often far more time consuming and involved more constituencies than what senior management and the IR teams had initially envisioned, as activist engagements can often play out over several years. As one IRO told Ipreo, "Knowing the general framework, including who is going to be called upon and making sure they are prepared, is vitally important. Also, know that it's going to absorb a considerable amount of time because you are dealing with a lot of constituents. Depending on how public it is, I would even mention the employees and shareholders that work for the company. There is also the whole media aspect, so not just investors are impacted. There's a customer component, other stakeholders, and the community, which could also be affected by an activist campaign." Another IR professional mentioned that his activist encounter provided a heightened awareness to senior management that they have to be cognizant of this happening again, noting, "It is obviously a huge expense and time commitment for the team. Incidents like this bring these realizations to the forefront of IR and senior management's minds. They make you realize that, strategically, you don't live in a bubble and your long-only shareholders may be upset with you. You have to be aware that the world is different now and that these activists are out there."

Many IROs mentioned that a best practice for companies dealing with activist investors is to be as open as possible. An IR executive noted, "The minute you try to cover up for an underperforming business, activists will come to the forefront of the issue. Be very forthcoming." It may be prudent to review the company's current messaging and disclosure to ensure the company is providing adequate information about its performance and ongoing initiatives to the Street. As another IRO stated, "If the perception of the market is that the firm is underperforming or not performing as the marketplace thinks it should, it's probably in the company's best interest to present more information to the marketplace."

As it relates to dealings with a potential activist, being clear and transparent with your company's strategy and providing updates on messaging and disclosure to ensure the company is providing adequate information about its performance and ongoing initiatives to the Street. As another IRO stated, "If the perception of the market is that the firm is underperforming or not performing as the marketplace thinks it should, it's probably in the company's best interest to present more information to the marketplace."

As it relates to dealings with a potential activist, being clear and transparent with your company's strategy and providing updates on execution allows companies to have a dialogue with an activist regarding why management's plan is the right path to create shareholder value. One IRO further expounds on the importance of clear messaging, telling Ipreo, "You need to be able to articulate your IR strategy and that you're doing something to promote value for your shareholders. Activists come after you because they see value in your stock and you're not articulating it to the outside world, or it's taking longer than expected for the execution to happen. You need to make the Street aware that you're doing things to unlock the value of the company. You need to be able to articulate a longer-term plan. A lot of companies are targets as a result of locked up value or while a restructuring is going on that is not apparent or people have grown impatient if they aren't seeing the results fast enough. There's a reason they go after you."

Similarly, another dynamic to consider should activists engage the company is how the company will respond to the Street. By preparing in advance for shareholder engagement, companies are more likely to display a calm and collected front, and therefore strike the appropriate tone

with the investor, rather than coming across as unprepared or defensive. Another IRO pointed out how the Street may interpret a company's communications, adding, "When you have activists coming into your stock and they want something different than the course the company wants to take, you're either for it or you're against it. There's no middle ground. So all of a sudden you are misconstrued in the media as being against a certain idea, and stuck in a dog fight. Your activist is going to use that against you and make it look like management is dragging its feet and not adhering to what shareholders want. It's likely going to get really ugly."

Activism Trends

Finally, Ipreo recommends that IR professionals stay abreast of activist trends on an ongoing basis, focusing on which activists may be investing in similar companies or investment stories, and what tactics they have employed in these scenarios. In practice, 87% of survey participants use general media reports or conduct their own research in order to stay informed on activist investor trends in the market and their industries. Less than half of respondents, 48%, indicate that they leverage peer relationships for activist intelligence, while 30% indicate that they subscribe to vendor data focusing on activist trends. "You really need to be able to identify these people," comments one IRO. "Some of these guys claim they're not activists, but if they have a position in the company, chances are they are going to take a larger position if they feel strongly enough."

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