

THE PERFECTIONIST

THE FIRST CAMPAIGN FROM PAUL HILAL'S SOLO ACT MANTLE RIDGE EXCEEDED EXPECTATIONS. THEY ARE HIGHER FOR HIS SECOND, WRITES JOSH BLACK.

MANTLE RIDGE	
FOUNDED	2016
HQ LOCATION	NEW YORK, NY, U.S.
KEY PEOPLE	PAUL HILAL
ACTIVISM FOCUS	PRIMARY
AUM	\$2.74B (AUGUST 2019)

Ask people about Paul Hilal's campaigns and there is an instant division of thought. Are they works of art or of science?

One defense adviser, who worked for Hilal's target CSX and couldn't be named because of his involvement in the campaign, described the activist's rollout as "note perfect" in an interview with *Activist Insight Monthly*. Patricia Olasker, a partner at Canadian law firm Davies Ward Phillips & Vineberg who has advised Hilal on campaigns from Canadian Pacific Railway onward, said of his record, "It's a small body of work but everything is a masterpiece." Through a spokesperson, Hilal declined to be interviewed for this article.

Almost everyone interviewed by *Activist Insight Monthly* for this report described a punishing schedule of research, intellectual honesty rather than vision, and openness to new perspectives. "When you spend time with him, you come away with a sense of confidence that he really did his homework," said an allocator who has committed to one of Hilal's campaigns and asked not to be quoted by name.

'A SMALL BODY OF WORK'

Hilal is unlikely to appear in any list of the most prolific activists, having been behind just three campaigns in his decade at Pershing Square Capital Management, the firm run by his college roommate Bill Ackman. He joined the board of Ceridian in September 2007, following a messy campaign not helped by the impending financial crisis. The company sold itself before a contest could take place, then added four Pershing Square nominees to the board

to ensure a safe closing as credit markets dampened the likelihood of a superior bid.

His other campaigns were among Pershing Square's best performers, however. Canadian Pacific Railway netted over \$2 billion in profits, while Air Products & Chemicals produced a total follower return of 55% from the day after Pershing Square's first Schedule 13D filing in 2013 until its exit in 2017, according to *Activist Insight Online*. In 2016, an annus horribilis for the fund, Air Products was the only significant investment in Pershing Square's portfolio to produce a positive return.

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Hilal left Pershing Square in 2016 and again teamed up with Hunter Harrison, the railroad executive who had led Canadian Pacific's turnaround, to repeat the play at CSX in January 2017. The strength of Harrison's previous successes and a 22% boost to the share price on the day the campaign became public knowledge gave CSX's board little to no room for maneuver, although it farmed the question of Harrison's staggering indemnities for his Canadian Pacific pension out to a shareholder vote.

Harrison, already unwell at the time of his appointment, died less than a year later. Yet the transformation set in motion by **Mantle Ridge's** campaign was no longer dependent on him. Even since Harrison's death in December 2017, shares have risen another 30%, leaving Hilal on course to collect a healthy payout when the five-year lockup on his capital expires either in late 2021 or early 2022.

PERSUASION

If Hilal had to fight for control of Canadian Pacific, he subsequently persuaded boards to replace CEOs at both Air Products and CSX without a brouhaha. In both cases, the market signaled enthusiasm for a change, though

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people who know Hilal also say he comes across as “passionate” and “singularly focused.”

“There’s times when you work with an activist and it’s almost like, are they going to be able to convince shareholders?” said Wes Hall, whose Kingsdale Advisors was the proxy solicitor on Canadian Pacific. “When Paul was laying the groundwork with CP, it was very systematic. For me, knowing how shareholders think, I felt shareholders were going to be won over by that argument.”

Indeed, Hall said Hilal spent just as much time with Canadian Pacific shareholders asking for their views about the firm as pitching his. He is an “exceptional” listener, said Josh Pekarsky, founder of Canadian communications firm Longview, who did not work on Canadian Pacific but has worked with him since. “He pays a lot of attention to the human dynamic. He’s sensitive to other peoples’ reputation[s],” Pekarsky adds. “That’s one of the things that makes him appealing to work with.”

DELIVERY

The urgency that marked Mantle Ridge’s campaign at CSX has been less in evidence at its latest target, Aramark. Shares rose 10% on May 30, the day that Reuters reported Mantle Ridge was exploring a bid to take the company private and another 11% on the first day of trading after it disclosed a 20% stake back in August.

The Philadelphia-based company is already highly leveraged but has experienced weakening operating margins in its

international business – down from 5.7% in 2016 to 3.3% in the current fiscal year – and uniforms – down from 12.5% to 7.5% over the same period thanks to acquisitions.

Aramark CEO Eric Foss has since announced his retirement and the company later agreed to a board revamp. Under the terms of the settlement, Aramark will immediately appoint five new directors, including Hilal, with a sixth to be nominated for election at the firm’s 2020 annual meeting. The company also named John Zillmer, an Aramark veteran, as its new chief executive and Hilal as vice-chairman of the board.

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Activist Insight Monthly understands that the activist’s stake is locked up for five years in a single purpose vehicle like its investment in CSX.

While Hilal would not willingly leave a campaign up to anything as potentially random as a shareholder vote, all of *Activist Insight Monthly’s* sources agreed that he would if met with resistance. “He has reservations about proxy fights 100% of the time,” Olasker said. “He sees them as costly and potentially harmful, but he’s not afraid to go there if he has to.” Luckily, he hasn’t had to go there yet. 📌

SHARE PRICE PERFORMANCE DURING PAUL HILAL’S KEY CAMPAIGNS

