

THE WEEKLY WRAP

by

ACTIVIST INSIGHT

Activist Insight's Iuri Struta looks back at the past week in activism and highlights some of our most noteworthy reporting, exclusively for subscribers of *Activist Insight Online*.

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What does **Elliott Management** really want from **Pernod Ricard**? The activist says it seeks to improve margins - which it notes lag the company's peer, Diageo - and corporate governance. Yet speculation has been swirling that Elliott may be pursuing a consolidation in the spirits space.

Alexandre Ricard, a scion of the company's founder and the current chairman and CEO, made the rounds of the financial press this week, [touting](#) his commitment to improve margins by 50-60 basis points over the next three years and making clear the company is not for sale. "Pernod Ricard is here to stay and Pernod Ricard is and will remain a consolidator," he said in an interview with Reuters.

Elliott's choice to target Pernod Ricard has come as a surprise to some industry watchers. The company has some governance weaknesses and its margins could be improved, but the stock price has outperformed its closest peer Diageo over most relevant periods. While Pernod Ricard stock has gained 73% in the past five years, Diageo advanced just 24%.

"It was a surprising move. Pernod is considered a fairly well-run company, particularly over the past few years since the appointment of Alexandre Ricard as CEO," Louis Barbier, a partner at shareholder engagement advisory SquareWell Partners, told me. Barbier also noted that Pernod Ricard represents a low trading risk for Elliott, as the company is likely to continue to perform even in an eventual economic downturn.

Since Elliott disclosed its activist stake, the company has committed to increase margins and appointed Patricia Barbizet, the former CEO of British auction house Christie's, as lead independent director. However, Elliott [described](#) the margin pledge as "modest" and bemoaned the lack of "specificity" and "clarity." The company said the margin increase for the next three years was conditional on top line growth of 4%-7%, yet Elliott believes that objective could be attained "almost entirely" through the company's commitment to 100 million euros of "additional savings."

For now, discussions appear to be amicable, but a challenge would be difficult. The largest shareholder Société Paul Ricard owns 14.2% of the shares and Groupe Bruxelles Lambert has 7.5%. Pernod Ricard's odd bylaws under which shares double their voting rights only after 10 years, compared with three years typically, gives both shareholders more than 30% of the voting rights collectively.

To the French, Pernod Ricard's activist threat may be a reminiscence of Trian Partners' investment in Danone in 2012. As with the yogurt giant seven years ago, Barbier notes the issues identified by the activist "were already understood by the company and were probably already in the process of being addressed and communicated to the market."

Elsewhere in the news:

Activist investors are increasingly winning board seats in proxy contests as a result of deeper understanding of company issues and shifting shareholder sentiment, *Activist Insight Online* [reported](#).

Governance and director skillsets are more important than environmental and social goals for a better part of the globe's institutional shareholders, according to a Morrow Sodali [report](#).

Elliott Management [challenged](#) state-backed Chinese group China Three Gorges (CTG) after opposing its bid to acquire Portugal's electricity operator **Energias de Portugal (EDP)**. The activist said EDP should instead follow its plan to sell assets and reduce leverage.

Former Blue Harbour Group managing directors, Lauren Taylor Wolfe and Christian Asmar, [launched](#) an activist investment firm, named **Impactive Capital**, with an anchor investment from the California State Teachers' Retirement System (CalSTRS).

BlueMountain Capital Management [assembled](#) a slate of 13 candidates for election to the board of California utility **Pacific Gas & Electric**, despite the bankrupt company [committing](#) to replacing a majority of the board before the annual meeting.

Artisan Partners [urged](#) Swiss logistics provider **Panalpina** to consider a takeover proposal from Danish rival DSV, after the company's reference shareholder mounted opposition to a potential deal. **Cevian Capital**, whose criticism forced Chairman Peter Ulber out last year, suggested a deal makes sense.

ThyssenKrupp [unveiled](#) plans to simplify the corporate structures of its two successor companies, caving in to a key demand from **Cevian Capital**.

Bill Ackman's **Pershing Square Capital Management** [reported](#) a blowout performance year-to-date and initiated a dividend for its publicly-listed vehicle which yields 2.5%.

Cat Rock Capital [raised](#) the pressure on British food delivery platform **Just Eat** to engage in merger discussions with peers.

Houlihan Lokey [tapped](#) Mark Mikullitz from Deutsche Bank to reinvigorate its work in activism advisory.

Sachem Head Capital Management reportedly [urged](#) communications infrastructure provider Zayo Group to consider a sale.

In other news, my colleague Elana Dure hosts the ninth episode of *The Activist Insight Podcast* which focuses on the top trends of 2018 mentioned in *The Activist Investing Annual Review 2019*. You can listen the episode on [iTunes](#) and [Spotify](#).

Next week, **Rowan Companies** shareholders will vote on a sale to British peer EnSCO. **Canyon Capital Advisors** [opposed](#) the initial terms of the deal, while **Odey Asset Management** gave its [blessing](#) after EnSCO sweetened its offer two times. Canyon has not publicly expressed its view on the revised terms of the deal and did not reply to a request for comment.

As always, *Activist Insight Online* reporters will be diligently covering all developments in activism around the world, and Iuri Struta will be highlighting the most remarkable stories in this roundup. If you have suggestions for improving our coverage, or a tip, you can contact us at press@activistinsight.com.