THE ACTIVISTS ARE COMING– WHY 2016 WILL BE THE YEAR OF THE ACTIVIST IN THE UK MARKETPLACE

Teneo

UK COMPANIES WILL BE NEXT IN ACTIVIST CROSSHAIRS

PREPARE NOW – UK COMPANIES IN ACTIVIST CROSSHAIRS

The Facts

- There have been 18 UK companies subject to activist campaigns in 2015. Teneo believes that this number could rise dramatically by the end of 2016.
- Through our proprietary modeling and analysis, we believe that there are 74 companies in the FTSE 100 & FTSE 250 that show the same financial and performance attributes as US companies which have already come under activist attack, including 15 with market capitalizations north of £10 billion.
- In particular, sectors most vulnerable according to our analysis include Consumer Discretionary, Financials, and Industrials.
- Activist funds, particularly those in the US, are overflowing with capital to invest (£479 billion AUM[1]).
- A recent survey of activist funds has shown that more than half are currently considering investments in UK companies[1].
- As easy targets in the US become harder to find, the UK is beginning to look like the next frontier.
- UK regulations around shareholder engagement make it easier for activists to gain support for their campaigns compared to the rules in the US.
- As we have already seen in a few cases, activist campaigns in the UK will be made particularly public and have the potential to inflict serious reputational damage to the company and its leaders.
- UK companies should begin to prepare for this new wave of activism.

1 Source: Activist Insight

Hedge funds, armed with approaches and models developed in the US, are moving to other geographies in search of new targets. Activism in the UK is poised for growth due to the confluence of crisis, regulation, best practices, media attention, investment patterns, and global governance views. Factors are changing that create an environment for US activists with the money and the motivation to enter the UK market.

Specifically, a predictive model developed by Teneo using past activist attack data in the United States, showed that 21% of the combined FTSE 100 and FTSE 250 companies are vulnerable to activism because they show very similar attributes to previously attacked US companies. These vulnerable UK companies need to prepare because activist funds are filled with cash and are running out of easy targets in the US. As economic conditions in the UK improve, so will activist activity based on our analysis. And activists with the money and motivation are targeting ever larger companies as recently seen with Samsung in South Korea, and Apple and GE in the US.

The UK Shareholder Experience

Historically, there have been few proxy fights in the UK between shareholders aligned with corporate management and those seeking change. From 2012-2014, for example, only 18 proxy fights took place at companies with main listings in the UK. While those numbers are low compared to the US, a market that can see 30 proxy fights in a single year, the numbers do not tell the full story. Differing market environments have influenced the ability and the need to utilize aggressive or hostile tactics when owners interact with their companies.

The US and UK markets historically share the same Anglo-Saxon governance structure, with investors, boards of directors, and CEOs having their respective roles – to elect directors, appoint the CEO, and run the operations. Both markets have high concentrations of institutional ownership, in contrast to family dynasties or state control seen in other regions, Asia in particular. But the two countries have market approaches that differ greatly.

The development of strong institutional investor trade groups in the UK was earlier and more profound than in the US. In the UK, organizations like the ABI and the NAPF helped shape policies and perspectives. US institutional investors did not play a large role in shaping corporate governance. The largest role was played by the Delaware courts, where most US companies are domiciled.

The UK regulatory framework includes a strong set of shareholder rights, under the Companies Act of 2006, such as the ability to requisition a meeting with a 5% shareholding requirement, the ability to requisition a resolution at an AGM with a 5% shareholding, and the right to remove a director by ordinary resolution with 50% +1 vote. These are rights that either don't exist in the US or exist at higher ownership thresholds at most companies.

For many reasons, the UK was better able to harness the sentiment of diverse shareholders into coordinated action. The comply or explain model in the UK mandates explanation when compliance is lacking, and in order to explain, boards must necessarily understand and be sensitive to the interests of the investors. Whether by regulation, culture, or geographical concentration, the communication between institutional investors and companies was less contentious in the UK than in the US. While the US market favors a great deal of transparency, the environment in the UK allowed for much of the engagement to take place behind closed doors. Media in the US market has also played a key role - obtaining, disseminating, and controlling the information in a more overt manner than a decade ago.

Current Trends

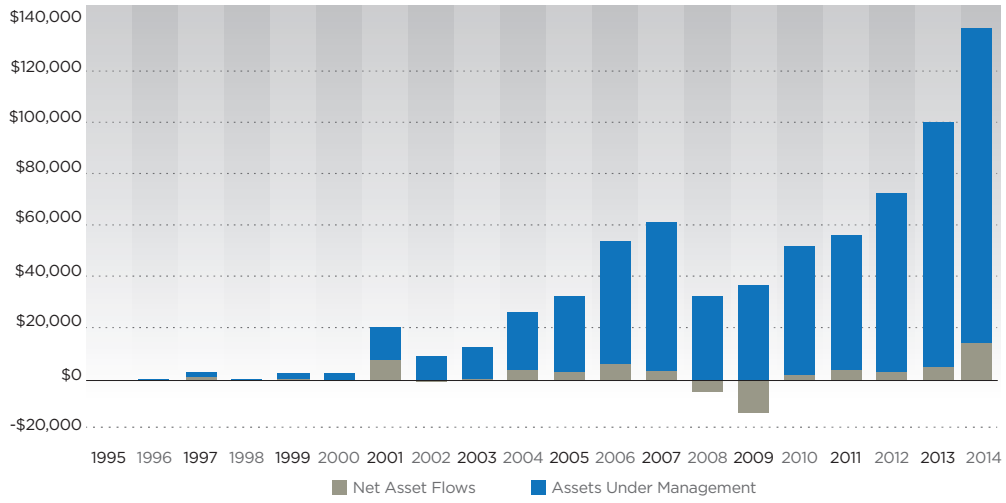
How Much are We Talking?

The amount of money flowing into activism is growing dramatically, but there is wide disparity about the extent of the capital amount that could be put to work in activist campaigns. Assets under management (AUM) of funds that are primarily dedicated to activism (such as ValueAct and Icahn) total approximately £113 billion[2]. However, when including the funds that are partially focused on activism but are still very substantial players (like Elliott Management, Greenlight Capital, and JANA Partners) that number grows to about £439 billion. In fact, at the end of 2014, the total of all activist positions was £172 billion.

What Causes a Wave?

Activism, despite often being touted as a value investment strategy, is really a subset of the wider event-driven hedge fund strategy. However, instead of attempting to *predict* events and buying or shorting accordingly, activist strategies are predicated on their ability to *drive* events that result in share appreciation, including M&A, spin-offs, and capital redeployment. In order to drive such events, the right environment must exist. For example, in 2000, hedge funds engaging in activism were managing only $2.7 billion in assets worldwide but following the dotcom crash and subsequent scandals at companies like Enron, Tyco and WorldCom, an abundance of companies were trading at prices well below peak levels.

Activist Hedge Funds: Assets Under Management and Net Asset Flows ($ in MM)



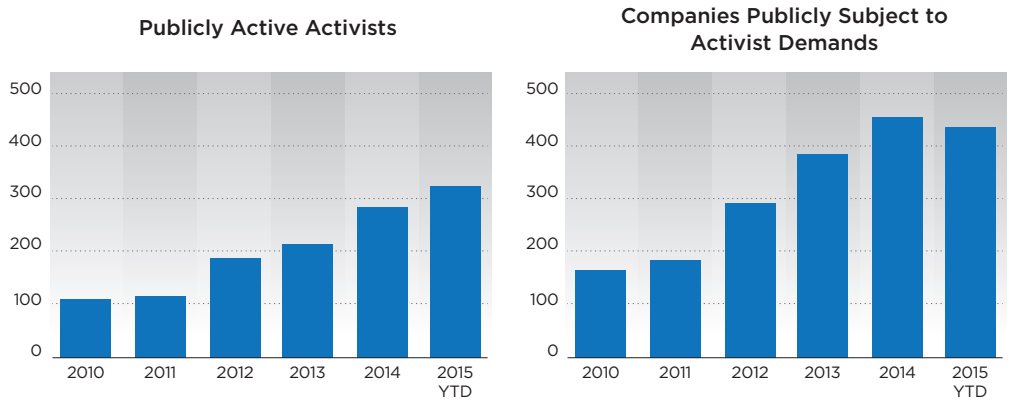
Source: Hedge Fund Research (HFR)

Even as prices rebounded, activists were increasingly able to identify undervalued companies. As corporate earnings grew, cautious executives accumulated cash rather than investing it back in their businesses or returning it to shareholders. Meanwhile, interest rates remained low into the mid 2000's making debt very cheap. The combination of high cash balances and cheap debt created an opening for activists to push for cash payouts and/or M&A.

2 Source: Activist Insight

The corporate scandals also brought attention to corporate governance and management accountability, which gave rise to government legislation in the form of Sarbanes-Oxley and the UK Corporate Governance Code. This marked the beginning of the period when the interests of activists, particularly on governance-related matters, increasingly aligned with the interests of institutional shareholders. Additionally, influential proxy services in the US such as Institutional Shareholder Services (ISS) began to show growing support for activist proposals. The combination of conservative capital management by executives, favourable debt markets and heightened focus on corporate governance resulted in a spike in activist AUM to over $60 billion by 2007 as activist returns outpaced other hedge fund strategies and market indices.

Then the financial crisis hit. This time, activist funds outpaced their hedge fund brethren in a different category: losses and liquidations. Investors withdrew more from activist funds during 2008 and 2009 than they had invested during the previous four years[3]. Activist fund investments fared worse than other funds for several reasons but mainly because: 1) activists take large bets in a few companies and therefore lack diversification, 2) during this period, activists primarily invested in small and mid-cap companies, and 3) their returns depended heavily on events like share repurchases, asset sales or spin-offs that relied on cooperation from the capital markets. Additionally, during this period when all companies had fallen victim to the macro-economy and had questionable growth prospects, it was difficult for an activist to make a case to shareholders that its ideas were better than those of current management.

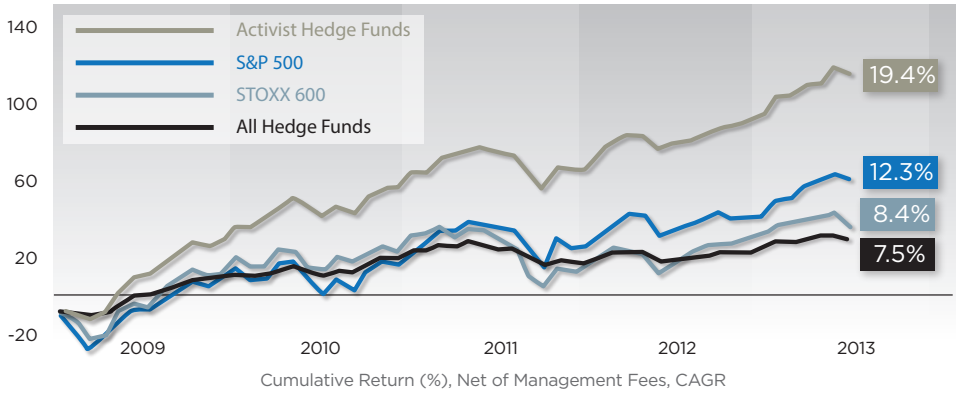


Source: Activist Insight

The recovery following 2009, however, resulted in a resurgence in activist investment far exceeding the previous boom and activist returns far exceeding the market and other hedge fund strategies.

3 Source: Hedge Fund Research, Inc. (HFR)

Cumulative Returns to Activist Hedge Funds and Other Indices (2009-2013)



Source: Simmons & Simmons, Citi (Khorana et al, 2014)

The same attributes that led to opportunities in 2001 resurfaced again but at a heightened level – disproportionate levels of cash, low leverage and reduced shareholder payouts, severe lowering of interest rates, reopening of the M&A markets, etc. And like the first time, the crisis resulted in a renewed wave of corporate governance agendas and the introduction of legislative and policy changes that encouraged shareholder engagement, including "Say on Pay" in the US and the UK Stewardship Code.

The New Face of Activism

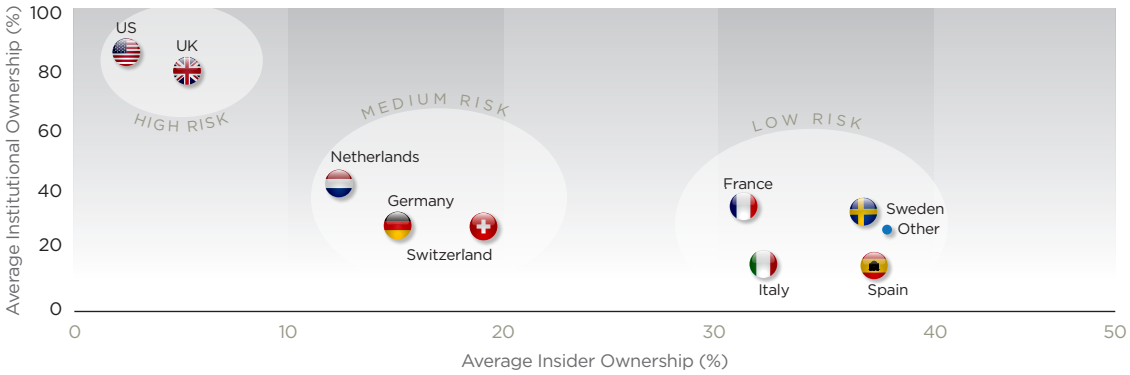
This institutional credibility, together with the post crisis factors mentioned earlier (high cash balances, cheap debt, M&A appetite, governance gaps, etc.), has led to an extremely high success rate for activists. 70% of activist demands have at least partially been satisfied in 2015, up from 64% in 2014[4]. A total of 461 companies worldwide were subjected to activist demands in 2014, up 21% from the prior year. This year is progressing at an even higher run rate with 436 companies dealing with activist campaigns. Not captured is the claim by many activist investors that less than half of activist campaigns ever become public knowledge. Using regulatory filings, Activist Insight recorded 708 investments during 2014 by activist firms, which lends support to this claim.

One of the main differences in this second wave of activism, which continues today, is the public image of activists. For the most part, activists have rebranded themselves as 'constructivists' and 'protectors of shareholder value' rather than 'corporate raiders', even though their primary focus, i.e. instigating events that increase share price, has not changed significantly from before the crisis. Elliott Management in its most recent push at Alliance Trust was described as having gone "softly, softly", even though it resulted in the removal of the CEO. Despite their outsized returns relative to the market, it is also debatable as to whether activist involvement results in sustainable long term improvement in company performance and shareholder value. Global targeted stocks outperformed market benchmarks by an average of 15.1% in the year following the campaign and 33.8% over the two years following the campaign[5]. However, 52% of the targets actually underperformed market benchmarks which shows that the large average excess return is driven by a relative minority of attacks that resulted in outsized gains.

4 Source: Activist Insight
5 Citigroup Global Markets, Inc. Rising Tide of Global Shareholder Activism, Oct. 2013.

Regardless, the perception of alignment with long term shareholders has allowed activists to develop symbiotic relationships with many of the largest institutional investors, and have sometimes been requested by these investors to invest in a company to push for change (investors in Vodafone urged Knight Vinke to engage with management). Therefore, companies with a high percentage of institutional ownership are more prone to activism. This explains why companies in countries that typically have higher institutional holdings and lower insider holdings, namely the US and the UK, show a higher incidence of activism than other countries.

Insider and Institutional Ownership of S&P500 and STOXX Europe 600 Firms, By Country

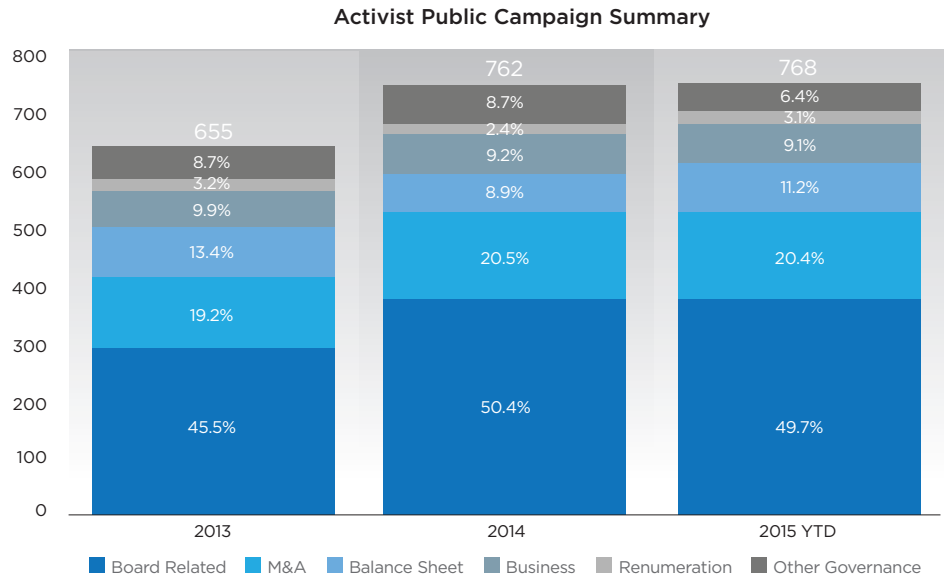


Source: Citigroup Global Markets, FactSet. All data as of September 15, 2013 and includes all share classes.

In contrast to only a few years ago, companies now must critically analyze their large shareholder base and not assume that certain holders are "management friendly."

In a current example in the UK, traditionally low profile large institutions are taking a more visible and vocal role in one of their investments. The UK retailer, Debenhams, has been publicly confronted by a group of investors demanding the replacement of both the CEO and Chairman. Even more unusually, the shareholders backing these proposals are being coordinated in their demands by the UK broker Cenkos Securities, who is going so far as to interview prospective candidates to replace management. The investors involved include Schroders and their South African peer, Old Mutual, both usually known for their long-term, management friendly and confidential approach. Last week, CEO, Michael Sharp, announced his intention to step down.

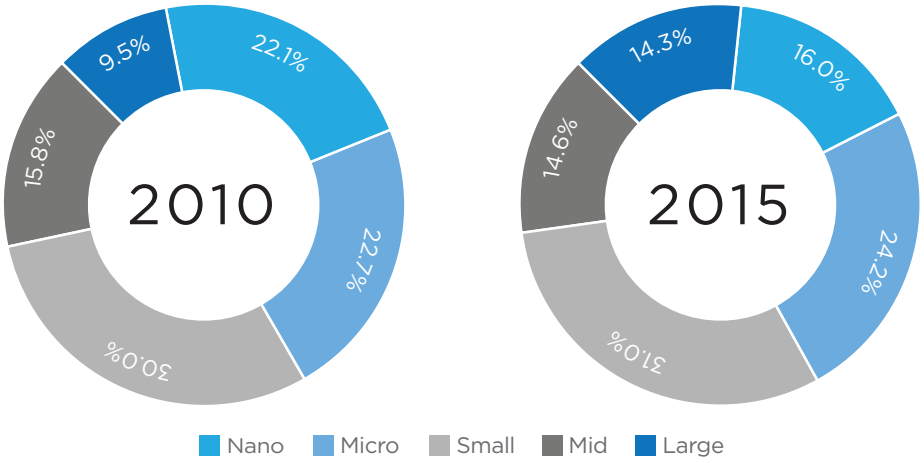
The following graph shows a breakdown of the type of demands activists have made over the past several years. Gaining board representation is clearly the most common demand but it is important to note that the activist's agenda is usually to gain a board seat in order to have a platform to push for one or more of the other demands, including asset sales, share repurchases or changes in business strategy. Given the high success rate, many companies in the US are preempting activists by buying back shares and increasing dividends, which may explain the decline in balance sheet activism from 2013 to 2015. The increase in the percentage of M&A-related campaigns over the same period reflects the improving M&A environment in the US (historically low interest rates and high valuations).



Source: Activist Insight

Big Tickets

As activism becomes more mainstream and AUM continues to grow, activist funds are under pressure to find ways to put the cash to work. As a result, large cap firms are increasingly being targeted and it is no longer unusual for a single investment by an activist to exceed $1 billion. As seen below, large cap companies (over £10 billion) have represented 14.3% of all attacks in 2015, compared to 9.5% in 2010.



Source: Activist Insight

It is also important to note that activists no longer need to purchase 5% ownership stakes to have influence. Recent examples such as Apple and Microsoft show that stakes of 1% or less are sometimes sufficient to achieve success. This is particularly the case when the activist has developed a strong reputation in the media and a track record for achieving returns.

Fewer Easy Targets

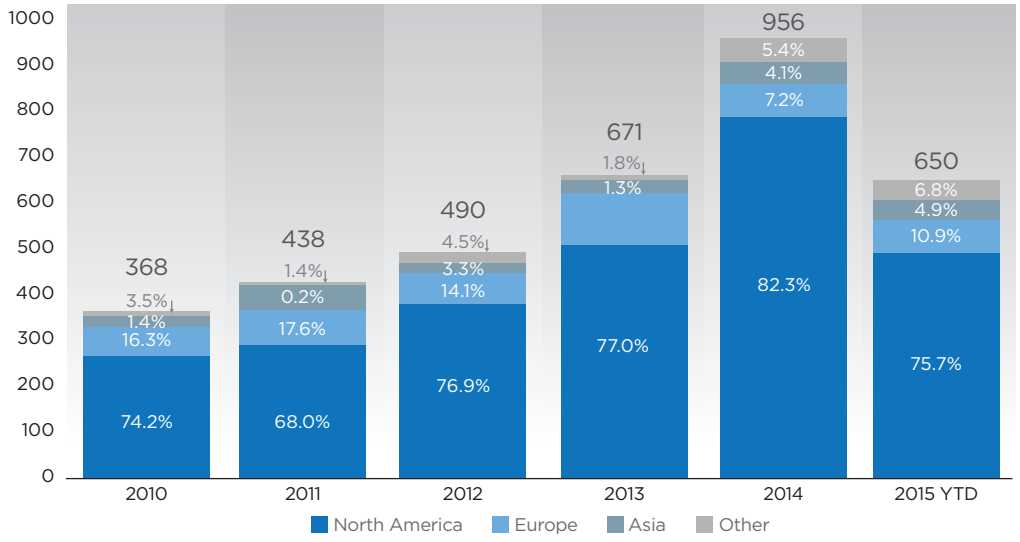
One thing is clear though: as activism evolves into an 'asset class' and money continues to flow into the funds from more traditional investors, activists are under increased pressure to find worthy targets that will generate outsized returns. In the US, companies that were considered 'low-hanging fruit' were those that significantly underperformed their peers in terms of stock price performance or total shareholder return. From 2006-2013, approximately 65% of targeted companies showed returns that lagged peers leading up to the attack. However, following 2013, over 57% of targeted companies actually showed returns in excess of peers[6].

This supports the argument that the low-hanging fruit of underperforming firms was for the most part picked during the previous activism wave and that activists must push for change at well-performing companies or find attractive regions outside the US that have not yet been picked over.

Europe Down but Not Out

From a geographical perspective, North America remains the most active region for activism worldwide and represented 76% of new companies subjected to activist demands YTD 2015, down from 82% in 2014. The decline as a percentage of total can be explained by a resurgence in the number of attacks in Europe to 11% YTD 2015 from only 7% in 2014. In the four years prior, Europe had typically represented 16-17% of total activity. The decline in Europe in 2014 and relatively slow start in 2015 can be explained by the unstable economic climate resulting from the various political crises. Like in the US, activism would be expected to accelerate as the economic outlook improves. Like any investor, activists are first looking for companies that have solid business fundamentals and growth prospects. When growth is uncertain, it is more difficult to convince companies to make the strategic decisions that an activist would require to drive the stock price.

Activist Investments, By Region



Source: Activist Insight. Other includes Australia, Africa, and South America.

6 Citigroup Global Markets, Inc. Rising Tide of Global Shareholder Activism, Oct. 2013.

What makes for an attractive region can be assessed in three areas: 1) what the law allows in terms of shareholder rights and engagement, 2) the general economic and market dynamics and the relative performance of companies in the region, and 3) the soft measures in between, such as transparency, complexity of strategy, communication with investors, etc.

UK Offers Attractive Environment for Activists

The UK has opened up additional avenues for shareholders to engage and express dissatisfaction, while in the US, investors continue to battle for shareholder rights. What once were attributes that kept the UK in a less contentious environment now may attract activists from across the Atlantic. The strong UK shareholder rights, which may have once mitigated activist threats in the UK - by their very presence were a powerful tool to dissuade bad behaviour activists - now may pose a problem in the UK, as US activists see a lower barrier to entry into the boardroom, a barrier that they don't need to battle for, one company at a time.

Say on Pay Voting

The US began mandated Say on Pay voting in 2011, and the UK, which had Say on Pay voting for over a decade, created a 3 year forward looking binding vote in 2013. Significant negative votes (generally those in excess of 20-30%) have been viewed as a calling card for activists, even though the Say on Pay resolution may have passed the voting threshold. It has also provided an opportunity for engagement behind the scenes to ensure agreement on pay issues ahead of the next annual meeting. Opposition to Say on Pay and concern about the Board's role in setting pay can lead to activist activity in a stock.

Investor Stewardship

The principles of the 2010 UK Stewardship Code, which include the call for collective action where appropriate, and the 2012 Kay Review's recommendations on collective engagement, including the newly created Investor Forum, foster an environment for activists to take their messaging directly to shareholders. The Investor Forum is often described as the 'acceptable face' of activism and looks to play a catalyst role as it develops into the lobbying group on behalf of shareholders. Representing a growing number of underlying local and international shareholders in UK companies, the Investor Forum aims to facilitate dialogue between member investors and the management of the UK companies in which they invest.

The expectation for companies is that they will regularly engage with significant shareholders, and thus, activists taking an ownership position have a channel into both shareholders and the boardroom. In addition, the increase in shareholder engagement in the US market has been a training ground for effective engagement, and activists have gained experience and comfort in engagement approaches to institutional investors.

Hashtag activism

Another notable development providing a new playbook for activism is the use of social media. Where once CEOs and boards could focus on their largest shareholders, with individual shareholders given low priority, the advent of social media and its use in activism has changed the landscape of communication. The activist agenda includes garnering media attention to disseminate their message and gain support for their cause. Because of the increase in continuous media coverage and in social media, communications about a firm has increased in importance, and it is critical to manage the communication and reputation of a company.

Examples of uses of social media by activists are many - Carl Icahn's Twitter campaign to oppose the management buyout of Dell, Icahn's August 2013 tweet that he had purchased "under-valued" Apple stock, Eric Jackson's 2007 use of YouTube to air his dissatisfaction with Yahoo!. However, the use of social media by activists and institutional investors is greater than the use of social media by companies. Approximately half of the FTSE 100 are not using Twitter regularly to communicate their results to shareholders. Similarly, 80% of investors think that activists will use social media to target companies in the future[7].

With the changing environment, the UK environment has moved more towards engagement with shareholders and directors, collective action by shareholders, through the use of social media, and with rights not universally found in the US, it becomes an attractive market for activists.

Who Could be Vulnerable?

So the burning question becomes: if the low-hanging fruit in the US has been picked, are there any in the UK ripe for the picking?

Teneo has developed a program that is designed to identify companies that most closely resemble previously attacked companies during the period leading up to their attack. This program has been used to successfully identify vulnerable companies in the S&P 1500, so we thought it a useful exercise to run the model on the FTSE 100 and FTSE 250 indices.

THE PROCESS: TENEO'S PREDICTIVE MODEL

Here is how the model works. While there are some common themes among attacked companies, it is clear that there is no 'cookie-cutter' for a vulnerable company. As explained earlier, many of the recent campaigns in the US have been against companies that were not underperforming against their peers; Apple being a perfect example. That being said, unfavourable comparisons to peers on various return, share performance, valuation, operating, net leverage and other metrics continue to be the most common themes cited by activists to instigate change at their targets.

Rather than attempting to score these metrics in terms of importance in determining vulnerability to activism using commonly held views, the model instead uses all attributes of attacked companies relative to their peers and determines which of these attributes (alone or in combination) were most influential in determining the vulnerability of the attacked company.

More specifically, we first trained a machine learning model on US activist attack data from the past five years. This model 'learned' which combinations of financial and fundamental data is predictive of activist attacks in the US. We then looked at FTSE 100 and FTSE 250 companies and came up with a compound risk score for each company calculated as follows:

- Calculated how many standard deviations each company is from the mean value of its comp set for each metric determined to be 'predictive'
- Multiplied this number by the weight assigned to the metric by machine learning model based on US attack data
- Assigned the correct direction the metric should contribute (positive or negative)
- Summed up the results from each metric

7 FTI Consulting studies conducted in 2013 and 2014

One in Five

The UK appears to be ripe and primed for a new wave of activism. 74 of the combined FTSE 100 and 250 companies, or about one out of every five, show very similar attributes to companies that were subject to activism in the US. This is the case even with a higher threshold for our compound risk scores versus the average score of attacked US companies.

UK Consumer Spending

As seen below, industries showing the highest number of vulnerable companies for both the FTSE 100 and 250 were Consumer Discretionary, Financials and industrials. The higher number of names in Consumer Discretionary and Industrials may reflect the fact that the comps used in measuring these companies against their peers include in many instances companies outside of the UK where economic conditions are more favorable. Several companies in the Consumer Discretionary segment that depend heavily on UK retail spending ranked particularly high on the list

FTSE 100

INDUSTRY	# OF COMPANIES VULNERABLE
Consumer Discretionary	6
Consumer Staples	2
Energy	1
Financials	6
Healthcare	3
Industrials	4
Information Technology	1
Materials	2
Telecommunication Services	0
Utilities	1
TOTAL	26

FTSE 250

INDUSTRY	# OF COMPANIES VULNERABLE
Consumer Discretionary	10
Consumer Staples	2
Energy	0
Financials	10
Healthcare	4
Industrials	13
Information Technology	2
Materials	5
Telecommunication Services	1
Utilities	1
TOTAL	48

Too Much Cash is Not King

While total shareholder return, and in turn share price performance, over shorter time frames including the past 6, 9 and 12 months ranked as highly predictive for obvious reasons (9 months being the most predictive), balance sheet metrics were also very influential in determining vulnerability. We found that Net Debt/EBITDA and then Cash/Assets of these 74 vulnerable companies were off by the widest margins compared to the rest of the field.

Valuation? Surprisingly Not

Interestingly, the data showed that the price to earnings (PE) ratios for vulnerable companies did not deviate much from their peer averages, which indicates that on average, activists are willing to invest in companies that are not undervalued vs peers but have, in their view, room for value enhancement. The same argument holds true for price to book ratios according to our model output.

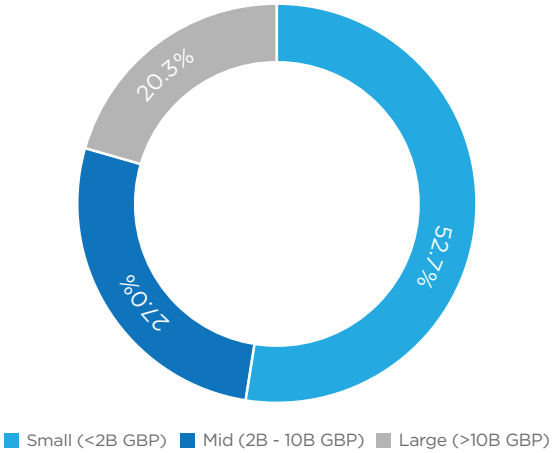
Capital Allocation

The top 30 most vulnerable companies showed weaknesses in capital allocation relative to peers as evidenced by cash on the balance sheet compared to total assets, relatively low use of leverage, and capex relative to total revenue.

No Size Restriction

Looking at the results of our model by market capitalization, out of the 74 companies that are vulnerable, 15 of them, or 20.3%, were large cap companies. While this might not seem large at first, the fact that there are only 44 large cap companies in the combined FTSE 100 & 250 means that one out of every three large cap companies is vulnerable. This is consistent with the growing theme of activists taking positions in larger companies given the sheer dollar amount of AUM they need to put to work. Additionally, the names were proportionately distributed between the FTSE 100 and 250.

Vulnerable FTSE 100 & 250 Companies, By Market Cap



While not an exact science, the data show that there is a large subset of UK companies that look very similar to US companies that were the victims of activist campaigns. As mentioned, underperformance is not the only criteria but is the typical argument used by the activist to gain the support of shareholders for change. The activist must believe that there is long term value in the business, growth is achievable if its suggested changes are implemented and support for these changes can be gained by shareholders. The data shows there are plenty of companies that show vulnerabilities in the current environment yet have good fundamentals, and the rules of shareholder engagement allow for ease of access for activists.

These factors combine to make the UK a strong alternative to the US for activist investment.

How Companies Should Respond

Preparedness is the key to any response to activism. All boards should consider how to assess their current vulnerabilities and readiness for an attack.

Get the Board on Board

One clear thing from the multitude of campaigns that have occurred in the US is that by the time a stake becomes common knowledge, the activist has done months of diligence and preparation, including fundamental analysis of the business drivers and prospects, discussions with large institutional shareholders, and critical assessments of board composition and governance. Therefore, it is imperative that the Board is fully informed and preemptively prepared for shareholder activism. This preparation should include:

- A full assessment and continued monitoring of the shareholder base

- An understanding of typical activist campaigns and the company's relative vulnerability to each type of attack, and
- An alignment with management and investor relations on how to articulate the company's business strategy and why the current course is the best one for long term shareholders.

Look Hard in the Mirror

CEOs and management teams need to put themselves in the activist's shoes and regularly ask themselves: do we have the right strategy based on a review of all strategic options; does our portfolio/business segment mix make sense (are they more valuable as separate companies or under one umbrella); are we allocating capital in a way that maximizes long term returns to shareholders or are we overly focused on hitting next period's EPS target; do investors, analysts, employees, media, customers, suppliers and other stakeholders understand our strategy and think we are executing on it. Knowing in advance how an activist might criticise a company allows the Board and management to decide to proactively address these vulnerabilities, which in turn builds credibility with shareholders and lessens the attractiveness of the company to an activist. If the company decides not to take proactive measures, the assessment process arms the company with a logical defence if and when a campaign is launched.

Let Shareholders Know What You Know

It is important that the Board and management develop a coordinated engagement plan with shareholders that speaks to the vulnerabilities the company has identified. If shareholders know that management is aware of issues and has a well thought out plan to address them, an activist will have a much harder time convincing those shareholders that an alternative plan is warranted. This is particularly true if the shareholder knows that the current management team has already considered the actions the activist is suggesting and has provided sound reasons to pursue or not pursue them.

It is imperative that these messages to shareholders are detailed in a comprehensive communications plan that encompasses all involved parties, including Directors, the CEO and CFO, investor relations, corporate communications, and the general counsel, so that when speaking publicly, all deliver a unified message. If one party is not in sync, an activist can exploit the inconsistent messaging.

Form a Response Team

In preparing itself for activism, either proactively or reactively, it is important that the CEO or the Board designate a core response team. This response team should include both internal and external parties, namely the CFO, IRO and Head of Communications, as well as outside Financial, Legal, Strategic and Communications advisors, at a minimum. The major benefit of outside advisors is their ability to draw upon their experience from advising other companies through numerous activist campaigns in order to provide first-hand, independent advice during both the preparation and engagement phases. This advice and counsel can make the difference between a successful and unsuccessful dealing with an activist.

During the preparation phase, the core response team should work to conduct the vulnerabilities assessment to examine where the company is potentially susceptible, as well as determining different proactive measures the company can undertake to mitigate these vulnerabilities. The core response team should also frequently engage with the Board to update them on the work being done.

During a public or private engagement with an activist, the response team works to:

- Prepare management or the Board for meetings with the activist
- Evaluate the merits of the activist's proposals/suggestions
- Help determine and prepare for public responses to the activist (if necessary)
- Organize engagement with shareholders to articulate strategy

Conclusion

There is no question that activism, or at a minimum active investment, is here to stay. Companies in the US are now preemptively taking action before outsiders come into their stock and round up support from investors to make change that may or may not be in the company's long term best interest. Because of the sheer magnitude of capital that has been invested in this strategy, activist funds are under pressure to find worthy targets that can allow them to continue to produce the outsized returns they have generated to date. As we have laid out here, the UK is shaping up to be a fertile ground as opportunities in the US become more difficult to find. As proven out in the US, no company is immune from activist attention, even the largest ones. The goal though should be for companies and Boards to assess themselves, particularly if they appear to be the 'low hanging fruit' described herein, and take steps to prepare themselves for the possibility of activism. This has become common practice in the US and there are sufficient parallels between the UK and the US that should justify a call to action for UK corporations.

ABOUT TENEO

Teneo is a global advisory firm that partners exclusively with the CEOs and senior leaders of many of the world's largest and most complex companies and organizations. The firm is focused on working with clients to address a wide range of financial, reputational and transformational challenges and opportunities by combining the disciplines of strategic communications, investor relations, investment banking, financial analytics, executive recruiting, digital analytics, corporate governance, government affairs, business intelligence, management consulting and corporate restructuring on an integrated basis. Teneo's clients include the CEOs of many Fortune 100 companies across a diverse range of industry sectors. The firm was founded in 2011 by Declan Kelly, Doug Band and Paul Keary.

Teneo now has one of the the largest shareholder activism defense practices in the world and we have worked on a number of the most high-profile recent situations. What makes Teneo unique from other advisory firms is that we have dedicated investor relations and corporate governance teams that both have significant expertise advising on activist situations.

On July 9th 2015, Teneo acquired the independent global consulting company Blue Rubicon and strategic communications and reputation management firm StockWell expanding its international presence around the globe and creating one of Europe's largest strategic communications practices. Following these acquisitions, the broader Teneo team now includes over 525 professionals working in 14 offices around the globe across Teneo's 12 operating divisions (Strategy, Capital, Intelligence, 360, Consulting, Restructuring, Talent, Digital, Governance, Sports, Diversity & Inclusion, and Ventures).

Teneo is a senior-led advisory firm with deep collective experience working at the highest echelons of the public and private sectors. Our team has a rich knowledge base and global network of relationships that we bring to bear on behalf of our clients every day.

TENEO INTEGRATED SHAREHOLDER ACTIVISM DEFENSE TEAM

Declan Kelly

Co-founder, Chairman and CEO, Teneo

Declan Kelly is the Chairman, CEO and co-founder of Teneo. He is responsible for running all of the company's operations globally across its 12 operating divisions. Mr. Kelly is an advisor to several of the world's leading CEOs and corporations and is recognized in particular for his crisis management experience.

Prior to Teneo, Mr. Kelly served as the U.S. Economic Envoy to Northern Ireland at the U.S. Department of State. Mr. Kelly was appointed Economic Envoy by Secretary of State Hillary Clinton in September, 2009.

In his role as Economic Envoy, Mr. Kelly is recognized as having helped bring significant investment to the region from U.S. corporations. He also played a significant role in supporting the efforts that led to the historic devolution of policing and justice powers to the Northern Ireland Assembly, giving Northern Ireland fully devolved political governance for the first time in its modern history.

Prior to his government service Mr. Kelly served as Executive Vice President and Chief Integration Officer of FTI Consulting (FTI), one of the world's leading international consulting companies. In his role at FTI, then a 3,500 person business with a market capitalization in excess of $2 billion, Mr. Kelly was responsible for the operational integration of the company's various businesses in more than 20 countries around the world. He also had responsibility for corporate strategy, global business development, global client management and all of the company's marketing and communications functions.

Prior to taking an executive officer position at FTI, Mr. Kelly was Chairman and CEO of Financial Dynamics in the United States and Chairman of Financial Dynamics in Ireland.

Mr. Kelly was a member of the senior management team which sold Financial Dynamics (FD) to FTI Consulting in September of 2006. Mr. Kelly had become part of the FD business when he sold his company, Gallagher and Kelly Public Relations, to FD in 2000. Prior to that he held a number of senior management positions with other leading communications companies in Ireland. Mr. Kelly previously worked as a journalist for more than a decade. He was selected as the recipient of the AT Cross Business Journalist of The Year Award in 1994.

Mr. Kelly is a graduate of The National University of Ireland (Galway). In 2012, he was awarded the Ellis Island Medal of Honor, presented to individuals of different ethnic backgrounds who distinguish themselves by their contributions to society in the United States. In 2011, Mr. Kelly received an honorary doctorate from Queen's University, Belfast in recognition of his service to the community and economy of Northern Ireland. In 2008 he became the youngest-ever recipient of the American Irish Historical Society's prestigious gold medal, given annually to one person deemed to have made a unique contribution to Irish American society. He created and continues to underwrite and personally oversee the Northern Ireland Mentorship Program in partnership with the American Ireland Fund. The Northern Ireland Mentorship Program enables young university graduates from Northern Ireland to spend a year working within several leading corporations in the United States with a view to using their experience to embark on new careers in Northern Ireland.

Mr. Kelly serves on the board of Sesame Workshop, the nonprofit educational organization that runs Sesame Street. Mr. Kelly also serves as Chairman of the American Associates of the Royal Academy of Arts, the US board of the Royal Academy of Arts

Paul Keary

Co-Founder and COO, Teneo

Prior to Teneo, Mr. Keary ran a business and communications strategy consultancy where he advised some of the largest companies in the world on reputational, operational and strategic challenges and opportunities.

Mr. Keary previously served as Senior Managing Director and Director of Business Integration at FTI Consulting (FTI), one of the world's leading international consulting companies. He also served with the Company's Executive Committee. FTI then a 3,500 person strong consulting firm that advises companies and intermediaries on investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.

Prior to joining FTI, Mr. Keary ran the North American business of Financial Dynamics (FD), the world's largest business communications consultancy. Mr. Keary was instrumental in growing the business through a strategy of acquisition and organic based growth and also advised Fortune 500 companies, governments and industry organizations on positioning strategy, reputation management, capital market communications and crisis management strategies.

Prior to joining FD, he held a senior management position for a leading global communications agency and worked extensively in Europe, Middle East and the Americas advising a wide number of blue chip technology companies on communications strategy surrounding IPOs and M&A activity. Mr. Keary was also previously head of communications for Xerox Europe Ltd, during a time of significant restructuring and realignment for the company.

A B.A. [Hons] graduate, Mr. Keary has twice been awarded for Consulting Excellence by the PRCA and is currently a director of the US Foundation Board for National University of Ireland, Galway.

John Judge

CO-PRESIDENT, TENEO 360

Prior to establishing Teneo 360, Mr. Judge was Head of Fundamental Credit Risk at Quadrant Structured Investment Advisers, Inc., a majority-owned investment management subsidiary of Magnetar Capital. At Quadrant, he and his team were responsible for investment selection based on their own deep-dive financial analysis of hundreds of mid- to large-size corporations across a wide swath of industries.

Prior to Quadrant, Mr. Judge spent six years at Citigroup primarily as Senior Credit Officer managing the bank's North American credit exposure to the technology, media, telecommunications and gaming industries. He and his team were responsible for overseeing from a risk perspective the structuring, negotiation and documentation of new transactions and for ongoing maintenance and monitoring of the portfolio, including credit analysis, deal restructuring and active risk mitigation. Also while at Citigroup, Mr. Judge was a senior banker in Global Loans Capital Markets with responsibility for structuring, negotiating and syndicating debt to large corporate clients in the consumer, retail, shipping and chemicals industries. Mr. Judge first joined Citigroup through Salomon-Smith Barney where he was brought in to manage and restructure the firm's distressed debt exposure resulting from the dot-com bubble.

Before joining Citigroup, Mr. Judge was a Senior Banker at Credit Lyonnais responsible for marketing financing alternatives and investment banking products to media and telecom clients and prior to that, managed a portfolio of debt to highly leveraged borrowers for the Bank of Tokyo-Mitsubishi.

Mr. Judge holds a dual B.S. degree in Applied Mathematics and Industrial Management from Carnegie Mellon University and an MBA in Finance and Accounting from the A.B. Freeman School of Business at Tulane University.

James Olecki

CHIEF OPERATING OFFICER, TENEO STRATEGY

James Olecki is Chief Operating Officer of Teneo Strategy. In this capacity, Mr. Olecki has operational oversight over Teneo Strategy's eight disciplines focused on reputational challenges and opportunities CEO's face every day.

Mr. Olecki also serves as a lead advisor and senior strategist to the firm's largest global clients across a variety of industries and heads Teneo's global investor relations and shareholder activism practices. Mr. Olecki has extensive experience effectively managing global corporate communications, transaction communications, corporate restructurings, investor relations, and corporate reputation management. Mr. Olecki specializes in shareholder activism as well as media and reputation management training to senior executives and high-profile personalities.

Prior to joining Teneo, Mr. Olecki was the Director of Global Communications at Ally Financial, formerly GMAC during the time it received bailout funds from the U.S. government and rebranded its corporate image. Mr. Olecki was responsible for the company's financial communications as well as all communications activities for its mortgage business and international operations, and served as a company spokesman.

Previously, Mr. Olecki was a Senior Vice President at Weber Shandwick where he specialized in corporate issues management and led the firm's financial communications practice. Prior to Weber Shandwick, Mr. Olecki was Vice President and Head of Emerging Markets at Financial Dynamics (FD) where he advised on some of the largest and most notable IPOs in the last decade. Earlier, Mr. Olecki served as an executive at The Ruth Group where he co-led the firm's technology group specializing in the semiconductor, software, and telecommunications sectors. Mr. Olecki began his career as a research associate at Smith Asset Management.

Mr. Olecki graduated with honors from Marywood University with a B.S. degree in Marketing and Finance. He is actively involved with the Wounded Warriors Project and serves as co-Chair of the Hunts for Healing charity golf tournament in his hometown community of Pennsylvania.

Richard Beck

CHAIRMAN AND PRINCIPAL PARTNER, TENEO UK

Mr. Beck was previously a Group General Manager and Global Communications Director at HSBC, one of the world's largest financial services companies. Operating from London and Hong Kong, Mr. Beck was responsible for all aspects of the Group's internal and external communications around the world.

He has a career track record of advising Boards and senior executives on reputation management, both in-house and in consultancy, and has led communications for over 50 deals across 5 continents. He has served as a trusted advisor to over a dozen FTSE Chairmen, CEOs and CFOs.

At HSBC he created and led a team of over 400 communications professionals globally. Under his leadership, HSBC was one of the few banks to emerge from the global financial crisis with its reputation intact. The Group's PR function rose to become No.1 ranked by UK financial media across every independently tracked MORI dimension and staff engagement levels rose dramatically.

Mr. Beck was previously Head of Corporate and Community Affairs for HSBC in Europe, where he established the bank's first European political engagement programme, CSR programmes, and strong engagement with financial and consumer media. He also created internal culture development programmes for over 60,000 personnel, launched staff TV, and drove the bank's highest ever levels of people engagement.

Prior to HSBC, he was Joint Head of Public Affairs for Midland Bank in the UK. Born in Ireland, Mr. Beck grew up in Germany, Austria, Malaysia and Hong Kong. He holds an honors degree in International Studies.

Philip Gawith

MANAGING PARTNER, STOCKWELL GROUP

Philip, one of StockWell's founders in 2010, was previously Chief Executive of Maitland, the UK communications firm, where he worked for 12 years. During this time Philip built a reputation for offering strategic advice to leading companies such as 3i, BAA, Cadbury, CD&R, HSBC, Tesco and UKFI.

He also worked on a number of significant and complex cross-border M&A transactions including Mannesmann/Vodafone, NatWest/RBS, Santander/Abbey, Mittal Steel/Arcelor, Chinalco/Rio Tinto and Xstrata/Glencore.

Philip worked previously at the Financial Times for eight years including as a correspondent in South Africa and a financial commentator on the Lex column.

Martha Carter

MANAGING DIRECTOR, TENEO GOVERNANCE

Prior to joining Teneo, Dr. Carter was the Head of Global Research at Institutional Shareholder Services (ISS) and Chair of the ISS Global Policy Board. As research head, Dr. Carter led a team of 160 corporate governance analysts in 10 offices around the world. Under Dr. Carter's leadership, the research team provided institutional investors with corporate governance research and

proxy voting recommendations on more than 38,000 companies in over 115 markets. In addition, the team produced studies and white papers on issues and topics in corporate governance, engaged with corporate executives and board members, and formulated corporate governance policies and guidelines for research reports.

During her 13 year tenure at ISS, Dr. Carter led three research organizations – the US Research team (from 2002 to 2006), the Governance Institute for thought leadership (from 2006 to 2008), and the Global Research team (from 2008 to 2015). In 2003, she developed the Global Policy Board to oversee the voting principles and policies that form the basis for ISS proxy voting recommendations.

Named for five years in a row to the National Association of Corporate Directors (NACD) Directorship 100 List of the most influential people in the boardroom community (2008-2012), Dr. Carter has been quoted in media around the world and has been a speaker for corporate governance events, such as the National Association of Corporate Directors (NACD), the International Corporate Governance Network (ICGN), the Society of Corporate Secretaries and Governance Professionals, and the International Bar Association (IBA). She has written articles for publications, including the NYSE: Corporate Governance Guide (2014 and 2015), the International Foundation of Employee Benefit Plans (IFEBP) Benefits Magazine (2011), the ICGN Yearbook (2009), and the Financial Analysts Journal (2003).

Prior to joining ISS, Dr. Carter served as a Director of Listing Qualifications for The NASDAQ Stock Market. Her work focused on ensuring the qualifications of NASDAQ listed companies and their compliance with marketplace rules. Prior to her work in Listing Qualifications, Dr. Carter was Senior Director of Accounting Services for NASDAQ's parent company, the National Association of Securities Dealers (NASD). She was selected as NASD's financial executive on the transition team which planned and implemented the post-merger integration of the American Stock Exchange (AMEX).

Earlier in her career, she held positions in finance and consulting at The Federal Home Loan Bank System, IBM Corporation, and Touche Ross and Company. Dr. Carter held numerous academic appointments as a visiting and adjunct faculty member teaching graduate and undergraduate finance courses at Georgetown University, Johns Hopkins University, George Washington University, and American University. She holds a Ph.D. in Finance from George Washington University, an MBA in Finance from The Wharton School, University of Pennsylvania, and undergraduate degrees in Mathematics and French from Purdue University.

Tim Burt

MANAGING PARTNER, STOCKWELL GROUP

Tim Burt acts for leading global companies such as Alcatel-Lucent, Guardian Media Group, Nissan and Universal Music, among others. In the past year, he has advised Kabel Deutschland and ONO of Spain in their separate acquisitions by Vodafone. Other transactions included the sale of RationalGroup/PokerStars to Amaya of Canada; the sale of Trader Media to Apax; and the disposal by Vivendi of SFR and GVT. He co-founded StockWell after six years as a Partner at Brunswick, where he oversaw sectors including media, technology and automotive. He played a central role in Brunswick's international expansion, advising clients on major transactions. At Brunswick, his clients included Google, NBC Universal and Toyota. Tim was formerly an award-winning journalist at the Financial Times, where he spent 16 years in roles including Media Editor, Motor Industry Correspondent and Nordic Correspondent.

James Knowles

MANAGING DIRECTOR, TENEO STRATEGY

Prior to joining Teneo Strategy, Mr. Knowles advised clients at Citigate Dewe Rogerson on communication strategies around capital market and investor events such as IPO's, M&A, financial calendar, activist engagement, hostile takeovers and management changes.

Prior to this, he was Managing Director at the European activist fund, Knight Vinke, where he spent 5 years creating and communicating investment strategies as well as capital raising. He managed key relationships with some of the largest institutional investors in the US, Canada and Europe and developed the firm's reputation involving presentations to the Bank of England, the FCA and the UK Commission on Banking. Before Knight Vinke, Mr. Knowles held a similar role as Managing

Director at the US hedge fund, Chilton Investment Co. where he had sole responsibility for developing the firm's international reputation resulting in significant investment from European and Middle Eastern pension, endowment and sovereign wealth funds.

Before working in investment management, Mr. Knowles was an investment banker for 12 years at Morgan Stanley where he managed their equity capital raising business as Equity Syndicate Manager. This involved coaching management teams on their investment case to maximize their market value, ultimately negotiating with leading investors and managing the aftermarket. He began his career at the UK merchant bank, Kleinwort Benson.

Mr Knowles holds a Bachelor of Commerce degree (Honours) from Queen's University, Canada.

Harvey Pitt

SENIOR ADVISOR, TENEO

Prior to joining Teneo, he served as the twenty-sixth Chairman of the United States Securities and Exchange Commission. He also serves as Chief Executive Officer of the global business consulting firm, Kalorama Partners, LLC, and its law firm affiliate, Kalorama Legal Services, PLLC. In that role, from 2001 until 2003, Mr. Pitt was responsible, among other things, for overseeing the SEC's response to the market disruptions resulting from the terrorist attacks of 9/11, for creating the SEC's "real time enforcement" program, and for leading the Commission's adoption of dozens of rules in response to the corporate and accounting crises generated by the excesses of the 1990s.

For nearly a quarter of a century before becoming the SEC's Chairman, Mr. Pitt was a senior corporate partner in the international law firm, Fried, Frank, Harris, Shriver & Jacobson. He was a founding trustee and the first President of the SEC Historical Society, and participates in a wide variety of bar and continuing legal education activities to further public consideration of significant corporate and securities law issues. Mr. Pitt served as an Adjunct Professor of Law at Georgetown University Law Center (1975-84), George Washington University Law School (1974-82), the University of Pennsylvania School of Law (1983-84), and The Yale Law School (2007).

Mr. Pitt served previously with the SEC, from 1968 until 1978, including three years as the Commission's General Counsel (1975-78). He received a J.D. degree from St. John's University School of Law (1968), and his B.A. from the City University of New York (Brooklyn College) (1965). He was awarded an honorary LL.D. by St. John's University in June 2002, and was given the Brooklyn College President's Medal of Distinction in 2003.

Mr. Pitt is currently a Director of GWU Medical Faculty Associates, Inc., a §501(c)(3) corporation that provides comprehensive medical care to residents of the greater Washington, D.C. metropolitan area, and serves on its Audit Committee. He is a member of the Global Advisory Forum of the CQS Hedge Fund, and a member of the Regulatory and Compliance Advisory Council of Millennium Management LLC. He also serves on the Board of Directors to the offshore funds of Paulson & Co., and its affiliates. He previously served for three years on the National Cathedral School's Board of Trustees, where he was at various times Board Vice-Chair, Co-Chair of the Board's Governance Committee and Chair of the Audit and Compensation Committees. Mr. Pitt previously served as a Director of Approva Corporation, and was a member of its Audit Committee.

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