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Shareholder activism is a way in which shareholders can influence a corporation's behavior by exercising their rights as owners. Although shareholders do not run a company, there are ways for them to influence the board of directors and management. This can range from dialogue with management to express their concerns about a particular issue to formal **shareholder proposals** that are voted on by all shareholders at a company's AGM.

What is a shareholder activist and what can happen at an AGM?

A **shareholder activist** is a person who attempts to use his or her rights as a shareholder of a publicly-traded corporation to bring about change in the company. It is their belief as an investor that the company's management is doing a poor job and the activist attempts to gain control of the company and replace the management. The activists' motive might be for the good of the shareholders or to increase the share price netting personal gains.

Sometimes issues addressed by shareholder activists are related to either the environment, investments in politically sensitive parts of the world or to workers' rights (sweatshops).

From an investor relations (IR) perspective, it is very important to always know who the key shareholders are and how many shares they own of an issuer's stock. On a quarterly basis, update this analysis and monitor how the holders are changing. Calculate the percent retail to institutional split. Retail shareholders tend to vote with management in a proxy battle. Ownership clues that are publicly available are if the company is listed on a US exchange, then any shareholder owning over 5% of an issuer has to file a 13-D. In Canada, holders owning over 10% of the outstanding shares have to complete an Early Warning Report and file it on SEDAR and also make a SEDI filing. Again, these are viewable by the public. In addition, the IR officer can have conversations with the sell-side, the buy-side or engaged shareholders to obtain insight into who is buying the company's shares.

All TSX issuers have access to TSXconnect[®], which is produced in conjunction with Thomson Reuters. TSXconnect[®] in addition to institutional ownership data also provides:

- Streaming quotes and index information
- Trades and quotes
- Broker summaries
- Price history
- Short interest reports
- News
- Corporate actions
- Analyst mean earnings estimates

As an issuer, **you could be a target** of activist shareholders if you:

- Have too much cash on your balance sheet that is underleveraged
- Continue to miss your quarterly earnings
- Pay too much attention to a business division or an acquisition
- Have a business strategy that is not well understood or well communicated to the investment community
- Have a board or senior management team who is not engaged in driving the business forward
- Are underperforming relative to peers

As an issuer, other clues that you could have an activist in your shares are when the IR contact or “C-suite” executives and/or the Board chair/other Board members begin to receive phone calls or a letter with detailed questions regarding:

- The company’s strategy, earnings growth structure, capex etc.
- Questions about your shareholder rights plans (poison pills), board renewal, profitability potential etc.
- Your share trading volumes seems to be higher than usual

IR and the CEO have to develop a strategy as to when they want to meet with the activist and what the responses would be to their concerns. The activist might want to add new board members that they endorse over management’s choices. Companies that have been targeted by activist shareholders must be careful to also maintain open lines of communication with all other investors as well.

So if activists call you up, consider the following tips:

Assemble a response team, consider defence options:

- Assess the activist’s credibility
- Evaluate the activist and your company’s shareholder base, including proportion of retail and institutional investors. Investigate the fund’s backers and histories; the fund’s past tactics; the fund’s weaknesses
- Analyse the shareholder proposals. Meet the activist’s representatives. Respond: adopt proposals, refute them or compromise with the activist by offering them a Board seat(s)
- Formulate a public relations campaign if needed
- Communicate by facilitating meetings with senior management

The activist could respond with a **dissident circular** before the AGM, so they can propose their own slate of directors on the Board (as was in the recent case of Biovail Corporation – June 2008).