

# Increase shareholder value do it the right way

How one Swiss company did it

Disgruntled shareholders are often frustrated in getting their demands heard, let alone acted upon, by management. Getting professional help can provide the answer.

In September 2004, our firm was approached by a potential client who was a major shareholder in a publicly listed company—which he had originally founded—but was now neither an executive manager nor a board member. He explained that he was extremely disappointed with the current share price, which he believed was a result of mismanagement of the company.

Having been referred to us through a personal relationship, he soon discovered that the firm’s entrepreneurial spirit of quick decision-making and effective partnering with highly competent independent experts in providing flexibility and a solution-driven approach—contrary to larger organizations—was just what he needed to accomplish his objectives.

## Why he couldn’t do it himself

As the founder of the company, holding a stake of around 6%, he had extensive knowledge about the internal processes, personnel and operational aspects at the company, and he had a vital interest in the well-being, development and success of his former company. Knowing the catalysts to substantially increase the share price, he believed that the company was very much undervalued and posed a great opportunity for a potential investor.

Although his stake of 6% allowed him to submit proposals to the annual general meeting—he had tried to implement some changes several times in the past, particularly in corporate governance-related issues—he was always overruled and in a minority position.



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Why? Because he lacked the financial strength and power of the capital markets to force the company to implement these changes. So he sought outside help.

## How Cayros came to the rescue

Cayros’s job was to put together a list of arguments to attract potential investors, combining justified shareholder claims with financial power, to achieve the client’s goals and create added value; in other words, shareholder value.

As an independent asset management company specializing in alternative investment strategies, Cayros has extensive contacts with managers in the hedge fund and private-equity community, because it is only they who have the financial means, understanding and flexibility to undertake such investments.

Cayros conducted its own analysis and valuation metrics and became convinced that the company was undervalued in September 2004 (at EUR 3.60). Having identified the catalysts needed to trigger a substantial increase in the share price, the firm approached a highly respected hedge fund manager—with CHF 1.8 billion potential capital at work, he was an obvious choice.

Cayros convinced him to become a partner in the transaction; in fact, he invested substantially in the company even before a financial agreement with him was reached. Once that was concluded, the next few weeks were devoted to making a thorough analysis of the company in order to put together a well-thought out investment case (talking with competitors, strategic investors and potential candidates, etc.

Meanwhile, the position in the company was silently increased. Working behind the scene is often the key to success and making a lot of noise can be counterproductive.

## An effective campaign that succeeded

The day the invitation for the annual general meeting was published was the day we disclosed our holding (27% at that time) and submitted our proposals together with an 88-point questionnaire. We began to talk with existing investors to convince them to vote for us and to work the press (a most crucial phase in order to be well positioned at the annual general meeting).

In this case, unfortunately, the 27% holding was not enough to represent the majority of votes (which, from past experience, would have easily been the case), but it was more than enough to force and pressure the company to implement most of our demands or to speed up some of the measures already initiated (ie no double-mandate CEO or chairman, an independent audit and compensation committee, simplification of corporate structures, faster-than-expected renewal of the agency contract, etc).

Most importantly, however, the share price shortly after the annual general meeting stood at +75% and still continues to count for a substantial 50% increase as of today—which is all that CAYROS’ client had always sought. As well, all this activity and publicity about the company has generated a renewed interest in the company, which had nearly fallen

off the brokerage lists of the large research firms.

Pressure continues to be kept—and will be kept—until the company implements all our demands. Only then will the company be changed so radically that it at last meets today’s capital-market standards to be considered a well-run and compliant company, even though the same people lead it.

This is only one example of how effective good advice and a quality network can be in creating added value for clients. Today’s investment world offers all the necessary instruments to achieve shareholders’ personal goals, but one has to believe in success and execute them well. «««

## How you can do it right

In dealing with the case discussed, Cayros took a detailed look at the company to ascertain any problem areas that could lead to share price-influencing factors or affect the company’s balance sheet. It identified the potential problems surrounding the company and assisted the client in structuring, negotiating, documenting and closing the different activities and transactions. To this end, Cayros actively supported its client to bring him closer to investors, and it was responsible for administering and monitoring compliance with the agreed strategy to strengthen the company and in a bid to remain competitive.

The complexity of such transactions often makes it difficult to assess all the risk exposures and liabilities, and requires the skills of a specialist adviser.

The key rules for a successful increase of shareholder value for a client are:

- ✓ Conduct all strategic and tactical analysis and the resulting activities
- ✓ Monitor compliance of the agreed strategy
- ✓ Get everyone involved in fitting all the pieces together
- ✓ Make blunt decisions about who will run the show
- ✓ Keep the key contact to media

\* Adrian M Baumann, CFA, is CEO of CAYROS capital AG, a fully independent Swiss asset management company that specializes in alternative investment strategies, so-called “non-traditional investments”. CAYROS services are available to everyone who believes that CAYROS can add value to their existing investments and financial setting. For further information, visit their website at [www.cayroscapital.com](http://www.cayroscapital.com) or call AngloPhone on 0900 576 444.(CHF 3.12/min)