

Former Rolls-Royce IR director discusses ValueAct experience

This article was produced by ELITE Connect and originally published on the ELITE Connect platform (2018)

In 2014, US hedge fund firm ValueAct Capital set its sights on Rolls-Royce, later becoming the first activist investor to secure a seat on the board of a FTSE 100 company, after building up a more-than 10 percent stake in the company.

John Dawson was director of IR at Rolls-Royce at the time, and has since gone on to form Statera Partners, an advisory firm that provides advice and strategies to board members on dealing with shareholder activism. Here, he talks about his former company and ValueAct, and offers his expert insight into how companies can protect themselves against activists.

[What were the first signs of activist threat from ValueAct for Rolls-Royce?](#)

ValueAct first engaged with the company in 2014, so we had early signs of its interest in the business although nothing material happened. The profit warning in early July 2015 made it inevitable that there would be renewed interest from ValueAct and possibly other activists.

[What was the first action Rolls-Royce took?](#)

As a new management team - new CEO, new head of IR, fairly new CFO - we had to formulate our own views on the challenges and opportunities at Rolls-Royce. The first priority was to slow down engagement with ValueAct and try to manage a timetable that allowed us to develop our own perspectives on the business, independent of the activist.

[What steps did Rolls-Royce take to find a successful resolution?](#)

We needed to balance the best interests of all shareholders. The new management team needed to be empowered by all investors to implement the changes they wanted. ValueAct needed to be supportive of this for us to accept its views as constructive to the interests of the wider shareholders. Through our engagement with ValueAct and other investors, we ensured - to the highest extent possible - that this would be the case.

[What impact did ValueAct's move have on Rolls-Royce?](#)

With a new management team pushing a new strategy, the impact of ValueAct was limited on its own, but it reinforced the voice of the CEO and the calls for action to change and improve performance.

[Were there any positives for Rolls-Royce resulting from ValueAct's actions?](#)

ValueAct has provided stability to the shareholder register and this has been useful - it's important to know the activist, its behavior and supporters, as the impact will vary. ValueAct has empowered management and helped provide clarity on the key goals necessary to demonstrate success. As long as it remains involved, and the company performs, this will be helpful as the firm transitions from its major investment phase to one of higher-quality cash generation in the future.

In your experience, what are the most effective steps a company can take to avoid activist threats?

Activism almost always gets a foothold because investors perceive some form of weak governance in a business. Strong governance allows a company to weather the odd misstep or period of underperformance, as investors feel their voice is heard and represented well in the boardroom.

Building strong relationships with investors, through both the executive and non-executive members of the board, is critical and this needs to be done proactively: reactively is too late. That's why we've set up Statera Partners - to provide boards with the right tools and information to do this effectively. It's a multi-year journey and needs to be started when times feel good. It's the insurance that helps protect the company.

If a company is subject to an activist threat, how can it best work toward a successful outcome?

Hopefully, companies experience activism only exceptionally. As a result, they'll rarely have deep experience internally to draw on when engaging with an activist. Having good, trusted, independent advisers is therefore key to help the team make the right judgments and work toward the best solution for long-term shareholder confidence. Independent advice will help ensure management has the resources to manage the situation and take steps that result in the best possible outcome for the company and its shareholders.

Contacts

Michael E. Henson
Partner
T: +44 (0) 7551 720441
E: michael.henson@staterallp.com

John Dawson
Partner
T: +44 (0) 7810 831 9444
E: john.dawson@staterallp.com