U.S. Activist Funds Increasingly Setting Sights on European Companies

Stockholm (HedgeNordic) – Shareholder activism in Europe has been on the rise in the past several years, with activist investors launching 119 campaigns on the European continent in the 12 months to the middle of 2017, compared to 100 campaigns a year ago and a mere 62 five years ago. More importantly, U.S. activist hedge funds are setting their sights on struggling European companies and are increasingly looking for opportunities on the Old Continent.

Although activist hedge funds are viewed as aggressive speculators interested in a quick profit rather than the long-term performance of their corporate targets, shareholder activism has become a valuable tool for driving efficiency and creating value in equity markets. Hedge fund activists, who arguably belong to the group of value-oriented investors, are constantly on the lookout for target companies that can benefit from external intervention. In an attempt to unlock value, activist investors put forward various value-creating proposals such as a sale of the target, return of excess cash, sales or spin-offs of irrelevant assets, improvements in corporate governance, to name just a few.

The majority of activist investors, particularly home-grown European shareholder activists, do not resemble the much-feared corporate raiders of the 1980s, so the debate over whether activism is a net good or evil can be put to rest for now. Interestingly enough, some U.S. hedge fund managers, who usually employ aggressive tactics such as proxy fights, lawsuits and sharp-tonged public letter-writing, are changing their approach to activism when targeting European companies. For instance, outspoken activist Dan Loeb, a stereotypical American hedge fund manager who has a reputation for writing strongly-worded letters to CEOs, recently started an unusually friendly activist campaign against Swiss consumer group Nestlé. Loeb's Third Point LLC is calling on the Swiss company to discard its stake in beauty products company L'Oreal, raise debt to repurchase shares, as well as undergo a comprehensive product portfolio review and re-shaping.

Indeed, one can do more with friendly activism on the European continent. As a result, U.S. activist hedge funds are forced to modify their strategies in the face of European cultural peculiarities and regulatory regimes. Based on my personal recollection of a guest lecture led by Lars Förberg, one of the co-founders of activist investor Cevian Capital at the Stockholm School of Economics, there are two main reasons explaining the difference between the U.S. classical activist style and the more collaborative European approach. First, the rules in most parts of Europe are more favorable for shareholders compared to the U.S., which means activists do not have to resort to public campaigns against management teams to drive changes. Second, there are cultural differences between the U.S. and European countries, which implies more hostile U.S.-style campaigns will normally not be successful in Europe.

Publicity-shy activists who have been working with management teams behind closed doors have rewarded shareholders quite handsomely in recent years. For example, activist fund Accendo Capital is on track to deliver a third consecutive year of outstanding returns, after gaining 19.2% in the first eight months of 2017, 49.1% in 2016 and 30.1% in 2015.

Meanwhile, Third Point is one of a handful of renowned U.S. activist hedge funds tapping into the European market. Paul Singer's Elliott Management acquired a stake in Dutch paintmaker Akzo Nobel last year and encouraged the board to engage with competitor PPG Industries over a takeover bid. Friendly activist investor Jeffrey Ubben of ValueAct won a seat on the board of engineering giant Rolls-Royce last year after assuring the company and its shareholders that the investor was a long-term backer that can help revive the struggling engineer.