

Massimo Pedrazzini: «Shareholder Activism – Perception Versus Reality»

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Shareholder activists are often seen as vultures due to public campaigns and aggressive tactics. However, in some cases, they may be considered angels, Massimo Pedrazzini writes in an article for *finews.first*.

finews.first is a forum for authors to comment on economic and financial topics.

Investopedia defines shareholder activists as «shareholders of companies who bring about change within or for a corporation. These changes span a vast range, from environmental concerns to governance to profit distribution to the internal culture and business model of a company».

Thus, the purpose of an activist investor should be to improve companies and, consequently, create value. This benefits all stakeholders and positively influences the share price, resulting in

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profits for that investor.

«A few days ago I came across a very disturbing definition online»

However, I believe that there is a serious perception problem. According to Investopedia, once more, «Shareholder activists typically buy up a minority stake in a company and, subsequently, employ a variety of tactics, from media pressure to litigation threats, to force a conversation and bring about change».

Because of the visibility of public activist campaigns, activism is commonly associated with media presence and aggressive legal actions. Even more concerning: a few days ago I came across a very [disturbing definition online](#): «Activist shareholder: an individual or institutional investor looking to acquire a controlling interest in a target company by gaining seats on the company's board of directors». Thus, the purpose of activism seems to boil down to just seizing control of companies.

This misperception of our role is the root of the problem that constructive activist investors like us face. As soon as a company learns that we have become investors, management and board become highly defensive. It takes time for them to understand that our approach is different.

«Sterling has adopted this approach over the last 25 years»

I strongly believe that the best strategy for an activist investor to create value is to assist management and the board in identifying the reasons for undervaluation and mitigating the stress factors causing it rather than fighting against management in the public arena.

Constructive activism is based on open and constructive dialogue. It takes time and patience. Since this approach is not visible to shareholders, it is seldom mentioned by the media or scholars in the definition of activist investing. It's almost as if it doesn't exist.

Sterling has adopted this approach over the last 25 years, outperforming comparable indexes through constructive dialogue with boards and management. I believe that «violence is the last

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refuge of the incompetent», according to author **Isaac Asimov**. Media campaigns and litigation threats should be considered only when all else has failed. Our history shows that they are rarely needed.

Our investment in the Dutch firm [Fugro](#) is a prime example of Sterling's approach. This company, listed in Amsterdam, is the global specialist for surveys for the foundation of buildings and infrastructure, both at sea and on land, such as oil rigs, wind turbines, railroads, and bridges.

«It became clear that the company faced severe stress factors»

By September 2020, the share price had plummeted 95 percent from its 2011 all-time high and over 80 percent from its 2016 level. The reason for the years of share price weakness was that between 2014 and 2020, sales and profits had halved due to the oil market's collapse, rendering the debt servicing unsustainable.

We monitored the company from the sidelines as the share price continued its downfall. By 2020, it became clear that the company faced severe stress factors that we, as shareholders, could help alleviate, creating substantial value – precisely the type of opportunity we seek. We identified a route to a profitable investment based on three pillars:

- Modernizing corporate governance, especially the typical Dutch takeover protection, would facilitate refinancing the company and make the company more appealing to a broader base of international investors;
- A substantial reduction of debt, along with better communication about the company's evolving activities and ESG profile, should lead to a higher valuation;
- The company's results should improve, thanks to increased profits from offshore services, as the growing activities for wind parks would absorb the excess capacity previously used by oil customers.

In Fugro, we encountered highly competent and cooperative management: it took just a few meetings to convince them that our «constructive activism» was completely different from the «aggressive activism» they had expected, dispelling the misperception of our role, as mentioned at the beginning of this article.

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«Management and board were very constructive and open to this dialogue»

In October 2020, we decided to participate in a combination of a directed share issue and a subsequent public rights issue. As a condition to Sterling's investment, which became a condition for the other investors in the directed share issue, too, we managed to obtain that two of the three takeover protections were abolished.

After the share issues, our engagement with management remained intensive over the following three years. We had numerous meetings with the CEO, CFO and Chairman, openly discussing further improvements. Among other initiatives, we advocated an investor communication effort highlighting Fugro's improving ESG position.

Management was very constructive and open to this dialogue. We also submitted our ideas regarding the optimal composition of the board for the new Fugro: We were pleased to see the company restructure its board and align it to the new challenges that the company was set to face.

«We generated our returns by actively supporting the company through its restructuring»

Finally, nearly two years after our first investment, we participated in a placement as an anchor investor to round off the refinancing and to provide the resources necessary to fund the company's growth strategy.

A few months ago, we concluded that an activist investor was no longer needed as the company had resolved its stress factors, the value had been created, and the market had started to recognize it. Consequently, we gradually exited the investment through the market. The share price on the day of the sale of our last share in Fugro was 15.3 euros, from 4.8 euros paid for the initial investments in 2020 and 11.3 euros for the issue in 2022.

In a nutshell, we generated our returns by actively supporting the company through its restructuring and growth journey. We are convinced that without the combination of a cooperative Board, a very competent and open management, and constructive activist

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shareholders, the result would have been vastly different.

«Constructive activism exists, and it is very successful, even if nobody speaks about it»

This is what we call «constructive activism». It exists, and it is very successful, even if nobody speaks about it. Without this article, you may never have known that behind the successful restructuring of Fugro, there was, among others, an activist investor.

I hope this article sheds light on a significant misperception: activists are often seen as vultures due to public campaigns and aggressive tactics. However, in some cases, they may be considered angels.

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