Five Themes for Public Company Board Agendas in 2022

William Blair's Corporate Advisory team highlights topics that should be on the radar of every public company in the months ahead and provides advice for how to best navigate today's mix of headwinds and tailwinds.

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For public company boards and executive management teams, there is a lot to consider regarding the M&A and corporate finance environment today. Markets have been extremely volatile so far this year, and we expect continued uncertainty around fiscal and monetary policy as the Biden administration seeks to combat inflation. In addition, the recent war in Ukraine has added a significant degree of geopolitical uncertainty to the world stage.

While these factors have contributed to short-term market volatility and the impact beyond is uncertain, there are broader strategic topics that remain top-of-mind for business leaders and boardrooms this year. Macroeconomic conditions continue to support strong M&A activity, and private equity sponsors and strategic buyers have record levels of cash to deploy. But there are important question marks as well, including increasing pressure from shareholders for near-term results and urgency for progress on issues like sustainability and digitalization.

We believe the following themes will define the corporate finance and M&A environment in 2022 for public company boards and executive management teams:

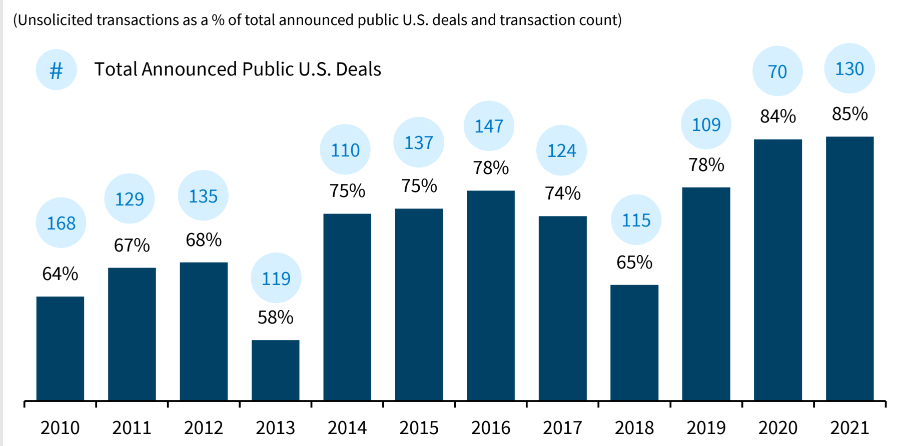
1. **Unsolicited offer/take-private activity likely to increase**
2. **Large corporations prioritize portfolio optimization**
3. **Non-tech companies accelerate focus on digitalization**
4. **ESG's role in corporate governance and M&A expands**
5. **Momentum around shareholder activism strengthens**

Unsolicited Offers on the Rise

In 2021, 85% of take-private deals began with an unsolicited offer—the highest portion of total announced public U.S. deals in the last decade. Several factors will drive an uptick in unsolicited offers in 2022. Just as private equity sponsors and strategics are sitting on record levels of dry powder, public company valuations are trading at attractive levels relative to private company valuations. We expect that both private equity sponsors and strategics will continue to pursue take-private acquisition opportunities in this environment.

As we saw at the end of January and the end of February/early March, spikes in equity market volatility also serve as a tailwind for unsolicited offers. Equity market volatility can cause companies that need regular access to capital markets—such as high-growth technology companies—to seriously

Unsolicited Deal Activity [1]



contemplate the comprehensive suite of potential financing and M&A alternatives, particularly in the instance of "fallen SPACs" or other earlier-stage companies that have recently experienced challenged share prices. Rising interest rates over the next economic cycle will exacerbate this issue, making additional capital raises more tenuous.

The valuation environment is another factor driving private equity sponsor and strategic interest in unsolicited take-private offers. The market correction has resulted in a valuation reset for many sub-sectors, and public company multiples can appear attractive relative to private company buyouts today.

Our Advice: Don't Get Caught Flat-Footed by an Unsolicited Offer

Companies should consistently and proactively evaluate their financing and liquidity needs so they are better prepared for volatility in the capital markets. Maintaining periodic investor outreach—even when there is not an immediate need for capital—will help to maximize a company's options in a variety of market conditions. Getting caught flat-footed, on the other hand, will limit a company's potential paths, especially in downside scenarios.

To mitigate the risk of being caught flat-footed, companies should have a strong understanding of their market valuation and investor sentiment relative to peer valuations and private company valuations. Staying current with a medium- to long-term forecast and a view on implied fundamental value is also essential. Additionally, companies should stay current on a company's potential universe of suitors as well as their potential appetite for M&A.

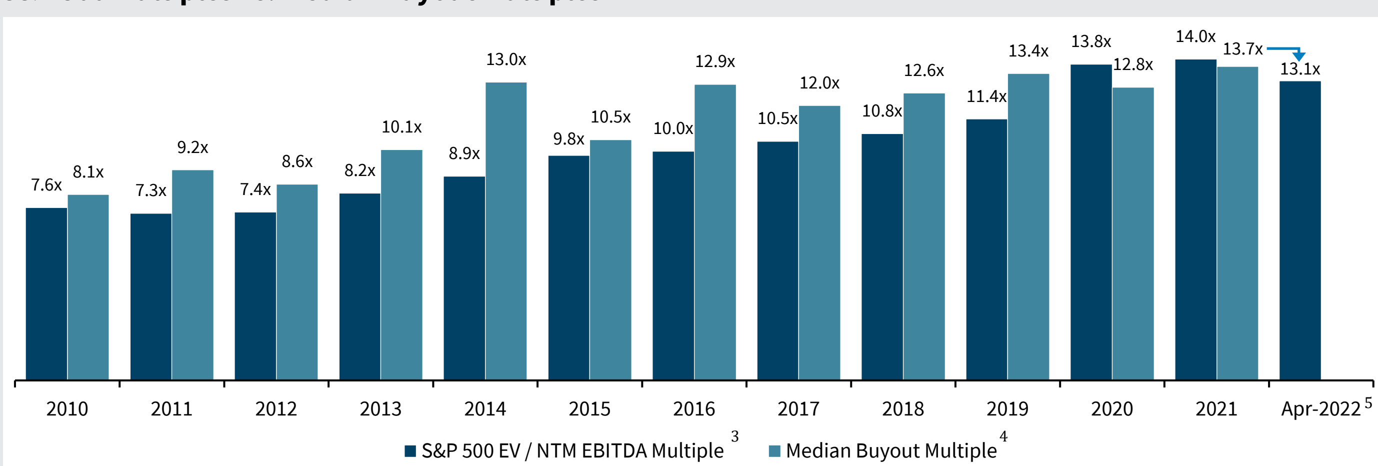
Large Corporations Prioritize Portfolio Optimization

Several factors are pushing large companies to shift attention to portfolio optimization, including a relatively strong transaction multiple environment, wider spreads in multiples between sub-sectors or business strategies, and eagerness among shareholders for near-term results. Public companies are using strategic portfolio reviews to streamline business unit mix and simplify operations. Many of these efforts are intended to help companies operate more nimbly or be more strategically focused in a challenging macro environment. However, these efforts can also be intended to maximize the sum-of-the-parts value for company shareholders.

A strong M&A environment is an opportune time to evaluate business unit mix and consider shedding non-core assets. When considering divestitures, boards should have detailed plans on how cash proceeds will be reinvested into core competencies and strategic focus areas. This can include potential investments to accelerate digitalization, as covered in the section below.

While shareholders were generally willing to give companies time to respond to the COVID-19 pandemic's challenges in 2020–2021, they expect companies to move more quickly today, which encourages more streamlined approaches and focused business strategies. Several recent large-scale separation announcements have

S&P 500 Multiples vs. Median Buyout Multiples [2]



1. Source: Capital IQ. Represents unsolicited offers and total transactions announced for public U.S. companies with market capitalization greater than $50mm. Excludes cancelled transactions and transactions in Real Estate, Oil & Gas, and Financial Institutions sectors.
2. Sources: S&P, Capital IQ, and Pitchbook. See disclaimer at end of paper. 3. 2010 – 2021 represents median multiple for respective calendar year. 4. Median buyout multiples represent median U.S. private equity buyout EV / EBITDA multiples per Pitchbook. 5. Data as of April 1, 2022.

Upcoming Spin-offs[6]

Company	Description	Timing
Sanofi	IPO-spin EuroAPI active pharmaceutical ingredients unit	5/6/2022
BRG Bluerock Residential Growth REIT	Spin of Bluerock Homes Trust (BHOM) single family rentals	2Q 2022
Encompass Health	Spin of Enhabit Home Health & Hospice	2Q 2022
gsk GlaxoSmithKline	Partial spin of Haleon consumer health unit	7/2022
Fidelity National Financial	Partial spin of F&G Annuities and Life	3Q 2022
XPO Logistics	Spin of brokered transportation services	4Q 2022
GE	Split into aviation, healthcare and power businesses	Healthcare: 1Q23 Power: 1Q24
Johnson & Johnson	Spin of consumer products business	2H 2023
AIG	Separation of life & retirement business	Uncertain
CommScope	Spin of Home Networks unit	Uncertain
Ligand	Partial spinoff of OmniAB business	Uncertain
Office Depot	Spin of business-to-business solutions unit	Uncertain
Vornado Realty Trust	Spin of tracking stock for Penn assets	Uncertain

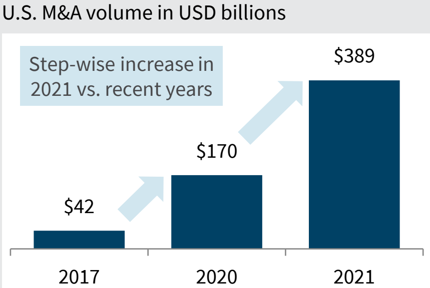
highlighted this trend. For example, in November and December 2021, GE and Johnson & Johnson each announced that they would split or spin off major segments of their businesses in 2023–2024.

Our Advice: Reassess Your Portfolio in a Proactive, Systematic Way

Public companies should prioritize strategic portfolio reviews in 2022 and ensure they have an honest assessment and action plan in place for each business unit. Boards and management teams should challenge themselves to determine the best ways to invest in core businesses, decide how to transition semi-core businesses to core businesses, and review the most value-accretive options for parting with non-core business units. Which path will produce the greatest after-tax value to shareholders? In the case of divestitures, how will cash proceeds be reinvested to drive growth in core competencies? Companies should develop a thoughtful strategy, clearly communicate it, and begin acting on it.

Non-tech Strategics' Acquisitions into Traditional Tech[7]

U.S. M&A volume in USD billions



Non-Tech Companies Accelerate Focus on Digitalization

Digital capabilities are no longer seen as a competitive advantage—they are must-have competencies regardless of a company's sector. The push for digitalization is even more acute today because digital solutions can help companies navigate macro challenges like labor, supply chain, and cybersecurity issues. We expect the focus on digitalization to gain further momentum in 2022 as companies continue to embrace automation, machine learning, and big data.

Shareholders expect companies to have clearly defined digital strategies regardless of their industry, including a thorough analysis of whether to buy, build, or leverage partnerships to achieve digital transformation. Companies that aren't traditional tech players must evaluate a broader set of considerations about how to integrate new tech capabilities within their businesses. To highlight this trend, there has been a major uptick in non-tech strategics acquiring tech companies. Corporations such as Honeywell, Roper, and Emerson have recently executed major software acquisitions in the interest of streamlining critical aspects of their businesses.

Our Advice: Tailor Your Digital Strategy to Your Unique Situation

The optimal digital transformation plan depends on a company's unique circumstances, competencies, and constraints. To be successful, a digital transformation strategy needs to be mindful of things like a company's organizational structure, human capital, and corporate culture. It can be just as complex to acquire and integrate digital capabilities as it can to build them internally. Companies that are considering building digital capabilities must be realistic about the required timeline, budget, and execution risk that is involved.

Companies focused on acquiring digital capabilities need to get comfortable with paying very high valuation multiples for such businesses—and clearly explain the strategy and how it is expected to benefit the company and its shareholders. While reviewing traditional corporate finance capital allocation metrics like ROIC and EVA is a natural starting point when crafting a digital strategy, it is important to realize that some of these metrics may not be suitable in effectively navigating the need to add digital capabilities.

ESG's Role in Governance and M&A Expands

Implementing strong ESG policies is now a competitive necessity for public company boards and executive management teams. Increased efforts to bridge shareholder value creation and ESG—including an increased emphasis from investors on ESG rating from MSCI and other agencies and a growing universe of ESG-focused public/private capital pools—are increasing pressure on management teams for greater ESG accountability.

ESG issues also continue to draw attention from lawmakers and regulators, including the SEC's proposal in March 2022 to enhance and standardize climate-related disclosures for investors. ESG issues are expected to be a focus area for shareholder activism in the near-term, and evaluating a company's ESG

6. Sources: Company press releases/SEC filings.
7. Source: Refinitiv data.

Recently Launched ESG Focused PE Funds

Apax Global Impact
- Launch: Q4 2021
- Size: $1.0B Target

Apollo Impact
- Opened July 2021
- Size: $1.5B Target

BainCapital Double Impact
- Vintage: November 2020
- Size: $800M

Brookfield Global Transition
- Target Close: 2022
- Size: ~$15B

KKR Global Impact
- Vintage: February 2020
- Size: $1.3B

TPG RISE CLIMATE
- Target Close: 2022
- Size: $7B

policies has become a key part of M&A due diligence.

Our Advice: Assess Your ESG Position, and Have a Strategy

To remain competitive and broaden the potential investor universe, companies should develop action plans to address critical sustainability factors like the company's carbon footprint and supply chain. Boards of directors should seek diversity of thought and background among their members, as well as effective metrics to measure their progress toward diversity objectives. Companies also should issue an annual sustainability report and make ESG a regular part of their conversations with institutional shareholders. These practices will put companies and boards in the best position to maximize investor interest and mitigate the risk of activism that may advocate for a more aggressive ESG stance.

Momentum Around Shareholder Activism Strengthens

Shareholder activism decreased in 2020–2021 as investors generally gave companies time to respond to the pandemic's challenges. Now that the dust from the pandemic has begun to settle, activism will likely intensify in 2022. It is easier for activists to identify operational underperformers following eight quarters of post-COVID-19 results. In addition, recent market volatility has clearly affected some industries and sectors more than others, and activists will be refreshing their target lists accordingly.

Activists will be ready to return to work after being relatively less active over the past 24 months, with several tailwinds making it easier for them to take more aggressive action. For example, the large number of recent fallen angel de-SPACs or other underperforming companies in the midst of market volatility will likely provide a rich landscape for activists in 2022. Additionally, PE firms may seek to use high levels of available capital to selectively deploy the activist toolkit in opportunistic situations. A recent SEC rule change provides another tailwind for activists in 2022: The SEC recently adopted a change to proxy voting rules that will make it easier for activists to obtain board seats.

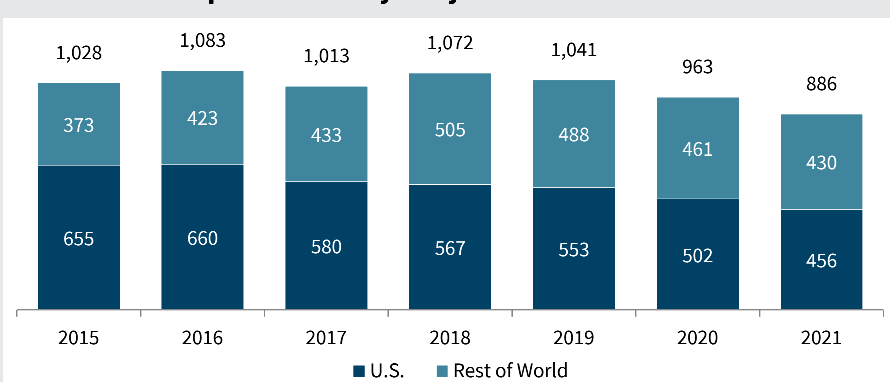
Our Advice: Think More Like an Activist This Year

Company boards need to be cognizant of the influence that activists may seek and conduct regular activism vulnerability assessments. This includes comprehensively evaluating a company's landscape of strategic alternatives as well as reviewing factors such as the company's financial metrics, shareholder returns, and overall governance. It also means being particularly rigorous about M&A processes, where companies should assess factors such as strategic rationale, fit of opportunity, ROIC, and other pro forma impact metrics of a potential acquisition or sale. To be in a strong position to defend their strategic decisions against activist challenges, companies need to have a predetermined "activist playbook" on hand that can help guide their response strategy should such a challenge arise.

How Do These Trends Affect Your Company?

Our Corporate Advisory team would welcome the opportunity to share our perspectives and discuss how these opportunities and challenges apply to your company's unique circumstances. Please don't hesitate to contact us if you are interested in continuing the conversation.

Number of Companies Publicy Subjected to Activist Demands[8]



8. Source: Insightia.