

May's Activism

It started with Brexit and was followed by the election of Trump - a new era of politics which has shaken up convention. Our European neighbours in contrast managed to hold on to their social democratic representatives who have been under pressure from radical contenders whether in France or in the Netherlands. In the same way, Teresa May called a snap election by going to the country to seek a new mandate for her policies on Brexit, in order to maximise sentiment in her favour and earn her political currency, to ensure she is sure-footed against her opposition. She overturned the perceived status quo of fixed term parliament and took a significant risk in political terms, on the basis that she saw the opportunity to overturn political wisdom by shaking things up.

In the same way convention has been challenged in the business world, only a few weeks ago Unilever and Akzo Nobel, the Company which owns Dulux paints, have both decided to break themselves up and return money to their shareholders. But why would they be doing this when both companies were profitable?

So what? You may be thinking... But this should be considered in the backdrop of Cadbury's takeover by Kraft some 7 years ago, but which is still in the forefront of peoples' memories, especially given the increasing prevalence of activist investors.

But who are these "activist investors"? Activist investors are not just fund managers with deep pockets, but can be wealthy individuals, who perceive value in a business, and seek to have their voice heard within that business in order to shake things up. The activist investor is more familiar to our US cousins, and with the recent weakness in Sterling, opportunities within the UK and Europe are becoming more irresistible. Particularly as the US dollar continues to strengthen against other world currencies as a result of the "Trump effect".

Activist investors are now starting to target large publicly quoted companies, and after becoming significant minority shareholders, the activist investors may seek to de-list the companies in order to restructure or break up the business in order to get value from its constituent parts. This is not anything new, but given the size of the targets, the modus operandi is becoming more noticed.

The activist investor's decision is predicated on having scrutinised the target, its valuation and the opportunities they can create from shaking up the business. That is why, in respect of the Dutch company Akzo Nobel, you get someone as notorious as Warren Buffet being involved.

Activist investors are able to achieve their goal of wealth creation by stripping away complex layers of what are fundamentally good businesses, with a view to reducing overheads and costs to create cash. Some see this as short termism, compared with a long term outlook. However, bear in mind, not all target businesses have grown organically; most have expanded through acquisitions themselves in order to strengthen their brand and profile, and create dominance within the market place.

It is difficult to criticise or judge activist investors who clearly identify opportunities, which the current owners of the target businesses have not exploited, whether through complacency or otherwise. This is also a result of activist investors placing their own money on risk to generate those opportunities. Activist investors seek to create value beyond the target's current market value in the short to medium term, where the existing board may be complacent and content to maintain an existing level of dividends given their market dominance and brand profile.

Thus given Brexit, and the “new normal”, there is no more status quo whether in business or politics. Depending on the outcome of the Brexit negotiations in the remaining two years I am sure we will see more big names, whether in the UK or further afield, being targets for activist investors. Only recently Samsung have been mentioned as a potential target for break up.