

# BEWARE THE REOPENING

The recovery from COVID-19 creates the conditions for record levels of activism, writes Borja Miranda Johansson, head of M&A and activism for Europe and Latin America at Morrow Sodali.



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When looking back at 2020 we should do so thinking on the profound disruption COVID-19 brought to our lives. In a similar way, when talking about shareholder activism in 2020 we should remind ourselves how deeply COVID affected normal business activity, annulled set corporate strategies, destroyed some business models, and how capital markets reacted to an unknown scenario.

## A NEW WINDOW

In this context, we would not say that COVID brought more shareholder activism than in the past, but we can definitively say that post-COVID has combined the elements and motivation to lead shareholder activism to new records. In addition to traditional activism campaigns based on poor governance practices, strategic poor decisions, and poor performance, COVID strengthened some trends from prior to the pandemic and opened the window for a “new” category of activism that can be associated with “post-COVID recovery.”

In this new category, which we expect to see during 2021 and the first half of 2022, we could find some companies are not able to recover their pre-COVID valuations as quickly as industry peers. Additionally, we include those companies that have not been able to adapt their business model to a pandemic environment and are therefore not anticipated to fully recover by the market. Finally, we expect to see activism demands on issuers with liquidity buffers that are too large, because of excessive protection or due to a lack of better capital allocation strategies during COVID.

The adoption of strong ESG practices was a trend before the pandemic. This trend has been clearly strengthened due to COVID. In 2020 we saw some companies reacting to investors demands to strengthen climate-related practices which we expect to continue growing in 2021 and 2022. Indeed, some companies have already committed to provide shareholders

with advisory “say on climate” votes at their annual shareholders meetings.


The crossover of ESG factors into activism campaigns will also define new activism campaigns. The rise of ESG-oriented funds, the integration of ESG factors into the investment and stewardship policies of traditional investors, and the global fight against climate change and for a better society are consolidating this trend focused on companies with weak ESG practices (i.e., lack of compensation alignment, no Paris Agreement goals and targets, bad reputation and culture, poor diversity) and therefore poor ESG scores.

## NEW PLAYERS

The profile of the activists has evolved as well as the campaigns experienced during 2020. As we recurrently saw in the past, activism is no more a space only reserved for highly specialized institutional investors. In 2020 we observed several campaigns launched by traditional activist investors (Elliott Management, Pershing Square, ValueAct Capital Partners, or Third Point) but also by private equity investors (Cerberus Capital Management calling for changes at Commerzbank), or by new activist investors (Bluebell Capital at Mediobanca or Danone), or by high-net-worth individuals (Xavier Niel against Unibail-Rodamco-Westfield) or by associations (ShareAction at Boohoo or Market Forces at Barclays), all of which had very significant impacts.

Of course, their success was thanks to long-term investor support. We saw greater support from traditional investors to activism campaigns when these were not only well-articulated and communicated, but mainly where the board was not able to counter or respond to the alternatives proposed by the activist.

At this point, you may be asking whether your company is on the radar of an activist. Well, if you are asking, you probably have some elements of your strategy that will attract the attention of one.

This should not scare you! Recognizing potential room for improvement is the most difficult step. What can be done to improve is something that you should not be worried about but fully focused on. 

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\*Over the past five years