



# Think like an activist

Fortify your firm, self-disrupt  
and drive stakeholder value

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Accenture Strategy's Macro Foresight team is focused on helping companies and investors understand major macro shifts in the global economy and what they mean for corporate strategic planning, investment planning and enterprise-wide transformation. For more information about Macro Foresight, visit [www.accenture.com/macroforesight](http://www.accenture.com/macroforesight).

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# Executive summary

Last year we witnessed an upward trend of activist campaigns, with a growth of over a third compared to 2021. While the pace of activist investing is expected to moderate in 2023, several factors will sustain interest levels. The challenging global macro environment—characterized by rising inflation, high interest rates and geopolitical tension—has made it more attractive for activists to target companies with room for improved returns. Additionally, activist investors hold significant capital, which provides them with resources to deploy.

While activist investors may focus on the goal of creating long-term value, their intrusion may be disruptive to the business. Activist investors use a variety of tactics to pressure management and force them to make changes.

To protect against activist intervention, management teams should adopt an activist mindset and proactively assess vulnerabilities. Regular reviews of business performance, operations and strategy are essential—especially in a challenging economic environment.



# Current landscape



# Activist campaigns rebounded in 2022 and are expected to remain elevated.

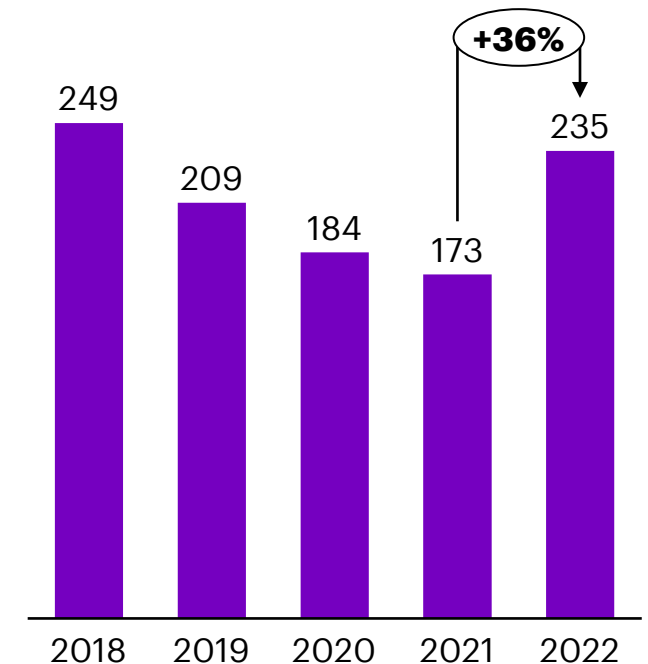
Last year saw a reversal of four consecutive years of declining activist activity, with the number of activist campaigns growing by more than a third from 2021 (see Figure 1).

While the pace of activist investing is expected to moderate over the next year, several factors are likely to keep interest levels high.

- Tougher global macro environment: The global economy faces headwinds from rising inflation, high interest rates and increased geopolitical tension. This has led to a decline in stock prices, a compression of multiples and a downward revision in growth expectations. This makes it more attractive for activists to target companies with room to improve returns.

- Significant availability of dry powder: Several activist investors have significant committed but unallocated capital to deploy. For example, Paul Singer's Elliott Investment Management secured<sup>2</sup> USD 13 billion last year in its biggest-ever raise.
- Improved proxy voting environment in the US: When triggered,<sup>3</sup> the universal proxy rule (recently effective in the US), requires companies and dissidents to use a universal proxy card that lists all of the nominees from both sides. This rule helps activist investors by making it easier for them to get their nominees elected to the board of directors. Previously, activist investors had to send out their own proxy cards.

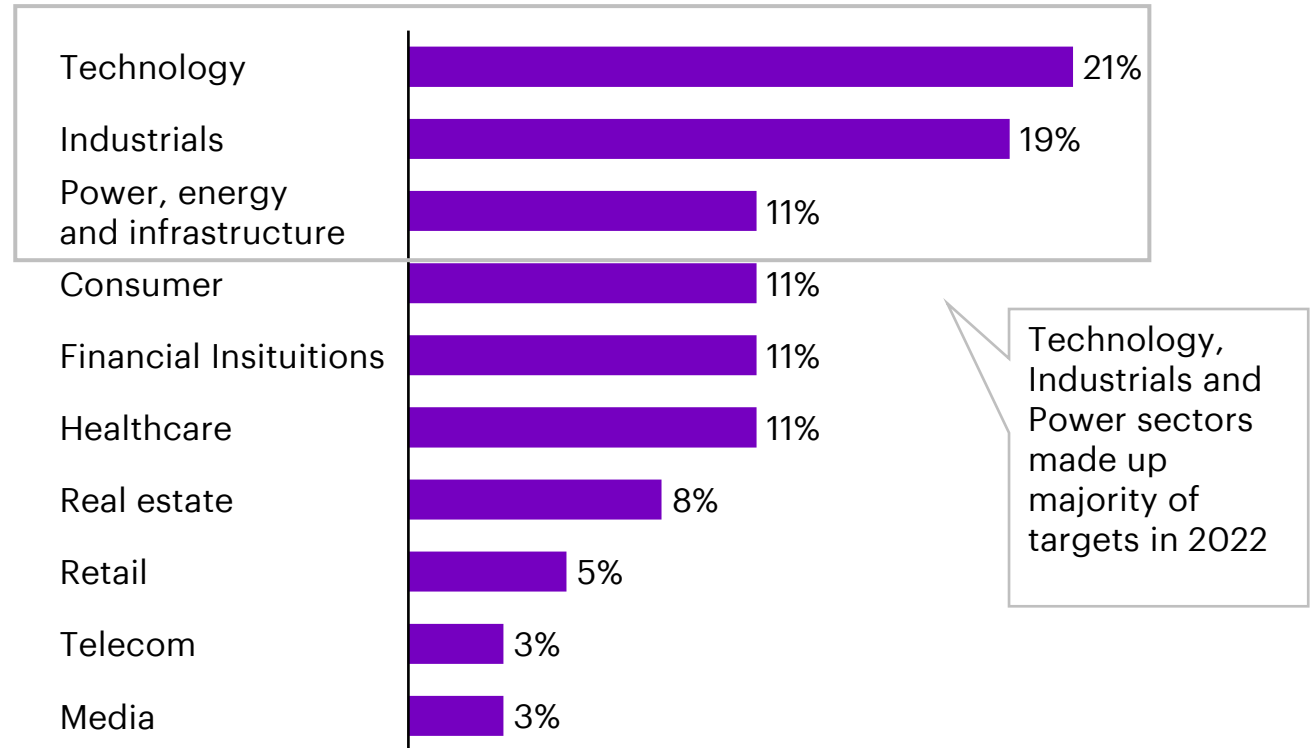
**Figure 1:** Number of activist campaigns initiated<sup>1</sup>



Technology has emerged as the top sector of interest for activist investors, as shrinking valuations and a shift in focus towards free cash flows (vs. growth) have made the sector more vulnerable. Along with Technology, some of the other sectors targeted by activists in 2022 included Industrials and Power (see Figure 2).

And while the number of activist investors is on the rise, they are increasingly targeting large, liquid companies. This is because these companies are more likely to have the potential for significant value creation, even in a period of economic downturn. In 2022, a quarter of S&P 500 firms had an activist in the shareholder register.<sup>5</sup>

**Figure 2:** Sector share in activist campaigns initiated, 2022<sup>4</sup>



# Why corporations should care



# Activists are not afraid to shake things up to drive towards target value in the short- or long-term.

Activists aggressively push companies and market participants to unlock near-term value while also positioning for long-term gains, employing both short-term profit and/or value boosting and long-term strategic transformations.

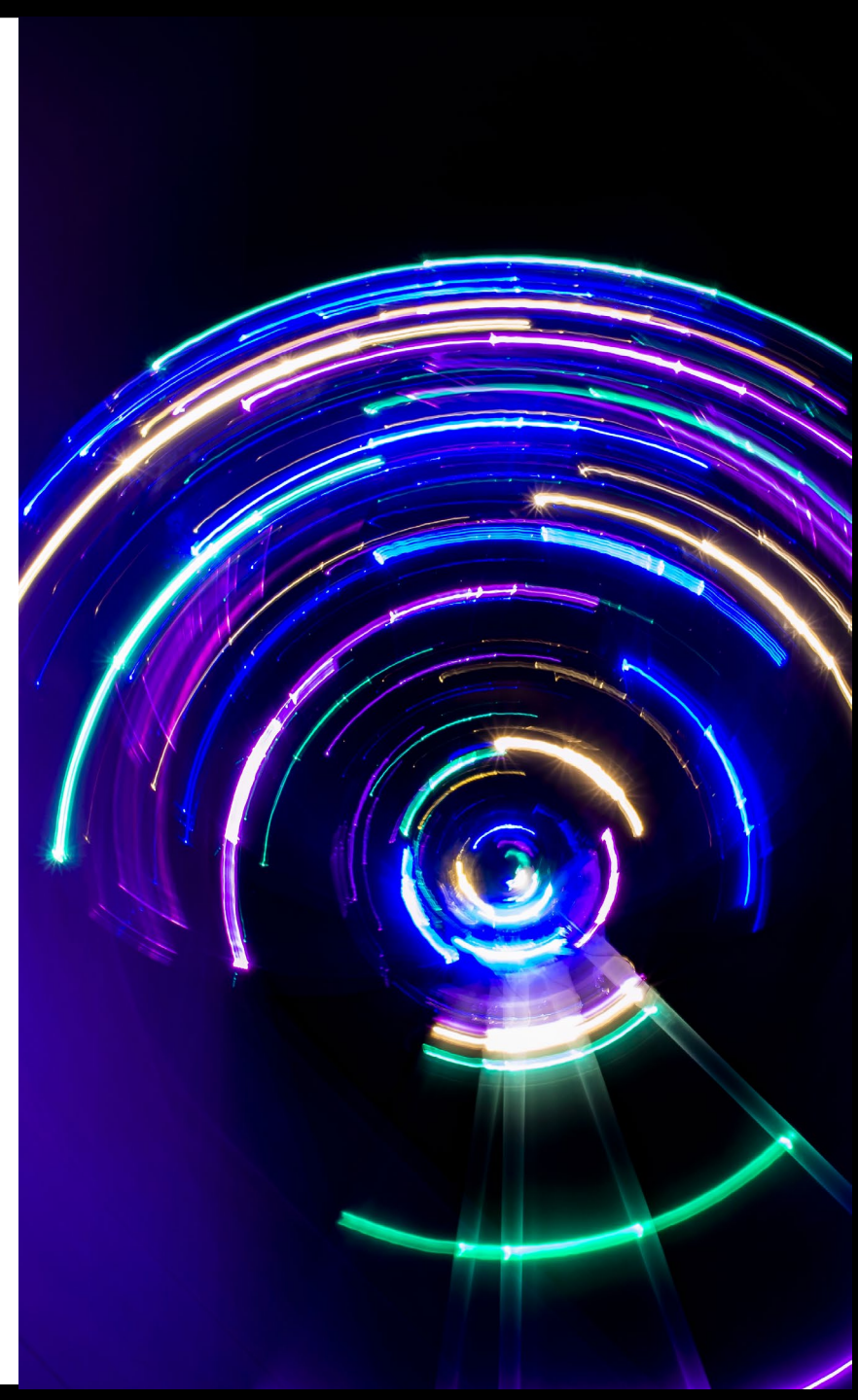
Activists often buy a significant minority stake in the company and use their position to pressure management to make changes.

Activist investors use a variety of tactics to pressure management, including filing shareholder proposals, engaging in proxy fights, releasing negative press and threatening to sell their stake in the company. These tactics, used individually or in combination, can be effective in forcing management to make changes.

## Activists' value-creation levers

While activist investors are sometimes characterized as looking solely for short-term gains, this is not always the case. In fact, many activist investors are increasingly interested in driving long-term value. This shift in focus has led to a change in how activist investors approach their campaigns. Today, activist investors are more likely to target companies that have the potential to create long-term value and are open to collaborating with company boards to develop a plan to achieve that potential.

Because the market believes that activist investors may be able to help their targets create long-term value, such companies are often likely to see their stock prices rise after Schedule 13D filings.<sup>6</sup>







## Activists employ a range of long and short tactics to realize desired value.

**Long activist investors** focus on four traditional value-creation levers:

- Strategy redefinition: This may include re-pivoting the business model, reviewing capital allocation plans and driving top-line revenue growth (e.g., new channels and market expansion).
- Strategic M&A and divestitures: This involves identifying and pursuing value-creation opportunities through divestitures, spin-offs, roll-ups or consolidations.
- Operational improvements: Addressing business pain points and enhancing performance through cost reduction, digital and talent transformation.
- Capital structure and optimization: Often involves re-engineering balance sheets to deliver high returns in a short period, including taking on additional leverage, determining the most efficient mix of debt and equity and undertaking dividend recapitalization.

**Short activist investors**, meanwhile, carry out technical or investigative work:

- Analyzing the business to identify signs of future underperformance or frothy valuations, including reviewing growth projections, unsubstantiated technology, and scalability of business models.
- Focusing on the quality of company earnings, specializing in exposing accounting problems and/or fraud.

Note: This publication is primarily focused on long activists

**Market conditions often dictate the specific strategy and levers activists utilize.**

As a business cycle ends and credit conditions tighten, the market is awash with companies that have not previously been challenged for slowing growth, declining profitability and lower than hoped-for returns (see Figure 3). Such companies are attractive targets for activists seeking to unlock value by targeting improvements.

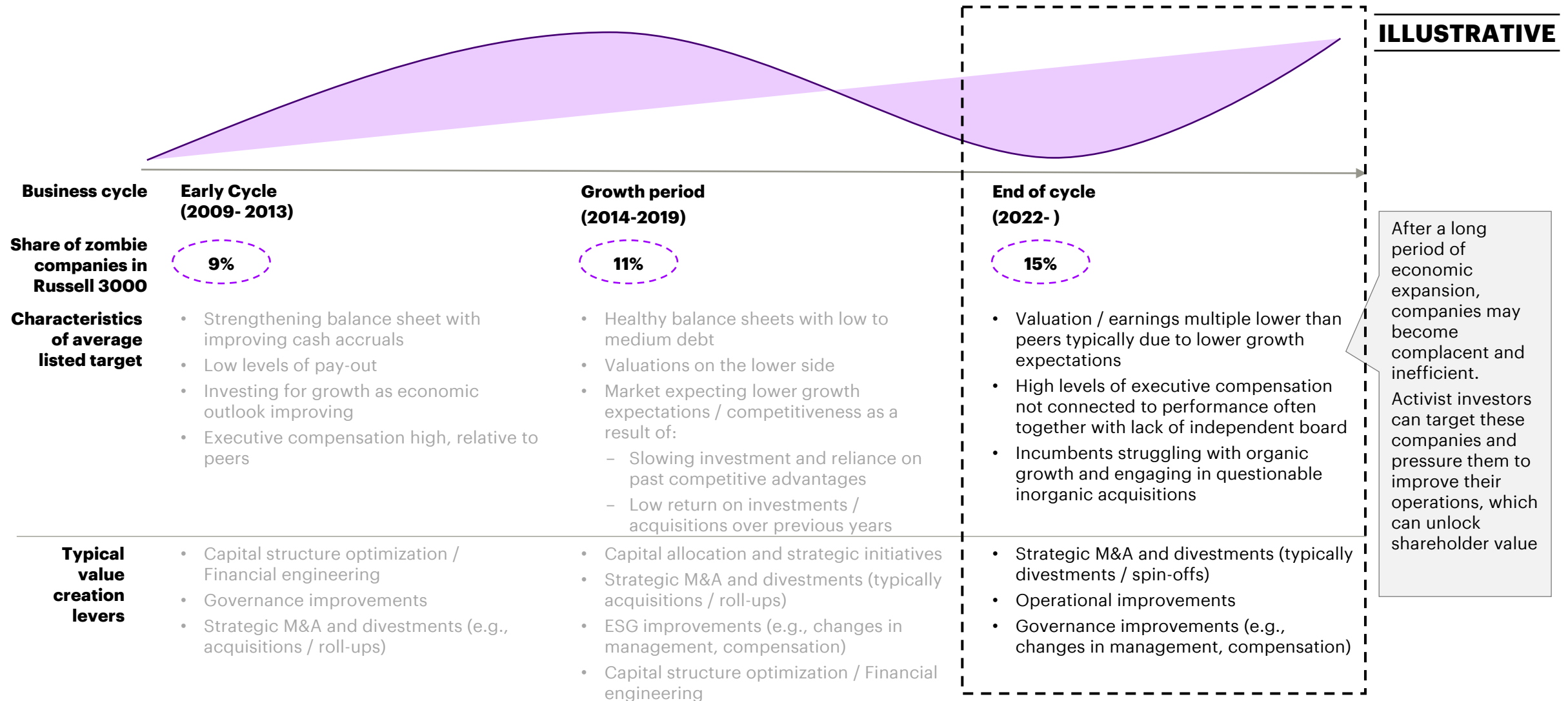
Publicly listed targets of activist campaigns exhibit typical characteristics:

- Valuation and/or earnings multiples lower than peers typically due to lower growth expectations or underperformance
- Relatively higher levels of executive compensation not connected to performance, often combined with lack of an independent board
- Incumbent firms struggling with organic growth and/or engaging in questionable inorganic acquisitions to drive growth

Historically, value-creation levers for companies in the Early Cycle and Growth periods included capital structure optimization and strategic M&A/divestitures. The emergence of the ESG agenda has expanded activists' focus to include ESG and operational improvements.

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**Figure 3:** Activist behavior by phase of the business cycle<sup>7</sup>



**Think like an  
activist**



# Leaders should adopt an activist mindset, transform their business proactively and self-disrupt to stay ahead of threats.

To protect their companies' long-term interests, management teams should "think like an activist."

They should be proactively reviewing their business performance, operations and strategy on a quarterly basis to assess their vulnerabilities to activist investors. This regular review process is particularly important in the context of a more challenging macro environment.

Organizations should look internally and evaluate how their business could be transformed to future-proof operations, utilizing new and future technology to drive innovations, protect or improve margins, and defend against activist intervention. To self-disrupt and protect the business from activist capture, corporations should consider the following preventative measures.

## **01 Stress-test assets to confirm alignment with firm-wide strategy and return expectations.**

During the end-of-cycle stage, resource optimization is crucial. Executives should consider shrinking or exiting businesses and/or assets altogether if they misalign with medium-term corporate strategy or have returns below the cost of capital.

### **Typical actions:**

- Spinning-off non-core assets
- Divesting legacy businesses

## **02 Re-evaluate long-term value creation thesis.**

Ensure time-sensitive capital investments are funneled toward projects which create long-term value and do not allow concerns over "sunk costs" to get in the way of major financial decisions. Management should also exercise caution over inorganic acquisitions, especially if their historic return on investment (ROI) for acquisitions has been below expectations. Sub-par acquisition ROI weighs on corporations' revenue growth, which can become a weak spot vulnerable to attack.

### **Typical actions:**

- Fine-tune capital allocation
- Pause vanity projects
- Exercise more caution on inorganic M&A



### **03**

#### **Revisit corporate structure and unit economics to improve overall enterprise agility.**

Consider cost consolidation when scaling up. Any duplication or low value-add activities should be minimized. Rationalizing the corporate structure strengthens core business value and makes corporations less vulnerable to activist campaigns.

#### **Typical actions:**

- Simplify corporate structure and consolidate business units
- Revisit operating model (e.g., minimize or outsource non-differentiated low value-added activities).

### **04**

#### **Put ESG risks on top of mind.**

To address demand for passive and thematic investing, prioritization of ESG initiatives and management of related risks can help companies future-proof against ESG activists. Executives should begin by reviewing governance to ensure company policies and practices are updated, non-discriminatory and clearly communicated to all stakeholders.

#### **Typical actions:**

- Strengthen governance and transparency
- Identify and address ESG-related risks within the firm (e.g., supply chain, board diversity).

# Activist trends to watch



# Managers must stay vigilant as activism evolves with new players, entry into new asset classes and innovative strategies.

## Blurring of boundaries between activist investors and private equity funds

The need for access to larger amounts of capital and longer holding periods have prompted activists to take a longer-term operational view, while PE managers experiment with activist tactics in the hope of generating higher/faster returns.

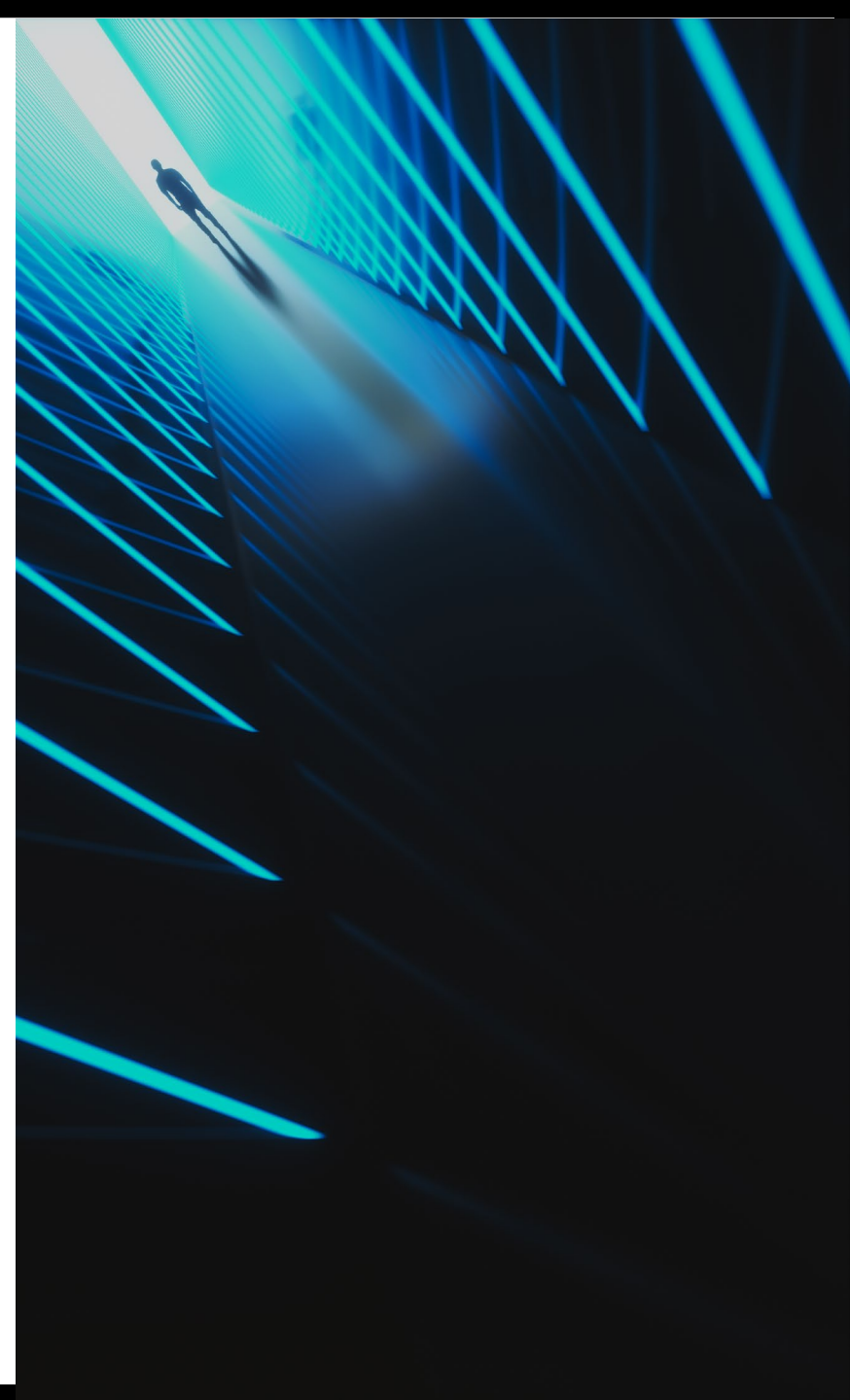
Another related trend is the growth of collaborative activist investing with investors more open to working with boards vs hostile outside-in assaults.

## Move to newer asset classes

Activists have started to expand into the middle markets—traditionally dominated by private equity, especially in the US—as well as special purpose acquisition company (SPACs), including pushing companies to de-SPAC.

## Activist swarming

As the number of activist investors increases, it is becoming more common for multiple activists to target the same company (activist swarming.) In 2022, the number of US companies targeted by multiple activist investors increased by 89% from 2021. As growth slackens, activists are poised to swoop in on companies with lower valuations.<sup>8</sup>





# ESG activist initiatives pressure companies into enhancing sustainability, DE&I, community engagement and governance.

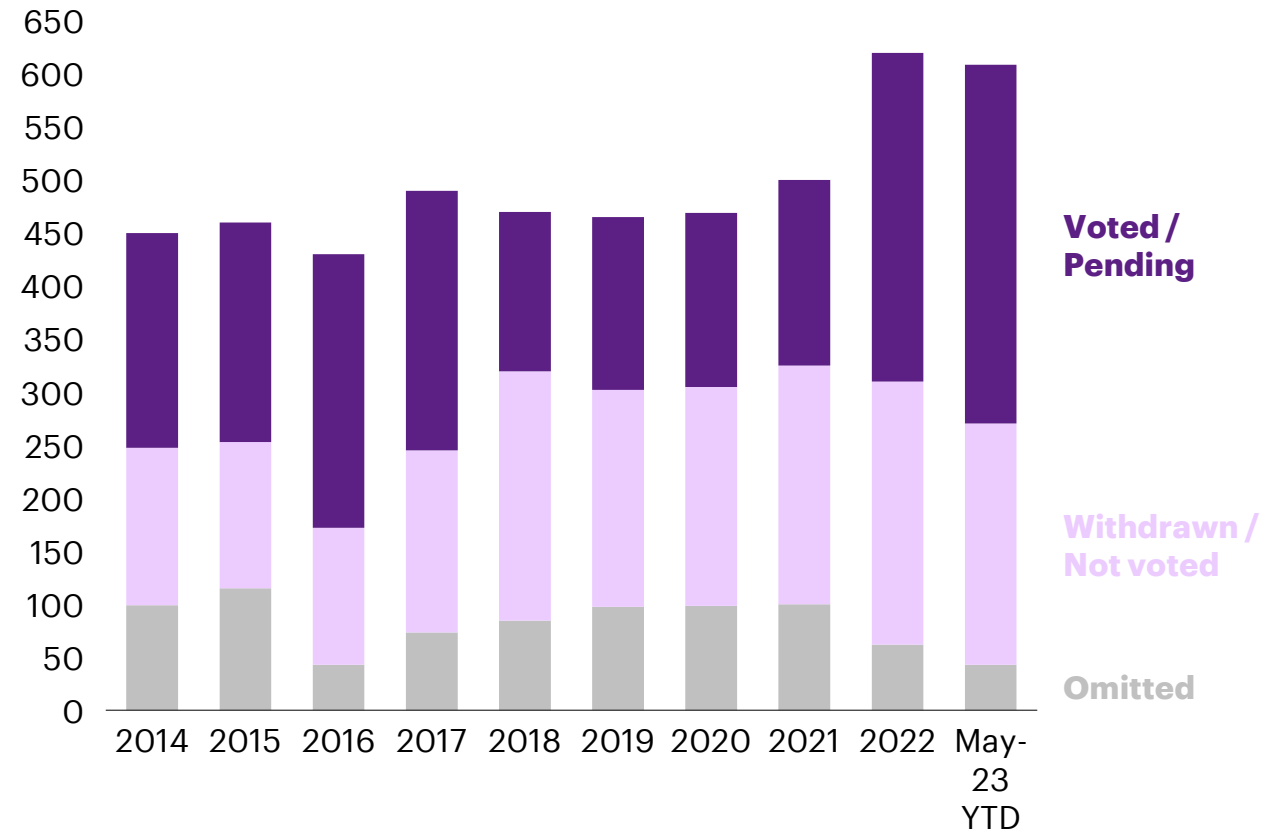
## Growth of ESG focus

ESG activism has surged as investors pressure companies to address sustainability, diversity, community, and governance amid escalating regulatory and public scrutiny

Activists are more likely than ever to combine ESG initiatives with traditional campaigns to secure support from external and internal stakeholders (see Figure 4).

It is worth noting that there has been a decline in support for environmental and social activism at this year's annual meetings of US companies likely due to a combination of shifting political environment around DE&I and improving corporate ESG response.

Figure 4: ESG-related shareholder proposals, 2014-May 2023<sup>9</sup>



# Leaders must fortify their firms while building trust with shareholders.

In today's volatile operating environment, executives need to strengthen their company's defenses against activist takeover while rejuvenating existing businesses to emerge stronger than before.

As they do this, transparent communication is key to maintaining clarity and building trust with their shareholders. Executives should align, integrate and communicate transformation initiatives that can be tracked through quantifiable metrics. They should be engaging frequently with institutional investors to discuss long-term strategy, gather feedback and address any concerns in a timely manner.

So, while the pace may moderate, the rebound in activist campaigns driven by global economic conditions, available capital, regulatory changes and sector-specific vulnerabilities, remains a prominent trend in the corporate landscape. Leaders need to be prepared and "think like an activist."



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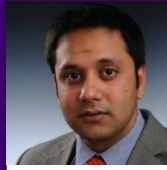
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### About Accenture Macro Foresight

Accenture Strategy's Macro Foresight capability is focused on helping companies and investors understand major macro shifts in the global economy and what they mean for corporate strategic planning, investment planning and enterprise-wide transformation – with the goal of helping clients distill complicated macro trends into simple, pragmatic recommendations which drive value.

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