M&A is a Persistent Campaign Theme

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M&A - be it disposals, sweetening transactions or scuttling them and demanding money be returned to shareholders - is a growing theme of activism. According to Lazard, 45% of all activist campaigns globally in 2019 had an M&A perspective, the highest proportion to date.

Critically, the market believes that M&A activism creates shareholder value. The median cumulative abnormal return (CAR) around the announcement of M&A related activist demands is 1.9%, according to research by Boston Consulting Group. That is nearly three times the CAR for activist demands which do not have an M&A thesis (0.7%).

Conglomerates can be particularly vulnerable to activists pushing an M&A thesis to unlock value. These “lego” companies can be attractive break-up targets. They often struggle to adequately explain why their current structure is optimal for value creation, and not simply the culmination of acquisitions built up over time. German industrial conglomerate Thyssenkrupp has faced sustained pressure from its shareholders, amongst them Cevian Capital and Elliott, to improve performance and simplify its structure. Thyssenkrupp has changed its CEO as it looks to accelerate its transformation and is pursuing a dual-track process for its elevator division.

In the UK, Trian Partners took a position in June in Ferguson, the plumbing and heating supplies merchant, and has been credited in some quarters as a key driver for Ferguson’s subsequent decision to split its UK and US businesses. The US activist Cat Rock has been calling on the food delivery service company Just Eat to seek M&A opportunities. It has supported the subsequent £8.3 billion merger with Takeaway.com. Eminence, another US activist that sees value in Just Eat, in contrast said it planned to vote against the merger, believing it undervalued the food delivery business.

Bumpitrage – whereby an activist intervenes in a deal to extract a higher offer price from the bidder – is a constant threat during transactions. Elliott’s interventions in the takeovers of SABMiller by AB InBev and Quintain by Lone Star are two cases in point where higher offers were secured by the activist in order for the bidder to safeguard the transaction.

So, are you ready for a potential activist campaign?

US-based activists continue to be the most prominent this year, with Elliott and Starboard the most active players, launching 14 and 11 campaigns respectively, according to Lazard. First timers have accounted for a quarter of all new campaigns and traditional, long-only investors have been increasingly vocal and active. With a reputation for aggressive campaigning, US-based activists have, however, tended to modify their approach when engaging UK and European boards. They are increasingly savvy to business norms on this side of the