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Rising Shareholder Activism Mostly Harms Credit Quality, Report Says

MADRID, March 17, 2021 /PRNewswire/ -- Shareholder activism targeting entities we rate reached an all-time high in 2020, fueled by a surge in environmental, social, and governance (ESG)-related campaigns, says S&P Global Ratings in a report published today on RatingsDirect: "Rising Shareholder Activism Mostly Harms Credit Quality."

Shareholder activists targeted 313 nonfinancial and financial services companies last year, compared to just 220 in 2019, a rise of 42% on 2019.

"We directly linked 26 rating actions in 2020 to activist campaigns, more than 80% of which were negative," said S&P Global Ratings credit analyst Imre Guba. "They followed either significant M&A events or shareholder-initiated material changes to an entity's capital structure, or a combination of both."

While ESG-focused investor campaigns represented 75% of the total campaigns aimed at publicly rated entities in 2020, they led to only a few rating actions. Nevertheless, we believe they indirectly contribute to rating changes over a longer time horizon than one year.

"The COVID-19 pandemic has focused many shareholders' minds on leadership quality and spurred a twofold rise in public campaigns against boards and executives last year compared with the previous year," said Mr. Guba. "Investors who considered companies to be mismanaged, unable to respond well to environmental and social challenges, or adapt their business model to the post-pandemic world, laid down governance challenges."

For the first time in 2020, shareholder activism led to as many downgrades in Europe as in the U.S. Although only 7% of campaigns last year targeted European entities, they led to 42% of all rating actions. This was largely driven by the still growing belief by large U.S. activist investors that European corporates are ripe for M&A-driven value creation.

Investment-grade companies continued to be the main targets of investor activists in 2020: they increased to 65% of the total (from 60% in 2019), largely driven by the significant increase in environmental and social activism against large, highly rated oil and retail companies as well as financial services entities.

"We expect shareholder activism to continue to increase this year, owing to a likely rise both in M&A- and ESG-related activism as a response to the global recovery from the COVID-19 pandemic," said Mr. Guba.

This report does not constitute a rating action.

The report is available to subscribers of RatingsDirect at www.capitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on S&P Global Ratings' public website by using the Ratings search box located in the left column at www.standardandpoors.com. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4009.

SOURCE S&P Global Ratings

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