

Activism by prominent Australians



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One interesting theme that has emerged recently in the Australian public markets landscape has been the involvement of prominent Australians in shareholder activism. Examples include:

Mike Cannon-Brookes and AGL



Market Cap: A\$5.6b
EV: A\$8.4b

On 30 March 2021, AGL announced its intention to separate its coal-focused power generation business (Accel Energy) from its Australian retail business (AGL Energy). Mike Cannon-Brookes campaigned against the demerger, arguing that the demerger would not reduce emissions and address climate change. A consortium led by Brookfield Asset Management, including Mike Cannon-Brookes¹, subsequently put forward two proposals to acquire AGL on 21 February 2022 and 7 March 2022 for A\$7.9b and

A\$8.4b respectively². These offers were rejected by AGL. Mike Cannon-Brookes then acquired c.11% of AGL in order to seek to stop its demerger plans. The demerger was ultimately withdrawn, resulting in the Chair, the CEO and numerous director resignations.

More broadly, through Grok Ventures, Cannon-Brookes has personally committed A\$1.5b of capital to climate change philanthropy and green investments over the next decade.

Andrew and Nicola Forrest and Huon Aquaculture Group (“Huon Aquaculture”)



Market Cap: ~A\$425m
EV: ~A\$550m

Andrew and Nicola Forrest, through their holding company, Tattarang, announced on 21 June 2021 that it had purchased 7.3% of Huon Aquaculture, a Tasmanian salmon farming business. Tattarang were also rumoured to have bid for the company. On 6 August 2021, it was subsequently announced that Huon Aquaculture had entered into a Scheme Implementation Deed with JBS, a Brazilian meat processing giant, to acquire 100% of Huon

Aquaculture shares. Tattarang subsequently increased its stake in Huon Aquaculture (to 18.5%) and challenged JBS to declare its unequivocal commitment to animal welfare and environmental sustainability, otherwise it would vote its shareholding against the Scheme. JBS stated its global commitment to sustainability and animal welfare, and Huon Aquaculture was subsequently purchased by JBS, in November 2021 for ~A\$550m.

1. The AGL acquisition was led by Brookfield Asset Management Inc and included Grok Ventures (Mike and Annie Cannon-Brookes' investment vehicle). The Brookfield Consortium proposed to acquire 100% of the shares in AGL Energy.

2. The offer prices of A\$7.9b and A\$8.4b represent the implied Enterprise Values based on the offer price.

Some of the major themes emerging in Australian listed markets are:

- 1. Campaigns have become particularly influenced by ESG agendas, with these individuals driving companies to pursue more progressive policies.** On environmental grounds, Mike Cannon-Brookes stated, *"We have purchased this substantial interest in the company because we fundamentally believe there can be a better future for AGL... A future that accelerates the transition to net-zero."* Similarly, Andrew Forrest stated, *"[our investment in Huon Aquaculture is] to see if we could turn salmon farming away from its current very poor reputation which in many cases is deserved and in some cases is not."*
- 2. Very public campaigns run in the media.** These prominent Australian investors have run big media campaigns, using a broad range of media channels. Mike Cannon-Brookes ran a very public campaign against the AGL demerger, using social media (e.g. Twitter), and television (e.g. appearing on the 7.30 Report), to apply pressure on the AGL board. Andrew Forrest similarly ran a very public campaign, launching a national media blitz and taking out a full-page advertisement in The Australian Financial Review, publicly challenging JBS to commit to better animal welfare standards.
- 3. Increased collaboration between prominent investors, institutional investors and superannuation/pension funds.** Grok Ventures engaged with a variety of investors in its campaign against AGL. In its initial bid for AGL, Grok Ventures was part of a consortium led by Brookfield Asset Management, a Canadian-based investment firm with over US\$725b of assets under management. Subsequent to acquiring an 11% stake in AGL, Grok won the support of the A\$68b Australian superannuation fund HESTA (the Health Employees Superannuation Trust Australia) to vote against the proposed demerger of AGL. HESTA stated it was *"unconvinced"* the plan to split AGL would *"sufficiently accelerate decarbonisation to meet Paris-aligned targets"* or *"manage the risk of stranded assets."* Grok ventures also directly engaged with AGL's major institutional shareholders to discuss the proposed demerger. On 30 June, it was announced Brookfield now own a 2.6% interest in AGL.

Positive tailwind for Activist investors in Australia

We believe increased activism from prominent Australians will result in:

- 1. Increased engagement with shareholders by ASX listed corporates and their Boards.** As a result of the failed AGL demerger, Chairman Peter Botten announced his resignation from the Board and Graeme Hunt announced he would step down as CEO and Managing Director. Increased engagement from boards and management teams will ultimately lead to faster execution of value creating catalysts, leading to greater shareholder returns. This is to the benefit and long-term interests of all shareholders.
- 2. Support for M&A activity increasing the universe of potential bidders for companies.** Increased involvement of prominent Australians in public markets activism can help to drive potential takeover activity. A healthy M&A market provides one possible channel to hold listed companies accountable to execute on value creation strategies, as well as providing a pathway for businesses to realise proceeds from non-core assets.
- 3. Adoption of more progressive ESG policies from companies due to activism.** Companies are expected to be more progressive with their ESG policies as shareholder expectations become more explicit and public. According to research by Guerdon Associates, currently about 88% of ASX 100 companies have executive pay incentives linked to ESG metrics. However, shareholders are now *"looking at companies more closely and... they'll want to see particular measures that are quantifiable."*
- 4. More integrated media plans and use of social media channels to communicate with shareholders.** As seen in the AGL and Huon Aquaculture examples, broader media campaigns, including the use of social media, have been effective in communicating with a wide range of shareholders. Companies will need to counter this with their own media campaigns, including the use of social media, to ensure their messaging reaches all of their shareholders.



About the Author: James is a Partner and Head of the Catalyst Fund. Prior to joining L1 Capital in 2021 James spent nearly ten years at Flagstaff Partners, where he was a Managing Director and Equity Partner that originated and executed M&A, equity and debt transactions. Previously, he worked at Macquarie Capital in Melbourne and New York where he was involved in several successful principal investments and a wide range of investment banking transactions after beginning his career at Clayton Utz as a solicitor. James is a generalist with experience covering a wide range of sectors including industrials, gaming, infrastructure, retail, education and mining services. James holds a double degree in Law and Commerce from Monash University, with Honours in Law.

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