



Activism Monthly

...your monthly digest of activist investment

Feature: Activism could be good for your health

The last few years have seen some big policy fights over healthcare in the US, but the latest Activist Insight data suggests that firms in the sector are more than curable. Shareholder activists have seen higher rates of return in healthcare than in any other sector in the first half of 2013.

The average annualized rise in share price (between January 2 and August 5, 2013 - or between the date of disclosure and exit, if sooner) of all activist investments in the healthcare sector was 72%, beating the S&P and its closest rival, the technology sector, by 42 and 10 percentage points respectively over the same period (Figure 1). Discovery Group and BVF Partners led the way this year, with 198% and 118% average annualized returns (excluding dividends) from healthcare investments respectively.

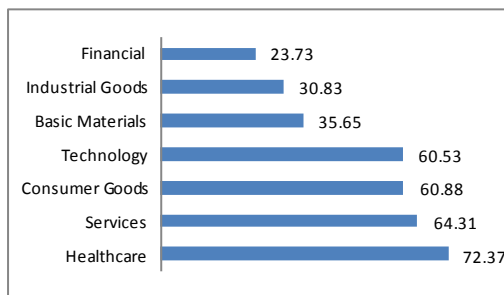


Fig 1. Activist stocks by sector, annualized average return (%)

Florian Schönharting, CIO of Danish activist firm, NB Capital, explains that activists target healthcare companies because R&D occupies such a large chunk of expenditure and profit margins are so wide, increasing the likelihood of wastefulness. The short answer, Schönharting says, "is that the biotech sector has 1,800 companies and corporate governance is at a historical low-point." NB says its average annualized return on investment was 36% (net of costs) as of June 2013.

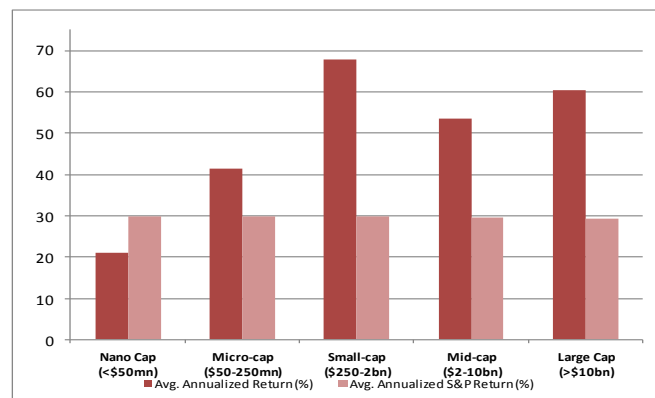


Fig 2. Activist healthcare stocks by market-cap (%)

NB Capital has adopted several strategies over the years, fighting a proxy contest at QLT and defending Facet Biotech Corp from a hostile takeover. In the end, the latter saw Abbott Laboratories sweep in to trump Biogen's offer of \$17.50 per share in a \$27.00 per share deal.

This year, activists who pushed for healthcare companies to be sold outperformed the S&P 500 by an annualized average of 27 percentage points. Mid-cap healthcare firms were the most successful, followed closely by small-cap (Figure 2).

Proxy battles in the healthcare sector have been very much in the news in recent weeks, with the boards of Vivus and Health Management Associates targeted for underperforming. Investors believe that there is little risk with established companies because the demand for healthcare never goes away. New drugs also offer long-term profit streams; "you don't survive by being an optimist", says Schönharting, "but there are some really exciting things happening."

Product Update: Follower Returns

Activist Insight is delighted to announce its latest major product update: **Follower Returns:**

- **Track the changes in share price** of over 1000 activist-held, US-listed stocks from initial disclosure.
- **Identify the best performing activist investors** (on US-listed stock appreciation since disclosure) across a number of criteria, including activist strategy, company size, industry and much more.
- **Discover the best performing investments** by activist strategy, company size, industry and much more.
- **Analyze the subsequent performance of activist-held stocks** after the activist has exited its position.
- **Easily compare activist performance** with that of the S&P 500 index.
- **Set up filing alerts** to track and trade on activism as soon as it is disclosed.

For a free online demonstration of this exciting new functionality, please contact us at info@activistinsight.com, or register your details at www.activistinsight.com to arrange a free product trial.

News in brief: our monthly round-up

New Investments in July:

Activist	Company	Stake
Marcato Capital Management	Sobethby's	6.61%
Starboard Value Capital	Emulex Corp	6.9%
Engaged Capital	AeroVironment	5.1%
Crescendo Partners	SAExploration Holdings	25.2%
Blue Harbour Group	Progressive Waste Solutions	5.6%

In the News:

The AIM-listed oil exploration company, Gulf Keystone Petroleum Inc, conceded defeat to an activist investor ahead of its annual meeting. M&G Recovery Fund had been seeking four seats on the company's board after a row over executive compensation escalated.

All four M&G nominees received the company's backing, while two directors stepped down in order to limit the size of the board to twelve directors. A Gulf Keystone statement described the agreement as restoring a sense of purpose.

Another UK investor, Harwood Capital LLP, sold shares in Mecom Group plc after the company ruled out dividends but has increased its stake in Goals Soccer Centres plc.

Bill Ackman's biggest ever investment is already working well for him. According to the 13D filed by Pershing Square Capital Management LP, Ackman's 20.54 million shares in Air Products and Chemicals Inc cost \$1.96 billion. On the closing price a day after the disclosure of \$108.64, the shares were worth \$2.23 billion, making for a profit of \$272 million. The company has a 10% poison pill, giving Ackman little room to maneuver - he now owns 9.8% of Air Products.

Elsewhere in Ackman's portfolio, the short-squeeze on Herbalife became tighter on the news that George Soros was buying the company's shares. Herbalife's value has risen 99% for the year. JC Penney fell 10% when a commercial lender stopped financing deliveries from smaller manufacturers.

Campaign to watch...

Smoothwater Capital - Genesis Land Development

Smoothwater Capital Corporation, the Canadian fund of Garfield Mitchell and Stephen Griggs is gearing up for its first proxy contest, having acquired a 22% stake in Genesis Land Development Corporation. Talks began in February 2013 but when they broke down Smoothwater went ahead and nominated a full rival slate of seven nominees just a few days before the August 2 deadline for giving notice.

Genesis argues that Smoothwater's performance comparisons are not fair, stating "In criticizing Genesis' share price performance, Smoothwater cites an opportunistic timeline, beginning three years ago. Genesis' share price since the reconstitution of the Board on July 12, 2012 to July 26, 2013, has risen by 15%".

After Genesis described a proxy contest as potentially "costly, distracting and unnecessary", Smoothwater wrote to shareholders criticizing the "highly politicized board, focused as much on partisan interests and balance of power issues as on the business of Genesis." Smoothwater, founded earlier this year, is asking Genesis to promote the company's CEO to its board, a practice it describes as "customary and appropriate" for Canada. It has been critical of the lack of alignment between board members and shareholders, noting that two directors have collective investments of less than 0.36% of the company's stock.

The company issued a statement calling the dissident shareholder's pretext for waging the campaign "misguided and disingenuous". A letter to shareholders was highly critical of Smoothwater's nominees, arguing that three of the nominees are intimately connected with the investment company. Furthermore, the company accuses Smoothwater of initiating the proxy contest in order to gain a majority on the company's board and says that a key demand for the Genesis CEO to be appointed to the board came too late in negotiations to be taken seriously. A campaign website, 'www.DefendGenesis.com', has been started, while the activist has also launched a website in advance of the proxy campaign, www.RebuildGenesis.com. The deadline for voting is August 28 2013.

At the time of writing, Genesis was planning to sue Smoothwater and its allies, alleging that the investors had acted in concert to acquire shares with the intention of launching a bid for control of the board.

Canada's regulatory system grants activists several distinct advantages over American firms. A reporting threshold of 10% allows activists to build larger stakes before confronting management, while being able to solicit up to 15 shareholders before filing a circular allows activists to test the waters or rally support more comprehensively. As a result, US activists such as JANA Partners and Legg Mason are now getting busier across the border.

13D Digest July

Activist 13D's	6	↑
Activist 13D/A's	51	↓
New Activist Funding	\$239,021,942	↑

Activist Insight...

Activist Insight aims to provide the most comprehensive global information source on activist investment including news, profiles of activist firms, performance benchmarks and more.



Activist Insight

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