

The Deal

Activist Spotlight: Insurgent Rankings for 2021

The Deal explores the successes and failures of the biggest names in the activist game in 2021.

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Last year was another busy one for activist investors launching campaigns pushing for M&A and operational improvements, and a few big campaigns for the first time featured environmental and social topics.

Globally, insurgents instigated 525 high-impact campaigns in 2021, down from 614 in 2020 and 662 in 2019, according to FactSet Research Systems Inc. There were 631, 611, and 544 high-impact campaigns in 2018, 2017 and 2016, respectively. FactSet defines high-impact campaigns as those with a market-moving agenda, such as M&A or director seats, among other outcomes.

Proxy fights, including battles targeting mergers, were also down globally, with 184 in 2021, down from 262 and 264 in 2020 and 2019, respectively.

In 2021, activists and management won 43 contests each, while 36 contests were settled and 46 other director fights were withdrawn. Activists sought 198 board seats, and they received 79, 43 of which were gained via a proxy fight.

Even if campaign numbers were down, activists had their best year in a while, returning about 19% as a group in 2021, up from 10.3% in 2020 and about 17% in 2019, according to HFR Inc. Many of the high-profile activists featured below posted extremely strong, and at times record breaking, performances.

With that in mind, The Deal looks back on 2021 and examines the winners and losers (and those also-rans) among major activist fund managers.

Engine No. 1 LP, Christopher James

Wins: Exxon Mobil Corp. (XOM)

Undecided: General Motors Co. (GM)

Engine No. 1 scored three seats on the board of energy giant Exxon Mobil Corp. (XOM) in the largest proxy contest to go the distance in 2021 and definitely the biggest activism success story of the year. The upstart activist owned only 0.02% of Exxon but was able to elect two renewable resource experts and an energy expert onto the oil major's board in a blockbuster ESG campaign focused on cuts to oil investment coupled with new clean energy allocations into wind and solar. The effort appears to be paying some environmental dividends: on Jan. 18, Exxon said it set a goal to reduce or offset greenhouse-gas emissions from operations to net zero by 2050 (though its effort doesn't include carbon emissions released from use of its products, such as gasoline or natural gas). In October, the fund issued a validation capital-type white paper suggesting that GM is a "potential leader" in a transition to electric vehicles. Even so, The Deal wonders whether Engine No. 1's founder, Chris James, will be as successful with oil major director contests this year considering that the fund's head of engagement — and proxy contest expert — Charlie Penner left in November.

Jana Partners LLC, Barry Rosenstein

Wins: Cornerstone OnDemand Inc., Vonage Holdings Corp. (VG), CyrusOne Inc. (CONE), Perspecta Inc., W.R. Grace & Co., Encompass Health Corp. (EHC)

Undecided: Macy's Inc. (M), Zendesk Inc. (ZEN), Mercury Systems Inc. (MRCY), TreeHouse Foods Inc. (THS)

The Barry Rosenstein-led fund owned shares in not one or two but five corporations (Cornerstone OnDemand, Vonage, CyrusOne, Perspecta, W.R. Grace) that struck sale agreements in 2021. Its JSI Benchmark A portfolio returned 30% after fees in 2021, and its Jana Strategic Investment Fund returned 26% after fees. In addition, target Encompass Health is breaking up, though Jana Partners would like to see the rehabilitation hospital company sell its home health and hospice unit instead of splitting it off. Expect more activism at 2021 targets this year: Jana struck nomination agreements with candidates in M&A pressure campaigns at both TreeHouse Foods, which is undergoing a strategic review, and

Mercury Systems. The later recently installed a low 7.5% threshold poison pill in response to its agitations. Rosenstein et al. are seeking to block Zendesk's merger with Momentive Global Inc. (MNTV), and that effort received a major boost when large asset manager Janus Henderson Investors US LLC came out against the transaction. Jana also wants Macy's to consider a split of its e-commerce and brick-and-mortar operations, and the retailer recently said it may consider such a move.

Engaged Capital LLC, Glenn Welling

Wins: Rent-A-Center Inc. (RCII), Evolent Health Inc. (EVH), New Relic Inc. (NEWR)

Undecided: Quotient Technology Inc. (QUOT), Hain Celestial Group Inc. (HAIN)

Engaged Capital, with \$1 billion in assets, had another strong year, as The Deal learned it produced 22.4% returns in 2021, down from 50.5% and 34.1% in 2020 and 2019, respectively. Remember Engaged's Rent-A-Center campaign? The rent-to-own retailer sneaked out of a \$17 a share deal in 2018 to be sold to a private equity firm and now trades around \$45. Engaged Capital's director of research, Christopher Hetrick, is still on the board, and another director installed by the fund, Jeffrey Brown, is chairman. Roughly one year ago, Evolent shook up its board and formed a strategy committee in a deal with Welling. Its shares jumped 72% in 2021, partly over a report suggesting that Walgreens Boots Alliance Inc. (WBA) wants to acquire it. Most recently, Welling raised concerns that target Quotient Technology was seeking to sell a 19.9% stake as a defensive tactic, though CEO Steven Boal responded that the company is not and has not (and will not) be in discussions to sell a big minority stake. In November, Engaged Capital sold a large part of its Hain Celestial stake for a profit in a one-time offering that emerged as the activist fund wound down five co-investments. New Relic isn't sold but its shares rose substantially — up 68% in 2021 — after Engaged struck a deal in June to add an investor as a director.

Blackwells Capital LLC, Jason Aintabi

Wins: Monmouth Real Estate Investment Corp. (MNR), CyrusOne, CoreSite Realty Corp., DigitalBridge Group Inc. (DBRG), Prologis Inc. (PLD)

Undecided: LXP Industrial Trust (LXP)

The Jason Aintabi-led newcomer fund returned a blockbuster 99.7% in 2021, though its assets under management aren't disclosed. In 2021, the insurgent fund focused on one lengthy, at times frustrating, but ultimately successful, campaign at industrial REIT Monmouth. After Blackwells made an \$18 a share bid to buy the REIT, in January 2021 Monmouth launched a review, setting off a months-long campaign. Monmouth initially agreed to be sold for \$1.87 billion in cash and stock to Sam Zell's Equity Commonwealth (EQC). Blackwells opposed the deal and launched a director contest that was never consummated since Zell's deal was ultimately squashed by shareholders. Monmouth later agreed to a \$2.1 billion sale to Industrial Logistics Properties Trust (ILPT), a big win for Aintabi and his fund's 4.3% stake.

Blackwells doesn't accept outside capital, and it acquired stakes in other digital and industrial infrastructure companies in 2021 that helped drive performance. The fund owned positions in both CyrusOne and CoreSite, which struck \$15.1 billion and \$10.1 billion sale agreements, respectively. It also held stakes in Jonathan Litt-targeted Lexington Realty Trust (now LXP Industrial Trust), Prologis and

DigitalBridge, the former Colony Capital, which continues its digital makeover under CEO Marc Ganzi. (Blackwells in 2020 settled a multi-year activist campaign at Colony to add a director after its then CEO, Tom Barrack, moved up his departure date.)

Elliott Management Corp., Paul Singer

Wins: Twitter Inc. (TWTR), Switch Inc. (SWCH), Public Storage (PSA), Cubic Corp.

Undecided: Alkermes plc (ALKS), Valaris Ltd. (VAL), SSE plc, Toshiba Corp., Healthcare Trust of America Inc. (HTA), GlaxoSmithKline plc (GSK), Canadian National Railway Co. (CNI), Willis Towers Watson plc (WLTW), Dropbox Inc. (DBX), Evergy Inc. (EVRG), Citrix Systems Inc. (CTXS)

Mixed: Duke Energy Inc. (DUK)

The 800-pound gorilla of activism had another productive year in 2021, launching 17 campaigns globally. Twitter founder Jack Dorsey stepped down from his director and CEO role at the social media giant, a move that followed a 2020 Elliott campaign raising concerns about his dual roles as CEO of both Twitter and Block Inc. (SQ) (then known as Square). Also in the wins column: data center operator Switch is converting to a REIT after it agreed to add an Elliott portfolio manager to its board. Public Storage's share price is up 60% over the past 12 months, after settling with Elliott in January 2021. Singer's fund won a bidding war with its partner Veritas Capital Fund Management LLC to buy defense and transport company Cubic even though it offered less than a Singapore-based rival. In December, reports said Elliott and a frequent PE partner were considering a bid to buy a previous target, Citrix Systems.

A number of corporations sit in the undecided column, including U.K. energy company SSE. Elliott wants the electric networking business to split off its large renewables unit. The fund reportedly has a stake of less than 5% in iconic Japanese conglomerate Toshiba, which plans to break in three even as activist investors want it to consider a buyout instead. Meanwhile, Elliott-targeted Healthcare Trust is evaluating a possible sale, following an investigation into the company's recently resigned CEO over "personal use of company aircraft." Elliott wants new directors appointed to pharmaceutical giant and Dove soap maker GSK, which recently rejected three bids from Unilever plc (UL) for its consumer healthcare unit. Singer's fund built a large stake in CN and likely supports Chris Hohn's director contest targeting the railroad's failed Kansas City Southern bid. And Willis Towers Watson added four directors following talks with Elliott. In November, Duke Energy settled with Elliott in a deal that doesn't appear to help the activist fund's efforts to break the company into three parts.

Starboard Value LP, Jeff Smith

Wins: Corteva Inc. (CTVA)

Undecided: Huntsman Corp. (HUN), Mercury Systems, GoDaddy Inc. (GDDY), Colfax Corp. (CFX), Elanco Animal Health Inc. (ELAN), ACI Worldwide Inc. (ACIW), eHealth Inc. (EHTH)

Losses: Box Inc. (BOX)

Starboard, which did not disclose its 2021 returns, in September lost its first director election contest to go the distance since its 2012 director battle at AOL Inc. The battle, one of the largest of the year, took place at cloud content company Box, which defeated Starboard, partly by posting better returns. To its

credit, Starboard succeeded at getting directors elected to the board in a 2020 settlement, and that deal appeared to hurt its chances in 2021. The fight partly focused on Box's move to obtain a large friendly minority infusion from KKR & Co. (KKR), which Smith and others described as a strategy to "buy the vote."

In March, however, Starboard scored a big win, installing three activist-backed candidates and another director on the now 13-person board at Corteva, spun off from DowDuPont Inc., as part of a campaign to replace CEO Jim Collins. In June, the agriculture company said Collins was retiring, and in October it named Chuck Magro as CEO. The company produced total returns of about 10% over the past 12 months.

Starboard was the second activist to settle with eHealth in 2021, and the health insurance exchange operator subsequently named a former CVS Health Corp. (CVS) executive as its new CEO. The fund settled with ACI Worldwide in February, though despite its M&A efforts, the payments systems company remains independent. In fact, there wasn't much in the way of M&A at Starboard-targeted companies in 2021, beyond Starboard Value Acquisition Corp.'s SPAC acquisition of data center company Cyxtera Technologies Inc. (CYXT).

Several campaigns sit squarely in the undecided category. In September, the fund targeted Huntsman, and in January it nominated a slate of director candidates in a campaign focused on operating performance, capital allocation and, maybe, M&A. In December, it revealed a 6.5% stake in domain name company GoDaddy as part of a possible breakup insurgency. And in November, the fund began accumulating shares in Mercury Systems and later criticized the defense technology company's 7.5% poison pill.

Third Point LLC, Dan Loeb

Wins: Prudential plc (PUK)

Undecided: Royal Dutch Shell plc (RDSA)

Mixed: Intel Corp. (INTC), Walt Disney Co. (DIS)

Probably the most widely covered activism campaign involving Third Point in 2021 did not involve one of its targets, but rather the fund's own publicly traded entity, Third Point Investors Ltd. In December a group of activists led by Asset Value Investors' Tom Treanor, lost their effort to oust incumbent director Joshua Targoff, though another director, TPIL chair Steve Bates, later stepped down.

Despite the squabble, overall the fund had a relatively strong year — its Third Point Offshore Fund Ltd. produced a 22.9% return for 2021, and its Third Point Ultra Ltd. posted a 27.2% return.

In the wins category, Loeb-targeted Prudential in September, which said it expected to raise \$2.4 billion from an equity raise in Hong Kong, a move that emerged after it in September completed a spinoff of its U.S. business, Jackson National Life Insurance Co.

Third Point's biggest recent campaign is squarely in the undecided category: The activist investor in November launched an ESG effort to convince Shell to break in two, or maybe four, parts, arguing that

its current strategy tries to appeal to too many types of investors but satisfies no one. So far, Shell is still intact.

Also under pressure from Loeb, Intel CEO Bob Swan resigned in January 2021, one day before the director nomination deadline for 2021. The activist supported replacement CEO Pat Gelsinger, and in December, Intel announced it will take its Mobileye self-driving car technology company public. Even so, Intel's total returns are -5% for the past 12 months.

Pershing Square Capital Management LP, Bill Ackman

The Deal can't leave out Bill Ackman, who until recently could be counted on to run some of the most high-profile activist campaigns of the year. In May, Bill Ackman told a Wall Street Journal event that the likelihood of Pershing Square ever running another proxy contest "is extremely low." That played out in 2021, as Ackman didn't launch any director contests, focusing instead on his special purpose acquisition company, which continues to face legal pressures.

Overall, Pershing Square produced a 26.9% return in 2021, a much better overall return than it produced in certain years featuring high-profile contests. Even so, some previous activist settlements appear to be still paying dividends for Ackman. For example, the billionaire investor installed directors on Chipotle Mexican Grill Inc.'s (CMG) board in 2016, and the fast-casual dining company's traded recently at more than \$1,462 a share, significantly above his \$404 cost basis.

The last major director fight for Ackman? A director election loss at Automatic Data Processing Inc. (ADP) in 2017.