Volume 4, Issue 7

August 2015

PRIVATE EQUITY AND ACTIVISM

SANDON CAPITAL

TEVA AT MYLAN

ACTIVIST PERFORMANCE

ACTIVISM MONTHLY

Premium

Activist Insight

www.activistinsight.com

Editor's letter

Josh Black, Activist Insight

Now for a brief respite. Proxy season is more or less over, and activists are starting to build stakes in advance of next year's season. But that doesn't mean it will be an action-less summer—analysis conducted by Activist Insight earlier this year showed activists have made new demands at an average of around 20 companies a month during July, August and September (based on the 2010-2014 period), before doubling their campaigning rate over proxy season.

The summer can be a good time for taking stock, but also for catching management unawares, as Carl Icahn's August 2013 tweet arguably did for Apple. With most companies busy reporting their earnings and nomination deadlines approaching, there are opportunities both for measuring the progress of investments and for pressing the need for transformative announcements, as at Qualcomm.

Of course, boards are better prepared for activism than ever. According to EY's Center for Board Matters, the proportion of S&P 500 companies disclosing engagement with shareholders in their proxy statements has increased from 6% in 2010 to 56% as of mid-June 2015. "Engagement practices are expanding beyond the largest firms," Kellie Huennekens, the Center's Assistant Director told me. "There's a broad recognition that improved disclosure can help resolve problems."

One area in which extra engagement may struggle to help is in winning over the retail vote. Three major battles this year—at DuPont (US), Alliance Trust (UK) and Samsung C&T (South Korea)—have involved sizeable retail elements, raising the question of whether activists are being forced to look at companies with unconventional shareholder bases because of high valuations and the saturation of activist campaigns.

> "The summer can be a good time for taking stock, but also for catching management teams unaware"

In one of my new weekly e-mails last month, I said Samsung C&T's victory over Elliott might turn out to give more comfort to activists than to management teams in the medium term. The margin by which Samsung investors approved the merger was narrow, and the campaign unedifying. A robust corporate governance movement is probably needed to address the ways in which Samsung benefitted from Korea's unique M&A law, and it would be a good thing if the National Pension Service explained why it voted in favor of the deal.

This month's feature article looks at the ways in which private equity is being affected by activism. On the one hand, activists do seem to be identifying and delivering a healthy flow of targets to buyout shops, with NCR (until late in July), Rosetta Stone and DHI Group on the block. But the truth is predictably more complex, and there is some evidence that activism is replacing private equity as a value-creation strategy. Could this lead to a convergence of the two investing styles? Many observers seem to think so, as we explore.

A growing number of activist campaigns are being launched in Australia—something Activist Insight has long noted. So it seems appropriate that we have finally interviewed one of the men at the center of this activity, Sandon Capital's Gabriel Radzyminski. With a legal system similar to the very shareholder-friendly UK and Canadian models, it is no surprise Australia is going through a spurt of activism. But one of Sandon's campaigns in particular may highlight activism's capacity to scale up its ambitions Down Under.

If you're reading this, there's a good chance you may already have subscribed to our monthly and weekly newsletters. If not, or if you're unsure and want to get my new weekly bulletin (which is entirely free to receive), please feel free to drop me an e-mail at the address below. ■

jblack@activistinsight.com

Contents

Activism Monthly Premium, August 2015

2 **Editor's letter**
Josh Black, Activist Insight

4 **The Great Convergence**
Private equity and activism

8 **Retail versus wholesale**
Are Mom and Pop activists?

10 **The Wizard of Oz**
An interview with Gabriel Radzyminski, Sandon Capital

12 **Campaign in focus**
Teva Pharmaceuticals at Mylan

16 **Activist performance update**
Activists gather pace

18 **News in brief**

20 **New investments**

22 **Pay-off time**
Prospects for the new PayPal

23 **Activism in numbers**

PUBLISHED BY:
Activist Insight Limited
26 York Street, London, W1U 6PZ
+44 (0) 207 129 1314

www.activistinsight.com
info@activistinsight.com
Twitter: @ActivistInsight

For additional copies, please contact Adam Riches at ariches@activistinsight.com

Credits: Macy's image: p21, Ken Wolter/Shutterstock; Imation image: p19, Ken Wolter/Shutterstock; PayPal image: p16, Nevodka/Shutterstock

The wizard of Oz

An interview with Gabriel Radzyminski of Sandon Capital

Australia is a growing market for activism. Owning just 5% of an Australian stock enables a shareholder to requisition meetings and nominate directors, while companies that receive less than 75% support for their compensation policies twice in a row are required to put the whole board up for re-election. Activist Insight has recorded campaigns at 17 companies in Australia already in 2015, exceeding last year's total by one. For the most part, activism in Australia has escaped attention, because few US activists and no large funds have targeted companies Down Under.

"Activism is occurring more frequently, but apart from ourselves, there aren't many firms we see doing it regularly," says Gabriel Radzyminski, the founder of Australian activist firm Sandon Capital. Cultural differences may explain some of the lack of activity by outside investors, says Radzyminski, as well as the time-difference—it would require presidential nerves and stamina to deal with a phone call at 3 am in New York, when a business day in Sydney is winding down.

Radzyminski has good cause to be regarded as Australia's most prolific activist. Over the past twelve months, his fund has launched at least five campaigns against publicly listed companies, and yet more engagements remain private. As a result, it comes as little surprise that he calls activism "the logical extension of value investing," and bristles when shareholder rights are downplayed. "It's a standard defense to say activists are 'getting their way'," he notes, "but if their views are widely held, that's exactly as it should be."

> "Activism is occurring more frequently but apart from ourselves, there aren't many firms doing it regularly"

Founded in 2008 with a relatively small endowment, Sandon Capital quickly grasped that successful activism meant leveraging the support of other shareholders. It seems to be doing well. According to a shareholder presentation, the original fund has achieved a 14.8% annualized return since inception, while the exchange-listed fund is beating an Australian small-cap index by nearly three percentage points over the past twelve months.

A key ingredient, as Radzyminski puts it, is "the ability to devise an alternative future for a company and see it taken up by a wide array of shareholders… The best ideas are the ones everyone wants to make their own." But that doesn't mean winning over shareholders comes easy, however. Australia is rich in resource and biotech companies, and both attract a certain type of investor. "Like biotech, investors in resources companies have bought a dream," Radzyminski says. A few years ago, Sandon began talks with shareholders at a company where it thought it could generate a 25-30% return, but management was projecting profit several times that number. "Where there's a lot of blue sky, some investors are prepared to take risks, whereas Sandon is often looking to minimize the downside," Radzyminski adds.

Now managing AU$50 million and with a handful of board seats, Sandon is out to make its mark. It recently published a 48-page presentation on BlueScope Steel, a nearly AU$2 billion company where the activist is seeking a move away from steel production and towards more specialized products, and requisitioned a meeting at the much smaller biotech company Alchemia, which it believes can return capital more quickly to shareholders. "Lazy balance sheets are still a theme," Radzyminski says. "Post-global financial crisis, leverage is seen as bad; it's a complacency that allows directors to sleep at night."

Moreover, pension funds aren't as alert to the need for shareholder engagement as they might be, with Radzyminski pointing out that "easy"

"SOME PROFESSIONAL SHAREHOLDERS FEEL THEY'VE DONE THEIR BIT BY ENGAGING ON REMUNERATION"

"The best ideas are the ones everyone wants to make their own"

issues like remuneration dominate conversations with management. "Some professional shareholders feel they've done their bit by engaging on remuneration issues, but far more value is destroyed by bad strategy than is paid out in compensation," he notes. "Strategy is often overlooked, because it can be hard to find a common position."

Attitudes may change, however, and a galvanizing case could be just around the corner. Investors in the Au$36 billion retailer Woolworths have been grumbling about the company's relative performance for years and the stock, with its faintly ironic WOW ticker, is down 20% over the last twelve months. It has twice faced shareholder proposals, including one from former Australian Shareholders Association Chairman Stephen Mayne. With reports of activists shaking up Fortune 500 companies traveling around the world fast, it could be just a matter of time before bigger and bolder investors begin taking advantage of Australia's favorable legal system. ■

BlueScope Steel

When BlueScope reports its full year earnings on August 24, investors will be watching closely to see what direction management wants to take the company in. Shares are down 38% in the year-to-date, and the publication of Sandon's presentation in June have added to the debate about what BlueScope should do with its facilities at Port Kembla—management has denied making a decision, but says it is looking for a "game-changing approach."

While some investors believe Australian steel can bounce back from the bottom of its current trough, Radzyminski believes China's growing capacity and the strong US dollar will only make it harder to eke out higher margins. As a result, he questions whether the company would be better off focusing on downstream products, where it can add more value, and extract more cash from the surplus land and capital. Given Sandon's tiny position in the stock, it seems unlikely that it alone will tip the balance. But by adding its voice to a growing clamor, the activist may nonetheless play its part.

Sandon's five key questions:

1. Is further rationalization required in the company's Australian steel manufacturing business?

2. Does the Global Building Solutions business fit in the current portfolio?

3. Is the implementation of capital management initiatives optimal?

4. Is there a higher value use for the surplus land at Western Port?

5. Is the North Star JV worth more in the hands of another owner given the valuations of North American steel stocks?