

The 10 Worst Things to do When an Activist Comes Knocking

(and what to do instead)

A shareholder activist has come knocking.

More investors than ever before are employing the tools of activism, and no company is immune. The stakes are high. The stress is real. What you say, when you say it and how you say it could have pivotal consequences on the outcome of an activist engagement. While there is rarely one right answer, there are countless ways to go wrong. This booklet looks at 10 common mistakes companies and boards of directors make when engaging with shareholder activists and offers our perspective on how to orient thinking to get to the right business outcome.

The 10 Worst Things to Do in an Activist Situation

1

Trust results to stand on their own merit

2

Assume an activist's argument can't resonate

3

Assume passive means passive

4

Run on only your resumes

5

Just campaign *against* their plan

6

Respond to every attack

7

Confuse reporters with investors

8

Stick to just one message

9

Keep teams in their silos

10

Underestimate the power of digital

1

Don't trust results to stand on their own merit

Every string of good quarters inevitably comes to an end. Results don't speak for themselves. Strategy does.

WHAT TO DO INSTEAD

A clearly articulated strategy carries the day. Activists will claim they know how to create value better than you, but you can keep investors on your side if they already know how performance (current or future) is the result of a carefully developed and well executed strategy, one better and more credible than proposed by the activist.

2

Don't assume an activist's argument can't resonate

Many established activist hedge funds have earned respect for their track record of value creation. Years of smart PR has all but eliminated the "activist" stigma. Assuming other investors will dismiss their legitimacy because they are an activist will only undermine management credibility.

WHAT TO DO INSTEAD

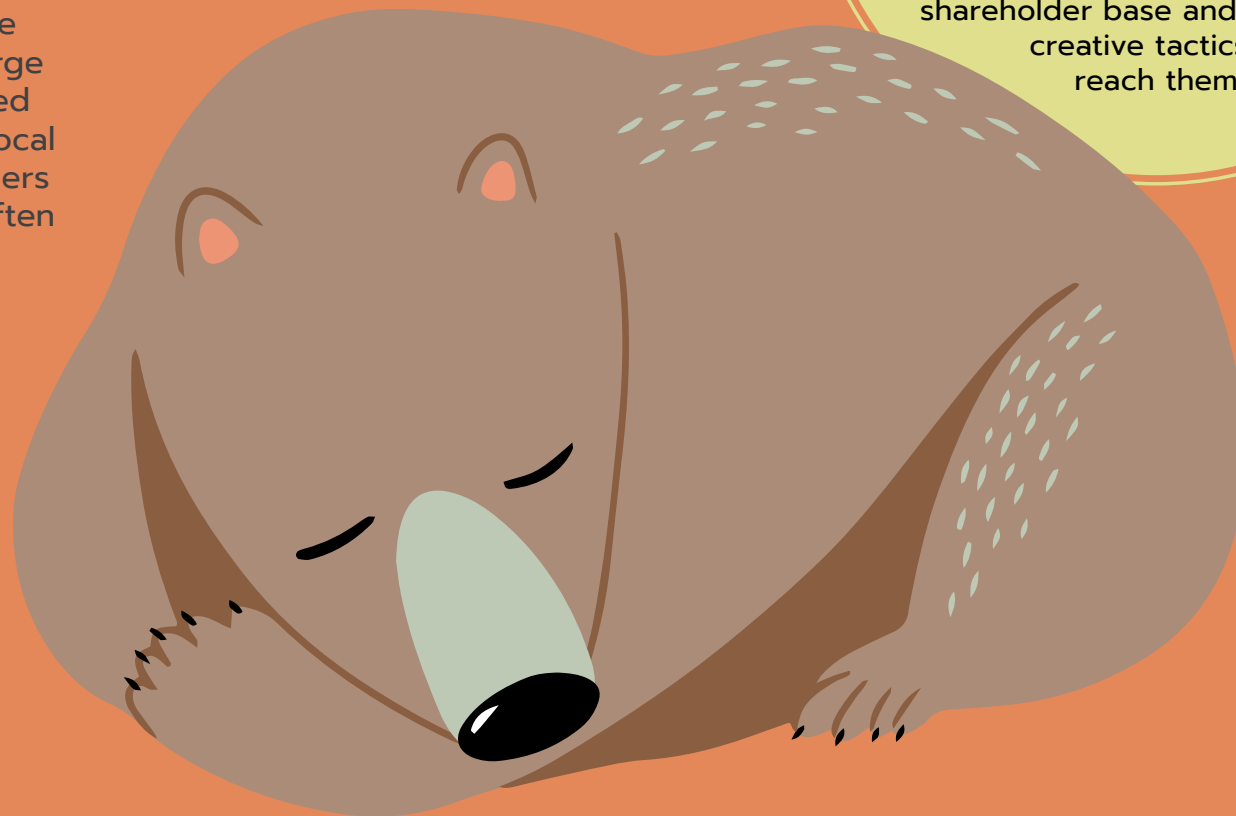
Do for an activist what you would do for any large holder...unless and until they violate trust in a way that merits a change in approach. When attacked, remember to target the strategy, proposals and tactics, not the individual(s). Discrediting the activist just for being an activist won't work. Discrediting their specific proposals and offering a better path forward is a more effective approach.

3

Don't assume passive means passive

Too many people assume passive means silent. Large passive funds have turned into some of the most vocal and influential shareholders in the market and can often sway a critical vote.

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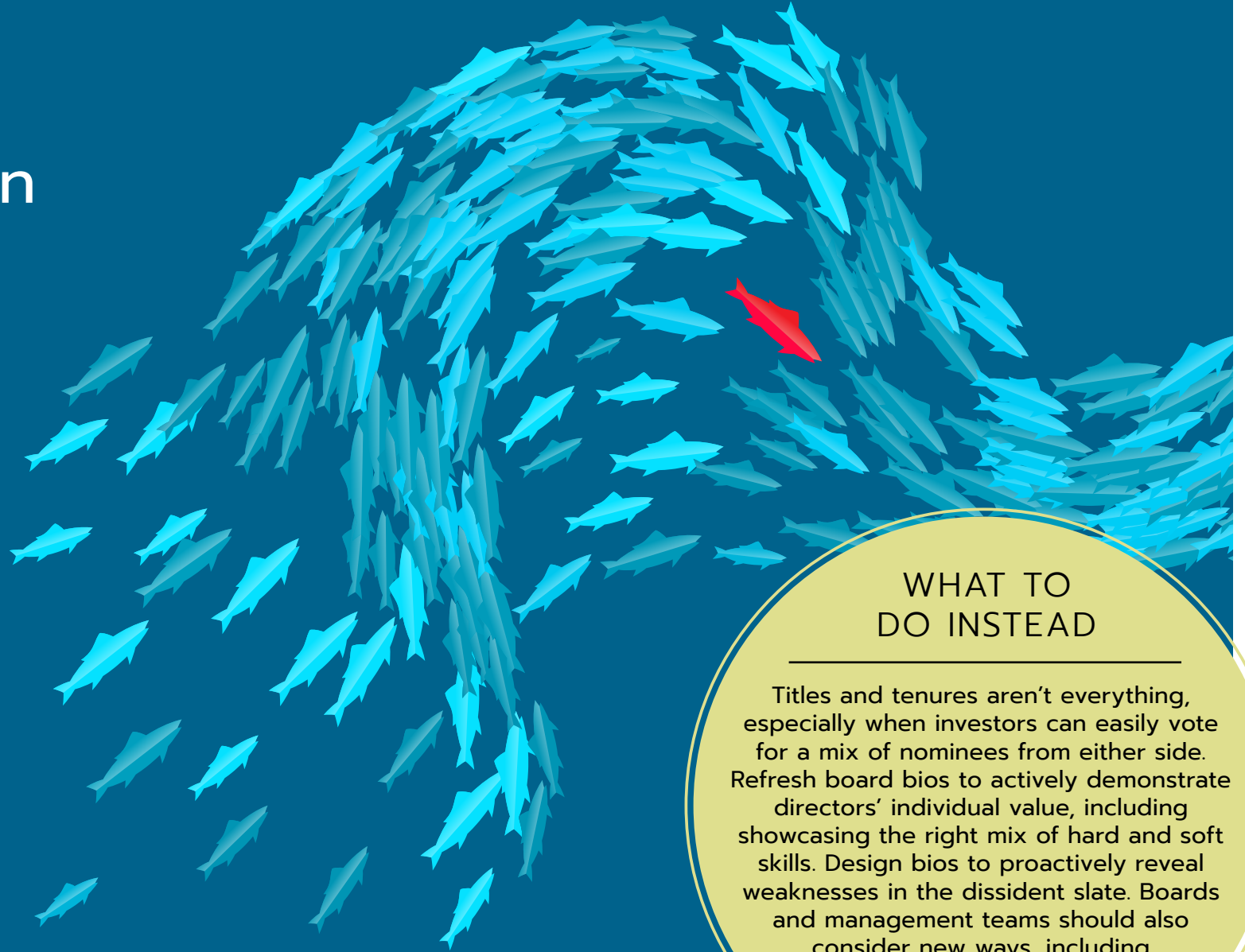
WHAT TO DO INSTEAD

While difficult to reach one-on-one, communication with passives is possible. If companies don't listen to, and work to address, passive investor concerns then they may face a very active vote against in a proxy fight. You need to understand the nuances of your shareholder base and implement creative tactics to reach them.

4

Don't run on only your resumes

In the Universal Proxy Card (UPC) era, vulnerable directors can no longer hide among a slate of other company nominees. Nominees cannot rely on dull recitations of their resumes.



WHAT TO DO INSTEAD

Titles and tenures aren't everything, especially when investors can easily vote for a mix of nominees from either side. Refresh board bios to actively demonstrate directors' individual value, including showcasing the right mix of hard and soft skills. Design bios to proactively reveal weaknesses in the dissident slate. Boards and management teams should also consider new ways, including digital tools, to humanize their candidates and connect with investors.

5 Don't just campaign *against* their plan

Companies cannot simply say "no" to activist proposals. Just like other voters, shareholders (and the influential proxy advisory services ISS and Glass Lewis) are looking to support something. They are most active and engaged when they believe in the cause.



WHAT TO DO INSTEAD

Offer a plan to vote for, not just a target to vote against. It is much easier for investors to reject an activist's proposal when the company provides a clear and achievable vision for the company's future. Even better: engage with your shareholders consistently – not just when you need their vote.

6 Don't respond to every attack

Not every activist statement requires a public response, and not every issue is worth fighting over. Escalating hostilities or raising the volume usually benefits the other side more than yours.

WHAT TO DO INSTEAD

Choose your battlefields and your timetable, so you can deliver your messages in your way and directly to those who need to receive them. There are times to punch back, but it is better to speak softly and carry a big stick. Figure out your vulnerable areas in advance, and develop a matrix of credible, clear responses you can deploy when the time is right.



7

Don't confuse reporters with investors

Reporters thrive on conflict. An ideal news story has good guys, bad guys and loads of tension. None of those elements are helpful for successful resolution to an activism engagement. Reporters will never be your most effective tool to reach your key audiences, especially investors.



WHAT TO DO INSTEAD

You must reach stakeholders directly, not just through a media filter. That starts with investors but often includes employees, regulators and customers. Be aggressive with media but remember that reporters are not a stakeholder themselves.

8 Don't stick to just one message

No politician speaks to just one message in a campaign. Companies shouldn't either. Repetition and consistency are always vital, but there is a fine line between affirming a core message and just repeating the same language even as the focus of the fight shifts.



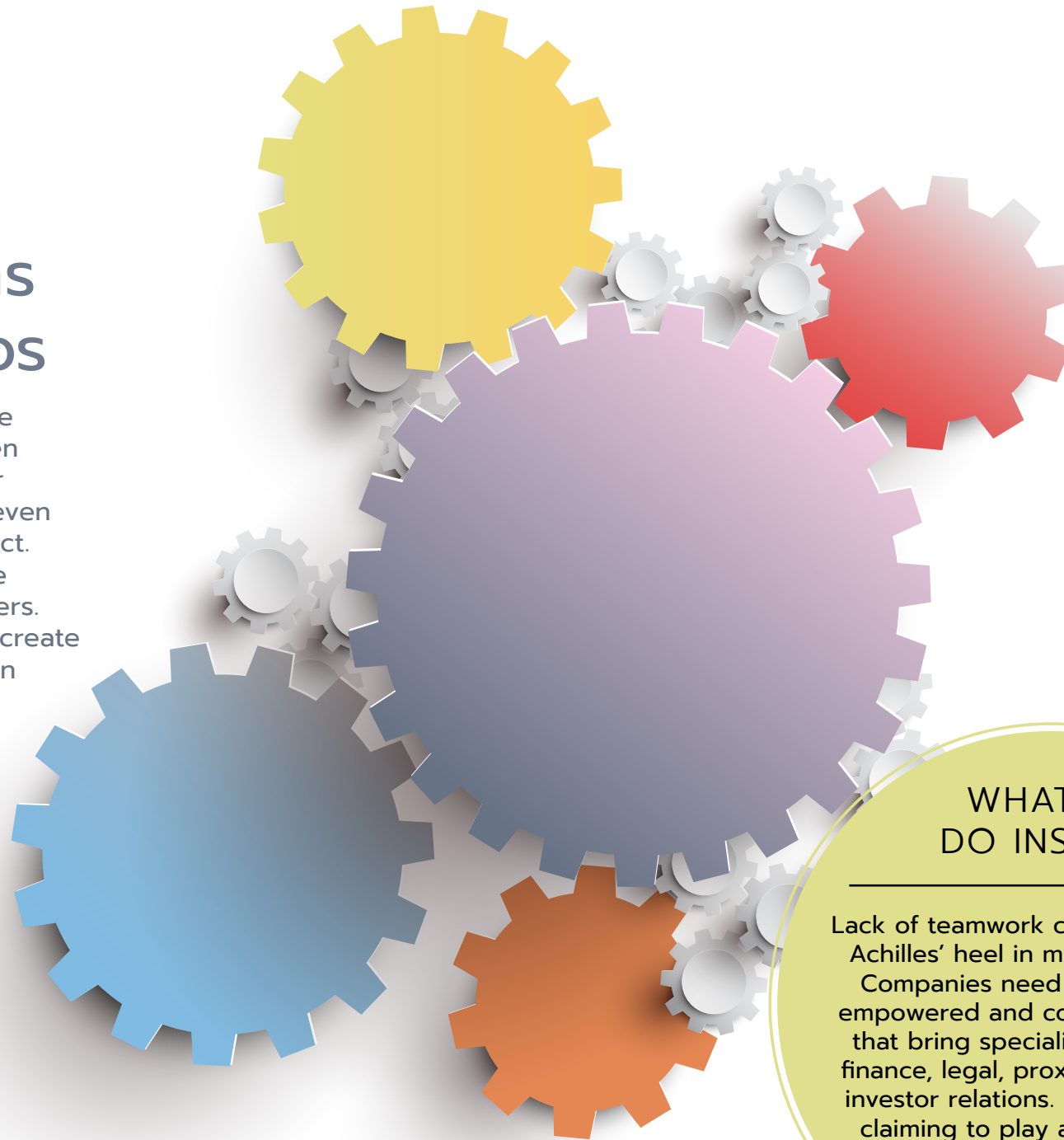
WHAT TO DO INSTEAD

Consider changing the messages based on feedback. Also recognize that your shareholders aren't a monolith. Be flexible with emphasizing different messages to different investor groups. Stay consistent on a core thesis, but don't stubbornly use just one way to say it.

9

Don't keep teams in their silos

Activist engagements raise intertwined issues between finance, legal and investor relations that can create even broader stakeholder impact. Changes to one area have immediate impacts to others. Too often corporate silos create confusion that activists can easily exploit.



WHAT TO DO INSTEAD

Lack of teamwork can be the biggest Achilles' heel in many proxy fights. Companies need to create small, empowered and collaborative teams that bring specialized expertise in finance, legal, proxy solicitation and investor relations. Be wary of those claiming to play all roles at once. There are always star players but nothing beats a team working together.

10

Don't underestimate the power of digital

The way the world consumes, processes and uses information has changed. Investors and other corporate stakeholders no longer rely on printed newspapers and physical mailings.

WHAT TO DO INSTEAD

Digital media is a powerful tool in reaching and influencing investors. There is no replacement for in-person, but a multi-channel approach is key to securing buy-in to your messages (and support for your nominees). It is never too early to incorporate smart digital tactics into your investor relations strategy.

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