2020 Proxy Season Review

J.P. Morgan

Published by J.P. Morgan's M&A team

Global Shareholder Engagement and M&A Capital Markets

David Freedman
Global Head of Shareholder Engagement and M&A Capital Markets and Vice Chairman of M&A
dfreedman@jpmorgan.com
T: +1 212 272 4209

Koichiro Doi
APAC Head of Shareholder Engagement and M&A Capital Markets
koichiro.doi@jpmorgan.com
T: +81 3 67361861

Kirshlen Moodley
EMEA Head of Shareholder Engagement and M&A Capital Markets
kirshlen.moodley@jpmorgan.com
T: +44 207 134 6055

Benjamin Wilson
NAMR Head of Shareholder Engagement and M&A Capital Markets
benjamin.a.wilson@jpmorgan.com
T: +1 212 622 2514

Global Mergers and Acquisitions

Anu Aiyengar
Global Co-Head of Mergers and Acquisitions
anu.aiyengar@jpmorgan.com
T: +1 212 622 2260

Dirk Albersmeier
Global Co-Head of Mergers and Acquisitions
dirk.albersmeier@jpmorgan.com
T: +44 207 742 4461

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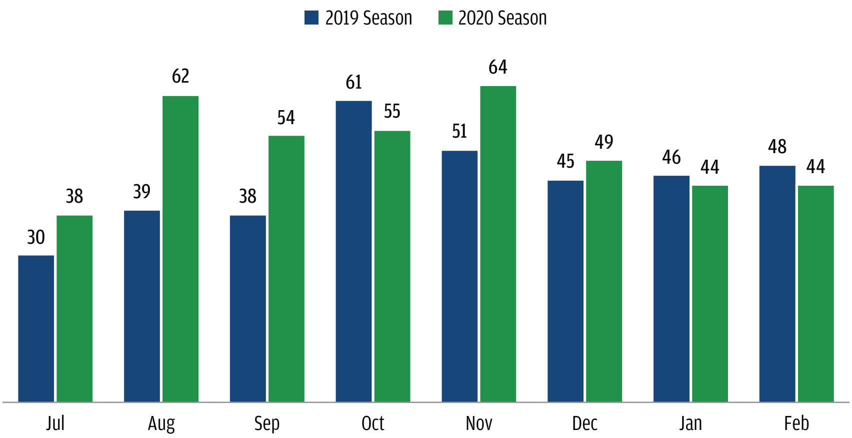
1. 2020 Proxy Season – an eventful year

Key stats

Global shareholder activism volumes were trending higher than 2019's proxy season prior to the advent of COVID-19. Prior to the COVID-19 induced market downturn,[1] in the United States, 214 campaigns were initiated at 187 companies—a three-year high.[2] Over that same period, investors announced 96 and 55 campaigns in Europe and Asia, respectively. This represents an increase from 31 and 30 campaigns, five years ago.[3]

The United Kingdom remains the main target of activism in Europe, while Japan is driving activity in Asia. In Japan, where activists are increasingly targeting higher-profile companies, 18 campaigns were launched during the pre-COVID-19 phase, a six times increase from campaigns launched over the same period during the 2015 proxy season.[3] Elliott Management made waves in the country when it initiated a campaign against Softbank, one of its largest targets to date. Even during COVID-19, companies based out of Japan continued to face activist scrutiny; Takeda Pharmaceuticals, Nintendo and Kirin Holdings are a few notable mentions.

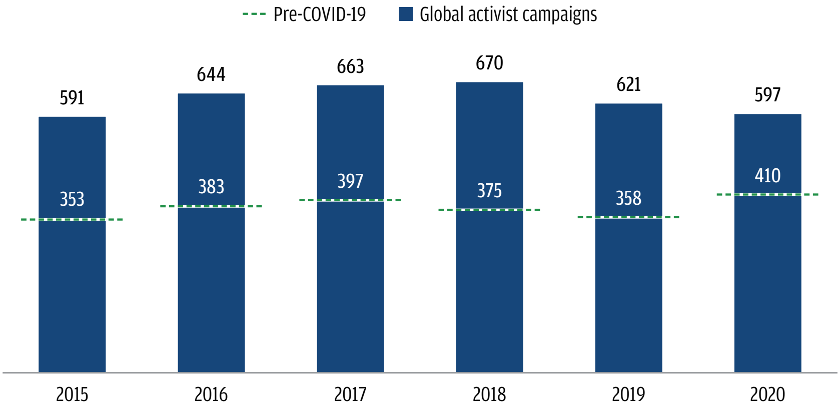
Pre-COVID-19 monthly campaign volume versus 2019 volume



Source: FactSet, Activist Insight, Activistmonitor, press articles as of June 30, 2020 – represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value, remove director(s), remove officer(s) and vote/activism against a merger
Note: February volume reflects February 1 through February 21

[1] Post-COVID-19 defined as on or after February 22, 2020
[2] Global defined as U.S., Europe, Asia and Australia
[3] FactSet, Activist Insight, Activistmonitor, press articles as of June 30, 2020 – represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value, remove director(s), remove officer(s) and vote/activism against a merger

Shareholder activism campaigns globally



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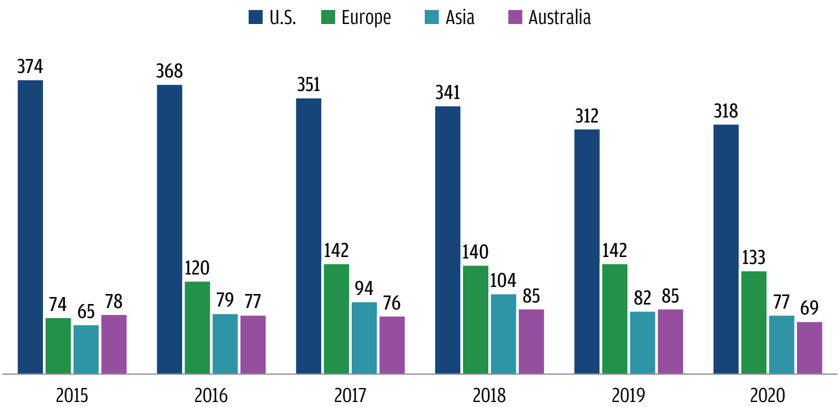

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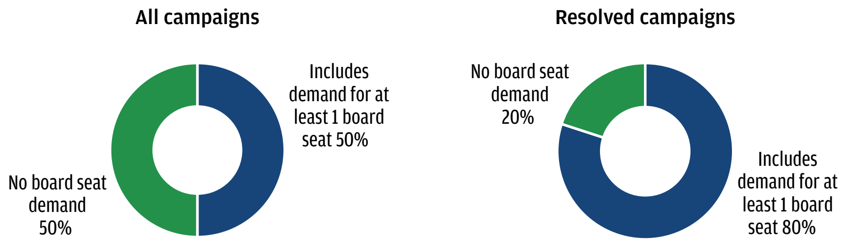
M&A activism

Thematically, campaigns with M&A-related demands have continued to attract major activist focus. In the United States, the pre-COVID-19 period saw 66 M&A-related campaigns, representing about 31% of all activity. Carl Icahn is one of the investors who remained active and embraced the M&A agenda, pushing for an HP/Xerox merger, while criticizing the Occidental/Anadarko merger initiated last season. AT&T, Emerson Electric, Marathon Petroleum and Sony all saw activists urge for a split in company assets or sale of divisions.[4]

Push for board seats

Board seats remained a priority for activists seeking to effect change at target companies. Of the 203 campaigns launched in the United States during the pre-COVID-19 phase (excluding activism against mergers), 101 included a demand for at least one seat in the boardroom. These demands encompass not only funds seeking to add their own representatives to a board, but also requests for additional independent directors not necessarily connected to or selected by the activist. As campaigns escalated, we observed increased demands for board seats. From the 203 campaigns, if we consider only the 108 that have been resolved, then the proportion of campaigns centered on board refreshment increases from 50% to 80%. The difference can be explained by the fact that many campaigns that result in board seats—or, at least, in the pursuit of board seats—do not call for the addition or replacement of directors from the beginning but instead incorporate that theme over time as the situation escalates, and the activist sees the need to pull on this particular lever. Many ongoing situations have not yet reached that point.[5]

2020 Pre-COVID-19 U.S. campaigns including a demand for board seat(s)



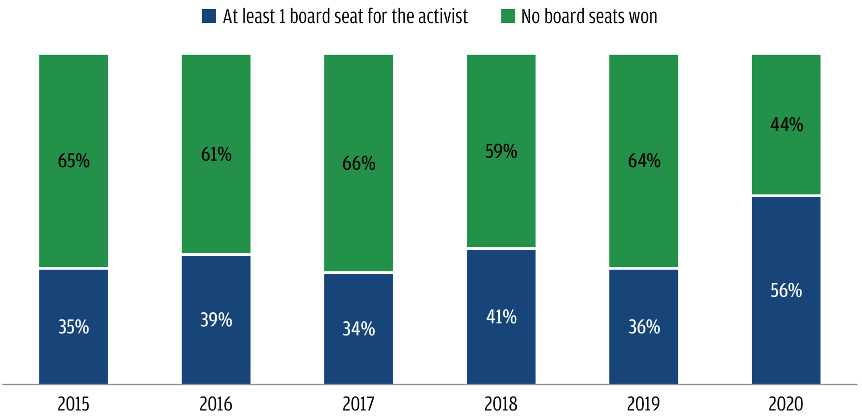
Source: FactSet, Activist Insight, Activistmonitor, press articles as of June 30, 2020 – represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value, remove director(s) and remove officer(s) – excludes vote/activism against a merger

[4] FactSet, Activist Insight, Activistmonitor, press articles as of June 30, 2020 – represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value, remove director(s), remove officer(s) and vote/activism against a merger

[5] FactSet, Activist Insight, Activistmonitor, press articles as of June 30, 2020 – represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value, remove director(s) and remove officer(s) – excludes vote/activism against a merger

Nearly 60% of the 108 completed campaigns resulted in—to a lesser or greater extent—the reconstitution of the board. As has been the case in recent years, most board seats that switched hands during the 2020 proxy season were granted via settlement agreements rather than won through shareholder votes. As more 2020 campaigns continue to resolve, we expect this percentage to level off and settle somewhere closer to previous years' numbers.[6]

Pre-COVID-19 U.S. completed campaigns resulting in board representation



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[6] FactSet, Activist Insight, Activistmonitor, press articles as of June 30, 2020 – represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value, remove director(s) and remove officer(s) - excludes vote/activism against a merger

2. Activism during COVID-19

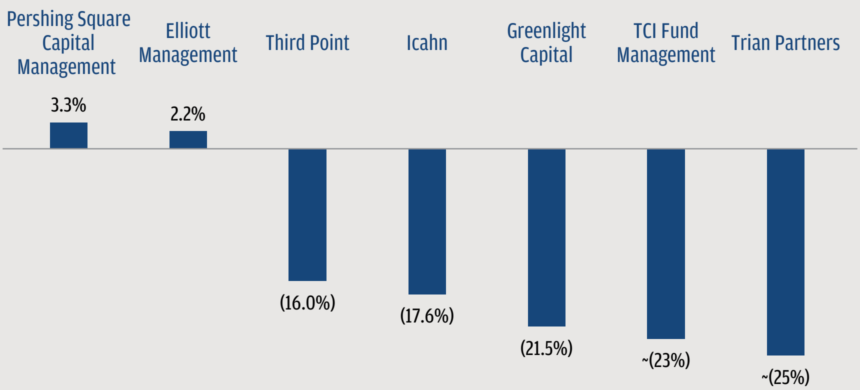
Post COVID-19 campaign activity

While the sell-off driven by the COVID-19 pandemic, in many cases, created a compelling buying opportunity, activists have faced a tough challenge in balancing not appearing opportunistic/tone-deaf, while also having fewer levers to pull. The number of campaigns around the globe since COVID-19 has been down 37% and 29% from similar levels in 2018 and 2019, respectively.[7] This decline is driven by lower appetite for M&A deals, which, in turn, drove decline in M&A activism, as well as companies' focus on adjusting operations to adapt to COVID-19. Despite the decline of new campaigns, a few activists, including Starboard and Elliott, remained undeterred and continually agitated for change at target companies during the period.

Impact of COVID-19 on activist hedge funds

COVID-19's impact on activist hedge funds has been a tale of two cities; some funds have halted campaigns completely, yet others seized the market sell-off opportunity and built new "value"-oriented positions. In the first quarter of 2020, Dan Loeb's Third Point Offshore Fund lost 16%, Carl Icahn's Icahn Enterprises lost 17.6%, David Einhorn's Greenlight Capital lost 21.5%, Christopher Hohn's TCI Fund Management (TCI) lost approximately 23% and Nelson Peltz's Trian Partners lost approximately 25%.[8] Many of these value investments will incubate and potentially hatch into activist campaigns during the 2021 proxy season.

Select Q1 2020 activist hedge fund returns



Source: Activist Insight, press releases, investor websites as of June 30, 2020

[7] FactSet, Activist Insight, Activistmonitor, press articles as of June 30, 2020 – represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value, remove director(s), remove officer(s) and vote/activism against a merger

[8] Activist Insight, press releases, investor websites as of June 12, 2020

Although some notable funds, such as Marcato Capital and Blue Harbour, closed down shortly prior to the escalation of COVID-19, the market made a permanent impact in other activist funds, such as Raging Capital. William Martin, Raging Capital's founder, made the tough decision to wind down the fund after a poor first quarter; the fund lost roughly 23% of its value in March alone.

On the other hand, funds such as Bill Ackman's Pershing Square and Paul Singer's Elliott Management, used hedging to combat the ongoing market fluctuation in March and reported positive returns of 3.3% and 2.2%, respectively. In particular, Pershing Square's returns were boosted through a $27 million purchase of credit default swaps to protect its portfolio, which were later disclosed to have generated $2.6 billion in profit after the hedges closed.

Activist behavior during the pandemic

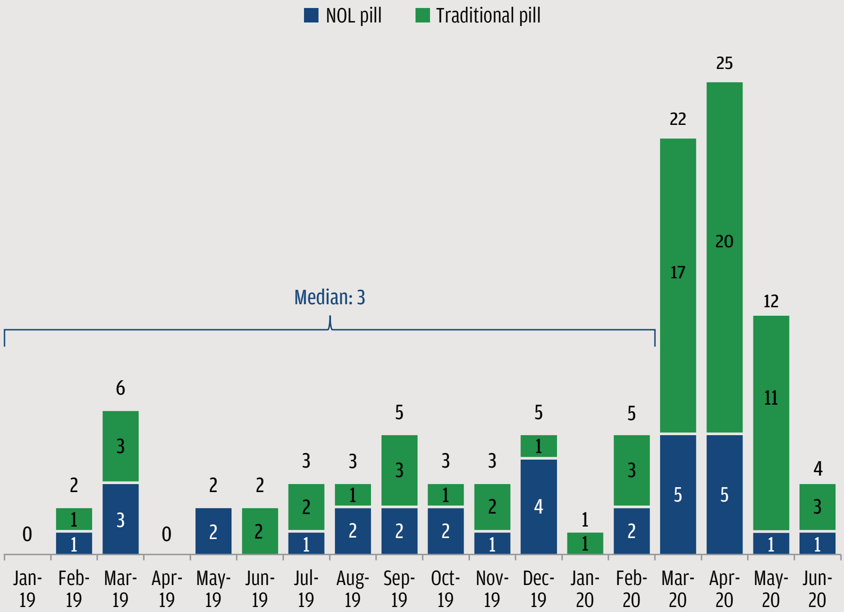
The widespread stock price decline, heightened volatility and increased trading volumes driven by COVID-19 provided a unique opportunity for some activists to purchase deeply discounted stocks and remain largely undetected. Bill Ackman's Pershing Square reportedly deployed $2.5 billion during the market sell-off.[9] Other activists, such as Eminence Capital and Saba Capital, publicly stated that they viewed the pandemic as a buying opportunity, looking to scoop up discounted stocks.[10] The combination of depressed share prices and increased volatility should produce a plethora of new positions that will likely lead to an uptick in campaigns next proxy season as the economic environment settles.

[9] Yahoo Finance, March 23, 2020
[10] Reuters, March 15, 2020; CNBC, March 16, 2020

The rapid acceleration of poison pills

Prior to the COVID-19 era, only a handful of companies had implemented shareholder rights plans (the median number implemented per month historically was three).[11] Since COVID-19, 61 rights plans have since been implemented.[12]

Plunging share prices during the COVID-19 era drastically increased shareholder rights plans adoptions

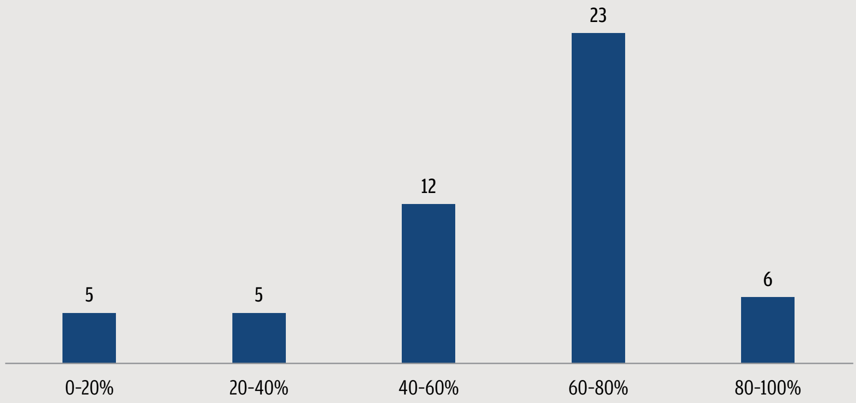


Source: FactSet, press releases as of June 30, 2020
Note: Includes original and replacement plans for all U.S. and Canadian headquartered companies

Poison pills' newfound popularity accelerated as stock market conditions began to deteriorate. As stock prices tumbled, companies implemented rights plans to ward off activists and potential hostile bidders. Most of the implemented rights plans appear to have been proactive measures, but some, such as Delek and Commvault Systems, were implemented in response to ongoing activist pressure. Several companies opted for an "on-the-shelf" pill, in which the majority of terms and documentation are set in advance, allowing boards to act and approve the plan quickly if a threat were to arise.

[11] From July 1, 2017 to February 21, 2020
[12] Indicates original and replacement rights plans implemented by companies headquartered in the United States and Canada from February 22, 2020 to June 12, 2020

Number of poison pills adopted by market cap decline from December 31, 2019 to date of adoption



Source: FactSet TrueCourse as of June 30, 2020
Note: Includes original and replacement plans implemented as of February 22, 2020; reflects 51 rights plans implemented where market cap at adoption was greater than $50mm

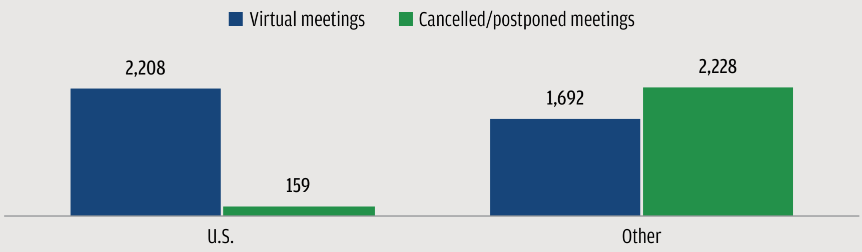
As a result of the current economic environment, proxy advisors softened their perspective regarding rights plans, but penalized boards for pills found to be unsuitable. Notably, ISS recommended shareholders withhold votes against the Williams Companies' Chairman Stephen Bergstrom and to provide cautionary support for the other directors after the company adopted a shareholder rights plan with a 5% trigger, despite not facing any active hostile threat.

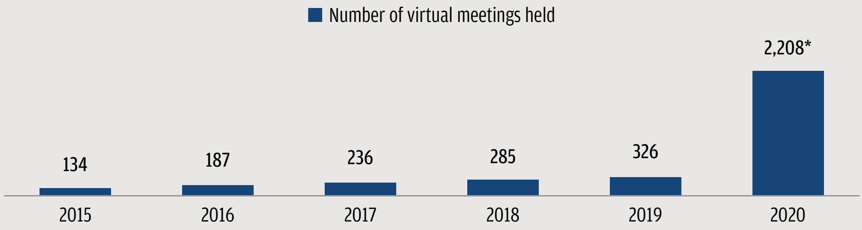
Impact of COVID-19 on annual meetings

For many companies, COVID-19 meant switching from in-person gatherings to virtual meetings. Yet, some companies opted to include virtual participation options to their in-person meetings—also known as hybrids—and others decided to cancel or postpone their 2020 meetings altogether. According to Institutional Shareholder Services (ISS), more than 2,200 U.S. companies switched to virtual meetings, with many opting for shorter, more virtual-friendly content. The data on meeting postponements/cancellations showed great divergence between U.S. and non-U.S. companies; while 59% of non-U.S. companies opted to cancel/postpone, only 7% of U.S. companies did the same.[13]

[13] ISS COVID-19 Resource Center (Latest data as of May 13, 2020 per ISS)

Impact of COVID-19 on 2020 annual meeting





Source: Institutional Shareholder Services, Broadridge virtual meetings data
* Includes data from only U.S. companies as of May 13, 2020

Annual meetings usually serve as a time to recap and reflect on the prior year. However, for many, 2020's annual meetings have been forward-looking. Management teams focused on articulating how the pandemic will affect their businesses in the near-term and, where applicable, their expectations around a new normal for business operations.

COVID-19 perspectives from ISS and Glass Lewis

During the pandemic, proxy advisory firms, ISS and Glass Lewis departed from their typical guidance and provided updated recommendations that were more accommodating of the macroeconomic climate.

- **On shareholder rights plans ("poison pills"):** Historically, ISS and Glass Lewis have been largely critical of poison pills. At the onset of COVID-19, that position changed. ISS provided companies with latitude in adopting short-term rights plans with reasonable triggers in response to active threats. A severe stock price decline as a result of COVID-19 was considered a valid justification for adopting a pill of less than a one-year duration. Similarly, Glass Lewis offered support for limited (one year or less) duration rights plans, as long as the company disclosed a sound rationale for adoption.
- **On meeting postponement:** ISS was supportive of meeting postponements and the migration toward virtual meetings. It also encouraged companies' use of webcasts, conference calls and other mediums of electronic communications to engage with shareholders and investors, even if meetings had been postponed.

3. Key trends and takeaways

A season of new partnerships

A new strategy was unveiled in 2020 for prolific activist Elliott Management, one centered on partnerships. As Elliott shifts its focus to increasingly targeting mega-cap companies, the activist seems to have embraced the proverb "If you want to go fast, go alone; if you want to go far, go together." Elliott's campaigns and subsequent settlements at Twitter and Centerpoint illustrate an emerging trend of collaborating with other investors and infusing additional capital into targets as part of a settlement agreement.

Following a campaign at Twitter that called for the ousting of CEO Jack Dorsey (among other demands), Elliott settled with the company in an agreement that included a capital infusion of $1 billion by private equity firm Silver Lake. Similarly, Elliott's settlement at Centerpoint included a $1.4 billion capital injection from a group of investors, including Elliott, MFS, Fidelity and Capital Group.

Elliott's partnership with both private equity and institutional investors conveys a growing appetite for activist tactics, greater blurring between activism and private equity and increased collaboration among investors.

Campaigns for control

The 2020 proxy season saw activists pushing for greater control at target boards. In the United States, 30 campaigns were initiated in the proxy season where activists had opted for a control slate.[14] HP Inc., Lagardere, GCP Applied Technologies, Merit Medical, Mednax, Commvault Systems and the Hanjin Kal Group in South Korea are recent notable global examples. Starboard Value has remained highly active in this respect—seeking control slates in three of the above mentioned cases. The activist's elaborate campaign against GCP Applied Technologies is noteworthy, as all 10 directors in the company (two elected in the previous year) are Starboard nominations.

GCP Technologies/Starboard Value

In February 2019, GCP and Starboard entered into a settlement agreement, pursuant to which two new dissident candidates were added to the board. In January 2020, Starboard announced that it would nominate a slate to replace the remaining eight members of GCP's board, as the appointment of its two independent directors the year prior did not yield sufficient results. Starboard expressed its concerns regarding GCP's prolonged period of disappointing operating and financial outcomes, poor corporate governance and excessive executive compensation. In its proxy fight, Starboard garnered the support of proxy advisors, with both ISS and Glass Lewis recommending shareholders vote for six of Starboard's eight director nominees. On May 28, 2020, GCP shareholders voted to elect all of Starboard's eight director nominees to the board.

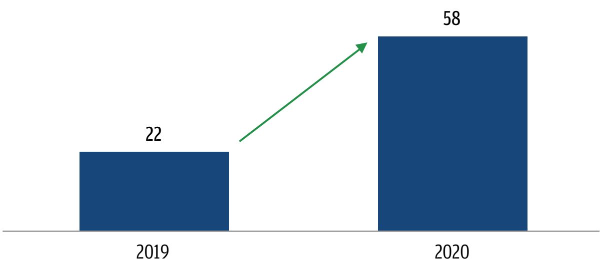
[14] FactSet as of June 30, 2020 – represents the following campaign type: Board control

A good time for operational activism

Operational activism is typically reserved for more established, better capitalized funds. Given that improvements to operations are slower to implement and results take longer to materialize, this style of activism generally requires a lengthier investment horizon that only certain activists can or are willing to commit to.

Operational demands can include advocating for changes in the strategic direction of the business, focus on growth strategies, general cost-cutting measures, operational efficiency improvements and even management turnover. Campaigns including one or more of these themes have been on the rise and are expected to continue to increase.

Campaigns including at least 1 operational demand in the U.S.*



Source: FactSet
* Represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value, remove director(s), remove officer(s) and vote/activism against a merger

The recent crisis appears to have created an opportunity for investors seeking to engage in this brand of activism. As companies focus on survival, a longer-term campaign aimed at improving operations will be able to resist the typical "short-termism" criticism that frequently undermines the activist agenda, regardless of whether the activist took advantage of an attractive entry point created by the down market. Management criticism will also have a greater impact, as shareholders look for strong leadership in the C-suite to navigate the current operating environment.

Recent campaigns touching on operational themes include:

- **Pearson plc:** Cevian Capital disclosed that it was in discussions with Pearson regarding numerous operational opportunities to maximize shareholder value, including opportunities to improve management. Cevian stated it expected Pearson to appoint a CEO with a clear track record of value creation to replace retiring CEO John Fallon.
- **NN Group:** Elliott Management stated "achieving best-in-class operational efficiency across the Company's Dutch operations would drive incremental value for all stakeholders."[15]

[15] Elliott Management press release, "Elliott Believes the Time is Now for NN Group" June 12, 2020

ESG as a driver of activism

Environmental, social and governance (ESG) issues have been a staple of recent proxy seasons. For years, institutional investors have been amending their voting guidelines and submitting shareholder proposals to reflect the increasing importance society is giving these topics. A number of activists have launched dedicated funds to pursue ESG agendas, notably ValueAct Capital and its Spring Fund.

During the 2020 proxy season, we have seen some of the most aggressive names in activism weave ESG elements into the public criticism of their targets, **demonstrating ESG demands are not reserved for the collaborative activists only.**

- **Third Point:** In a Feb. 24, 2020 letter to the board of Prudential plc, Third Point criticized the significant carbon footprint generated by having two group head offices in the United Kingdom.
- **Elliott Management:** In a Jan. 21, 2020 letter to the board of Evergy, Elliott criticized the company's inadequate carbon reduction targets, stating Evergy could be a leader in decarbonization system investments, which, in turn, would help transition the company's coal fleet to renewable resources.
- **TCI Fund Management:** On Nov. 30, 2019, TCI sent letters to 17 portfolio companies, stressing the importance of making appropriate and timely public disclosure of carbon—and other greenhouse gases—emissions. The fund congratulated companies currently doing a good job at it and highlighted the shortcomings of the ones failing to meet the expected standards. Letter recipients included: Airbus, Alphabet, Ferrovial, Microsoft and Safran.

The quality of ESG-related disclosure and the effectiveness in managing ESG-related risk are increasingly easier to quantify. There is a growing market of service providers facilitating ESG ratings and analytics that activists are now using to actively monitor target company practices. Activists are increasingly willing to call out companies on their ESG shortcomings and lay out specific courses of action to address those risks and opportunities.

Current ESG hot button issues

Sustainability

Sustainability continues to be a key focus area for investors who increasingly agree that climate risk represents investment risk, and that the only way to address it is through proper ESG disclosure and risk management. In its 2020 letter to clients, BlackRock announced a number of initiatives aimed at placing sustainability at the center of its investment approach. These include making sustainability integral to portfolio construction and risk management and exiting investments that present a high sustainability-related risk. Pressure for sustainable practices is coming from activists as well, with TCI stating it believes that climate change-related risks will have a material effect on companies' long-term profitability. TCI expects its portfolio companies to have credible plans to reduce emissions, including measurable science-based targets that align with the Paris Agreement. TCI warned it will typically vote against all directors of companies who do not publicly disclose their emissions and do not have a credible plan for their reduction.

> Given the groundwork we have already laid engaging on disclosure, and the growing investment risks surrounding sustainability, **we will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them.**
>
> **BlackRock's annual letter to CEOs, January 2020**

Diversity

- **Gender**
  Gender diversity in the boardroom continues to be under intense investor scrutiny. A lack of diversified leadership not only represents a potential reputational risk for companies but might also hinder their ability to attract and retain top talent. Large asset managers, such as State Street, have been particularly focused on gender balance in recent years; so have proxy advisory firms, which updated their U.S. voting guidelines to generally recommend voting against nominating committee chairs—and potentially other nominating committee members—at companies with no female directors. In August 2019, Vanguard published stewardship perspectives, stating it "expanded [its] focus to more explicitly urge boards to seek greater diversity across a wide range of personal characteristics, such as gender, race, ethnicity, national origin, and age."

  Some strides have been made. According to the 2019 U.S. Spencer Stuart Board Index, 46% of new S&P 500 independent directors are women, an increase from 40% the year prior. Ninety-two percent of S&P 500 boards include two or more women directors, an increase from 86% in 2018 and 53% a decade ago. However, women still only make up 26% of all S&P 500 directors and only 5% of independent board chairs. Activists may seek to capitalize on this imbalance by adding women nominees to their slates.[16]

- **Race**
  Nationwide demonstrations are calling attention to the systemic injustices the Black and other minority communities continue to face in the United States. Investors are echoing society's call for change and are

[16] 2019 U.S. Spencer Stuart Board Index report

demanding that companies examine their role in systemic racism, as well as identify ways to promote racial and social equality. Suggested actions can potentially include: increasing disclosure of employee demographics, implementing inclusion programs and adding Black and other minority leaders to C-suites and boardrooms.

Corporations are now expected to lead the charge on environmental responsibility and social change. ESG disclosure and management are no longer seen as extraordinary actions taken by proactive boards, rather another element of directors' fiduciary duties. Successfully articulating a sustainable and socially responsible long-term value creation strategy will help maintain passive investor support and will remove potential lightning rods for unwanted activist attention.

What questions should companies be asking themselves?

- Do we have the right people working on ESG reporting and strategy?
- What are our ESG scores and how do we compare versus peers?
- Are we effectively communicating our ESG efforts to the market?
- What are our ESG priorities for the next 12 months?
- What are our plans to address our ESG risks and opportunities?

International responses to activism

Explicit long- and short-term government protective measures against activism in Europe were implemented during this proxy season. A number of European countries including: Austria, Belgium, France, Greece, Spain and Italy, placed a temporary ban on short-selling. France has led the way in protecting its companies against activists. This past year, sovereign wealth fund Bpifrance has raised €4.2 billion (out of a €10 billion fund target) to fend off activists targeting French corporates.[17] France's regulatory agencies have also shown increased willingness to administer fines. In April 2020, the Autorité des marchés financiers (AMF) fined Elliott Management €20 million for filing inaccurate and late reports in connection with a 2015 tender offer and also obstructing its investigation into the acquisition.[18] The fine is one of AMF's largest to date.

In contrast to government actions in Europe, Japan—since Prime Minister Shinzo Abe's election in 2012—has pushed companies to examine their corporate governance and become increasingly shareholder-friendly. However, recent

[17] Reuters, January 30, 2020; Caisse des Dépôts Groupe website, May 26, 2020
[18] Tender offer for shares in Norbert Dentressangle by XPO Logistics; Reuters, April 22, 2020

amendments to the Foreign Exchange and Foreign Trade Act (FEFTA) are being viewed as backsliding compared to the previously adopted shareholder-friendly Stewardship and Corporate Governance Codes. FEFTA's latest amendment was fully adopted in June 2020 and states that foreign investors seeking a 1% voting interest in Japanese-listed companies engaged in "sensitive businesses"[19] will be required to notify and obtain pre-closing approval from the Japanese government. Previously, foreign investors did not require pre-screening unless the stake they were taking in a strategic company was equal to or greater than 10%. Prior notification will also be required to become a board member or propose a transfer or disposition of important business units of the target company.[20] More than 500 companies were deemed to be "truly necessary for national security" and will require this pre-notification.

Government protectionism can be an effective defense mechanism against certain funds, but it will not dissuade an experienced activist with high conviction in its value creation proposition. Activists are not new to targeting companies with government participation—such as Telenor (govt of Norway), Safran (govt of France) and Eni (govt of Italy)—and some are not discouraged by the prospect of taking a complex position that will effectively antagonize a nation. Elliott Management was deeply involved in a 14-year sovereign debt default dispute with Argentina; the fund brought numerous lawsuits against the country over the course of the dispute and ultimately reached a settlement. These newly announced measures will create obstacles but will likely not impede shareholder activism. We expect activists to devise new tactics and adapt their investment styles to the regulatory environment.

[19] Companies in "core" strategic sectors – all of the following sectors: Weapons, aircrafts, nuclear, facilities, space, dual-use technologies; part of the following sectors: Cybersecurity, electricity, gas, telecommunications, water supply, railway, oil

[20] Japan's Ministry of Finance website

4. Looking ahead: What to expect in the 2021 proxy season

Annual meetings: COVID-19 has brought about tremendous change, the effects of which we expect will linger. One of the biggest changes to the 2020 proxy season has been the adoption of virtual annual meetings at companies around the world. Although virtual meetings were a necessity this year, the jury is out on whether proxy advisors will revert to old standards and encourage companies to host in-person annual meetings once the pandemic subsides, or if virtual meetings will become the new standard. Depending on the efficacy of this season's virtual meetings, proxy advisors may be more open to them going forward, as virtual settings provide greater accessibility for shareholders.

M&A activism: The confluence of significant private equity dry powder, continued depressed market valuations at some companies and broader economic recovery may fuel increased M&A activism in the 2021 proxy season. Companies that will require increased scale to sufficiently compete in a post-COVID-19, new normal business environment will be particularly vulnerable.

Board diversity: Following the increased focus on Black leadership on boards, we expect to see more racially diverse slates in the 2021 proxy season. Further, COVID-19's disproportionate impact on the older population raised companies' awareness to age diversity in the boardroom. Given that the average age of an S&P 500 independent director is 63 years,[21] we expect to observe greater initiative for age diversification on boards. However, this may be offset by the need for experienced directors who may be better equipped to guide management teams in the unprecedented challenges they will face, while rebuilding their companies following COVID-19.

Shareholder engagement: The pandemic has also posed challenges to companies regarding interaction and engagement with shareholders. Companies will need to develop new ways of engaging with shareholders, as traditional methods of non-deal roadshows are not feasible given COVID-19 restrictions. One way companies may innovate around this challenge is to pursue virtual meetings, similar to the format used for annual meetings this proxy season. Nevertheless, companies will need to adopt new methods of communications with shareholders.

[21] 2019 U.S. Spencer Stuart Board Index report

5. Implications for companies

The 2020 proxy season showcased the permanence of shareholder activism as an investment and engagement strategy. Companies' awareness and understanding of shareholder activism have matured over the years and so has the criticalness for proper "clear day" preparation. Activism preparedness, now a priority for boards and management teams worldwide, is not a one-time task; rather, it's a crucial ongoing process that needs to be refined and updated as the set of investors willing to be active widens, and the tactics used to target companies become more complex. Taking steps to identify and address vulnerabilities and to proactively engage with shareholders by developing a robust communications plan tailored to each specific constituency will help companies minimize the potential risks of becoming an activist target and respond in case a threat emerges.

Shareholder activism defense framework

Prepare internal organization	• Organize internal communications and governance • Formulate response guidelines
Assess vulnerabilities	• Assess activism environment and activist • Prepare mock activist attack themes, rebuttals on various themes: Total shareholder return, valuation, operational performance, optimal capital structure, corporate governance, etc.
Approach valuation from multiple angles	• Monitor share price, trading and equity analyst views • Assess status-quo business plan • Prepare and assess stand-alone intrinsic value and strategic alternatives
Monitor shareholder base and market activity	• Review and build relationships with major shareholders and analysts • Refine and fine-tune equity story • Identify shareholders who could follow activist • Monitor short positions • Understand potential shareholder views by topic
Prepare defense/ response strategy	• Develop response or action per activist attack theme • Decide actions to be taken (both internally and externally) • Conduct "live" simulations and role play to prepare • Optimize responses and actions • Prepare IR/communication/media plan
Implement robust communication plan	• Establish key messages to effectively communicate, demonstrate and convince • Conduct shareholder roadshows • Coordinate interaction with activist

6. J.P. Morgan M&A strategic advisory, M&A capital markets, director advisory and shareholder activism expertise

We advise corporations and institutions of all sizes on their most complex strategic needs, in their home markets and around the world. Whatever your strategic challenge or opportunity, J.P. Morgan provides a full M&A offering to address your needs. Drawing upon our in-depth industry-specific expertise and regional market acumen, we can evaluate your business with a long-term view to provide a tailored, comprehensive and integrated solution.

Clients benefit from customized solutions combining:

- In-depth knowledge of sector and market dynamics with M&A bankers based locally in most major markets globally
- Innovative advice on valuation, transaction structures and deal tactics/ negotiations
- Rigorous execution delivered with responsive and agile service
- Ability to partner with product experts across our full range of competencies, including comprehensive financing through our debt and equity issuance platforms, as well as derivatives and treasury services, including escrow services

J.P. Morgan provides M&A advisory solutions across the full strategic life cycle of our clients:

Shareholder activism and engagement strategy

J.P. Morgan has an extensive record of helping clients prepare for and respond to shareholder activism. Our integrated advisory model, breadth of product offerings and extensive experience enable us provide a differentiated approach to shareholder activism defense for clients:

- Defense preparations for publicly announced and nonpublic approaches
- Dedicated shareholder activism advice
- Advisory services for corporate clients only
  - J.P. Morgan does not advise shareholder activists on activist campaigns
  - Interests are fully aligned with company interests and enhancing long-term shareholder value
- Experience with all major activists in some of the most sophisticated campaigns globally
  - Deep understanding of potential activist tactics
  - Firsthand experience of what works when defending against an activist

M&A Capital Markets

- Predicting market reactions
- Interpreting trading patterns and shareholder dynamics
- Structuring solutions to bridge gaps between parties

Director Advisory Services

- Central network of approximately 900 “actively looking” director candidates
- Recruitment of diverse board members
- Strategic planning for future board leadership

Strategic expansion

- Acquisitions, including cross-border opportunities
- Mergers and joint ventures

Enhancing business value

- Corporate combinations
- Capital restructuring projects
- Divestitures
- Spin-offs and other repositionings

J.P.Morgan