

## What companies should know about the shifting activist agenda

2020 Global Corporate Divestment Study  
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The EY 2020 *Global Corporate Divestment Study* reveals that 96% of global activist campaigns ignited post-crisis will call for corporate carve-outs.

Like so much else, shareholder activism has felt the economic impact of COVID-19; campaigns globally have fallen 25% to 238 in the first quarter of 2020, compared to the same period a year ago. This decreased level of activity may be why only 25% of global companies say activism will influence their divestment plans in the next 12 months.

But while activist investors may appear to be down now, they're not out. Some may have their own difficulties to deal with, but other hedge funds are raising multi-billion-dollar funds to capitalize on market dislocation. And many, including the larger well-established firms, are thriving with large war chests, ready to deploy as we move into the next phase of the pandemic response.

We've added this insight to the *Global Corporate Divestment Study* since we are often asked what might be next on the activist agenda. To help companies better understand the activist perspective, we surveyed 25 global activist investors in January 2020, and again in April 2020, after the market's reaction to the COVID-19 pandemic. The results indicate activists will push for more corporate carve-outs, which may be a call to action for the 72% of companies that say they have held onto assets too long.

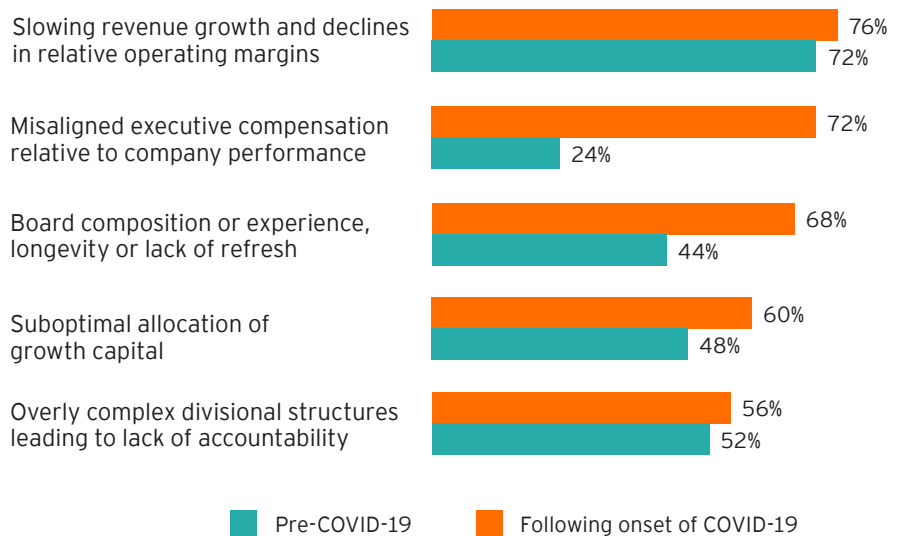
## Activist views of corporate vulnerability are changing

Factors influencing the choice of activist targets are shifting in response to the crisis. For example, focus on share price underperformance relative to a target's peers declined in importance with activists following the downturn, moving from 60% to 48%. And executive compensation misaligned with company performance significantly gained in importance with 72% of activists, up from 24% pre-crisis.

This reinforces the fact that the fundamentals of the business, rather than market reactions, are the activists' most important considerations.

As expected, slowing revenue growth and declines in relative operating margins maintained its pre-eminence, rising modestly from 72% pre-crisis to 76% following the crisis. Large cash balances and inefficient balance sheets declined as a factor, moving from 52% pre-crisis to 36%. And those citing a change of terms for existing M&A situations as a factor grew from 60% to 92%, perhaps driven by market volatility and the need for greater flexibility in pre-agreed deal terms.

**Q** When identifying new investment opportunities, which of the following factors are the five most important?

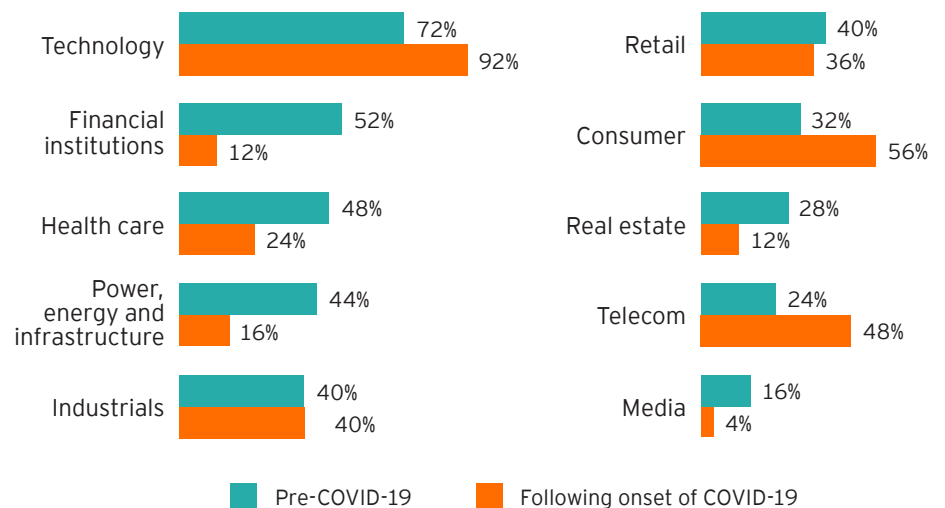


## Which markets are next on the investment horizon?

When looking at new investment opportunities by sector over the next 12-24 months, activists indicate that sights are focused on technology (92%), consumer (56%) and telecom (48%). Pre-crisis, financial institutions and health care were much higher on the list.

By geography, 76% of activists surveyed say the greatest new geographic investment opportunity is Asia-Pacific (APAC) over the next 12-24 months, while interest in the Americas and Europe, the Middle East, India and Africa (EMEIA) dropped post-crisis. The desire for companies to reduce their supply chain dependency on China and broaden it out to other APAC countries might be one reason.

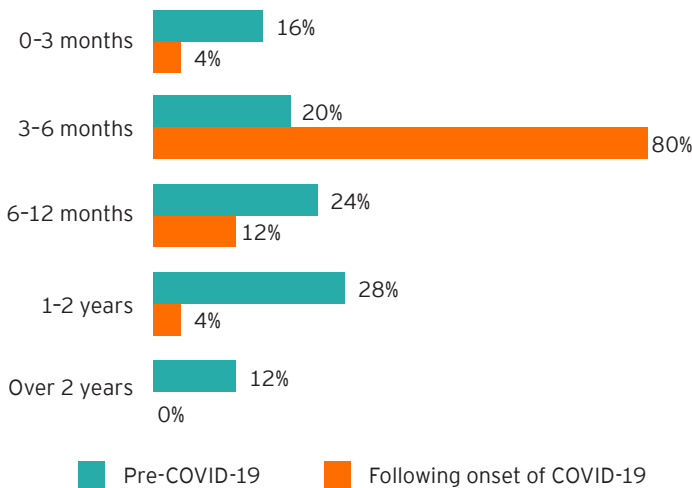
**Q** In what sectors do you expect to see the greatest opportunities for new investments over the next 12-24 months? (Select all that apply.)



## Activists will move at a faster pace to influence corporate focus

As we look to the future, activists desire corporate focus and simplicity. Almost all (96%) activists plan to recommend that a target company carve out and divest non-core or underperforming businesses, a sharp increase from the 64% pre-crisis. The timeline has also significantly shortened. Previously, those expecting that such a divestment should take place within six months was 36%; this has now increased to 84%.

**Q** What do you expect to be your timeline from going public with an initial investment in a new holding to announcing a divestment of part of a business?



While many companies are struggling to stabilize their business, it is unlikely that activists will launch their traditional playbook involving immediate management changes, divestitures, buybacks, and capital reallocation. Rather, in the near-term we believe activists will change their tone, recognizing their limited ability to criticize a company's immediate performance. They can instead portray themselves as rescuing heroes, able to bring their industry and turnaround expertise to help in these challenging circumstances.

Based on the survey results, companies may have only a short time to prepare for what's on the activist agenda beyond the crisis. After positions have been accumulated and the crisis passes its worst, campaigns will be poised for launch. As part of their future planning, companies should be ready for an activist narrative around why change is needed, an evaluation of the leadership teams' ability to manage through the crisis, and any disconnects between compensation and share price performance.

Therefore, it is ever more critical that companies maintain an always-on portfolio review process to identify areas of growth and underperformance. They will need to clearly articulate how they plan to restore performance post-crisis, and potentially be ready to accelerate plans to divest businesses that are no longer core, especially those that they have held onto too long. By undergoing continuous reviews and communicating to key stakeholders the path to long-term value post-crisis, companies can mitigate risk to hostile campaigns and the heightened activist activity set to come in the next 12 months.

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## About this study

The EY *Global Corporate Divestment Study* is an annual survey of C-level executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company.

Results are based on an online survey of 1,010 global corporate executives and 25 global activist investors pre-COVID (conducted between November 2019 and January 2020), and an online survey of 300 corporate executives and 25 global activist investors following the onset of the crisis (conducted between April and May 2020), including companies from 11 industries, with 75% of respondents holding the title of CEO, CFO or other C-level executive.

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