



June 2016

Effective Activism – 2016

Among the frustrations of small-cap investing are the poor governance, misguided strategies, and wasteful practices at persistent underperformers. Disappointed investors (or opportunistic fund managers) sometimes turn to an activist approach to realize value in these stubborn companies.

Two attributes of activism stand out: on the occasions when it succeeds it does very well, and it can cost an investor a lot of money to do. We set out to improve the odds of success, and lower the cost.

Since 2010, we identified a total of 103 undervalued companies that fit the profile needed to pursue effective activism. Based on a simple valuation model, at that time we estimated an investor could on average almost double their investment in these companies, at a negligible cost relative to conventional activist efforts.

We have updated the earlier analysis, and identified some new companies that fit the criteria. These companies have a concentrated investor base (ten largest investors own at least 40% of the outstanding shares), which allows an activist to influence management in creative and low-cost ways. They are also hardly microcap investments, either. In this 2015 edition, the average market capitalization of the 49 identified companies is \$608 million.

We think investors should consider effective activism in two situations:

- a portfolio manager with an underperformer that wonders about the costs and benefits of an activist approach.
- an investment firm that finds activist returns attractive, but finds the costs of activism daunting.

The Activist Investor

Resources and Advisory Services

The Activist Investor serves as a comprehensive resource for equity investors that seek to enhance returns of poorly performing portfolio companies. We provide a range of professional services to assist investors with their activist efforts.

For further information, or to discuss a specific turnaround situation, please contact:

Michael R. Levin
m.levin@theactivistinvestor.com
847.830.1479
www.theactivistinvestor.com

We base this information in this document on data from sources we consider to be reliable. We do not guarantee the accuracy or completeness of this information. We do not intend anyone to use this information as the sole or primary basis of investment decisions. Because of individual requirements of specific investors, an investor should not interpret or understand this information as advice designed to meet the particular investment needs of any investor. We do not represent this information an offer to buy or sell any security. Further, a security described in this document may not be eligible for solicitation in the states in which the investor resides. Any opinions expressed are subject to change. From time to time, Michael R. Levin may own the securities mentioned and may purchase or sell those securities in the open market or otherwise.