



ir2020

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The Rise of Shareholder Activism

January 28, 2020

MAINFIRST
A Stifel Company

STIFEL

Stifel Overview



United States: Atlanta | Austin | Baltimore | Boston | Chicago | Houston | New York | Philadelphia | Richmond | San Francisco | St. Louis
Europe: London | Frankfurt | Madrid | Zurich | Geneva Asia: Beijing | Hong Kong | Shanghai | Singapore | Tel Aviv

Organization

Institutional Business

- Investment Banking, Research and Sales & Trading

Wealth Management

- 2,300 financial advisors with \$289B in assets
- Asset Management
- \$31B in client assets
- Bank & Trust with \$16B+ in assets

Financial Profile (NYSE: SF):

- \$4B+ Equity Market Capitalization
- \$3B+ in LTM Total Revenue
- \$739M in LTM Banking Revenue

Investment Banking

Full service investment bank with deep industry expertise

- **M&A:** #1 middle-market firm
- **Equity:** #1 in equity (IPO, FO, CVT) transactions < \$1B Market Value
- **Leveraged Finance:** ~\$20B balance sheet supports buy-side M&A
- **Restructuring:** \$19B+ in M&A advisory, \$350M+ in debt restructuring, 25 professionals
- **144A & Private Placements**
- **Alternative Fund Raising:** \$13+ billion placed LTM
- **US Equity Research:** Largest platform on Wall Street

Banking Sectors and Scope

Over 400 professionals in all sectors of the economy globally

- Technology
- FIG
- Healthcare
- Consumer & Retail
- Diversified Services
- Gaming, Lodging and Leisure
- Real Estate
- Industrials and Natural Resources

20 offices across the globe, including five offices in Europe and four offices in Asia
Solely focused on the middle market

MainFirst Overview

MAINFIRST A Stifel Company



- Independent European bank offering equity brokerage as well as investment banking services to international institutions and corporates
- C. 400 employees in six countries with high level of experience in a combined European entity (STIFEL & MF)
- Exclusion of proprietary trading and loan business to avoid industry typical conflicts of interest
- Full German banking license and subject to all relevant local regulatory authorities (BaFin, FINMA & FINRA)

MAINFIRST Brokerage

- **Equity Research**
 - > 50 research analysts
 - > 450 European stocks
 - Focus on Germany, Switzerland, France and Italy across market caps
- **Equity Sales**
 - > 50 professionals in 7 locations
 - Approx. 600 active investor clients
 - Close relationships to local investors across our coverage regions



MAINFIRST ECM

- IPOs, capital raisings, secondary placements / block trades, stake buildings
- Based on research strength as well as differentiated placement approach and capabilities
- Reliable partner for technical execution and structuring of capital market transactions



ALLGEIER



The Combined STIFEL Platform

- **Equity Research**
 - > 170 research analysts
 - > 2000 stocks coverage universe
 - Comprehensive all-cap product, focussed on mid-markets
- **Equity Sales**
 - > 150 professionals globally
 - Approx. 4000 active investor clients
 - Close relationships to local investors across the US & western Europe



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Types of Shareholder Activism



Economic



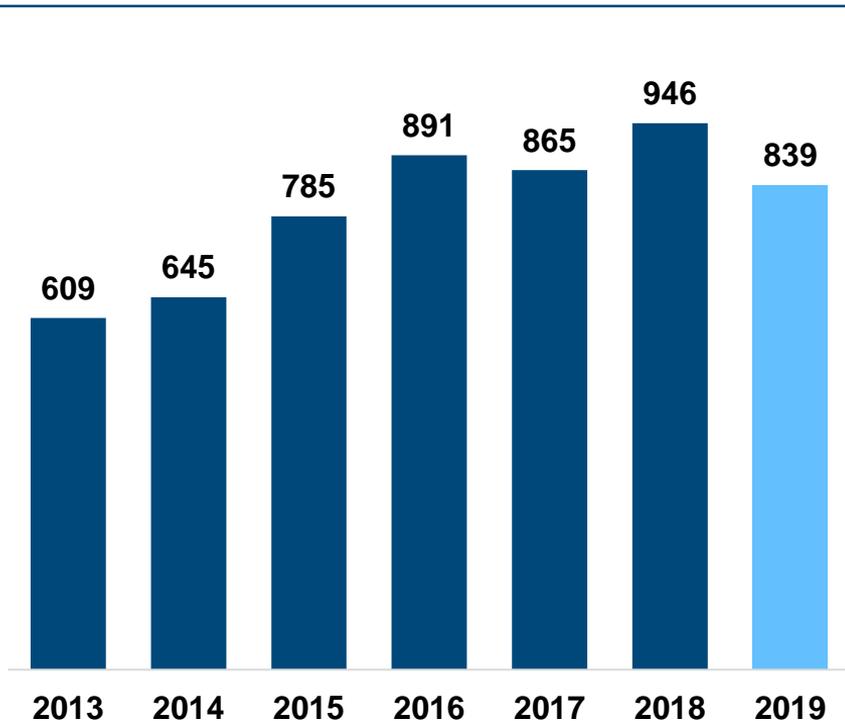
Governance



Environmental & Social

Activist Campaign Activity – Global

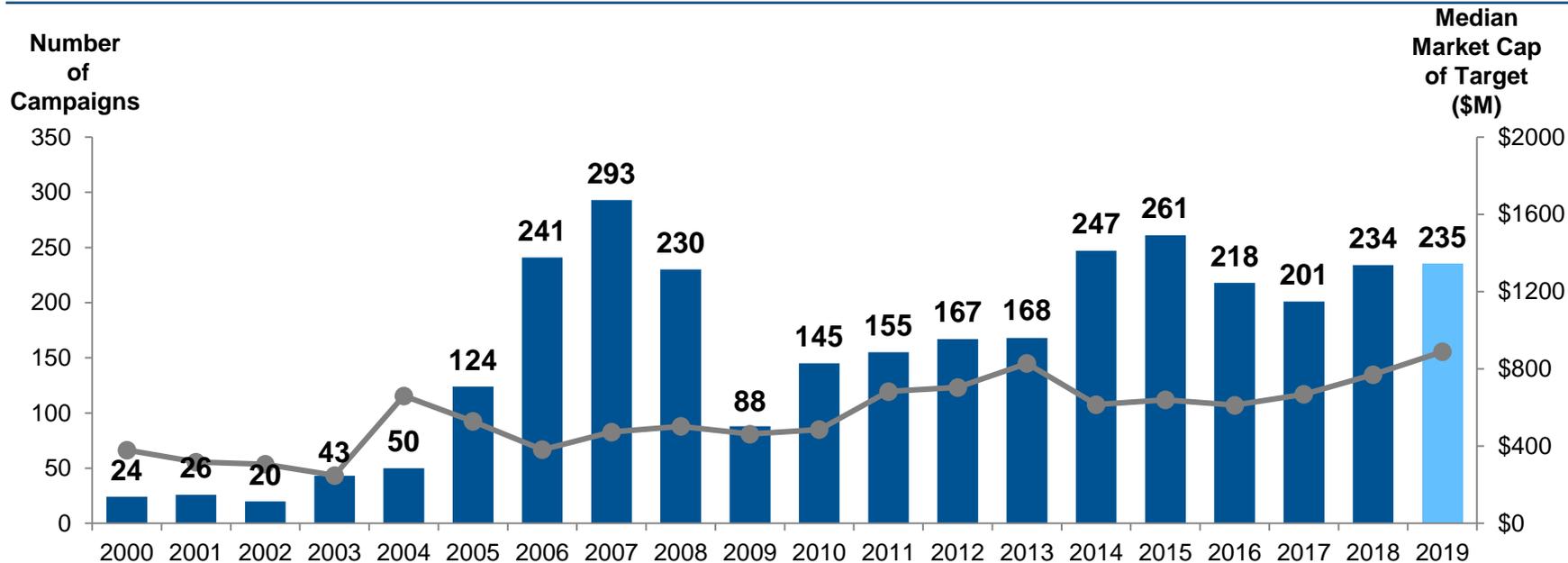
Number of Companies Targeted by Activists



| Country | 2019 Notable Targets |
|--|--|
|  Canada | <ul style="list-style-type: none"> • TransAlta • Hudson's Bay • Masonite International |
|  United Kingdom | <ul style="list-style-type: none"> • Barclays • Imperial Brands • Ferguson |
|  Europe (excl. UK) | <ul style="list-style-type: none"> • Bayer • EssilorLuxottica • EDP – Energias de Portugal |
|  Japan | <ul style="list-style-type: none"> • Sony • Olympus • Kyushu Railway |
|  South Korea | <ul style="list-style-type: none"> • S.M. Entertainment • Hyundai Home Shopping • Hyundai Motor |

Activist Campaign Activity – United States

2000-2019 U.S. Shareholder Activism Campaigns⁽¹⁾



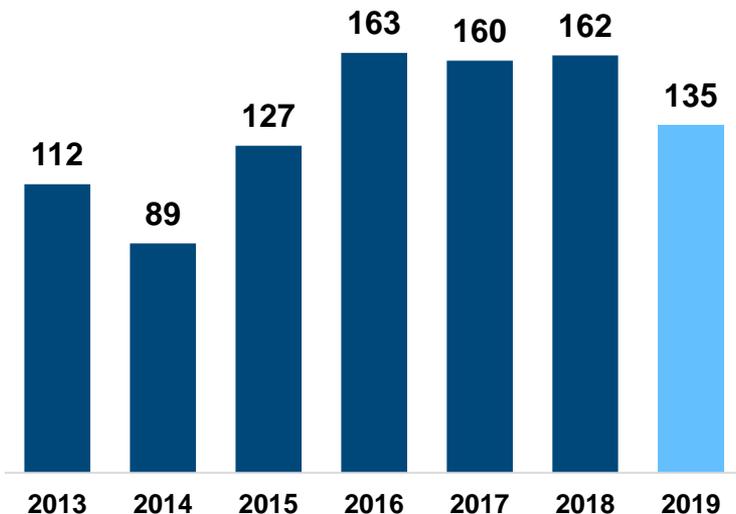
68%

Percent of 2019 U.S. campaigns targeted companies < \$2B in market cap

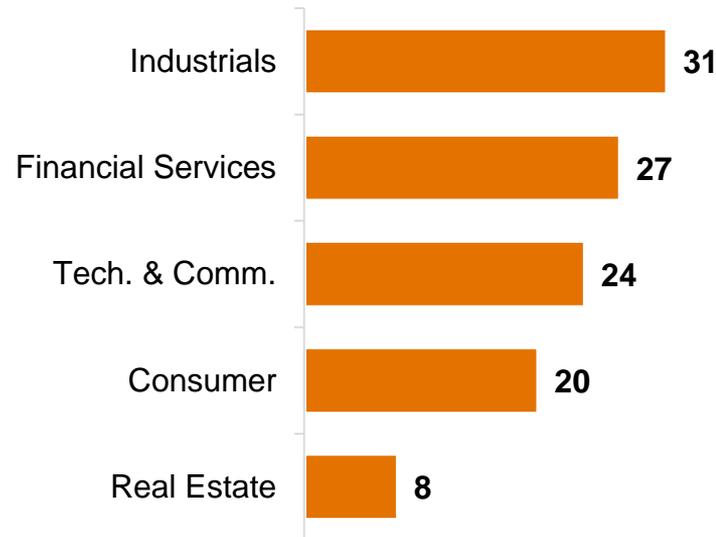
1) Campaigns by announcement date. U.S. public companies with >\$100M market capitalization at the time of announcement. Source: FactSet Shark Repellent; Activist Insight.

Activist Campaign Activity – Europe

Number of Companies Targeted by Activists



2019 Activist Targets by Sector – Top 5

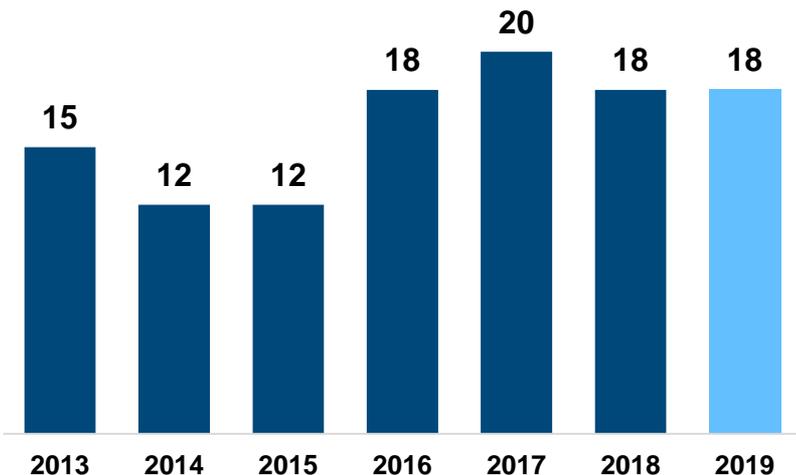


59%

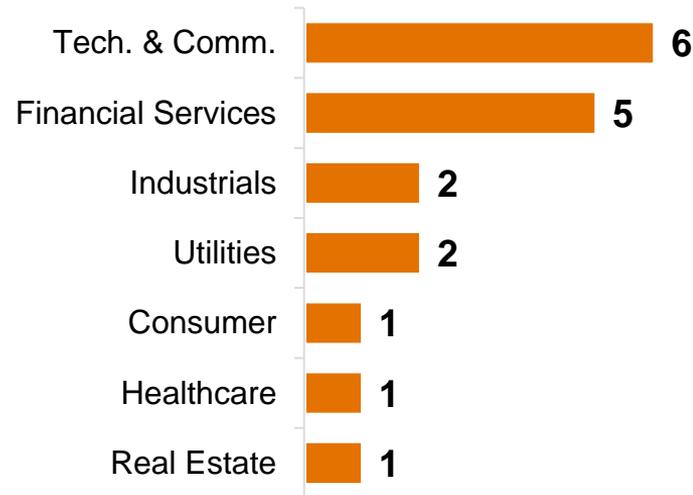
Percent of European companies targeted in 2019 with < \$2B in market cap

Activist Campaign Activity – Germany

Number of Companies Targeted by Activists



2019 Activist Targets by Sector



78%

Percent of German companies targeted in 2019 with < \$2B in market cap

Activist Investor Funds

Seasoned Activist Funds

ELLIOTT®

STARBOARD VALUE

TRIAN PARTNERS

THIRD POINT

ICAHN ENTERPRISES L.P.

FISHING SQUARE



GAMCO ASSET MANAGEMENT

Next Generation Funds

SACHEM HEAD CAPITAL MANAGEMENT

MARCATO

CORVEX MANAGEMENT



“Constructivist” Funds

VAC VALUEACT CAPITAL

Blue Harbour Group

HUDSON EXECUTIVE CAPITAL

Sector-Focused Funds

BLUE LION CAPITAL

LAND and BUILDINGS

PL Capital, LLC

KIMMERIDGE Energy

SARISSA CAPITAL MANAGEMENT LP

Traditional Active Managers

NEUBERGER BERMAN

ARTISAN PARTNERS

FRANKLIN TEMPLETON INVESTMENTS

FIRST MANHATTAN CO.

European Activist Funds

Cevian Capital

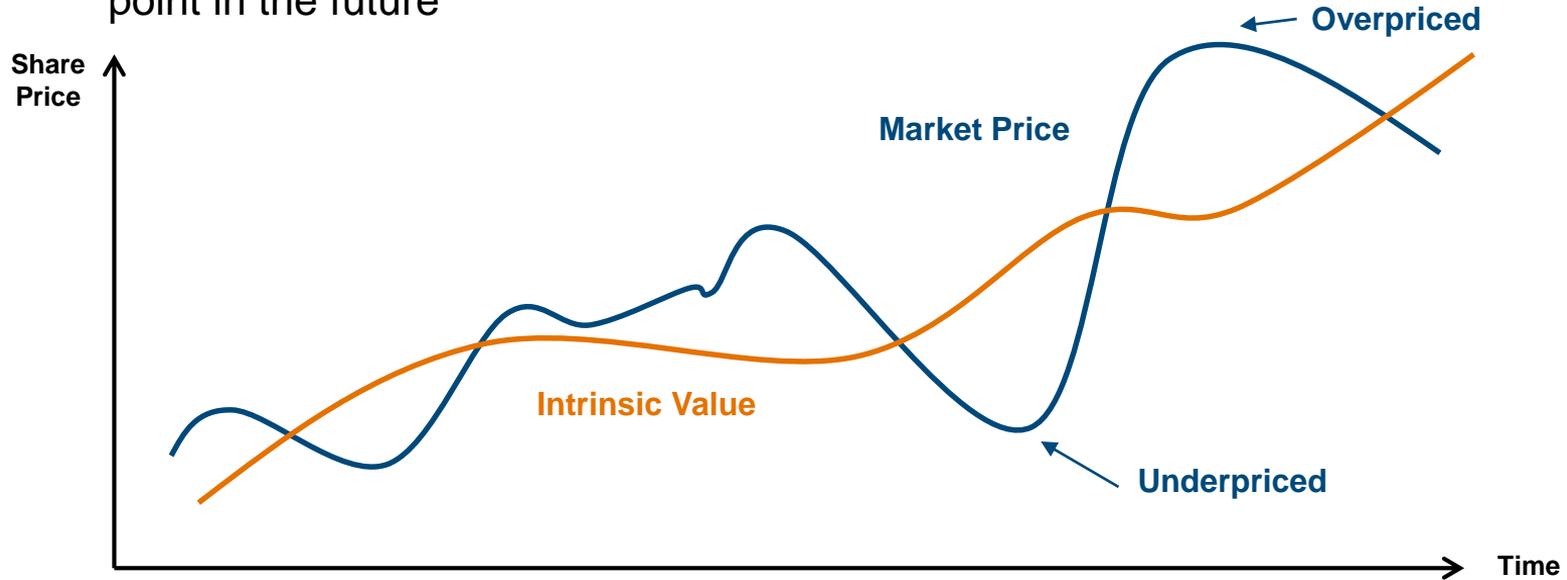
Active Ownership

TELEIOS

Searching for Catalysts

A successful investment thesis requires two features:

1. A stock is undervalued relative to its intrinsic value
2. Other investors will recognize the discount and re-value it appropriately at a point in the future



Activist investors usually seek a catalyst to drive changes in the stock price

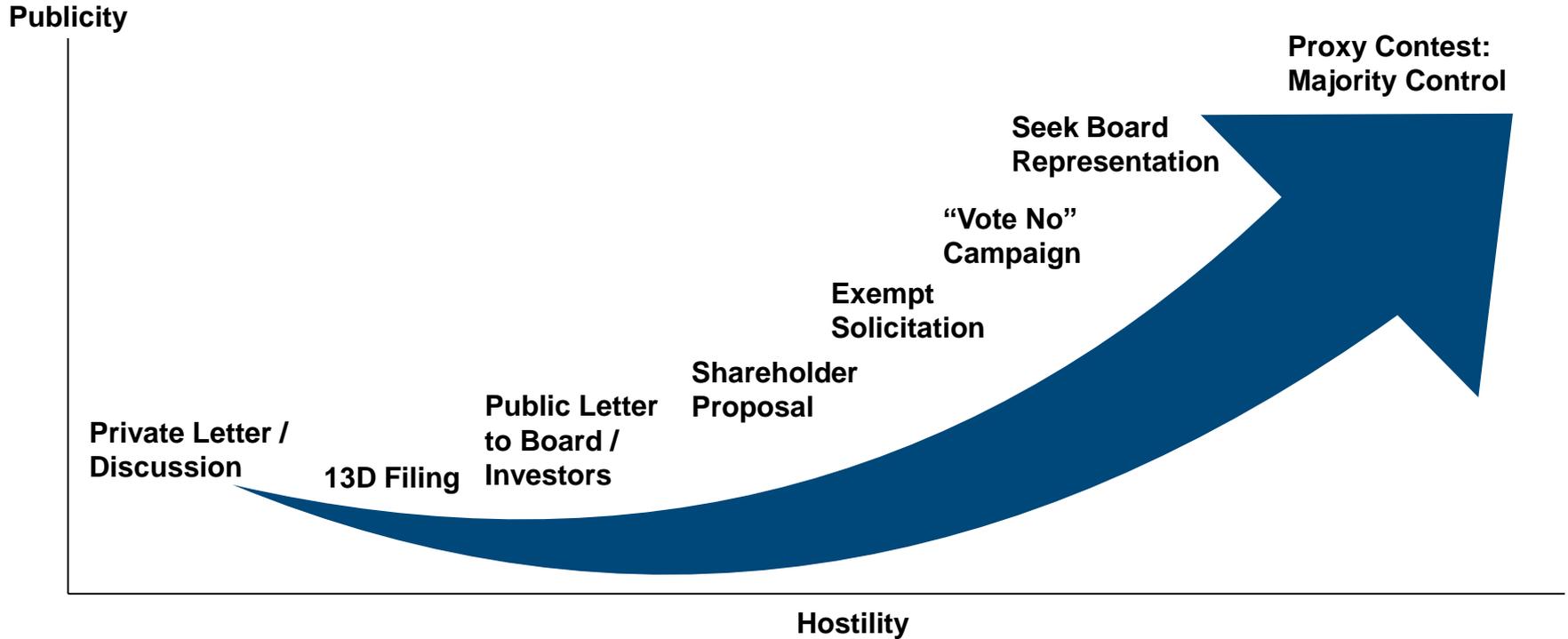
Common Activist Theses

Activists often seek a catalyst to create change and unlock value

| Investment Thesis | Examples |
|------------------------|---|
| M&A / Transactional | <ul style="list-style-type: none">• Urge sale / strategic alternative process – quick capture of a takeover premium• Often includes public letter to board/shareholders to spur unsolicited bids• Merger arbitrage / opposing transactions / sweeteners ('bumpitragage') |
| Balance Sheet Activism | <ul style="list-style-type: none">• Demand return of capital to shareholders (i.e. share buybacks, dividends)• May oppose equity issuances / dilutive transactions |
| Operational Activism | <ul style="list-style-type: none">• Improve trading multiples through change in operations, business mix• Focus on cost structure (SG&A, R&D) and ROIC or ROCE• May target CEO / senior management• May seek significant changes to business strategy such as abandoning growth projects or M&A strategy |
| Governance | <ul style="list-style-type: none">• Criticize takeover defenses (i.e. classified board, poison pill), board composition and refreshment, compensation practices and environmental & social issues. Often proposed alongside an economic activism thesis |

Activist Tactics

Activists can use a variety of tactics to influence companies



Primary Campaign Objectives – United States

Board representation and M&A remain primary drivers of most campaigns

2019 Campaign Objective

1 Board Control / Representation
30% of definitive proxy contests sought control of a majority of the board in 2019

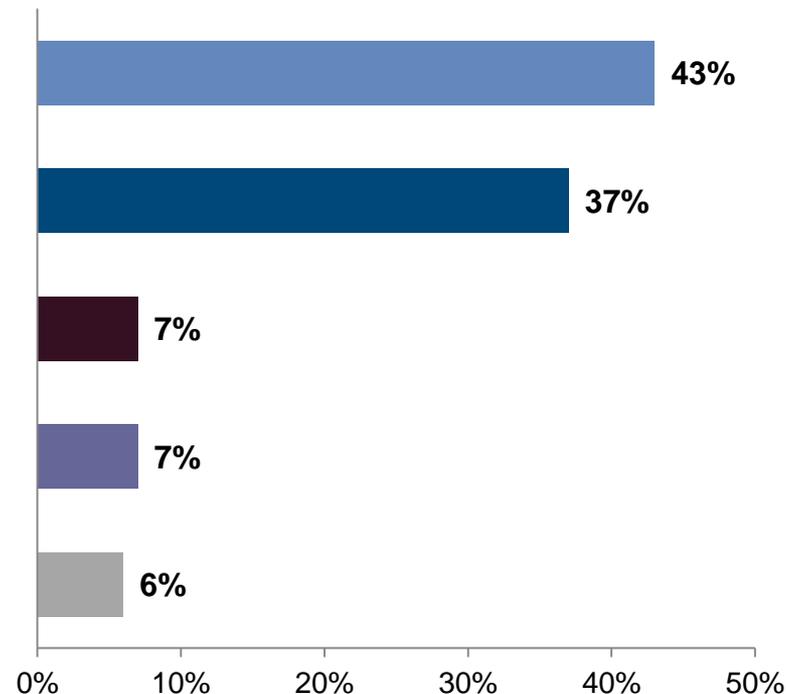
2 Urge Strategic / Operational Changes
i.e. Call for strategic alternatives, changes to operations or capital allocation, or increasing buybacks

3 Hostile / Unsolicited Public Bid

4 Vote / Activism For/Against a Merger
i.e. Investor and merger arbitrageurs

5 Vote Against a Management Proposal
e.g. "Vote No" campaign

2019 Proportion of Campaigns – U.S.



Activist Campaign Outcomes – United States

Activist campaigns frequently result in settlements or agreements to activist demands

2019 Key Figures

228

board seats won by activists

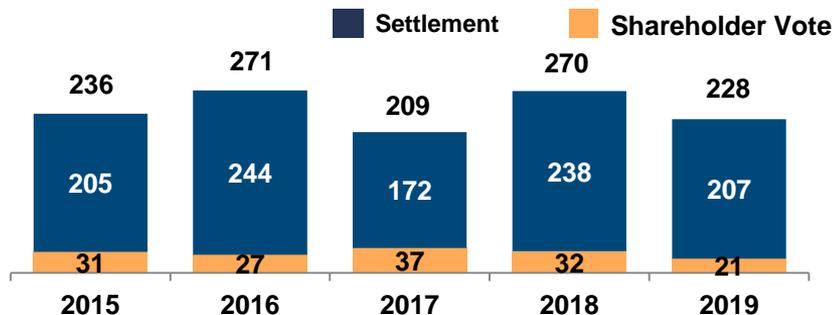
59%

% campaigns ended in settlements

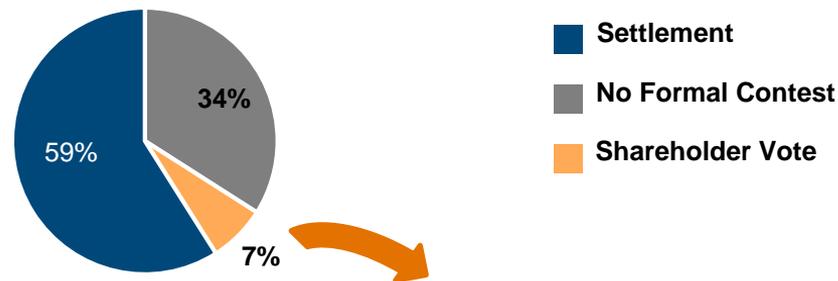
73%

% management success rate in campaigns that went to a vote

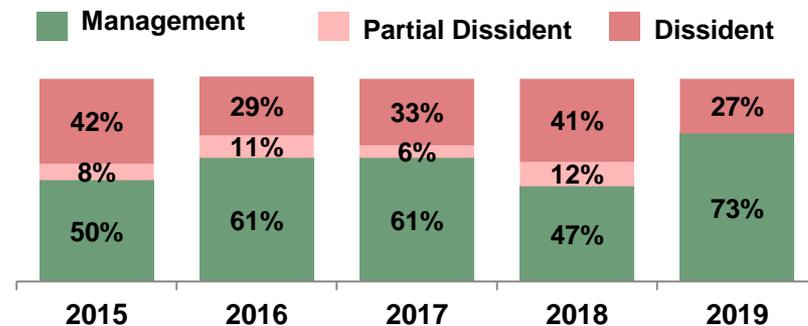
Board Seats Gained by Activists



Campaign Outcomes – U.S. Companies



Shareholder Vote Outcomes



Source: FactSet Shark Repellent; Activist Insight. Excludes ongoing campaigns, hostile / unsolicited public bids and activism for/against mergers.

Proxy Contest Outcomes – United States

Activists were less successful in proxy contests that went to a vote in 2019

Contested Director Elections

The number of contested director elections was similar to 2018, but fewer campaigns went to a vote due to an increase in settlements and withdrawals

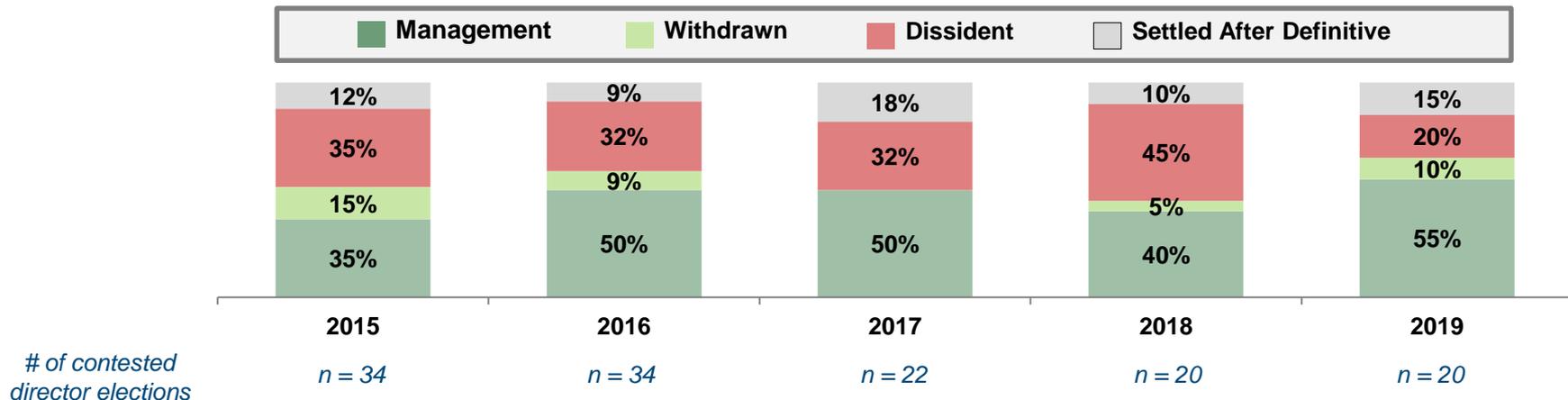
Management Support Increased

65% of contested director elections were won by Management or withdrawn after a definitive filing, a significant increase from 45% in 2018

Late-Stage Settlements

25% of campaigns were either settled or withdrawn after a dissident filed a definitive proxy statement but prior to a shareholder vote

Definitive Proxy Contests – Outcomes



Activism in Germany

Select Recent Campaigns

2016

RIXTRON

e.on

SLM
SOLUTIONS



2017

COMMERZBANK



GRAMMER

OHB

STADA

2018

Deutsche Bank



GEA
engineering for
a better world

thyssenkrupp

2019



SAP

SCOUT 24

uni
per

Continued Concentration of Assets in Largest Managers

Large passive and index fund managers continue to grow in assets and influence

Actively Managed vs. Passively Managed – U.S. Equity Funds (in \$T)⁽¹⁾



Actively Managed vs. Passively Managed – U.S. Equity Funds (in \$T)⁽¹⁾



1) 2019 data as of August 2019. 2018 data as of November 2018.
Source: Bloomberg; Morningstar Direct; S&P Capital IQ.

The Activist Case

Activists must make both an economic and governance case to be successful

Analytic Framework



Economic Thesis

Persuasive economic case that the campaign will improve long-term shareholder value



Governance Concerns

Governance argument that casts doubt on board's ability to act effectively and impartially to address the economic case



Both are typically required for an activist to gain support from governance teams and large institutional investors and proxy advisors

Case Study – ThyssenKrupp

Target



Key Events

- Cevian Capital initially disclosed a stake in the Company in 2013 and received a seat on the board in 2015
- In September 2017, Cevian opposed the Company's plan to combine its European unit with Tata Steel's and called for a breakup of the Company
- Elliott also opposed the plan and released a letter calling for the Company to continue considering "any structural evolution, such as the Steel JV, where such changes are determined to be in the interest of all shareholders."

Activist



Outcome

The European Commission blocked the steel business merger with Tata Steel

The Company announced it would not pursue a split between its materials business and capital goods business, but instead would pursue an IPO of its elevator business

Case Study – Scout 24

Target



Activist



Pelham Capital

Key Events

- In August 2019, Elliott published a letter calling for the “full separation” of the Company’s ImmobilienScout24 and AutoScout24 businesses, a “more robust buyback” program and increased / improved engagement with shareholders
- A week later, the Company announced it would review strategic alternatives for AutoScout24
- Separately, Pelham Capital nominated Tamedia executive Christoph Brand to the Board at the 2019 annual meeting

Outcome

Pelham’s nominee was successfully elected to the Board with 53.8% support

In December 2019, the Company announced the sale of its AutoScout24 business to Hellman & Friedman

Observations

- **Catalysts:** Activists usually search for catalysts at potential targets, often with multiple paths and theses. Understanding how investors view the company's prospects can help a company be proactive in reducing risk of activism and escalation
- **M&A / Strategic Alternatives:** Strategic transactions are a common theme to many campaigns. They are often attractive to activists because they provide an immediate opportunity to generate returns
- **“Wolfpack Behavior”:** The involvement of one activist at a company can attract the attention of other activists
- **Shareholder Engagement:** Companies should communicate with shareholders on a regular basis, be receptive to hearing feedback from shareholders and demonstrate that shareholders have an open line of communication at all times

Advanced Preparation for Activism

Advanced preparation for an activist situation can make the difference



Conduct Vulnerability Assessment



**Tailor Your IR Messaging to Proactively
Address Potential Activists Theses**



Engage with Institutional Investors on Governance Topics



Review Shareholder Voting Patterns



Draft an Activist Response Plan

Activism Defense Recommendations

What to Do If You Are Targeted



Assemble a Dedicated Team



Conduct Thorough Review of Potential Activist Theses



Establish Negotiation Strategy with Activist



Develop Key Themes for Use Throughout Campaign



Create a Communications and Engagement Plan

Questions & Answers

STIFEL

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