

Covid-19 and Shareholder Activism

Harald Kinzler, Partner at Kekst CNC

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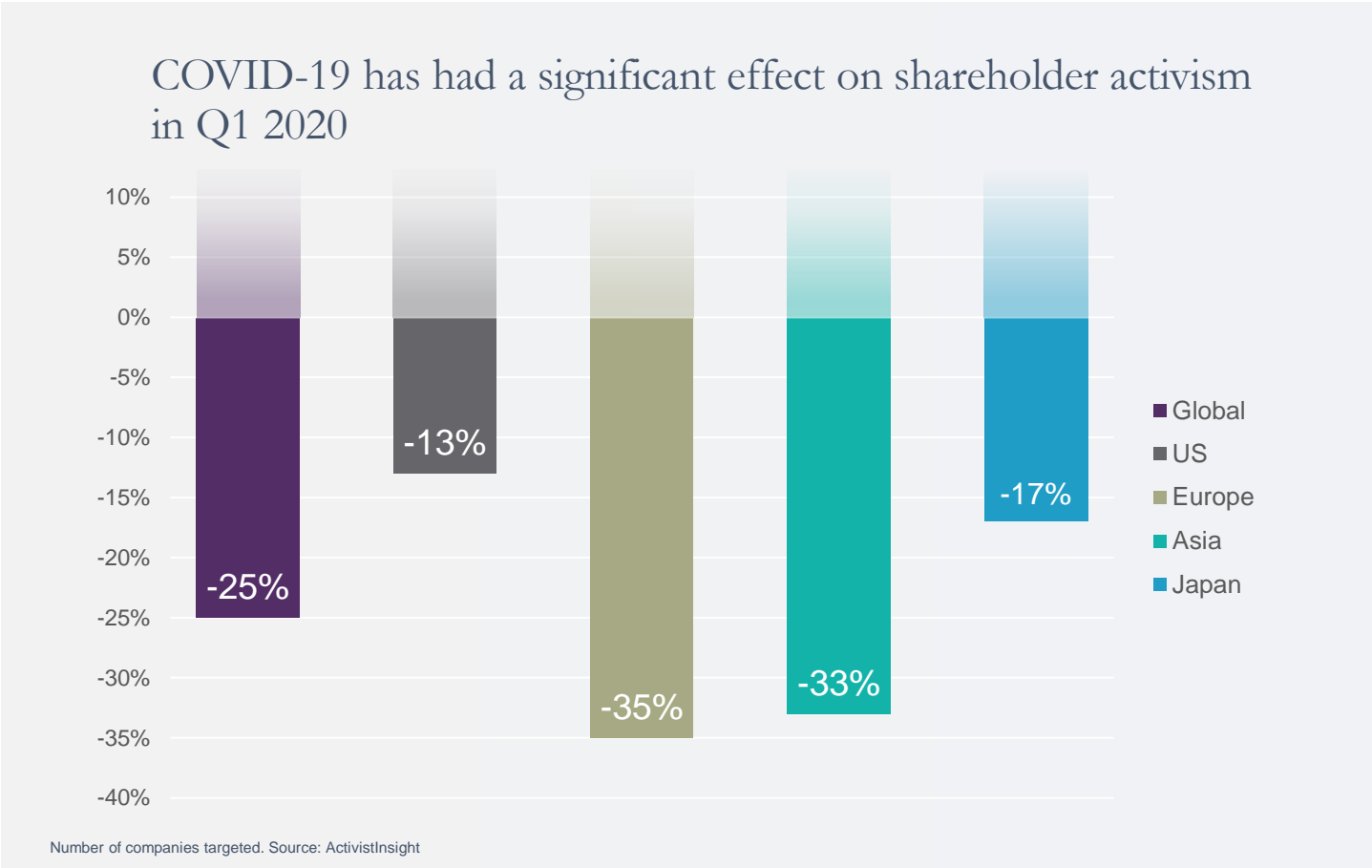
Ryushiro Kodaira, Senior Staff Writer at Nihon Keizai Shimbun

Kekst CNC Webinar, Tokyo, 9 June 2020

Introduction & A Europe Perspective

Harald Kinzler, Partner at Kekst CNC

Visible shareholder activism has decreased markedly in Q1 2020



—
Some activists have settled,
postponed or sold...

The logo for TIM, featuring three horizontal red bars to the left of the letters "TIM" in a bold, blue, sans-serif font.

Elliott Management

The logo for Capgemini, featuring the word "Capgemini" in a blue, sans-serif font followed by a blue circular icon containing a white shape.

Elliott Management

The logo for Lufthansa, featuring a circular icon with a stylized crane in flight to the left of the word "Lufthansa" in a bold, black, sans-serif font.

Bluebell Capital
Partners

The logo for First, featuring the word "First" in a bold, black, sans-serif font followed by a red circular icon containing a white shape.

Robert Tchenguiz

...but others have ramped up

Although public campaigns decreased sharply in the wake of the Covid-19 pandemic, activists are active in the background

- **Pershing Square** invested \$2.5bn in fortifying existing positions in various countries
- **Engaged Capital** and **Land and Buildings** are investing in real estate
- **ENA Capital** keeps pressure on Germany's Bilfinger
- **Cevian Capital** doubled down on CRH and Rexel
- **Amber Capital** escalated its Lagardère campaign
- **Teleios** increased its position in Glenveagh, and bought a stake in Stabilus



The pandemic changes corporate vulnerabilities



1

Does the old strategy still work?

2

Are supply chains too vulnerable?

3

Is the business model too cyclical?

4

Is the balance sheet strong enough?

5

Is the company still perceived as a good corporate citizen?

6

Are there more painful decisions to take?

ESG will play a more important role, anchored by the 'S'

- The 'S' has finally come into its own.
- There will be a 'look-back test'.
- The 'E' is also strengthening.
- This gives Activists **new entry points**.



Implications from a European perspective

- Unlike 2009, the big players have plenty of cash, and are not suffering from redemptions like smaller ones
- Activists are active, but in the background, for now
- Activists will soon reclaim the full – enhanced – range of their armoury as Covid-19 induced change opens up many opportunities



Feedback from recipients (end-May)

“We agree with the themes and predictions of your piece.”

“Our Shareholder Advisory business is in particular demand right now.”

“Reads really well and corresponds to what we are seeing.”

“We share your view: this is the calm before the storm.”

“We see especially Activists which are backed by long money.”

“Activists are changing their modus operandi, providing liquidity in certain cases.”

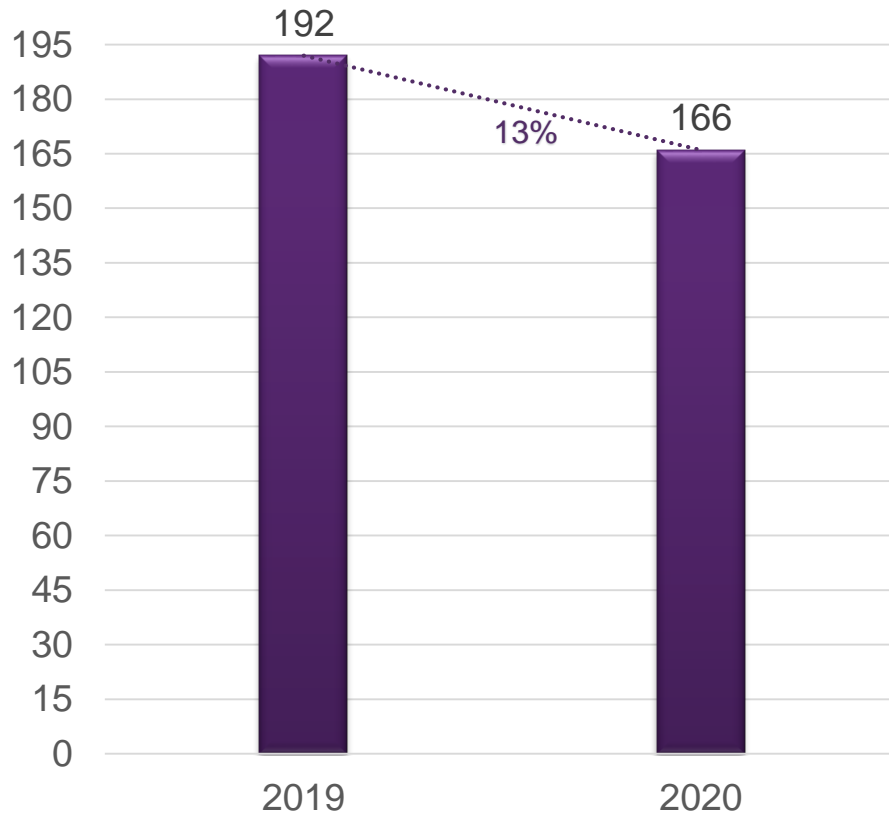
A U.S. Perspective

Kenton J. King, Partner M&A and Corporate Governance at Skadden

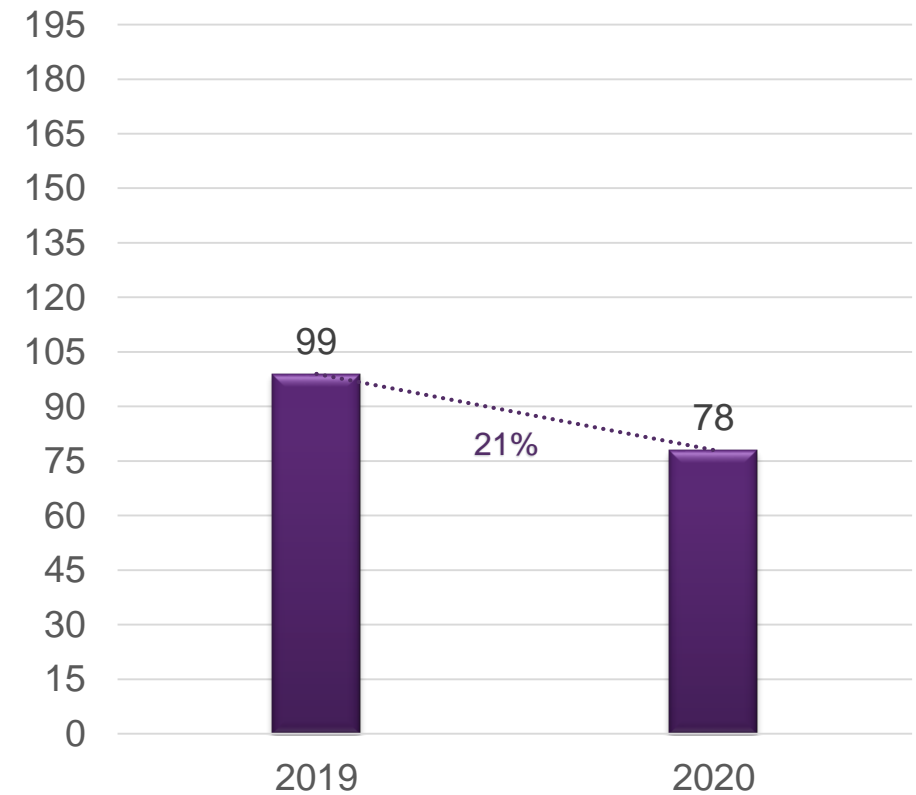
Activism 2020 vs. 2019 – a U.S. view

Activist activity decreased in the first quarter of 2020 compared to the first quarter of 2019 to lowest levels since 2014

Number of US Companies Targeted by All Activists

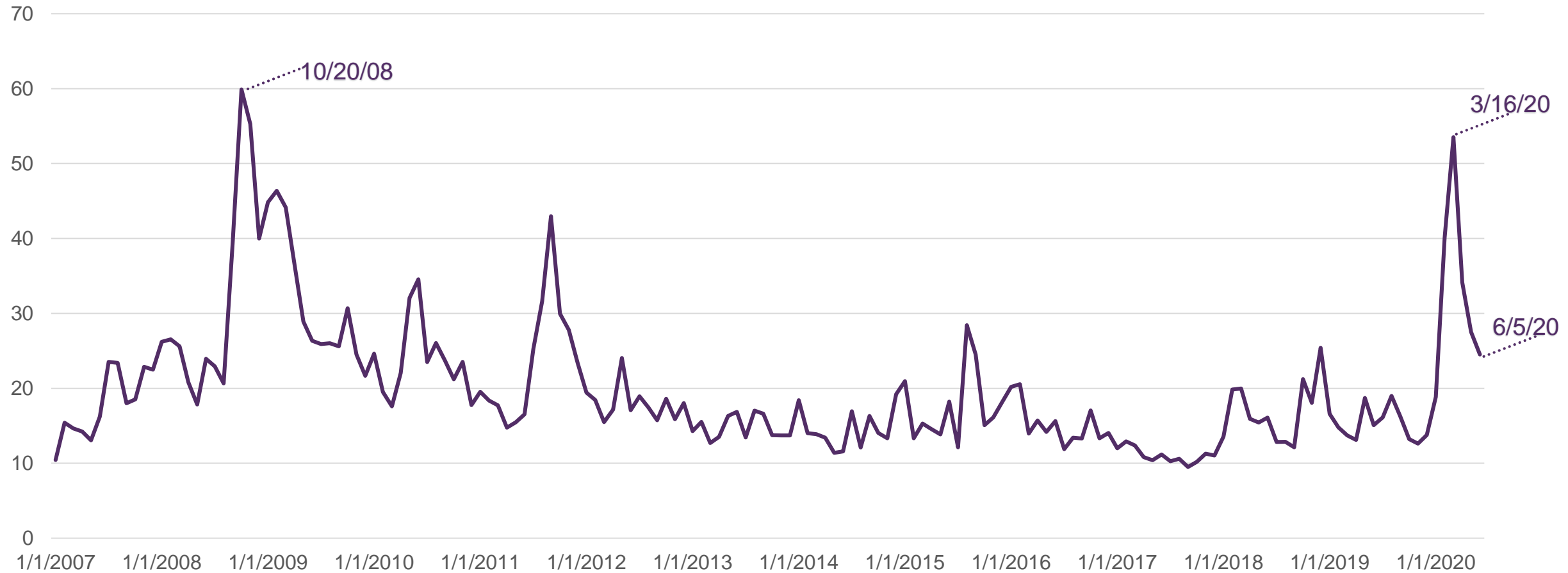


Number of US Companies Targeted by Traditional Activists



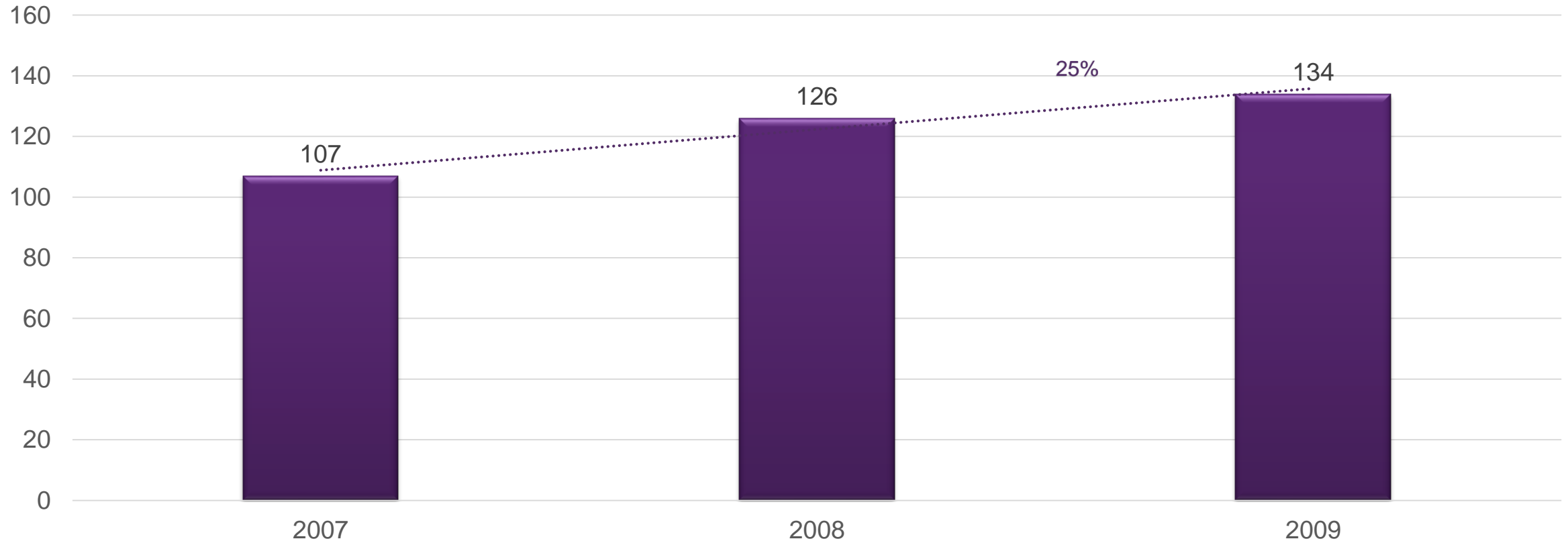
Volatility Index VIX from 1 Jan. 2007 till 5 June 2020

Volatility Index (aka “Fear Index”) reached its highest point since the Great Recession on March 16, 2020 but has rapidly stabilized



Activism and the Great Recession

Proxy contests for board representation increased immediately following the Great Recession

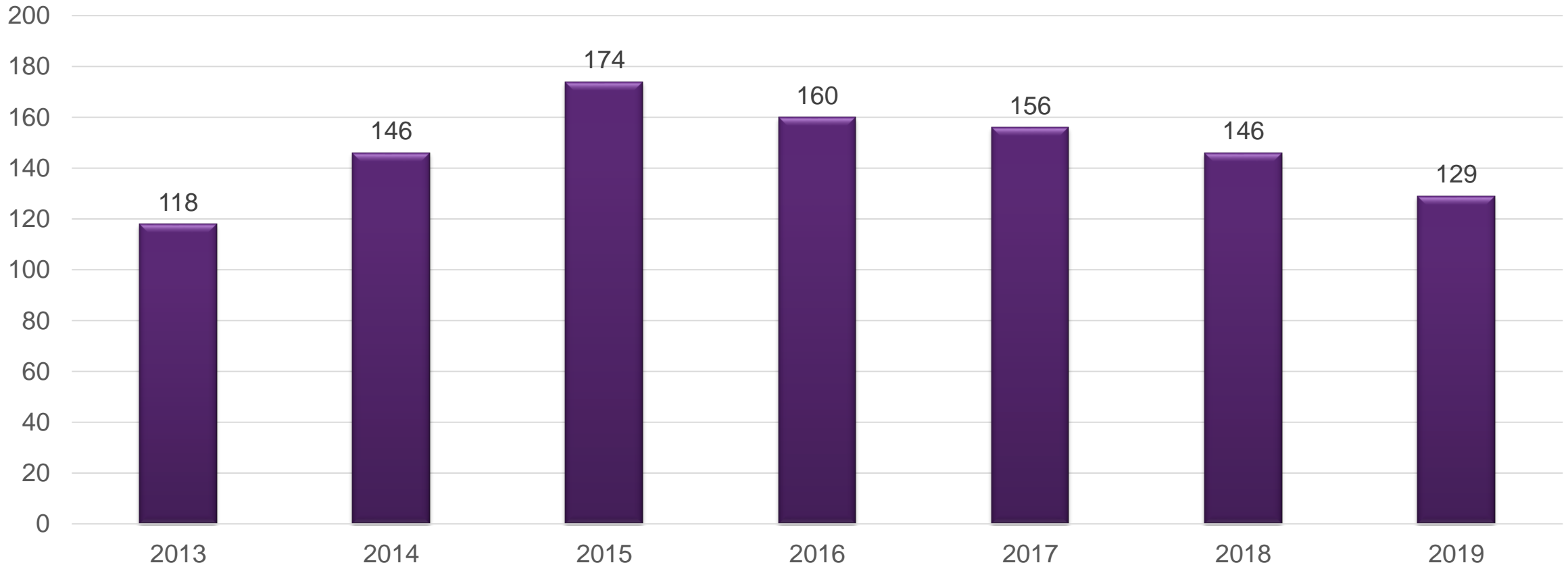


Source: Activist Insight

Assets Under Management by Activist Hedge Funds

While Activism AUM in the U.S. is still strong at \$129 billion, that is a 26% drop from its peak in 2015 — reflecting the increased difficulty in achieving gains that outperform the market

Total Activist Hedge Funds Assets Under Management in the U.S. (\$bn)



A Japan Perspective

Ryushiro Kodaira, Senior Staff Writer at Nihon Keizai Shimbun

Japan is one of the most attractive countries for activists outside of US



Source: Activist Insight

Activists' requests in Japan: 3 main categories

Buy back, Dividend

- Many!

Board members

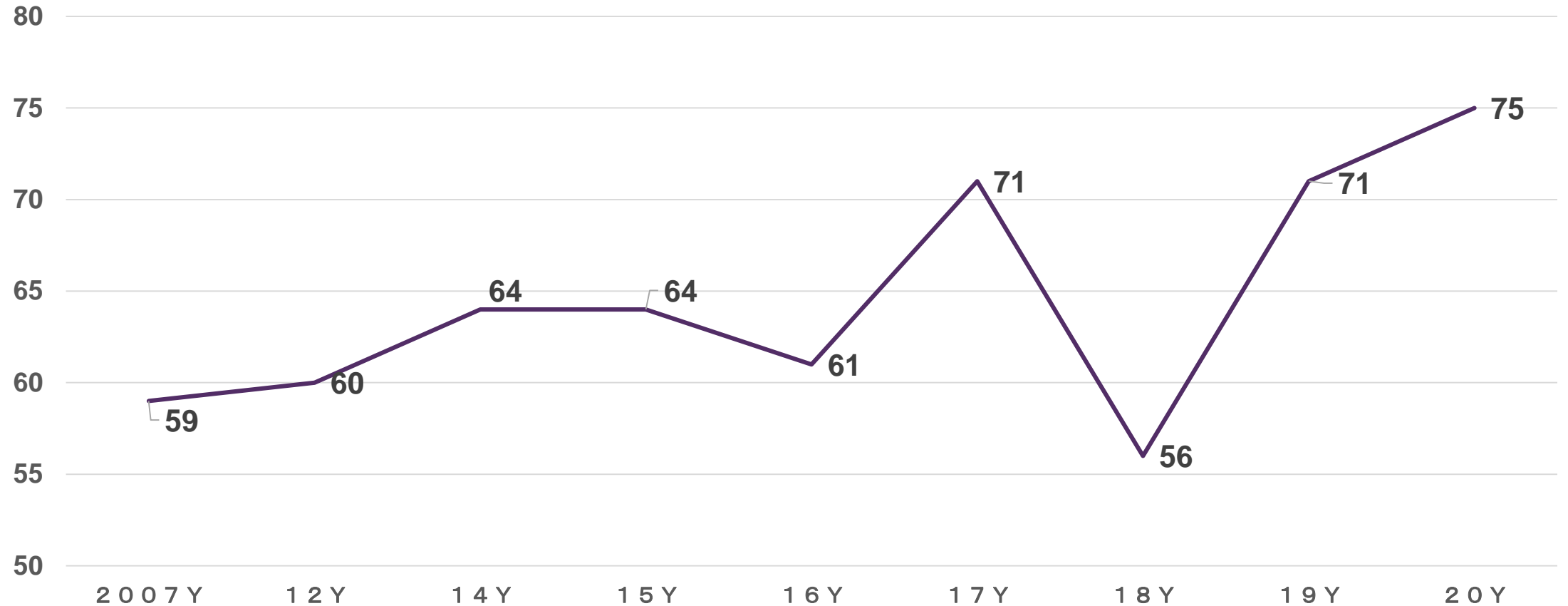
- Olympus
- Sun
Corporation

Operational changes

- Sony

“Are you satisfied with the ROE of Japanese companies”?

- Percentage of those answering with “No”



Source :Global Investors Survey by Ryohei Yanagi, Eisai

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