

# Peltz Must Target Retail Investors In P&G Fight

Both Trian's Nelson Peltz and Procter & Gamble will focus a lot of energy on the "hundreds of thousands" of retail investors representing 40% of the packaged goods company

Ronald Orol Jul 26, 2017 2:28 PM EDT

The largest director-election battle ever to be held is in its second week fully in the public sphere and both its protagonist, activist Nelson Peltz and his target, Procter & Gamble Co. (**PG**), will soon begin focusing a lot of attention on the company's hundreds of thousands of retail investors.

"They both know that retail investors can make or break Trian's campaign," said Thomas Ball, managing director at proxy solicitor Morrow Sodali. "There are typically lots of retail investors in companies like P&G, where lots of people use their products."

At issue is a director-election battle launched last week by Peltz, who is seeking one seat on the packaged goods company's board. Peltz says he wants to see the company eliminate what he calls its "suffocating bureaucracy" by simplifying its matrixed organizational structure, a system that he contends doesn't give division leaders the power to control their destiny. Observers argue that Peltz actually would like to see the company break itself up as a means of simplifying the business, thus eliminating said bureaucracy, though Trian has explicitly said it doesn't want to do that.

Both sides are digging in for a long battle that likely will end at the company's annual meeting, expected in October. A settlement seems unlikely as Peltz only wants one seat for himself, which the company is fighting tooth and nail. First, up will be Procter & Gamble's fourth quarter earnings release and analyst call, scheduled for Thursday. Expect Procter & Gamble CEO David Taylor to make a case for not including Peltz on the board.

Meanwhile, Trian is expected to employ both traditional and unconventional means to reach out to the company's retail base. The insurgent fund manager is expected to use a burgeoning new strategy for reaching out to small investors by sending their message out through social media, including Twitter and Facebook, according to a person familiar with the situation. A Procter & Gamble spokesman declined to comment on the company's retail investor strategy.

Trian, which has a 1.5% stake, itself will need to convince a large number of both retail and institutional investors to support Peltz, especially as there aren't any other activist-type investors in the packaged goods company's shares.

Ball estimates that roughly 40% of Procter & Gamble's shareholders are made up of "hundreds of thousands" of retail investors. Institutional investors won't be ignored, of course. Both sides will hold meetings and seek to gain the support of the firm's biggest investors, including both Vanguard and Blackrock, which are among P&G's largest shareholders with 7% and 4% stakes respectively.

Overall, expect Trian to employ a multi-pronged retail strategy, which includes a website it set up at the outset of its campaign to distribute its message, "RevitalizePG," which it will use in tandem with its Twitter and Facebook social media campaign.

Also, Ball expects that Trian and Procter & Gamble will both employ a direct calling and automated calling effort, similar to the robo-calls voters receive during political elections. Traditionally, retail investors are more supportive of management, which means that Trian's work will be cut out for them.

"They will likely blast out a bunch of advocacy calls, but at some point based on the share size they will want to engage with investors one-on-one," Ball said. "Retail investors will be more supportive of the company so getting on the phone really is important to gauge the amount of support."

Don't expect either side to send out mini video players to retail investors, the way activist Elliott Management's Paul Singer did in his boardroom battle at Arconic. The insurgent fund sent out tens of thousands of the players, each with one short four-minute video of the activist's position. The players are expensive and cost-prohibitive, one person familiar with the situation said.

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Ball notes that social media is particularly important at a consumer products company, adding that Trian will need to file with the Securities and Exchange Commission every time a tweet is employed. Other activists have gone to twitter in the midst of campaigns. For example, Carl Icahn has made over 300 tweets, some of which have had a market-moving impact, including one where the billionaire activist tweeted in 2013 that he had a large position in Apple and he believed the iPad and iPhone maker was undervalued.

"This is a new area for proxy solicitors and an important area they need to make sure they are up on," Ball said. "Tweeting or Facebook posts are an effective way to reach out to a wide variety of retail investors as long as the content is also filed with the SEC."

Ball said he didn't expect the two sides to settle anytime soon, though a settlement to add Peltz to the board could be reached before the October meeting if Procter & Gamble felt that they were likely to lose the contest.

Trian is not the first activist to target Procter & Gamble. Pershing Square Capital Management's Bill Ackman's 2013 campaign at the packaged goods company succeeded in pushing out its then-CEO, Bob McDonald. Ackman, however, isn't around to assist Peltz. He liquidated his position in 2014.

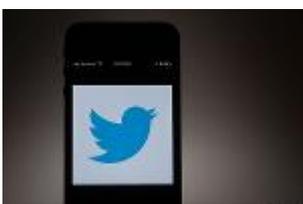
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