Activist Insight Monthly

ACTIVISM IN JAPAN

HERBALIFE: THE END?

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GOLDEN LEASHES

Volume 5 Issue 7 | August 2016

Activist Insight

www.activistinsight.com

AOC at STADA

In a historic move for Germany, Active Ownership Capital has launched a proxy contest to overhaul the supervisory board of drugmaker STADA. Another activist has now entered the dispute, calling for a sale of the company.

The last time a German company faced a proxy contest was in 2014, when construction machine maker **Wacker Neuson** needed to replace a board member and three shareholders piled in unsuccessfully to elect a competing candidate to the one advanced by the company.

STADA

Industry	*Drugs—Generic*
Sector	*Healthcare*
HQ	*Bad Vilbel, Germany*
Market cap	*€3,050 mn**
Exchange	*Deutsche Börse*
Ticker	*SAZ.DE*

** as of July 29, 2016*

Active Ownership Capital (AOC), a Luxembourg-based investment adviser, is hoping for more success, on a completely different scale. The investor is waging a proxy contest at **STADA** Arzneimittel, a Hesse-based maker of generic and over-the-counter drugs with a market capitalization of about €3 billion.

At an August 26 shareholder meeting, investors in the company will have the opportunity to vote on the overhaul of the drugmaker's supervisory board. The vote comes at a time when STADA has to replace former-CEO Hartmut Retzlaff, who recently stepped down due to a long-term illness.

A board up to its challenges

AOC has a 5.1% stake in STADA—effectively 7% with derivative contracts—and went public with a campaign at the company in May, about a month after its investment was first disclosed. The activist proposed five new members for the supervisory board, saying that the drugmaker had "evolved from a generics manufacturer operating in Germany… to a global pharmaceutical company with an international client base without adapting the competencies of its supervisory board accordingly."

STADA did not oppose the claim. On the contrary, Chairman Martin Abend said that they "had already begun to look at questions related to the succession planning process some time ago."

The company initially agreed to nominate three AOC candidates, saying that it wanted to avoid costly disputes and focus on growth strategies. However, it eventually reversed its decision. It also announced the nomination of director candidates that would replace four of the six board members who are elected by shareholders (the supervisory board also includes three worker delegates). Abend's seat would not be up for election.

In a statement, the drugmaker said that all the candidates initially advanced by AOC had been considered in the selection process—which was assisted by headhunting firm Egon Zehnder.

In a July report, Commerzbank analyst Daniel Wendorff said that STADA's new nominees "combine necessary skills for the company," including a know-how of international markets, turn-around situations, commercial operations and marketing. However, he added that "not all the candidates were necessarily first-line board members of international healthcare companies."

AOC was not pleased with the company's decision, and called on STADA's large shareholders to join forces and discuss with executive search firm Spencer Stuart a new list of nominees. Spencer Stuart's slate is now ready, comprising four names including that of Klaus-Joachim Krauth, one of AOC's initial candidates.

In the activist's plans, STADA's board will include all the dissident nominees, and two of the four new candidates advanced by the drugmaker.

A second activist

In June, STADA announced bullish growth targets, promising a growth in revenues of more than 50% by 2019. Peter Spengler, an analyst at Frankfurt-

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based DZ Bank, immediately suggested that the company might be showing ambition to keep activist investors at bay, and described the move as “an instrument from the tool box to prevent a takeover and a potential breaking-up of the group.”

In a report, Spengler said that the over-the-counter drugs sector was facing a wave of consolidation, and argued that given STADA’s “regional structure and its competitive position in the OTC and generics market,” there were some “risks of marginalisation” for the company.

AOC has never planned a sale or a break-up of STADA, but another activist is.

US investment firm **Wyser-Pratte Management** disclosed a stake of just below 3% in the company in June. It accused the drugmaker of failing to vigorously pursue an international strategy, and said that STADA should explore a merger.

So far, it has held off from adopting its own hostile tactics, but is leaving onlookers in no doubt about which side of the fence it is on. The firm’s founder, Guy Wyser-Pratte, told Activist Insight Monthly that they did not participate in Spencer Stuart’s selection process, but will support AOC’s slate. However, he does not want the new board to engage in a long-term relaunch of the drugmaker.

“They should pursue a merger, thereby obtaining a good price in the near-term,” he said. In a subsequent interview with Reuters, he said that the company should be sold to buyout firm CVC Capital Partners.

The drugmaker’s reaction

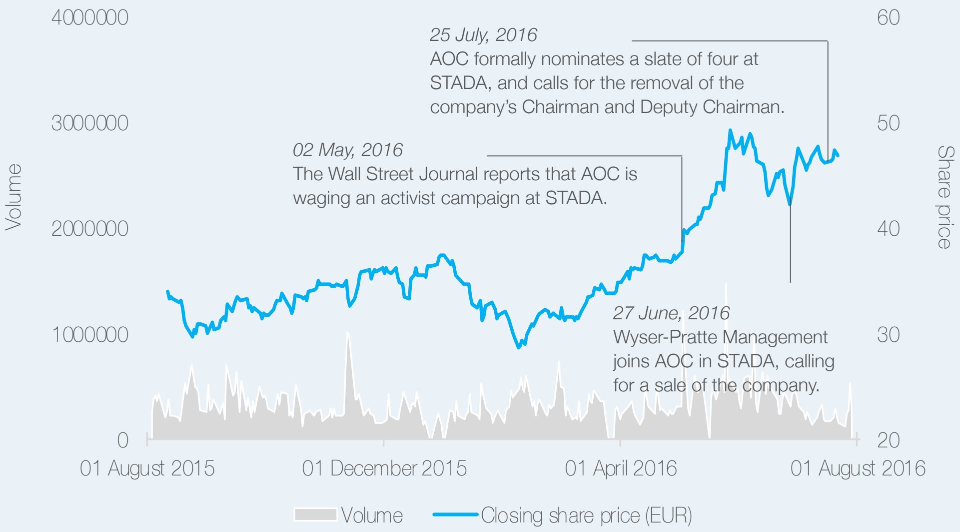
As of July 29, the drugmaker’s stock price had increased more than 39% since AOC’s investment was first disclosed, but the investment firm cannot take all the credit.

STADA has not been deaf to the activist’s campaign after all. Not only has it nominated new director candidates, but it also included in its agenda for the annual meeting another proposal initially advanced by AOC—the elimination of limits to the transferability of its shares. In June, DZ Bank’s Spengler said that the move would likely “boost speculation” of a possible merger transaction.

Also, following AOC’s request to replace STADA’s auditor, PKF Deutschland, the company announced that it will propose a new accounting firm at its 2017 annual meeting.

Better-than-expected results for the first quarter of 2016 also played a part. Now it is up to STADA’s shareholders to decide whether those changes are sufficient to secure the future of the company.

STADA 12 month share price performance



Fundamentals

52 week high	EUR49.29 *
52 week low	EUR28.20 *
Share price	EUR47.60 *
Total Shareholder Return (12 months)	39.7% *

** accurate as of July 29, 2016*

Source: Capital IQ, Xignite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