

THE ACTIVIST INVESTOR GUIDE

A PRIMER ON SPECIAL SITUATION INVESTING

The Activist Investor Guide

A Primer on Special Situation Investing

Bill Darden was the poster child for the “Greatest Generation.”

The hard-working, straight-talking folks born between 1901 and 1927 were a breed like no other. They came of age during the Great Depression and made up the bulk of the enlisted forces in World War II. They weren’t just talk – they were action. They fought hard for what they believed in. And they understood the value of a dollar better than anyone else.

(Page back a few decades in your own family photo album to see their determined faces.)

It was the gritty Greatest Generation that gave us Ronald Reagan, Margaret Thatcher, JFK – and some of the most iconic companies of all time.

Like Darden, Inc., the dining dynasty founded by tireless entrepreneur Bill Darden...

If you’ve ever stuffed yourself on the cheese biscuits at Red Lobster or the “Tour of Italy” at Olive Garden, you’ve had a taste of an archetypal American success story. Bill Darden’s story. It’s a tale with struggles along the way... but it ends with a triumphant twist.

The Darden saga features an iconic company, an activist-driven management shakeup... and ultimately, a bonanza for shareholders. It’s a classic example of the kind of “special situation” investment we track at **Porter & Co. Activist Investor...** where activists intervene to unlock additional value from a great brand that’s (temporarily) lost its way.

The story starts with go-getter Bill – born in 1918 in the small, Southern town of Waycross, Georgia. He opened his very first restaurant, the Green Frog, at age 19. (No doubt, his lean teenage years during the Great Depression influenced him to make the leap.)

Appropriately, “Service with a hop” was the slogan for this 25-seat luncheonette. Bill Darden focused on great food and even better service.



And he marched to the beat of his own drum. Darden defied the Jim Crow laws pervasive across the South that required whites and blacks to be segregated. It didn't matter who you were or where you came from. Anyone could get a great meal at the Green Frog.

It wasn't a white-tablecloth-and-candles dining experience. But it wasn't greasy burgers and cold fries, either. The Green Frog offered decent, affordable fare to regular people – a concept that would later come to be known as “fast-casual dining.”

The place was a big success – and served as a launchpad for Darden's next venture. With greenbacks from the Green Frog, he bought into the successful Howard Johnson's hotel and restaurant franchise, and also started investing in real estate. By 1965, Howard Johnson's restaurants would outsell McDonald's, Burger King, and Kentucky Fried Chicken... combined. Real estate and restaurant profits made Darden one of the wealthiest men in Florida.

But why stop there? Another innovative concept was swimming in Darden's mind.

Seafood was one of the best-selling items on the menu at Howard Johnson's. He believed customers would love fresh seafood – even miles away from the shore. In 1968, he opened the Red Lobster Inn in Lakeland, Florida, an inland town east of Tampa. Away from the coast, there was less competition for fresh fish.

The seafood concept was a big hit, and Darden eventually dropped the “Inn” part and called it simply Red Lobster. The business soon caught the eye of a suitor. Breakfast-cereal company General Mills, known as the maker of Cheerios, bought Red Lobster in 1970. The new owner put Darden in charge, and expanded the business.

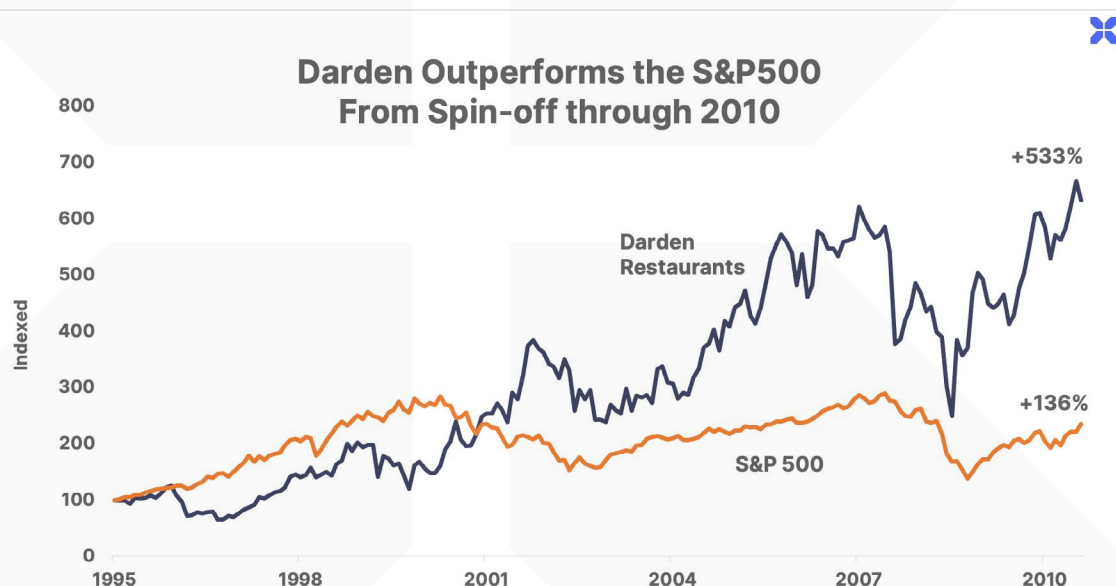
By 1978, Red Lobster had \$291 million in sales with 236 locations, mostly in the southeast. By 1985, the number of restaurants had risen to 372, driving \$834 million in sales. General Mills and Darden launched more concepts, including Olive Garden and Bahama Breeze.

Bill Darden died in 1994 at age 75... universally beloved, like so many others from the tough yet tender Greatest Generation. Joe R. Lee, who'd managed the first Red Lobster in 1968 and moved up the ladder to an executive role, said simply, "I know of no other person who has touched so many lives in a positive way as Bill Darden."

In 1995, General Mills spun off Olive Garden, Red Lobster, and Darden's other successes into a standalone business called Darden Restaurants, forever memorializing the founder's name.

It was an amazing run for Darden, his partners, and family. The company was now in shareholders' hands.

Darden shares (DRI) were listed May 31, 1995, on the Nasdaq at a split-adjusted \$5.97 and began a 15-year march higher. By the end of 2010, shares were trading at \$41.58. Those who bought and held on the spin-off made almost 14% per year on average and outperformed the S&P 500 by almost 400 percentage points.



Along the way, Darden added other successful concepts including LongHorn Steakhouse and The Capital Grille.

But over time, others had caught on to the fast-casual game...

By 2010, competitors like Outback Steakhouse, Carrabba's Italian Grill, and Applebee's had cropped up nationally, saturating the market. Darden's revenue flatlined and costs rose – and Darden shares traded sideways for five years, killing its long-term outperformance.

Darden shareholder Barrington Capital was concerned. After doing a deep dive into the company and its prospects, in an October 2013 letter Barrington urged management to reorganize. It believed in the underlying value of these iconic brands and thought that they could perform better.

Barrington wanted Red Lobster and Olive Garden to be separated into different businesses, as they were growing more slowly than other brands. At the same time, it urged the company to place the land into a REIT, or real estate investment trust. This would be a separate company that would own the real estate at full market value and pay hefty dividends to shareholders. This would drive real value for shareholders – and mimic the successful real estate strategy that originally made Bill Darden one of the wealthiest men in Florida.

Then came a record-scratch moment.

Darden's management ignored Barrington entirely. Instead, it announced plans to sell the famed Red Lobster brand... and all of its real estate... for only \$1.6 billion after taxes.

This severely undervalued an iconic brand and a still-strong business. What were they thinking?

That's when aggressive activist investor Starboard Value got involved...

Starboard – a hedge fund known for buying big chunks of companies and pushing for reform – purchased 5.6% of Darden and launched an all-out attack on the board.

Starboard rallied other shareholders and sent seven letters to the board urging them to pause the deal and hold a special meeting of shareholders. But the board refused point-blank and finalized the deal anyway.

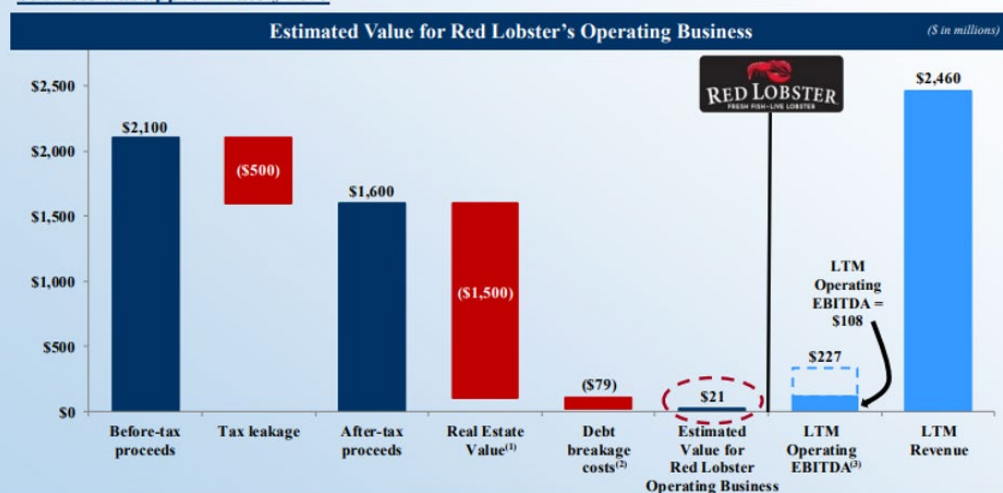
So Starboard brought out the big guns: an epic 294-page presentation that skewered Darden's management and board.

Like Barrington months prior, Starboard did its homework and determined that Red Lobster's real estate value alone was worth about \$1.5 billion. The hedge fund calculated that Darden's board had sold this iconic brand for a paltry \$21 million after expenses, essentially giving it away. This was a business that generated \$2.5 *billion* in revenue in the preceding 12 months!

We believe the Red Lobster Sale represents a substantial destruction of shareholder value

It is unconscionable that Darden would have sold an iconic American brand for what we believe amounts to \$100 million or less of net after tax proceeds, effectively giving it away.

- The proceeds Darden received, net of taxes and friction costs, less the \$1.5 billion in real estate value that we believe Darden could have realized tax-free, imply that the value received for Red Lobster's operating business was approximately zero.



It appears that the Board simply chose to give up on Red Lobster

Source: Company filings.

(1) As demonstrated in our real estate primer, *A Primer on Darden's Real Estate* released on 3/31/2014, we believe this value could have been realized on an after-tax basis through a variety of options.

(2) Assumes debt breakage costs of \$0.39 per share, per management's statement on its Q4 2014 earnings call, and 35% tax rate.

(3) Pro-forma operating EBITDA assumes Red Lobster LTM EBITDA of \$227 million less assumed rental income of \$119 million.

STARBOARD VALUE 37

And the scathing presentation was just Starboard's opening salvo. In October 2014, the hedge fund staged a full-scale takeover...

It was too late to get Red Lobster back, but Starboard could still save the company. At Darden's annual meeting, shareholders voted the *entire board* out and replaced it with 12 new candidates hand-picked by Starboard. The activists then began a multi-year process to refresh management, cut costs, and revitalize Darden's restaurants.

Five years from the date of that annual meeting in 2014, Darden shares began to outperform once again. Shares added 150%, returning 21% per year on average. For investors still holding the shares today, Darden stock is up 244% since the 2014 sacking of the board, returning 14% per year on average.

Bill Darden would be proud.

This is a great, multifaceted American investment story... and a special situation goldmine, discovered by activist investors who saw trouble in a normally robust company.

It includes a founder shaped by the Great Depression, and focused on perpetual innovation, smart investment, fantastic growth, and an iconic brand recognized worldwide.

It also includes something else. One of the most powerful inciters of investment growth that has sent company valuations skyrocketing to new heights.

What is this magic? It's called Activist Investing. And it consistently generates returns that way outperform even the best growth stocks.

If you are reading this, then you've made an amazing choice.

Welcome to Porter & Co. *Activist Investor*. This report will serve as your introduction to one of the greatest forces in investing.

Let's get started...

What Is Activist Investing?

Most investors steer away from investing in companies that have problems. But this is often the best hunting ground for great stock ideas.

Traditional investment training teaches you to look for stocks with revenue and earnings growth, strong free cash flow, low debt, and reasonable valuations.

But what happens when good companies hit bad times? Uncertainty often takes over. Share prices plummet as investors quickly click "sell." This is exactly what the activist investor looks for... lives for.

Warren Buffett once commented on his investment methodology by saying, "The best thing that happens to us is when a great company gets into temporary trouble... We want to buy them when they're on the operating table."

You see, this type of investing seeks to exploit corporate infighting, administrative sloppiness, or an overlooked catalyst inside a publicly traded company.

The focus – at first – is not the operations of the company. Rather, these are investments that require instigating corporate action in order to return to growth, profitability, and a better capital structure. Quite often, this requires complete change of control.

At the end of the activist efforts, only one thing matters – shareholder returns.

What makes for a good special situation investment candidate? There are four primary elements...

1. Specific corporate action. A clear-cut, identifiable corporate action must be put in place. It might mean replacing an underperforming CEO. Re-aligning a board's incentives to help hold it accountable. Or maybe a profitable division needs to be sold off in order for shareholders to realize its full value. There are any number of scenarios.

The Darden story includes three distinct corporate actions that led to investor profits: a company sale, a spin-off, and the shake-up of an ineffective board.

- 2. An undervalued stock.** The stock must be undervalued relative to its potential value after a successful corporate action is executed. The activist is involved because the company's market price is below its intrinsic value.

Darden's value increased 150% in the five years after the three above corporate actions occurred.

- 3. Potential estimated returns.** The corporate action should generate a positive outcome and unlock value that will lead to stronger sales or increased profits, for example... and a higher stock price.

The value of Darden real estate assets – both for Bill Darden originally, and for activists decades later – allowed for one measure of overall value that was not being realized. Darden, Barrington Capital, and activist Starboard all used real estate value to bolster the company valuations that implied a return.

- 4. Low risk.** The investment risk should be minimized. What is seemingly counterintuitive is that the lowest level of risk often occurs when uncertainty is at a maximum. A stock that has been trading at \$100 a share that falls to \$20 has been significantly de-risked. If this is a strong company that has fallen on hard times, prices rise as the troubles go away and the outlook begins to clear.

Starboard bought its large position in the mid-\$40s. This is where the stock had traded for about four years. It went sideways in the years after the financial crisis. Starboard knew from its analysis that shares were likely bottomed out and would go much higher with better governance. And it was right.

If these four elements exist within a potential investment, an activist investment opportunity may be at hand.

What Activists Look For

Many activist investors – like other market participants – run complex computer algorithms that search for ideas. This powerful computing analysis combs through thousands of potential opportunities every day.

What are they looking for?

Below we highlight the most fertile categories of corporate action for activists and provide some real-life examples.

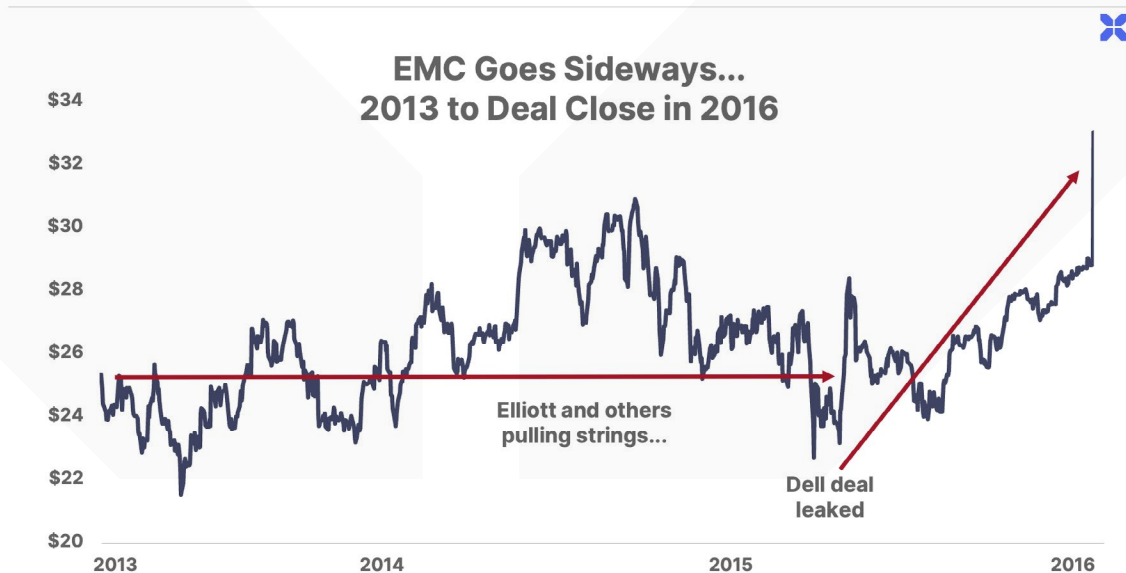
Mergers and Acquisitions (M&A)

Slow revenue growth and flat profits in a company is a signal to activists to take a closer look.

When a target is identified, the activists may decide the best way to maximize shareholder returns is to sell the company or merge with another. M&A is a great tool for the activist.

This is what happened with tech giant EMC Corporation.

In October 2015, EMC announced it planned to sell itself to another tech giant, Dell. The deal would create one of the largest mergers of a publicly traded company with a private one. EMC was publicly traded on the NYSE while Dell was privately held (at the time).



Source: FactSet and Porter & Co. Estimates.

This was no ordinary M&A deal. Behind the scenes, an activist investor was pulling many of the strings. In the few years prior to the deal, EMC's revenue was growing slowly and profitability was flat.

Elliott Investment Management was a large EMC shareholder. Elliott successfully lobbied for the Dell deal, believing the industry-leading, tech-storage company's future was better off with this server, personal-computer, and mobile powerhouse. Synergies would create value. Also, operating behind the screen of private ownership would make it easier for management to combine the businesses.

Dell offered \$33 per share of EMC. It was the highest price the stock had ever seen. The deal, worth an estimated \$67 billion, was the biggest of its time. EMC shares were trading between \$22 and \$30 in the three years prior to the deal. While the deal created a nice exit for shareholders, much more was to be made.

You see, this deal was a catalyst for even more profit potential. Adding EMC allowed Dell to go public a year later. From its initial public offering ("IPO") to now, Dell is up over 500%.



EMC Activism Set the Stage for Dell IPO

August 2016 - Present



Source: FactSet and Porter & Co. Estimates.

Elliott's activism launched a series of corporate events that greatly benefitted Dell shareholders.

Liquidation

On occasion, activist-investor research will uncover a company plagued with operating troubles but holding valuable assets. It will determine that the company can be sold for the sum of its parts that is in excess of the stock price. This action is often a last resort.

This is what happened with Front Yard Residential. Kind of.

Front Yard was a REIT that owned and rented single-family homes. The company had been underperforming and its stock price fell about 50% from 2015-2020.

In February 2020, Amherst Residential, a competitor, offered \$12.50 a share for Front Yard. But the deal was called off in May as pandemic uncertainties took hold – which turned out to be a poor decision.

After Amherst's offer was rejected, activist investor Snow Park Capital Partners called on Front Yard to liquidate its real estate. Snow Park's analysis suggested investors could receive more than \$12.50 a share. The investor pressured the company to sell its properties and return capital to shareholders.



Front Yard Residential Liquidation Turned M&A



Source: FactSet and Porter & Co. Estimates.

While the liquidation occurred, Snow Park's efforts led to another offer – this time at \$13.50 a share from Ares Management. The deal came in October 2020 and *shares jumped 53% during the month*. But that wasn't the end of it.

In November, Front Yard told Ares it had received yet another offer.

Ares did not want to lose the deal and agreed to raise the price to \$16.25. After trading in May 2020 for just \$6 a share, investors received \$16.25 just seven months later, for a 169% increase from the lows.

Threatening to sell off the assets highlighted the potential value of those assets, and therefore Snow Park's efforts were instrumental in driving returns for shareholders.

Reorganization

A company may be underperforming and require a reboot. The need to reorganize can come from many different places. Perhaps the management team is not maximizing shareholder value and reorganizing senior leadership can drive better results. Or perhaps the company has hired too many people for current business needs. Reducing the employee headcount may reinvigorate the business, drive better revenues and earnings, and boost the share value.

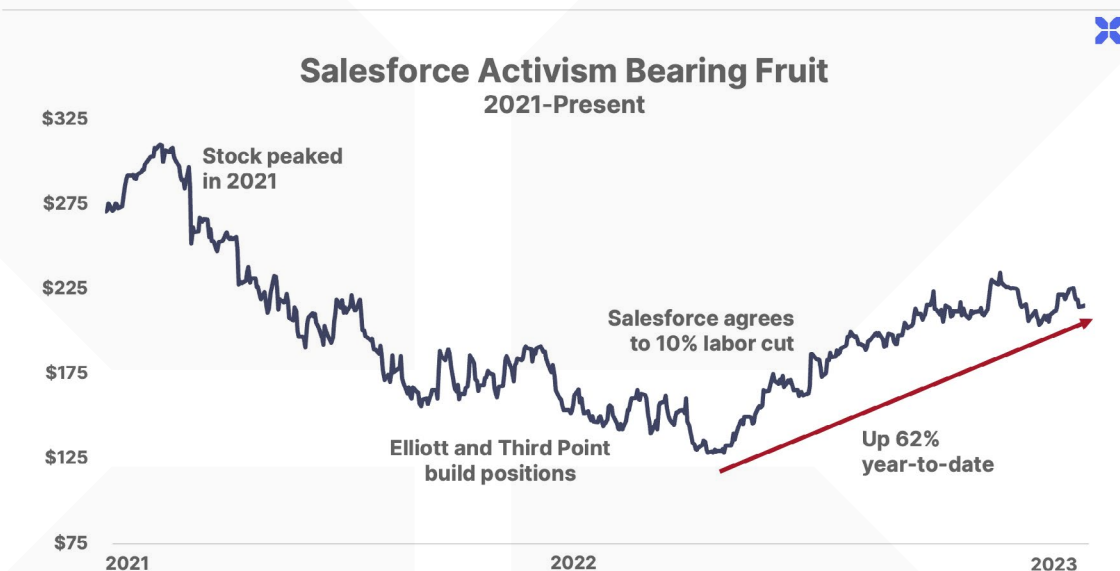
Reorganization is fertile ground for activists and non-activists alike. Let's look at two examples.

Take the case of Salesforce.

The wildly successful customer-relationship-management software platform caught the eye of several activists in 2021 and 2022.

The stock peaked in November 2021 at over \$300 a share. A year later the stock was selling for about \$130. It got more than cut in half.

What happened to this Wall Street darling? Quite simply, operating expenses got out of control. Despite growing revenues every year since 2016, EBITDA (earnings before interest, taxes, depreciation, and amortization) margins flattened in 2022 at about 31%.



Source: FactSet and Porter & Co. Estimates.

This halted a five-year run of expanding profitability.

Five prominent activists jumped into action: Third Point, ValueAct, Inclusive Capital, Starboard Value, and Elliott Management. They all wanted a refresh of the board and potentially management with the goal of returning growth to profits.

Management was cooperative and began a full review of expenses. In early 2023, Salesforce announced a 10% reduction in its workforce as a step forward.

Year-to-date, Salesforce shares are up 66% and are marching back toward prior highs.

Another great reorganization story is Molina Healthcare. This was a push for reorganization by existing large shareholders.

Molina is one of a few prominent government-focused health insurance companies working with Medicaid, Medicare, and ObamaCare health exchanges.

Founded by the Molina family as a network of clinics serving low-income patients, it grew into a multi-state insurance operation. The company focused on the health and well-being of patients – CEO Mario Molina was a medical doctor, after all. Its primary customers are state Medicaid programs. Brothers Mario and John Molina grew the company and took it public.

Molina (MOH) had an IPO in 2003 at \$14 per share. Over the next 14 years, operations were mediocre and share price volatile. Shares were up and down but ultimately returned a healthy 257% from the time of the IPO until 2017.

However, in 2017 volatility returned, and the company forecast unexpectedly bad earnings. And not just by a little bit.

EBITDA of *positive* \$400 million in 2016 would ultimately fall to *negative* \$329 million in 2017... a \$729 million swing in one year.

Several large investors called for change. It was not the first time the company had unexpectedly surprised investors with a big loss. They had done this a few times during Mario Molina's tenure.

Top shareholders immediately pressured the board and got results.



In May 2017, the board fired the CEO and CFO Molina brothers. The stock rose 15% on the news in anticipation of future positive change and kept rising in subsequent days. That is how little the market thought of this leadership team.

The new management came in quickly and had more experience running larger health insurance companies. They were better suited to take the company to the

next level. Since this change more than five years ago, shares are up over 500% with much better profit margins.

Spin-offs

The sale of a subsidiary or division may unlock value. Larger companies with multiple lines of business in unrelated industries often make a good target for investors to drive returns for shareholders.

A spin-off is what really unlocked value for General Mills in making Darden Restaurants a separate company. The shares outperformed for 15 years after the split.

Yum Brands is another great example. In early 2015, activists Third Point and Corvex Management took big positions in Yum stock (YUM).

They urged the owner of Taco Bell and Kentucky Fried Chicken to spin off its China holdings. The activists argued the China business was a completely different investment opportunity and would be better off as a standalone company. Keeping them together would limit the pool of potential investors. Some do not want exposure internationally let alone in China. Conversely, other investors focus exclusively on profits outside the U.S.



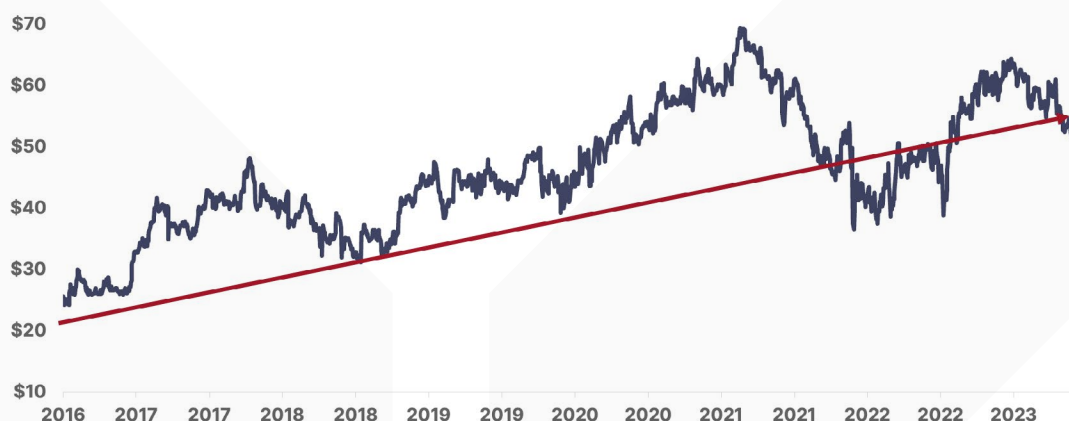
Source: FactSet and Porter & Co. Estimates.

Corvex and others were successful. Yum management agreed. This provided multi-year returns for YUM shareholders. But that was only one part of potential gains that activists launched.

Yum China began trading as a separate company in October 2016 at about \$25. Since then, shares have approached \$70 and currently trade at \$58.



Yum Brands Spin-Off Unlocked Massive Value October 2016 - Present



Source: FactSet and Porter & Co. Estimates.

The initial activism launched new returns in Yum Brands but also gave investors the opportunity to invest in Yum China. The latter was an opportunity that would never have happened without the activist push in 2015.

Regulatory Changes

The government is a wildcard when investing. Investing around government policy can be profitable on both the upside and downside as its decisions create winners and losers across all sectors. These are true with special situation investments.

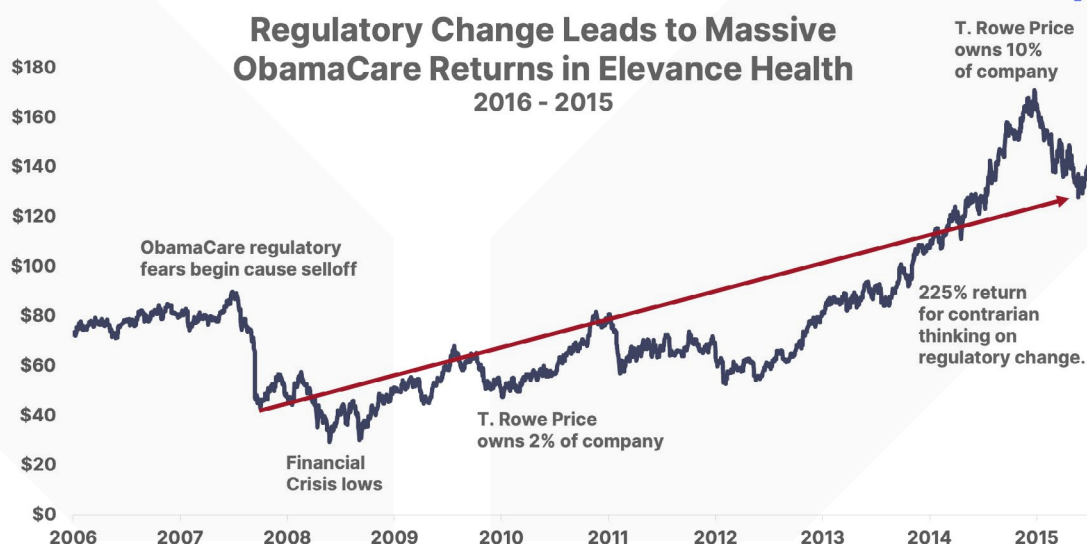
Consider the controversial Affordable Care Act (ACA), also known as ObamaCare. This policy and eventual law was the largest regulation of the healthcare system since the introduction of Medicare in 1965. Healthcare stocks were volatile between 2008 and 2010 in anticipation of the details.

Look at health insurer Elevance, called Anthem at the time. In late 2007, speculation began about impending regulation. Shares of health insurers plunged as they would be a primary target of ObamaCare.

Elevance Health (ELV) was trading around \$90 in late 2007 but was cut in half to \$45 only four months later. Shares fell further as the financial crisis took hold but this first sell off was related to regulatory uncertainty.

However, smart healthcare investors were doing their homework. Many believed ObamaCare would actually be good for insurers despite increased regulation. And they were right.

Thematic, long-term investor T. Rowe Price owned about 2% of Elevance in 2010. Its position grew to over 10% of the company by 2015. This level of ownership places them in activist territory, despite T. Rowe not being known as an activist. T. Rowe analysts and portfolio managers had a direct line to Elevance management.



Source: FactSet and Porter & Co. Estimates.

ELV was trading around \$60 when the ACA went into effect in March 2010. Five years later, the stock was trading close to \$150 as profits continued despite the regulation. Today, ELV trades for over \$400 a share. T. Rowe is still the second largest holder of the stock, owning about 5% today, enjoying a 560% gain since making the right call on ObamaCare impact on health insurers.

Here is another example of a pending regulatory change that has yet to play out and should drive massive investor returns – the legalization of cannabis for both medical and recreational purposes.

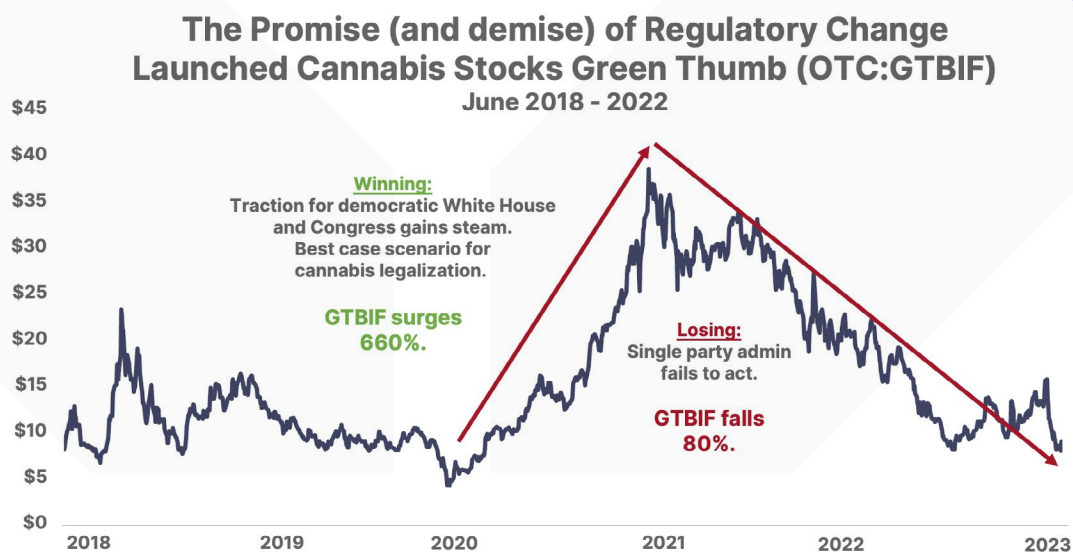
Currently, more than 40 states have legalized cannabis but the federal government has yet to do so. Incremental steps forward have been frequent over the past few years. But so have setbacks. This has created volatility in the share prices of cannabis companies as investors try to figure out if new regulations will be created.

Consider Green Thumb Industries (OTC: GTBIF), a U.S. cannabis cultivator and retailer. The company went public on the Canadian Stock Exchange in June 2018 at about \$8 a share. In the following three years, a few incremental positives boosted the price of the stock.

In February 2021, the sector peaked in anticipation of legalization happening under a Democratic White House and Congress. GTBIF hit \$36. This illustrates the power of regulatory change to create winners.

But it also creates losers.

Since then, the cannabis sector has suffered from broken promises from lawmakers. Democrats failed to move on legalization, then it lost control of Congress, and a mixed legislature is unlikely to pursue federal legalization. By the end of 2022, Green Thumb shares were again trading at about \$8.



Source: FactSet and Porter & Co. Estimates.

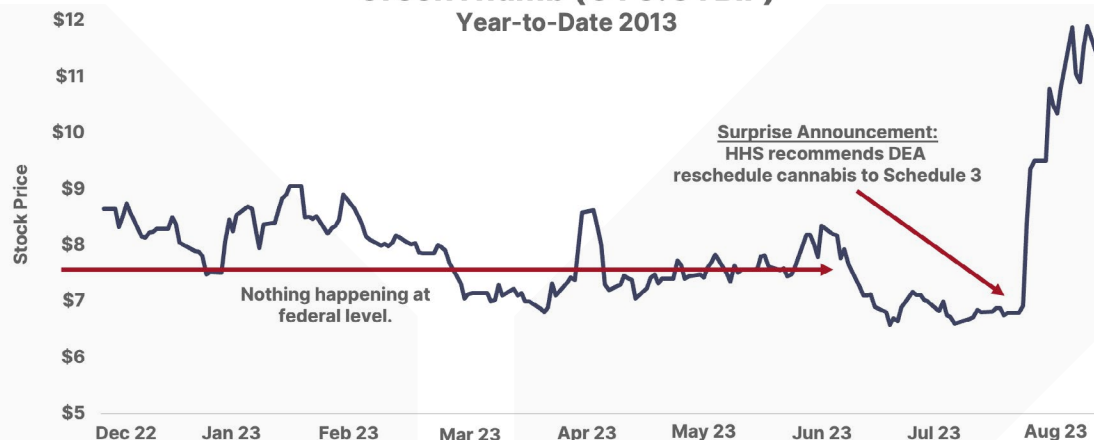
That said, a new move higher may be at hand.

In early September 2023, the Department of Health and Human Services moved closer to legalization – recommending that cannabis be rescheduled from a schedule 1 narcotic to schedule 3. This incremental positive came out of nowhere and has given the emerging sector new life. Stay tuned.



Regulatory Change is Again at Hand for Cannabis GreenThumb (OTC:GTBIF)

Year-to-Date 2013



Source: FactSet and Porter & Co. Estimates.

Opposing Views Can Force Unified Action

The above categories are some of the most common corporate actions for activists. However, activists and other interested investors can get involved in almost any company where they believe returns can be maximized through some corporate action.

Activist investing is powerful. It can use a large ownership stake in a company to instigate action and drive returns in ways that ordinary investors cannot do. It is one of the purest forms of capitalism.

Sometimes, even big activists go up against one another.

Consider Herbalife (HLF), a big multi-level marketing company of nutritional supplement products. In this case, famed activists Bill Ackman and Carl Icahn took different sides of the trade.

Their now-famous dispute on CNBC was great entertainment in 2013. You can watch highlights from it [here](#).

In 2012, Ackman did his work and concluded that Herbalife's multi-level marketing structure was a Ponzi scheme. After publicizing his short position – revealing his belief that the stock price would fall – shares sank from about \$35 to a low of about \$13.

Icahn took the exact opposite position and supported the company's management and sales approach. The actions of both activist investors forced the company to tighten up its operations and illustrate the validity of the business.



The Battle of Activist Titans Herbalife (NYSE:HLF) 2012-2019



Source: FactSet and Porter & Co. Estimates.

By 2017, Herbalife shares were back to the mid-\$30s and Ackman threw in the towel. Shares continued higher and exceeded \$60 by 2019. Icahn reportedly made \$1 billion on this trade while Ackman lost \$1 billion.

This is truly what makes a market work... opposing views that force change for the better.

How to Find the Best Activist Investment Opportunities

Activist investors use all kinds of tools and research to find targets. They pull out all the stops as only one thing matters – making money.

These are the same tools we also use at Porter & Co. *Activist Investor* to find the best opportunities. We deeply research ideas and summarize the important parts of the stock stories for you.

For example...

Poor investment returns over a period of time is a telltale sign that something structural might be wrong with a company. Screening for poor returns can yield a list of stocks ripe for activism.

It's also instructive to look at companies' top shareholders. An existing shareholder known for even mild activism may light the fuse for others to join.

Other operating red flags include flat or declining sales and profits, heavy debt loads, low cash levels, and relatively cheap stock valuations. All of these can point

to a potential activist opportunity. It can be hard to make sense of these trends, but Porter & Co. works with sophisticated financial tools to pinpoint the information.

Another great source of potential investments are “13d filings.” The U.S. Securities and Exchange Commission (SEC) requires investors to file a special, public form when they take large positions in stocks. These fall under Schedule 13 of the Securities Exchange Act of 1934, which dictates stock ownership disclosure for all types of investors.

Any investor who buys 5% or more of a company stock must file a 13d form within 10 days of the purchase. A position of this size often means the investor has significant conviction in the story. It also provides the investor with leverage to get in front of management and the board.

These 13d filings are big hints that a special situation opportunity may be developing. Special situation investing can happen without an activist, but their presence makes the opportunity much more interesting.

Once we sniff out a potential opportunity, we look at the company to get a sense of what’s going on. We review earnings reports and transcripts of management conference calls. We look at management and who is on the board and try to determine their motivations. Are they paid in cash? Do they receive stock compensation? Are they required to buy stock using their own money?

We also look at where key financial metrics have trended over time. Are profit margins depressed and can they return to previous high levels?

Once we’ve done our homework – we pick up the phone and call. (It’s amazing that few financial-newsletter publishers actually do this.)

Talking to management, even the head of investor relations, yields more insight and nuance than simply doing “normal” research.

Our next contact is often the activist investors themselves. Once they commit capital to an idea, the clock is running. Every minute without profit represents opportunity cost. The faster change is made, the faster profits will follow.

Some are eager to speak to anyone who will support them. Often activists will outline their views in presentations or letters to the board. This is what Starboard did with its 300-page presentation about Darden.

Others keep their ideas confidential. If they do the work, they want to maximize returns for themselves. Keeping a great idea quiet will limit demand for the shares, keep the price low, and let an activist build a bigger position. Fortunately, Porter & Co. analysts have deep ties to the institutional investment community.

We will also use our collective decades of experience and vast Wall Street contacts. This supremely valuable source of privileged information flow is one of the most important intangible assets we own at Porter & Co.

Watching the Watchers: Our Activist Shortlist

Given the power of activist investing, there are a number of investment firms that specialize in this quest for investment glory. We have mentioned a number of the big players in our discussion above.

A broader list can be found at carriedin.com/activist-investors

Three superb firms are Elliott Management, Starboard Value, and Third Point.

Investors everywhere look to these firms to learn where they are sniffing around. And when they find a target, the financial media is all over it. Shares go higher on the day the activist news is announced. But even after the initial bump, it is often still worth investing along with these firms.

Elliott Management, run by Paul Singer, is regularly cited in the financial news. Most recently, Elliott instigated improvements at Constellation Brands (a leading producer of beer, wine, and spirits).

In July 2023, Elliott secured two new independent board seats and created an open dialogue about how the company is operating. Constellation shares rose 8% from mid-July to the end of the month on this news alone.

Starboard Value, run by Jeff Smith, is another prominent activist investor. The firm itself was created by a spin-off from Ramius Capital in 2011 – a type of special situation discussed above. In the 90 or so 13d filings in the firm's history, the average return is 24%, which is three times the long-term annual return of the S&P 500. The average returns of its campaigns to improve technology companies exceed 36%.

As mentioned earlier, Starboard was the activist that successfully lobbied for reorganization at Darden Restaurants. This is one of its more famous deals.

More recently, in February 2020, the company took a position in fintech Green Dot. The stock traded around \$34 when a 13d filing was released showing Starboard's involvement. Eight months later, in October, shares were \$64, providing investors an 88% return. This activist campaign is ongoing and Starboard still owns over 5% of the company.

Third Point, run by Dan Loeb, is a prominent activist investor known for taking on huge companies.

Last fall, it was made public that the firm had taken a \$1 billion stake in the \$154-billion Walt Disney Company (DIS).

Disney has been mired in controversy over the past few years. While known for its theme parks, it is also a big player in content streaming (Disney+, Hulu, ESPN). Streaming wars have heated up and Disney is smack in the middle of it.

After rebounding from the pandemic selloff, DIS shares are down over 50% from their highs in early 2021. Third Point has been successful in adding a new independent board member and is also seeking the sale of its ESPN subsidiary. With shares close to 52-week lows, this story is far from over.

At Porter & Co. *Activist Investor*, we are keeping a close eye on what these and other professionals are doing. We will ferret out the best ideas for our subscribers.

Activist Investing Should Be On Your Radar (And Now It Is!)

At Porter & Co. we are constantly looking for ways to educate and enrich our subscribers. Activist investing is yet another method we are using in our research to find great returns at below-average risk.

Remember these three reasons why we feel so strongly about this investing methodology:

First, activist investors have put their money where their mouths are. An investment of 5% or more will only be made if a real opportunity exists. Think of these as smart investors lending credibility to the opportunity.

Second, the activist wants a return as quickly as possible. This is no different than the motivation of any investor. Therefore, the activist will take an “active” role in making the necessary changes in order to get the estimated return.

Third, activists want others on their side. As such, many activists – although not all – publicize their opinions. They want other investors to jump on board and seek the same changes they want.

We will be doing the same work as these activist investors and offering the ideas to you. But we will take things to the next level. Not all activist campaigns are created equal... and not every activist story will work well. Some may take years to play out, and some won't achieve results at all.

It takes years of research and deep connections – like ours – to pinpoint the next Darden Restaurants or Salesforce. Our goal is to find the very best ideas that offer great upside opportunity within a realistic timeframe and at the very lowest risk level possible.

However, most will not be household names and will be completely off your radar. You've probably never heard of the companies we will be recommending. That is where great returns are found.

We are glad you are in it with us.