

Investor Communications Strategies in the Age of Online Activist Shareholders
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Background

On April 30, 2002, Walter Hewlett announced that he was abandoning his proxy campaign to block the HP-Compaq merger. Our client, Hewlett Packard, had hired us as part of a team that waged a campaign both online and off to convince shareholders to approve the deal. Hewlett's campaign was formidable, well-funded, and effective. He rallied dissatisfied HP and Compaq employees, skeptical investors, and a hungry financial news cycle to make his case. His online campaign was formidable, and he heavily relied on blogs and his anti-merger website to get the word out. We suspect his biggest expense was the costs needed to mail out proxy ballots to investors.

Thankfully, Walter Hewlett lost and the market seems to agree that his vision was the wrong one. HP's stock, which closed around \$17 when he ceased his campaign in 2002, is trading in late March at over \$45.

Today, there are many Walter Hewlett's and there's going to be many more in the future. The SEC announced last year that company may now distribute proxy ballots electronically, lowering the bar for a campaign like Walter Hewlett's to be much cheaper than ever. The overall drop in the stock market has created buying opportunities for hedge funds that now routinely agitate for management changes that will increase the value of the stock.

The model of the new online activist shareholder

The model "what's to come" is Eric Jackson and his 2007 campaign against Yahoo! On December 2, 2006, Eric Jackson was agitating on his blog ("Breakout Performance") about Yahoo!. "Yahoo! has no requirement for directors to buy stock. They should." Putting his money where his mouth was, Jackson bought 45 shares of the purple giant a month later, in January 2007, and began his campaign, "Plan B For Yahoo!"

Jackson said that within a week of the campaign launch, "there were articles in *Dow Jones*, the *New York Times*, and the *Red Herring*. The financial media picked up on it right away." Jackson's criticisms of the company had found fertile ground, and though he wasn't leading an investor revolution, he was most certainly giving voice to widespread discontent with the company's performance.

Activist investors are typically either individuals with a separate political agenda (like divestiture) that buy one share in order to influence the board vote or powerful, like Walter Hewlett, who from the HP board itself waged a savvy web based and media campaign to fight his fellow board members in opposition to the HP-Compaq merger. They control large blocs of shares and their ability to sway board elections is usually not in doubt.

Eric Jackson is a new form of activist shareholder. His stake is small, he bought only 45 shares of Yahoo! in January when he began his campaign, and his stake has never been larger than 96 shares, but his media reach speaks volumes. In his most highly-trafficked months he says he gets five or six thousand visitors to his website. The press interview him relentlessly. As an actual shareholder, instead of an analyst, he seems to be the second number financial reporters dial after Jerry Yang or Sue Decker. "I got my share of phone calls just to present the other side" Jackson has told us. "Though other shareholders told me privately they were upset, not many people would come out and say that. Because I was, the press came to me."

Yahoo!'s lack of attention to Jackson was a huge mistake. Not until he filed papers to run for one of Yahoo!'s board seats did he really get the attention of Yahoo!'s management. Ignoring him for so long while he amassed a stack of press clippings had made him a personality, the media's "go to" guy for thoughtful criticism on Yahoo!'s lack of a strategy.

By April of 2007, Jackson's campaign was in full steam, and with the annual meeting approaching, investors were beginning to agitate for change at Yahoo!. The board was up for re-election and Yahoo!'s human rights problems in China and CEO Terry Semel's bloated pay package were getting plenty of criticism.

Eric was quietly called in for a meeting with Yahoo!'s management. He was hoping for some give and take with management. Point by point he laid out his plan for Yahoo! to succeed. "They responded to each point explaining why they didn't agree," said Jackson. At the end of his presentation, with absolutely no movement forward, the meeting ended.

Jackson says that the meeting was the beginning of his campaign to oust the current directors. "I was hoping we'd get to a constructive dialogue with Yahoo! but after they rebuffed me, the campaign got negative. I then began to lobby other shareholders to vote against the directors at the annual meeting."

By all accounts the annual meeting in June of 2007 was a low point for Yahoo!. The media had spent the previous week talking about how CEO Terry Semel's pay package of \$71 million was inappropriate given the languishing stock price and the company's poor performance. Along with Jackson, two different proxy advisory firms were urging shareholders to vote against the re-election of the Yahoo! board because of the disparity between the company's performance and Semel's pay package. With some of the board only approved with 66% of the vote, the agitators had made their point. By January of 2008, Semel would be gone, Sue Decker would be put in charge of the firm (a Jackson recommendation), and a suitor offering to buy the company would emerge while the "Yahoos" in charge tried to convince shareholders that they really did have a plan. Yahoo!'s action to convince people of their potential value are viewed by most as too little too late. Eric Jackson's campaign to unlock Yahoo!'s value with an outside bidder may very well succeed.

Analysis

There are a number of mistakes that Yahoo! committed that you can avoid:

1. Don't ignore critics, especially if they channel overall discontent
2. Engage the activists carefully, be careful you don't create a more motivated opponent
3. Once you recognize you have a problem, use time-tested political campaign techniques to isolate your critics and amplify your supporters

Every Fortune 500 company has learned that the Internet changes everything about the way you deal with consumers and consumer opinion online. The next few years of history in investor communications will be written about companies whose investor communications program fail to adapt to the Internet as well.

Conclusion

Walter Hewlett used web and communications techniques very effectively to oppose unsuccessfully the HP-Compaq merger. Eric Jackson, small fry though he is, began a campaign that ultimately toppled Yahoo!'s management. Whatever the power activist shareholders bring to the fight, the Internet amplifies that power multi-fold and must be countered effectively by corporate management in the new age of activist shareholders.

About the authors: Shabbir Imber Safdar and Jeff Connaughton were part of a cross-agency team that provided strategic and digital communications consultation to Hewlett-Packard during the proxy fight over the Compaq acquisition.

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