JANUARY 2015

The activist revolution

Understanding and navigating a new world of heightened investor scrutiny

J.P.Morgan

Published by
Corporate Finance Advisory
and Mergers & Acquisitions

For questions or further information, please contact:

Corporate Finance Advisory

Marc Zenner
marc.zenner@jpmorgan.com
(212) 834-4330

Evan Junek
evan.a.junek@jpmorgan.com
(212) 834-5110

Mergers & Acquisitions

Chris Ventresca
christopher.ventresca@jpmorgan.com
(212) 622-2228

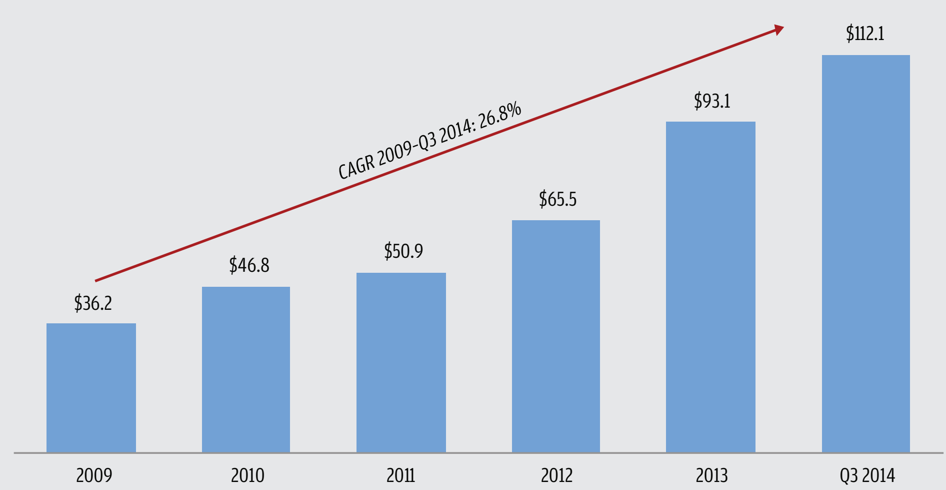
David Hunker
david.a.hunker@jpmorgan.com
(212) 622-3724

1. The activist revolution

No recent development has influenced firms' strategic and financial decision-making as profoundly as the surge in shareholder activism following the global financial crisis. From a few activist funds managing less than a total of $12 billion in 2003, the activist asset class has ballooned to more than $112 billion in assets under management for activist hedge funds with most of that growth occurring since 2009 (see Figure 1). These figures are in addition to the significant capital focused on activist strategies by multi-strategy funds. Today, more than 10 activist funds (activist or multi-strategy funds) manage over $10 billion each, or **about as much as the entire asset class 10 years ago for each fund.** This significant inflow of capital into the asset class comes with immense pressure to put capital to work quickly, and in ever-larger campaigns. Adding to the dynamism of this asset class, new funds are entering the shareholder activism arena at a rapid pace (typically lieutenants of established activist funds or non-activist fund managers pursuing activism as a new strategy) and traditional institutional investors increasingly support—directly or indirectly—shareholder activist campaigns.[1]

Figure 1

Total activist hedge funds' AUM ($bn)



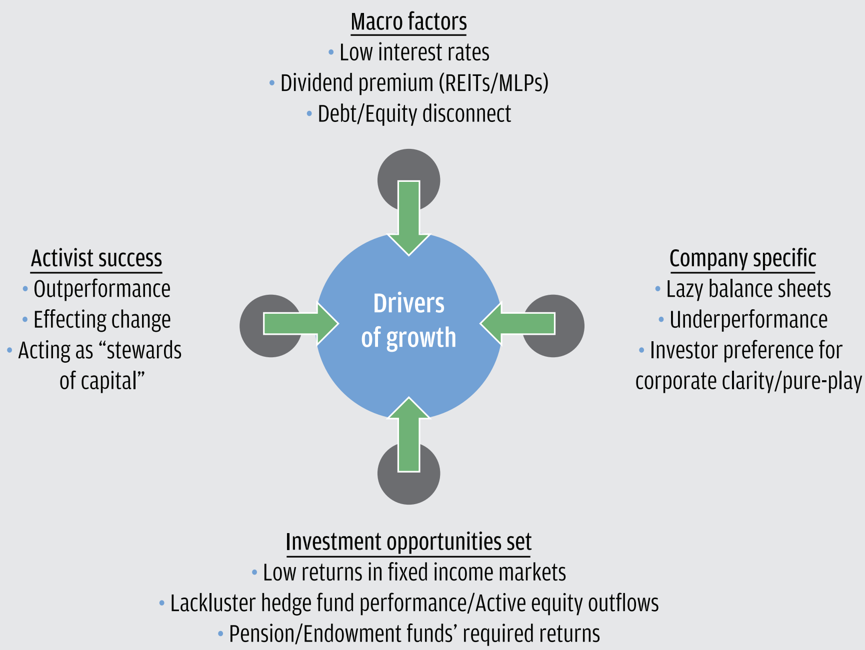
Source: HFR Industry Reports © HFR, Inc.
Note: AUM numbers only account for single-strategy activist managers—multi-strategy funds and investment managers engaging in activism as a sub-strategy are excluded

While other hedge fund categories may affect companies' stock prices over time, activist funds seek a direct impact on the day-to-day management decisions of the companies they target. Indeed, activist funds engage companies and propose changes to the status quo. In contrast, traditional investors typically take a position in a company because they are supportive of current management and strategy. In light of activists' expanding and far-reaching influence, we present this report to **guide senior executives and directors who are increasingly likely to face activists at some point during their tenures**.

[1] Please also refer to our report: "Hedge fund activists 2.0: They are back!" published April 2010

Figure 2

Drivers of growth in shareholder activism



Source: J.P. Morgan

In this report, we highlight why shareholder activism is likely to keep growing, explain the changing tactics of activists and responses of targeted firms, and provide perspectives and recommendations on how to balance short-term activist pressures with the desire to create shareholder value in the long term.

EXECUTIVE TAKEAWAY

Shareholder activism is here to stay. From a handful of funds and less than $12 billion of assets under management 10 years ago, the asset class has grown ten-fold. The shareholder activists' mandate is to directly challenge management and the status quo, to suggest changes to the current approach and to ultimately generate alpha for their investors. We explain why activism will continue to grow and how it has evolved over the last few years. We also propose best practices to Boards and senior executives who are increasingly likely to face pressure from activists.

2. An asset class to reckon with

2.1. Who are activist funds?

There are three broad categories of activist funds:

(1) **Established pure-play activists:** The principal investment strategy of these funds is to generate risk-adjusted excess returns (alpha) by taking stakes in companies, engaging management and proposing their views of a superior path to shareholder value creation. Many of these firms are now household names with significant media, public and investor followings. Thanks in no small part to their past successes, several of these funds now manage well over $10 billion of assets and are therefore willing and able to target even the largest firms.

(2) **New activists:** New activist funds are constantly being launched with many being led by the former lieutenants of established pure-play activists. Many of these firms are focused on quick results to create a brand and track record to drive fundraising. In addition, many non-activist fund managers have observed the significant attention and asset inflows aimed at shareholder activism and have adjusted their strategies or launched new funds focused on activist strategies.

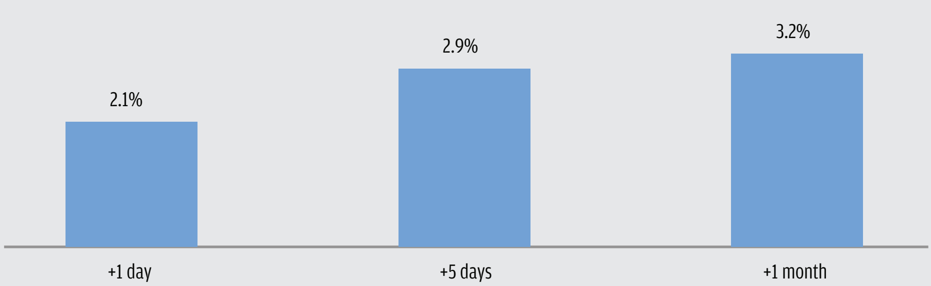
(3) **Multi-strategy hedge funds:** These funds are typically diversified and follow a variety of strategies. They have broadened their traditional "passive" approach to include activism in an effort to generate alpha. These funds may pursue target companies with an activist strategy specifically in mind, but also may take an initial "long-only" position and evolve to a more activist-oriented approach over time.

2.2. Generating alpha

Not all activist campaigns are successful, and not all funds are successful, but activist funds as a group have been successful at generating significant alpha. Over the short term, **market reactions to the announcement of activist campaigns are generally positive by 2–3% relative to the broader market** (see Figure 3). The actual outperformance is likely higher because stock prices of targeted companies tend to run up prior to the initial public campaign announcement while activists are accumulating their stake and other investors take positions based on rumors of potential activist interest in the target company. In addition, activists often utilize options to build their stakes, providing more upside if the market response is positive. While rising tides tend to lift all boats, shareholder activists aim to provide positive returns in down markets and outperform in bull markets.

Figure 3

Median market reaction to activists' campaigns[1]

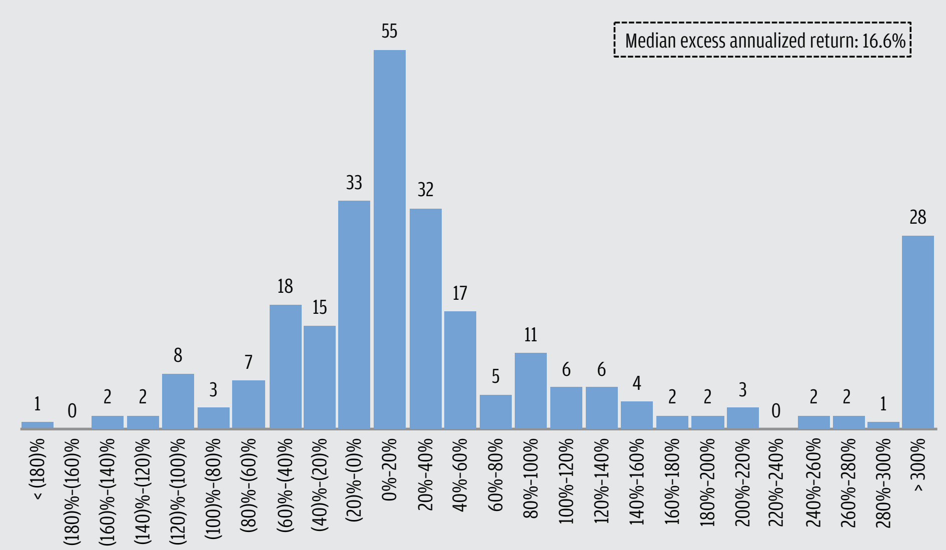


Source: SharkRepellent, FactSet
Note: Includes announced activists' campaigns 2009–2014 for targeted firms with market cap >$500mm at announcement
[1] Market adjusted performance defined as total return of company stock less total return of S&P 500 * beta for the respective period (the unaffected date is defined as five days pre-announcement)

This near-term outperformance in connection with specific campaigns has led activist hedge funds to generate excess returns over the past five years (see Figure 4, which is consistent with returns over the past 20 years as well). Of note, however, is the wide disparity of activist performance with more than 30% of activist holding periods in the sample underperforming the market. This wide distribution of performance illustrates that activists pursue strategies with volatile outcomes. This is a valuable lesson for firms evaluating activist suggestions and underscores the importance of comprehensive and well-advised review processes in response to (potential) activist demands. Despite this volatility of returns, the typical outperformance of activist campaigns, together with the lackluster performance of other hedge fund strategies, has still fueled the explosive growth of activist funds' assets under management.

Figure 4

Distribution of excess activist annualized holding period returns over the S&P 500



Source: 13D Monitor as of 12/15/2014, dates back to 01/01/2009
Note: Results based on exited 13D filings for 47 separate activists; excess annualized returns calculated as the annualized campaign return minus the annualized S&P 500 return, where the start date for each respective period is the 13D filing date and the end date is when 13D reporting requirements are no longer required (e.g., falling below the 13D reporting threshold of 5% or the sale of the company)

EXECUTIVE TAKEAWAY

Activists are emerging in different forms: both as pure-play funds and as a new strategy for previously non-activist funds. The trend of multi-strategy funds becoming activists, along with the explosive growth in assets under management by activist funds, is fueled by outsized - albeit volatile - returns by activist strategies over the last few years and investor desire for excess returns. Combined, these forces are resulting in a significant increase in shareholder activism activity, particularly targeting large-and mega-cap companies.

3. Activist campaigns are changing

Once reviled as "corporate raiders", activist investors have successfully **re-branded** themselves in the post-crisis environment as **defenders of shareholder value.** While many of the themes and areas of focus for activists remain similar to their pre-crisis approach, activist campaigns have changed significantly.

3.1. Core pressure areas remain the same

While activist perception and tactics have changed following the crisis, the main themes remain the same. Potential activist campaign themes can be categorized into five primary criticisms:

(1) **Underperformance:** The target has underperformed relative to peers or the broader market. This is undoubtedly one of the core weaknesses making firms susceptible to activism.

(2) **Capital allocation:** The target is under-levered, or has excess liquidity, and should lever up to return capital to shareholders in the form of dividends or share buybacks.

(3) **Corporate clarity:** The target should divest or spin-off one or more divisions or assets, thereby creating several more focused entities and allowing each entity to be properly valued by the market. Corporate clarity campaigns have surged over the last few years. For example, over 2009-2012 there were only 3 campaigns focused on real estate. During the last two years, 14 firms were targeted to enhance value by monetizing real estate assets.

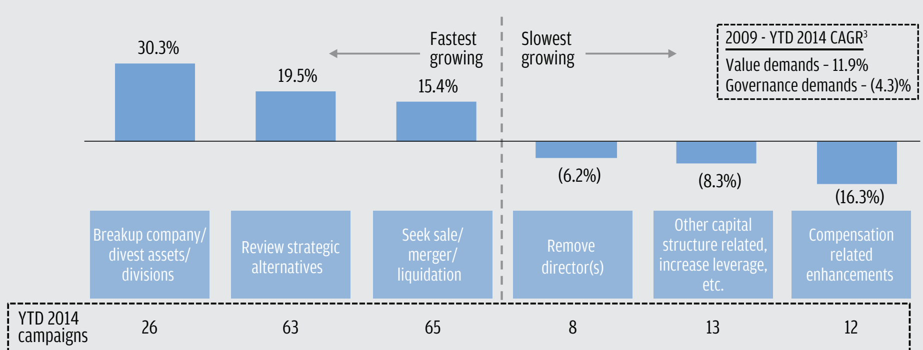
(4) **Corporate control:** The target should put itself up for sale, seek a higher premium for a proposed sale or abandon a proposed acquisition.

(5) **Governance:** The target has meaningful corporate governance issues: a captive Board, management compensation issues, high barriers for shareholders to effectuate change, etc.

These categories are broad and most activist campaigns will include many different proposals that will likely touch on many different themes. Recently, campaigns addressing themes of corporate clarity/breakup and the review of strategic alternatives have seen the most pickup while many of the governance themes (e.g., compensation, takeover defense) have been less frequent (see Figure 5).

Figure 5

Three fastest/slowest growing value and governance demands over time (2009–YTD 2014 CAGR)[1,2,3]



Source: SharkRepellent as of 12/15/2014

[1] Represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value and remove directors and officers

[2] Individual campaigns may be classified under various value and/or governance demand categories; excludes the removal of takeover defenses and other governance enhancements categories

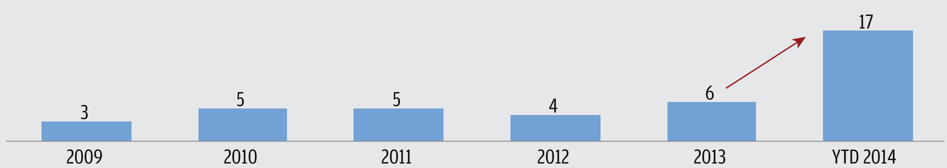
[3] CAGR calculations include value/governance demands not listed herein; calculations from 01/01/2009 to 12/15/2014

3.2. Larger targets

While shareholder activist themes have remained largely the same, the companies targeted by shareholder activists have changed. In particular, the relative immunity that size and scale have historically offered from shareholder activism no longer exists. As shown in Figure 6, the number of large- and mega-cap companies (greater than $25 billion market cap) targeted by shareholder activists has almost tripled in 2014 relative to recent years.

Figure 6

Campaigns against companies with a market capitalization greater than $25bn[1]



Source: SharkRepellent as of 12/15/2014
[1] Represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value and remove directors and officers

Activists not only have more firepower to make meaningfully sized investments in mega-cap companies, **but are increasingly successful in influencing even the largest firms with very small (sometimes less than 1%) stakes.**

3.3. Smaller stakes

The market has traditionally viewed a 5% ownership stake—consistent with the SEC 13D disclosure rules—as the required threshold for shareholder activists to be able to exert influence over target companies. Recent examples, however, have shown that much smaller stakes (sometimes less than 1%) can be sufficient for activists to be effective. Due to the track record and reputations that top-tier shareholder activists have worked carefully to develop since the financial crisis, **activists use the media as a powerful megaphone to spread their message**—traditional media, digital media, dedicated business news channels, etc. As shown in Figure 7, almost 60% of campaigns targeting $25 billion-plus market cap companies were initiated by activists who owned less than 1% of shares outstanding at announcement. This is particularly notable given the increase in campaigns against mega-cap firms. **Activist followers** (investors who often invest in target companies purely based on an investment by a shareholder activist) **also give the activist outsized influence compared to their own ownership stake.**

Figure 7

Percentage of campaigns where ownership stake at announcement was 1% or less[1]

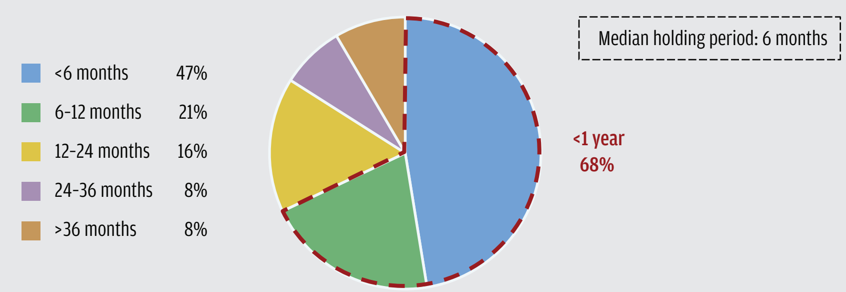
Source: SharkRepellent as of 12/15/2014
[1] Represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value and remove directors and officers; excludes campaigns where no initial ownership stake was disclosed

3.4. Long vs. short holding periods

A common held perception is that activist holding periods are typically short-termed. Confirming this perspective, the data in Figure 8 show that **about half of activist campaigns are shorter than six months** and over two thirds of the campaigns last less than one year. The typical campaign lasts about six months. This is significantly lower than the average holding period of the largest long-only institutional investors. On average, the equity portfolio turnover for these investors is about 30%-40%, which implies a holding period of about three years. While the majority of campaigns are short term in nature, there are examples where activists have held their positions for a longer period—more than 15% of the positions have been held longer than 24 months. Generally however, activist investors appear to have shorter holding periods than long-only investors. This shorter term focus may lead them to promote decisions that may not necessarily maximize shareholder value in the long term.

Figure 8

Activists' campaigns holding period



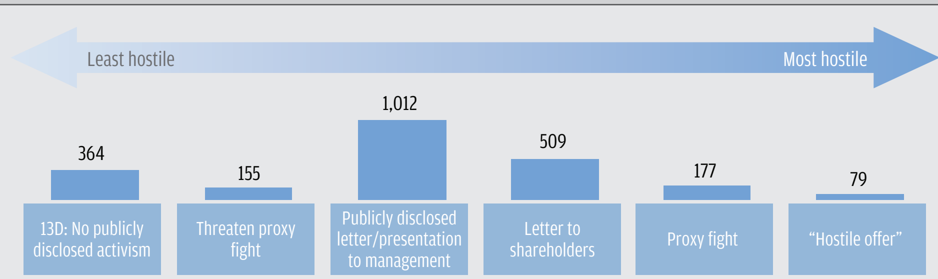
Source: SharkRepellent
Note: Represents completed activist hedge fund campaigns announced between 01/01/01 and 12/15/2014; Represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value and remove directors and officers. Holding period defined as the earlier of campaign announce date/first reporting period to the later of campaign end date/final reporting period; campaigns excluded where there is insufficient data

3.5. Proxy fights – Threatened but not needed

Activist strategies range from the relatively benign to extremely hostile. Sometimes activists may approach management privately in an effort to agitate for change before going public or will attempt various tactics to put pressure on target companies prior to initiating a proxy contest. The financial expense and time required to wage a proxy fight are significant and in many cases activist investors can **reap the benefits of a "win" with far less than a formal proxy contest** for Board representation. Not surprisingly, relatively few activist campaigns proceed to a proxy fight relative to the number of public letters and presentations to management (see Figure 9).

Figure 9

Activist use tactics ranging from private discussions to proxy contests (2009–YTD 2014)



Source: SharkRepellent as of 12/15/2014

Nevertheless, when management is unresponsive to activist pressures, the activist's ultimate threat is to pursue a proxy fight. Target companies may seek to settle with an activist, offering one or more Board seats and other concessions, in an effort to avoid a proxy contest and in light of the changing attitudes of investors and proxy advisors with respect to dissident Board representation. In 2013, shareholder activists received Board seats in 67% of proxy contests that went definitive. Recently, in an impressive show of investor discontent with the existing management and Board, shareholders replaced the entire 12-member Board of directors with an activist slate.

3.6. Proactive long-only investors

No other factor has had as significant an impact on the success of shareholder activism as the changing attitude and behavior of traditional long-only investors: public pension funds, institutional investors and money managers. These investors are increasingly becoming involved in the activism dialogue. While historically these investors have not supported shareholder activists directly, over the last few years long-only investors have become comfortable supporting activism to various degrees and often initiating dialogue with activists in an effort to bring to light potential opportunities. In contrast to the situation of just a few years ago, companies must examine their long-only shareholders with a critical eye—there are no "management-friendly" investors in today's shareholder activist-rich environment. This is further evidence of the transformation of activist investors from "corporate raiders" to defenders of minority shareholder interests who are willing to act as catalysts, pressuring firms to adopt changes aimed at increasing shareholder value.

EXECUTIVE TAKEAWAY

As they did pre-crisis, shareholder activists focus on companies with perceived unrealized shareholder value and suggest strategies to unlock that shareholder value by returning capital to shareholders, focusing on corporate clarity, adjustments to corporate strategy or changes to corporate governance. As shareholder activism has evolved and becomes more accepted as an asset class, today's activists are able to target even the largest firms and increasingly agitate with small overall percentage ownership stakes. Long-only investors increasingly engage in the activist dialogue by highlighting potential targets to activists and selectively supporting activist campaigns.

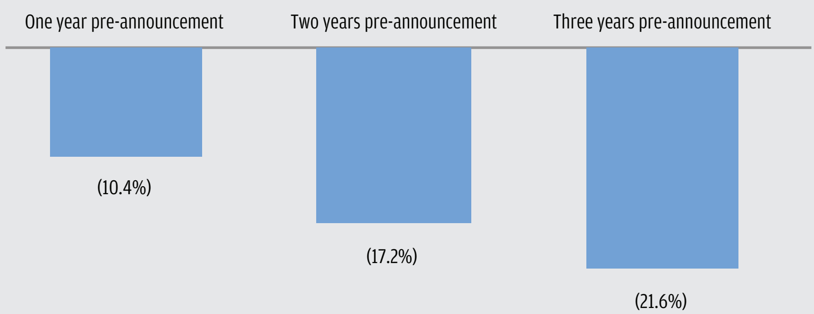
4. The targeting process

4.1. Identification

There are many arguments an activist may make in the course of a campaign, but most are fundamentally driven by share price underperformance. As shown in Figure 10, **the typical firm subject to a publicly disclosed activist campaign since 2009 underperformed the market by more than 10%** in the year leading up to the announcement of the campaign. That figure is even more pronounced if we look over longer periods of time. A weak stock price—either in absolute terms or relative to peers—is the "low-hanging fruit" an activist can use to identify that there is a problem at a company that justifies the activist's actions.

Figure 10

Median total excess return pre-announcement of activists' campaigns[1]



Source: SharkRepellent, FactSet
Note: Includes announced activists' campaigns 2009-2014 for targeted firms with market cap >$500 mm at announcement
[1] Market performance defined as total return of company stock less total return of S&P 500 for the respective period (the unaffected date is defined as five days pre-announcement)

In addition to share price underperformance, activists will seek to identify and highlight vulnerabilities in capital structure, distribution policy, governance, corporate structure, M&A track record and business strategy.

Investment period

Once they have decided to target a firm, activists will build a stake in the target over time. Activists typically use a combination of outright share purchases and options to build their positions. Activists may initiate their campaign immediately after they have built their stake. Multi-strategy funds that often pursue activism opportunistically may hold positions for a long period of time passively before deciding to actively agitate against a target—typically following a period in which the target has not met their original performance expectations.

Private conversation

In some cases, an activist will attempt to engage the target company in a private dialogue. Depending on the activist's thesis, the activist's approach and the firm's degree of engagement, these conversations may be cordial and constructive, or they can be tense and hostile with the threat of going public. Often this dialogue begins with an email or phone call requesting a meeting with senior management or the Board. In these meetings, the activist will present its thesis and indicate what it is seeking from the company. An unwillingness by the company to implement the activist's proposals typically results in the activist publicly disclosing its campaign.

Going public

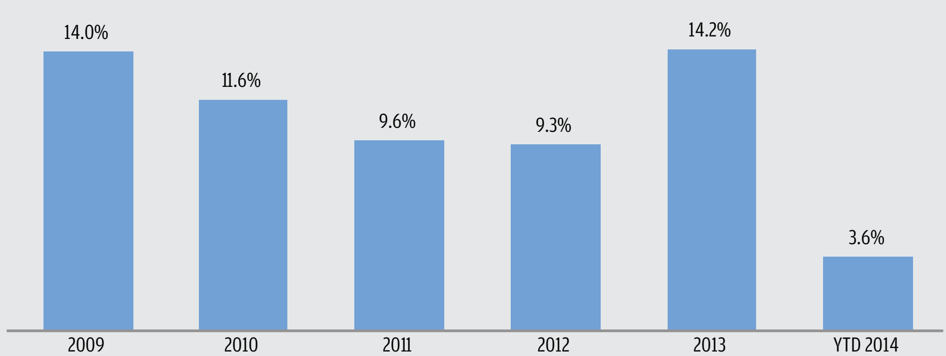
In situations where the dialogue is amicable and the firm engages the activist, the activist's demands may not become public as the activist and target firm decide to work together behind the scenes. In some instances, activists reconsider their proposals based on insights from these private discussions. Typically, however, the activist will go public as a way to exert more pressure on the target company. Often the activist publicly discloses the campaign through an SEC filing (typically Schedule 13D), which may or may not be preceded by a private outreach. **Activists may utilize a number of platforms to publicly disseminate their thesis** to other shareholders: publicly disclose letters to management/the Board, publish a letter directly to shareholders, write a public white paper detailing their criticisms and suggestions, create a campaign website filled with information and presentations supporting the activist's agenda or videos forcefully criticizing management and/or the Board. The ensuing process may take many different forms varying from an ongoing public fight between management and the activist to campaigns in which there is little disclosure following the initial campaign announcement until the company and activist announce a settlement.

The proxy fight as the option of last resort

In a proxy fight, activists propose their own slate of directors and solicit other shareholders' votes and support to elect their slate to the Board. The activist's hope is that with new Board members who are supportive of their value-creation proposal, companies will feel pressured to pursue their proposals for change. In fact, most activists will argue that winning Board representation through a proxy fight, even if only one seat on the Board, is evidence of a "mandate for change" from the company's shareholders. As such, **proxy fights are the ultimate weapon in activists' toolkit**. Proxy fights are, however, expensive, time-consuming and their outcome is uncertain. As a result, both activists and companies often try to avoid a proxy fight. As shown in Figure 11, typically only 10–15% of proxy fights have gone to a vote (with even fewer in 2014). When an activist campaign does result in a proxy fight however, activists win Board representation more than 45% of the time.

Figure 11

Percentage of total campaigns that had a proxy fight go to a vote



Source: SharkRepellent as of 12/15/2014

[1] Represents the following campaign types: Board control and representation, enhance corporate governance, maximize shareholder value and remove directors and officers

EXECUTIVE TAKEAWAY

Activism takes many forms. In all cases the activists will first identify a firm they believe has unrealized shareholder value and where the activists believe that they have a solution to unlock that value. The activist will build an ownership position using shares and options that give them sufficient influence, as well as economic interest to justify their actions. Next, they will communicate their concerns and proposals for value creation, sometimes privately to the company, but usually publicly as well. The company and activist attempt to convince each other, as well as shareholders, that their plans are the superior alternative to maximize shareholder value. Ultimately, the campaign will end with a settlement, a more protracted battle and proxy fight or a withdrawal by the activist. The latter occurs rarely.

5. Offense is the best defense

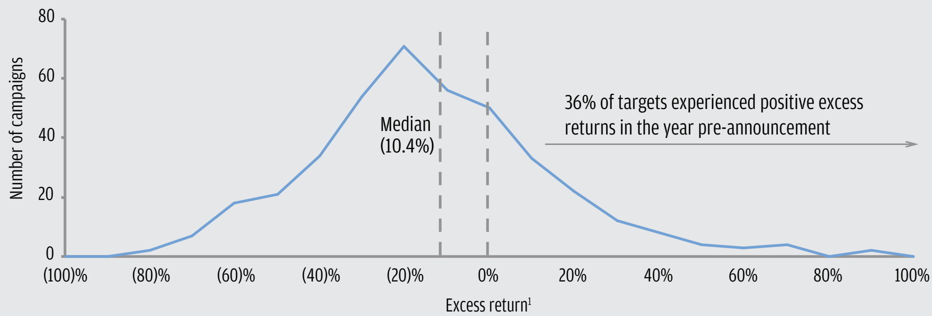
5.1. A strong performance is the best defense against activism, but not a guarantee

There is no better defense against activism than share price outperformance. As we previously highlighted, one of the primary criteria activists evaluate when selecting targets is continued underperformance relative to peers or the broader market. **Underperformance weakens the current management team and gives the activist's proposals a more friendly audience.**

Strong stock performance is not, however, a vaccine against activism. **Even strong performers are targeted:** Figure 12 shows that about one-third of firms targeted by activists had excess returns relative to the broader market in the year leading up to the announcement of a campaign. Activists can mount a campaign with a cooperative tone, highlighting how management has done an outstanding job and created shareholder value, but where further opportunities exist to drive shareholder value. In this type of campaign, management may be praised, but encouraged to be more aggressive by returning capital to shareholders, adjusting corporate strategy or monetizing assets, such as real estate, in light of more favorable market conditions.

Figure 12

Distribution of excess returns of firms targeted by activists in the year leading up to the campaign



Source: SharkRepellent, FactSet
Note: Includes announced activists' campaigns 2009–2014 for targeted firms with market cap >$500 mm at announcement
[1] Market performance defined as total return of company stock less total return of S&P 500 for the respective period (the unaffected date is defined as five days pre-announcement)

5.2. Board preparedness

In today's activist-prone environment, it is best practice to ensure that the Board is fully informed and prepared for the potential of shareholder activism, including:

(1) Knowledge of the drivers of shareholder activism
(2) Understanding of recent activist campaigns
(3) Evaluation of potential activist attack themes
(4) Review of current shareholder base and investor dialogue

5.3. Defense strategy for today's activism

The best strategy for companies to defend against shareholder activism has changed materially since the end of the financial crisis. Previously, companies responded to activist pressure using the same tactics employed to repel a hostile bid—refusal to directly engage, implementation of a poison pill or ignoring the activist altogether. In the past, the common practice was to not take the activist seriously so long as its holdings were below 5%, with the belief that its demands did not warrant attention. Today, companies pursue these dated strategies at their own peril.

In Figure 13, we describe how best practices in response to shareholder activism have evolved over the last few years. The main message is that shareholder activist targets must engage with shareholder activists. Companies today must be better prepared. Firms should evaluate potential activist attack themes before an activist emerges. It is more productive to engage activists and have a constructive dialogue than to attempt to evade them entirely. Companies targeted by shareholder activists must recognize that an activist campaign is different from any criticism of strategy or management they may have dealt with in the past. While the critiques will be around business strategy, capital allocation or management effectiveness, **today's activist campaigns are sophisticated public relations contests,** fighting for the support of the company's shareholder base. Companies must approach their preparation and potential responses while keeping this new reality in mind.

Figure 13

Best practices in dealing with an activist shareholder

Old strategy	New strategy
• Ignore unless a material shareholder (generally 5%+)	• Critical to listen no matter how small an investor's ownership stake • Actively engage in understanding an activist's position
• Treat activist like hostile acquirer	• Objectively assess merits of shareholder input
• Defend company's stated strategy	• Implement change if consistent with long-term value creation
• Implement defensive measures	• Actively identify decision-makers at each of your shareholders and how they would "vote" • Anticipate ISS[1] response • Weigh pros and cons of potential settlement/concessions
• "Just say no!"—Reject assertions/recommendations in a press release	• Fight/Contest if necessary and in best interest of all shareholders
• Largely ignore the activist or rely on generic responses	• Robust public relations strategy is required to be successful
• No/Limited interaction with activist by management and Board	• Provide senior management and possibly Board access, if appropriate
• Campaign engagement limited to the investor relations function at the firm	• Senior decision makers should be actively engaged • Directors, senior executives and other investor relations functions should present a consistent message
• Reactive; prepare activism response strategy only after being targeted	• Make activism defense a regular part of management and Board dialogue • Engage advisors early to remain current on activist themes and strategies

Source: J.P. Morgan
[1] Institutional Shareholder Services Inc. (ISS) is a provider of corporate governance solutions for asset owners, investment managers, and asset service providers

5.4. Anti-takeover defenses...are little help

Anti-takeover defenses, from staggered Boards to poison pills, are not as useful against activism as they are against hostile takeover bids. The activist's primary offensive tactic is **to win the support of other shareholders, particularly large institutional holders, in order to pressure companies to pursue change.** Given this approach, traditional defenses do little to prevent an activist from winning that support. In most instances, the implementation of traditional defense tactics delays the activist at best. Sometimes it results in a worse outcome for the incumbent management team and the Board if other shareholders see the company's actions as attempting to frustrate the will of the company's shareholders. In this context, a detailed and comprehensive communication plan aimed at existing shareholders, emphasizing why the company's current strategy is the preferred path to shareholder value creation, provides the best opportunity to successfully repel an activist campaign. Critical for any company dealing with a shareholder activist, **all parties (CEO, public/investor relations, general counsel and lead director) must act with a single unified voice,** in public as well as in any private engagement with the activist.

5.5. The role of advisors

The paramount role of advisors is to help management and Boards understand the current state of the shareholder activism environment and guide them through the process of proactively preparing for the prospect of an activist campaign. This includes a detailed analysis of various potential shareholder activist attack themes, as well as the evaluation of proactive measures the company can undertake to mitigate some or all of the identified issues. Advisors should include strategic, capital market, legal and tax factors in their evaluation of likely short-term and long-term value effects of actual or potential activist proposals. Balancing short-term with long-term perspectives is critical in this process as activist proposals are often focused mostly on short-term valuation implications.

Advisors should also assist the Board in focusing its shareholder communication strategy to ensure that all shareholders fully understand the merits of the company's current strategy and the implied risks in any proposed alternative strategies. Without the support of the company's largest shareholders, activists have no avenue to force change on the company and will have no option other than to retreat. Given the complexity and speed at which today's shareholder activists operate, **companies are best served to engage their core team of advisors as soon as possible,** ideally before an activist threat has ever materialized. This advisory team should include financial, legal and public relations specialists, at a minimum.

EXECUTIVE TAKEAWAY

Activists' surging numbers and assets under management, as well as the support of activist strategies by long-only investors, suggest that activism is a permanent fixture, requiring management teams and Boards to develop new skills and response strategies. In this new environment, where even the largest firms or those that perform well could be targeted, senior executives and Boards need to understand how activism could affect their company. Apart from continuing to deliver superior shareholder returns, companies and their advisors can best prepare by regularly reviewing potential activist attack themes and taking proactive steps to mitigate the threats identified. It is paramount to more effectively communicate the merits of the current strategy to the company's shareholders.

Notes

We would like to thank Jimmy Lee for his invaluable comments and suggestions as well as for providing the impetus to explore this topic. We would also like to thank Chris Gallea, Ben Grant, Fernando Rivas, Ram Chivukula, Rama Variankaval, Robert Huffines, Robert Stuhr and Vikas Vavilala for their comments and Jennifer Chan, Siobhan Dixon, Sarah Farmer and the Creative Services group for their help with the editorial process. We are particularly grateful to Agustina Carcione, Alex Mergard and Noam Gilead for their tireless contributions to the analytics in this report as well as for their invaluable insights.

J.P.Morgan