Activist Investing in Europe

2025

Mergermarket

Skadden

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Foreword

Amid mounting activism and political turbulence, boards must foster strategic foresight, transparency and proactive shareholder engagement to strengthen their value.

Armand Grumberg

Head of Skadden's European M&A practice

Shareholder activism in Europe continues to have significant importance for European listed companies, driven by an explosive mix of economic, political and geopolitical factors. Companies will need to pivot towards greater flexibility, transparency and engagement to pre-empt activism, while maintaining strong corporate governance principles. This evolution in strategy reflects the growing sophistication and adaptability of activist investors, and the challenges resulting from the current volatile environment. Companies need to be even more proactive in their interactions with shareholders, ensuring that they are not only responsive to activist demands but also ahead of the curve in anticipating potential areas of contention, in addition to acquisitions and divestitures.

European markets, particularly in Italy and Germany, are experiencing a crucial moment. The focus on these markets underscores the broader trend of increasing activism across Continental Europe, where companies are being called upon to address a range of issues, from governance and operational efficiency to ESG concerns. The interplay between shareholder activism and political factors, like interest rate policies, is shaping a dynamic landscape for 2025. As central banks adjust their monetary policies in response to global economic conditions, companies must remain vigilant in understanding how these changes impact their strategic objectives and shareholder relations. The political environment, with its inherent uncertainties, adds another layer of complexity to the decision-making processes of both corporates and activists. This requires a more nuanced and versatile approach to engagement, where open dialogue and mutual understanding become critical components of successful corporate governance.

By fostering a culture of preparedness, transparency and collaboration, companies can better position themselves to navigate the challenges of activism and leverage these interactions as opportunities for growth and innovation.

As we move forward, European issuers should stay ahead of potential concerns through strategic foresight, transparent communication and strong, proactive governance. By doing so, they can not only mitigate the risk of activism but also strengthen their 'value' in an increasingly volatile market, where the balance of power between corporates and activists will continue to evolve, driven by the forces of economic change and political influence and instability.

Activist threat casts long shadow over unprepared boards

European companies are facing a surge in shareholder activism. Proactive boards must continue to demonstrate keen awareness of this evolving threat landscape.

Skadden has now been publishing in-depth research into shareholder activism in Europe for five years, in partnership with Activistmonitor. The previous reports provided a compelling account of the evolving relationship between European corporates and activist investors. Above all, they depict a long-term trend towards increased levels of activism. This year's report is no exception.

Activism continues to be on the rise – this trend even appears to be accelerating. More survey respondents report that they have been involved in some form of confrontation between a corporate and an activist – and more respondents expect campaigns to proliferate in 2025.

This should not come as a surprise given the challenging environment in which European businesses continue to operate. Many of the external difficulties with which they are wrestling create potential flashpoints for disagreement with activists.

However, as this study illustrates, corporates are not standing idle. Many are thinking deeply about how to respond to activist investors and their supporters – how to avoid falling prey to a campaign in the first place, how best to manage an approach from an activist, and how to manage engagement with all shareholders.

For their part, many activists say they are trying to develop more constructive relationships with businesses. They are not looking for confrontation for its own sake – rather their goal is to sharpen companies' strategic focus, drive higher standards and improve returns for all.

That, at least, is the narrative that activists are promoting, but whether their actions always align with their stated intentions is up for debate. The objective of boards is to foster sustainable, long-term growth, a mission that can often be undermined by activists' short-term tactics. As such, companies must remain vigilant and adopt proactive strategies to protect their long-term interests and the interests of all their stakeholders.

Our key findings include:

1. Almost all corporates (86%) expect activism to increase over the next 12 months, including nearly half (49%) who anticipate a significant increase, up considerably from last year's study, when just 23% projected a significant increase in shareholder activism.

86%

2. Two-fifths of activists say Italy will offer some of the best opportunities for campaigns over the next 12 months. The next most popular European markets that activists expect to be targeted are the UK (27% of first-choice votes), Germany (20%) and France (13%).

3. Respondents expect the industrials & chemicals sector to see the most campaigns in Europe over the next 12 months (32% of first-choice votes). This marks a major change from last year, when industrials & chemicals was the fifth most popular answer option. In that study, technology, media & telecoms (TMT) was by far the most common response, though this year its share of votes has fallen to just 4%.

32%

4. The vast majority of respondents overall (92%) agree that activists will increasingly prioritise ESG issues in their campaign demands, including 40% who strongly agree with that statement. However, among activists specifically, only 33% strongly agree, down noticeably from the 53% who shared that sentiment in last year's study.

5. The most effective preventative measure that companies can take to mitigate the chances of activist campaigns is promoting broader shareholder engagement, which is cited by 24%, up from 14% last year. Similarly, 26% say investor engagement is the best defensive tactic that companies can adopt once a campaign goes public.

24%

6. Another key defensive tactic when facing a campaign that survey participants cite is making an acquisition/divestment. A fifth say this is the most important tactic a company could consider, a major development from last year's study when no respondents emphasised this approach.

7. Regarding the evolution of the legal framework governing activist campaigns, just over a fifth of all respondents (22%) would support mandating a prior dialogue period prior to any public campaign. Another point on which both corporates and activists broadly agree is the need to strengthen the powers of financial market authorities (20%).

Methodology

In Q4 2024, Mergermarket surveyed 35 corporate executives from listed companies and 15 activist investors from the UK, France, Germany, Italy and Switzerland to gain insights into key trends in Europe's activist investing space. All responses are anonymous, and the results are presented in aggregate.

Part 1: 2024 Review
Instability ignites activism

Public campaigns continued to proliferate across Europe in 2024, with an increasingly broad range of activists, from both home and abroad.

Companies in Europe continued to come under intense pressure from shareholder activists in 2024, with the latter launching 84 new campaigns, one of which, targeting a business in Italy, closed during the same 12-month period. Cumulatively, the number of open, live campaigns reached 424 in Q4 2024, up 24% from the total of 341 reached at end-2023, according to Activistmonitor data.

Among the new public campaigns launched last year, 35 targeted companies based in the UK. Germany was home to the next highest share of new campaigns, with 16 launched in 2024, followed by France with eight. Switzerland and Italy tied for fourth place, with seven new campaigns arising in each country last year.

Activists exerted the lion's share of pressure on Europe's largest companies, specifically those with a market capitalisation exceeding US$2bn. Organisations of this size were targeted in 43 public campaigns in 2024, while mid-cap companies (market capitalisation between US$1bn-US$2bn) and small-cap businesses (market capitalisation under US$1bn) were targeted in 15 and 25 public campaigns last year, respectively. In that period, only mid-cap companies underwent a year-on-year increase in campaigns, with those 15 new public campaigns launched in 2024 representing a 67% increase from the nine launched the year prior.

Total campaigns by market capitalisation (live & potential)

Market cap	2023	2024	Growth
<US$1bn	36	25	-31%
US$1bn-US$2bn	9	15	67%
>US$2bn	58	43	-26%
Total	**103**	**83**	**-19%**

Source: Activistmonitor

Live campaigns in Europe

Source: Activistmonitor

Please note all Activistmonitor data is correct as of 19/12/2024 and represents campaigns against companies based in Europe exclusively. "Europe" includes British overseas territories (including Bermuda, Cayman Islands and Gibraltar).

Overall, 224 demands were issued across all open public campaigns in 2024. This is down 12% compared to the 254 demands issued the year prior, though it is worth noting that Q3 2023 saw an unusually high volume of demands announced, which may unfairly skew year-on-year comparisons. Looking back over the last several years, 2024 clearly still emerges as a markedly busy period – 127 demands were issued in 2022, for instance – and is illustrative of the increasingly vocal and combative approach that many activists are taking in Europe.

Per Activistmonitor's data, the single most common type of demand issued in 2024 was for governance changes (44), followed by management/board changes (32) and cost reductions/operational improvements (also 32). These three were also the most common in 2023, while demands for board member appointments also remained prominent among activists (24 demands in 2023, up marginally to 27 in 2024). Calls for 'strategic alternatives' – including reviews of potential sales opportunities, whether of the company as a whole or of non-core assets and underperforming businesses – also grew more conspicuous, with 27 such demands issued last year (up 42% from the 19 issued in 2023).

Unlike in 2023, when Union Investment, the investment arm of German financial services group DZ Bank, took eight campaigns public, no single activist stood out from the pack in 2024. Rather than one or two firms dominating proceedings, last year was instead characterised by more broad-based activity involving a wider range of different activists – 67 different activists launched campaigns against European companies in 2023, rising to 81 in 2024.

Of these, the most prolific in 2024 were Frankfurt-based Deka Investment and London-based Gatemore Capital Management, each of which launched three public campaigns against European companies. These two were followed by more than a dozen activists, hailing from throughout Europe as well as the US, that each launched two public campaigns last year.

Demands made in open live campaigns

	2022	2023	2024	Y-o-Y 2024
Discussions	4	2	7	250%
Oppose bolt-on/divestiture/spin-off		8	6	-25%
Special meeting		1		NA
Cost reductions/operational Improvements	16	40	32	-20%
Share buy-back/dividend/return of capital	7	13	9	-31%
Bolt-on/divestiture/spin-off	11	21	15	-29%
Oppose acquisition/merger agreement	19	13	11	-15%
Acquisition/merger agreement	2	1	2	100%
Strategic alternatives	9	19	27	42%
Capital allocation/structure changes	4	13	7	-46%
Governance changes	12	50	44	-12%
Management/board changes	27	42	32	-24%
Board member(s) appointment	16	24	27	13%
Environmental/social changes		7	5	-29%
Total	**127**	**254**	**224**	**-12%**

Source: Activistmonitor

Although the anti-ESG movement is gaining some momentum, European legislators have not scaled back their ESG-driven regulations and ESG-based activism remains relevant. Boards must prepare for these potentially very vocal ESG actions, while simultaneously balancing their impact on value and public opinion in Europe.

Matthias Horbach, Partner in Skadden's Frankfurt office

Domestic threats revitalised

Across Europe, investor activism is again on the rise. As corporates have been buffeted by geopolitical and economic headwinds, from growing trade tensions to still-sticky inflation and slower growth, activists have demanded strategic and organisational change. The ESG agenda is a key part of the story, too, with investors often pushing for increasingly rapid progress on these issues. The strength of the returns enjoyed by activists in 2023 also certainly spurred further campaigns – according to Hedge Fund Research, activist investors recorded an average 20.2% return in 2023*.

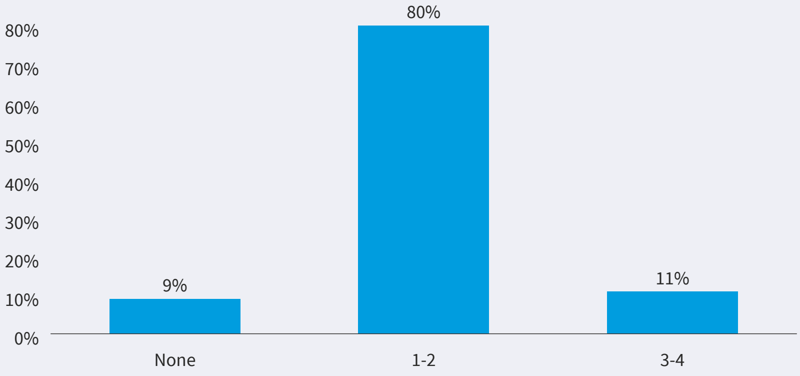
Against this backdrop, almost all corporate respondents participating in this research (91%) say their board or top management were approached at least once by activist shareholders over the last 12 months. Some of those approaches were made publicly, while others remained private – but either way, activists have been busy.

To put that figure into context, in last year's edition of this report only 74% of corporates said they had been approached by an activist over the preceding 12 months. Indeed, our latest research is reminiscent of 2022, a high-water year for activist investment when 97% of companies surveyed faced an activist approach. Activity has not quite returned to those levels – that year, 43% of companies were approached three or four times – but has clearly increased sharply.

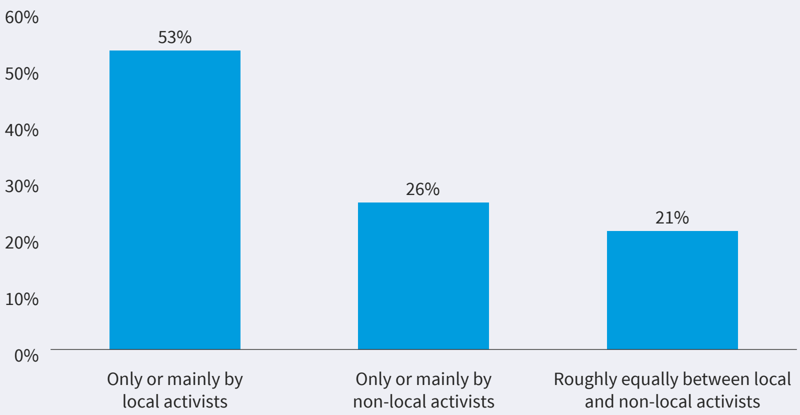
"Achieving our performance targets was tough over the past year," reflects a board member of a UK-based corporate, which felt compelled to move proactively to intercept activist campaigns. "We could not hit our targets in Europe and in other regions. These issues could have been raised by activists."

Reflecting on the volatile market conditions of the last 12 months, a board member at a Swiss company adds: "Although we have made strategic achievements over the past year, we are concerned about progress on sustainability. There are core practices which we cannot change completely due to the nature of our business."

Over the last 12 months, how often has your board or top management been approached (privately or publicly) by activists? (Corporates only)



Over the last 12 months, have you been approached mainly by local or non-local activists? (Corporates only)



> International players are re-entering the market alongside domestic activist investors, which again raises new challenges for boards of European public companies. Differing cultures and approaches to negotiations demand more defensive preparation for the full range of potential attacks.

Matthias Horbach, Partner in Skadden's Frankfurt office

**Source: https://www.reuters.com/business/finance/activist-investors-enjoy-strong-rebound-23-gird-more-proxy-fights-2024-01-16/*

For most survey participants, the activist threat in 2024 was driven largely by domestic investors. More than half of corporate respondents (53%) say they have been approached only or mainly by local activists over the last 12 months. That is down somewhat from a year ago, when 71% of corporate made this observation

Conversely, 26% of corporates this year say they have been targeted only or mainly by non-local shareholders. A year ago, no respondents said this was the case. Evidently, after a brief withdrawal, major activists are again training their eyes on opportunities beyond their own borders.

As for where the most combative activists seem to hail from, it is notable that corporates report significantly more aggressive approaches from investors in the UK than any other country.

The US is often regarded as the cradle of activist investment, but when asked about non-local activists, almost two-thirds of corporate respondents (63%) said the UK was the country from which they had received the most aggressive approaches. The US was the next most commonly cited country, underlining the point that American investors remain active on this side of the Atlantic. In addition, 13% of corporates cite Switzerland as a market in which aggressive non-local activist approaches often originate.

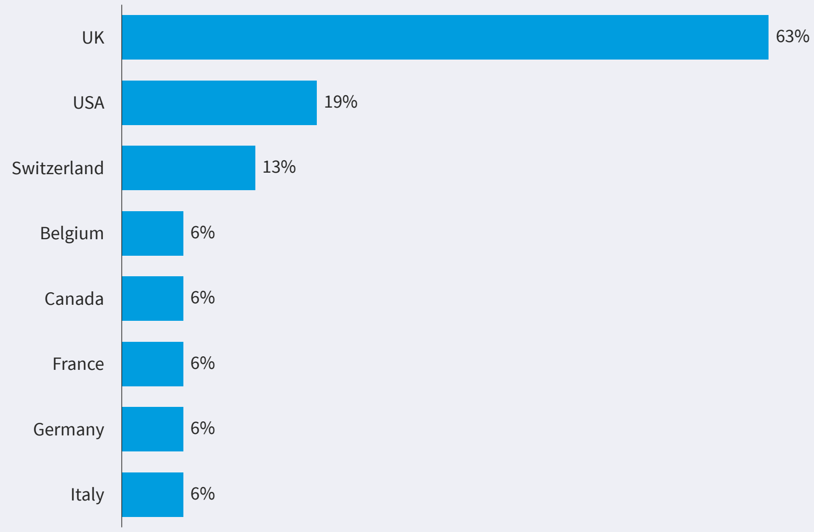
Similarly, some types of activist appear to have been more outspoken than others over the last 12 months. Most significantly, all the corporates taking part in this research say hedge fund investors have been more active and vocal shareholders. Indeed, 60% of these respondents describe hedge fund activists as having become much more vocal in 2024.

Other investors have also become more insistent. Almost three-quarters of corporates (72%) say they have noted greater activity from private equity firms, for example, while 60% say the same of pension funds.

At the other end of the spectrum, 31% of corporates say retail investors have become less vocal over the last 12 months. One possible explanation is that the broadly positive performance of European stock markets during 2024 – a second year of strong returns – left some retail investors feeling more positive about the businesses in which they hold stakes.

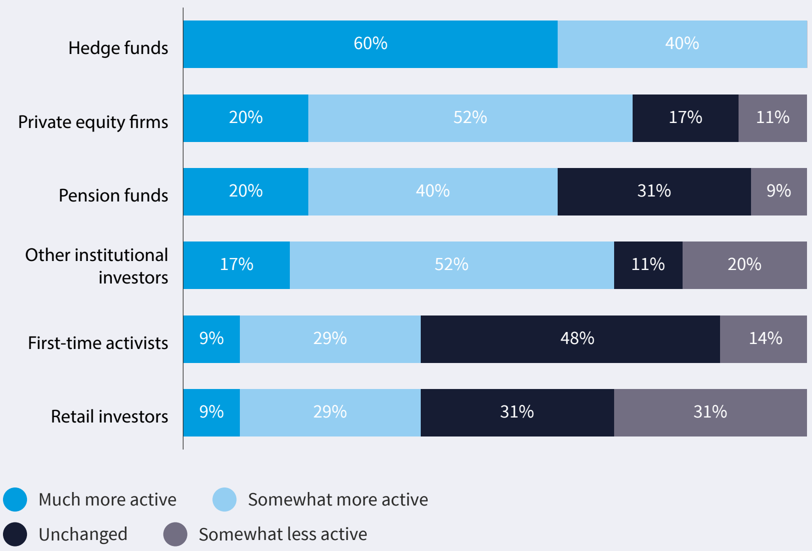
Even among retail investors, however, it is important to note that more corporates report an increase in activism (38%) than a decline (31%). Across geographies and investor types, levels of investor activism have undoubtedly accelerated over the last 12 months, with many corporates feeling the pressure.

From what country/region(s) of the world have the most aggressive non-local activist approaches originated over the last 12 months? (Open-ended question)*



**Question only given to corporates that previously stated that they were approached 'only or mainly by non-local activists,' or approached 'roughly equally between local and non-local activists.'*

Over the last 12 months, how much more or less active/vocal have the following types of activists been compared to the preceding 12 months? (Select one. Corporates only)



Boards take the initiative

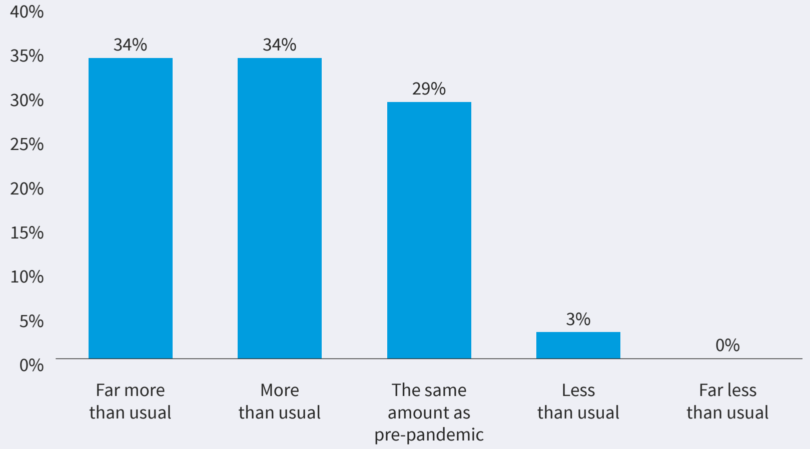
In response, 68% of corporates say their boards have discussed the threat of activist campaigns more frequently than usual over the last 12 months. Half of those corporates say these discussions have taken place far more often than usual. Clearly, there is real concern at board level about the potential impact of increasing investor activism on their business.

In many cases, these discussions are generating positive action. More than three-quarters of corporates (77%) say they have been proactive about potential activism, working to identify any weaknesses that investors might focus on, and then being upfront with shareholders about these concerns.

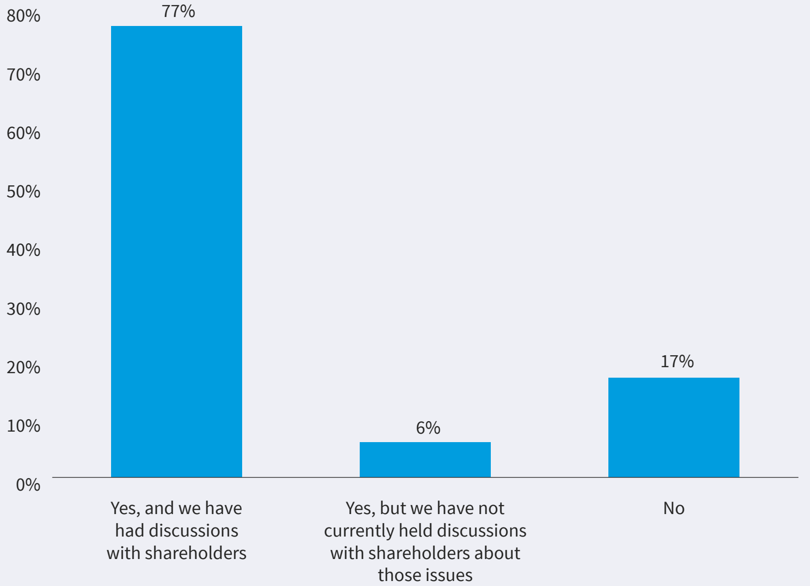
In France, for example, the board member of one corporate says: "Extending our products to new markets could not take place as expected, but we are now identifying inorganic growth opportunities, and we have communicated these efforts to shareholders."

In Switzerland, the CEO of another business stresses the importance of shareholders' voice. "We regularly consult our shareholders and take all decisions unanimously in the best interest of our investors," he says. "All resolutions are thoroughly put together and approved post-discussion, and all shareholders are given the right to vote, which leads us to successful conclusions." The themes of transparency and proactive investor engagement have been raised across all the previous editions of this report, and it encouraging to see corporates taking these lessons to heart.

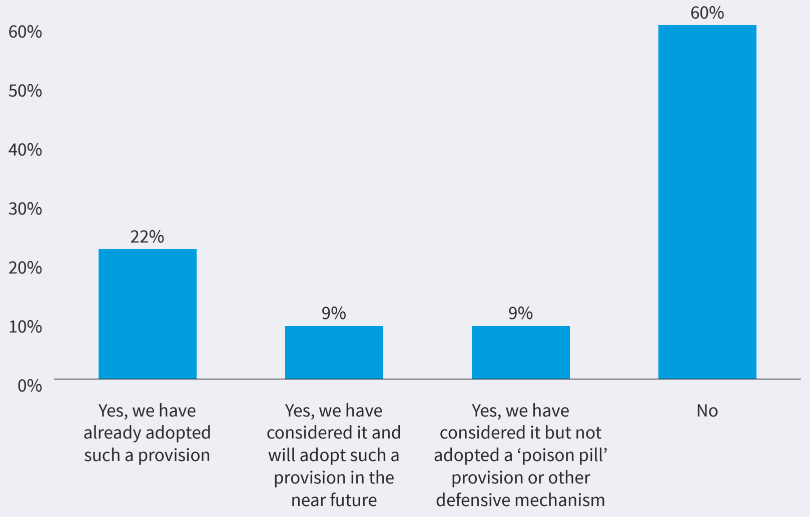
Over the last 12 months, how often has your board proactively discussed the threat of activist campaigns? (Corporates only)



Over the last 12 months, have you identified any new weaknesses that could be raised by activists in potential campaigns? (Corporates only)



Over the last 12 months, has your board considered adopting a 'poison pill'-type provision or other defence mechanisms? (Corporates only)



It is also notable that while boards are anxious about the threat posed by activists, relatively few are resorting to 'poison pill'-type provisions or other defensive mechanisms to scuttle potential campaigns. Fewer than a quarter (22%) have taken this step – this is actually down from last year, when 40% of corporates said they had adopted such provisions.

Instead, many corporates advocate for dialogue with shareholders. "Activist investors were given a seat on our board, which was seen as a positive way forward by our senior leaders," says the CEO of a French corporate. Still, sometimes more decisive action is necessary. As another French CEO notes: "Splitting off some of the group's assets that had been targeted by activists was a major 'poison pill' approach we adopted." Other respondents spoke, too, of decoupling their interests from major parts of their business, while amendments to bylaws and audits to quell activist allegations were also raised by survey participants.

> The adoption of 'poison pill' provisions in Europe is challenged by diverse legal landscapes, shareholder rights-focused governance and a general preference for open markets, making it difficult to reconcile such defensive measures with the European emphasis on transparency, competition and equitable treatment of investors. It requires advance planning.

Arash Attar-Rezvani, Partner in Skadden's Paris office

Part 2: 2025 Outlook Seeking stability amid Europe's shifting sands

Facing mounting pressure on several fronts, especially ESG and DEI, boards must prioritise transparent engagement with shareholders, and in some cases consider more severe defensive measures.

Amid ongoing economic uncertainty and geopolitical volatility, as well as the ever-present ESG imperative, there is good reason to anticipate increasingly rigorous investor activism over the next 12 months. Respondents to this research agree. Both corporates and activist investors themselves expect to see more campaigns during 2024.

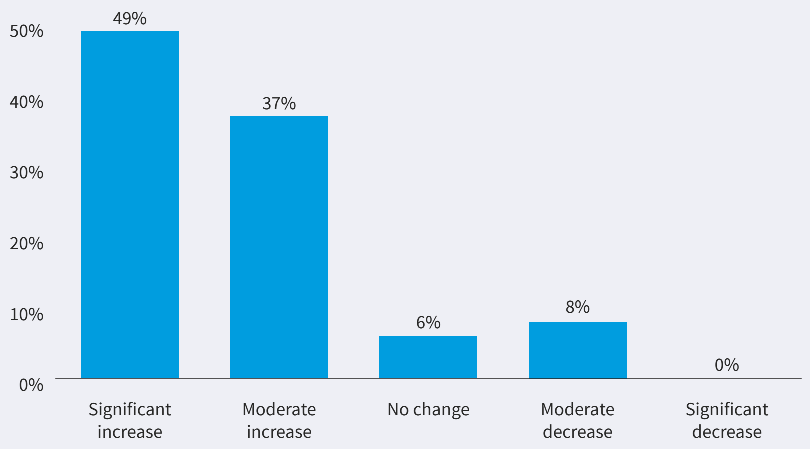
1 Public pressure builds

The next 12 months are forecast to bring another escalation of shareholder activism. Almost nine in 10 corporates taking part in this research (86%) expect activism to rise over the course of 2025 – this includes almost half (49%) who expect the increase to be significant. It is also notable that 72% of corporates are anticipating an increase in the number of unsolicited or hostile takeovers in Europe in the year to come.

These forecasts are significantly more pessimistic than a year ago, when only 60% of corporates expected to see more activism over the proceeding 12 months, and only 23% foresaw a significant increase. As Part 1 of this research details, 2024 turned out very different, with investors taking a much more vocal and active stance than many had expected.

Indeed, this may be part of the reason why more corporates are anxious about what is to come – many will undoubtedly feel that they cannot afford again to be complacent about the activist threat. Moreover,

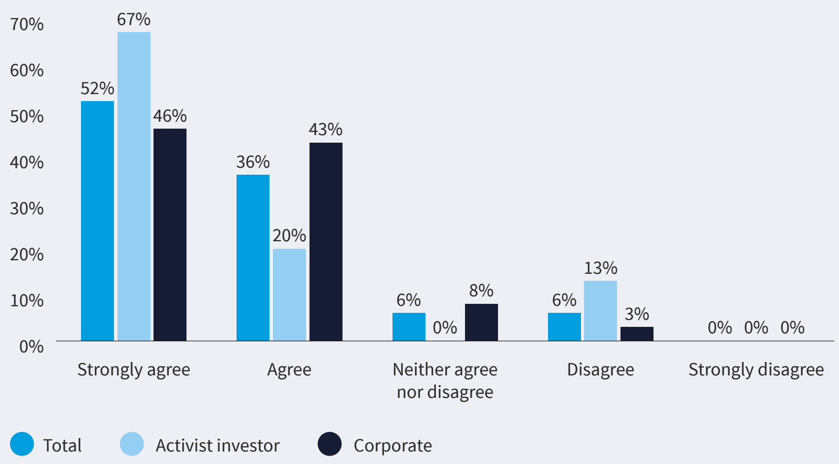
What type of evolution in activity are you anticipating in shareholder activism over the next 12 months? (Corporates only)



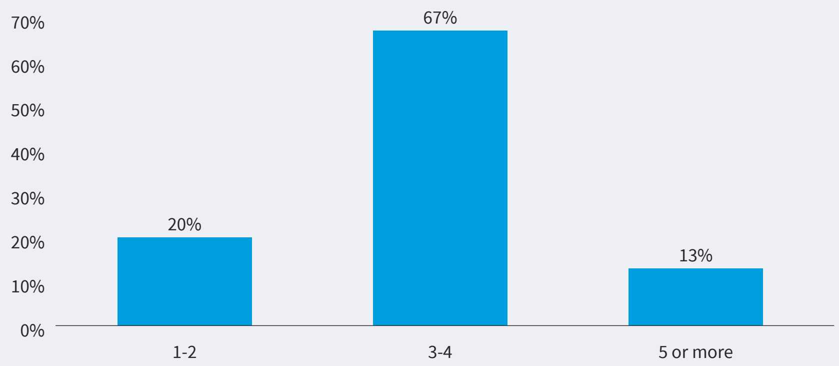
> As shareholders become more receptive to US-style activism, Europe will continue to experience increased activity, not only from local activists but from non-local players looking for new markets in which to deploy capital.

Elizabeth Gonzalez-Sussman, Partner in Skadden's New York office

To what extent to do you agree with the following statement: 'The political environment (e.g., elections, central banks' decisions on interest rates) will have an increased impact on the level of shareholder activism over the next 12 months.'?



How many activist campaigns do you expect your organisation to be involved in over the next 12 months? (Activist investors only)



various obstacles that European businesses have contended with over the past year do leave them looking more vulnerable.

To underline the point, 88% of all survey respondents agree that the political environment – from elections to the decisions of monetary policymakers – will drive an increase in shareholder activism over the next year. Both activists and corporates share this view.

"There won't be opportunities for stable growth amid the political challenges," warns the managing director of an activist investor in France. "And if the environment is not stable, activists will insist on strategic changes – companies cannot move ahead successfully in markets without altering their plans."

The CEO of a German corporate agrees. "There will be pressure on companies to restructure their finances," the executive warns. "The debt burden will be higher due to the central banks' decisions on higher interest rates."

These concerns are underscored by recent geopolitical developments, notably the collapses of the governments of Olaf Scholz in Germany and Michel Barnier in France (as a consequence of the unsettled results of the anticipated general elections following the dissolution of the National Assembly), which occurred after our survey was completed. Instability in two of Europe's most important economies amplifies the sense of unpredictability, further affirming respondents' concerns about a challenging year ahead.

The views of activists themselves suggest corporates are right to be concerned about an increase in activity. Two-thirds of activist investors participating in this research (67%) say they expect to take part in three or four campaigns over the next 12 months, while a further 13% anticipate undertaking at least five.

Those figures signify a slight jump from last year's edition of this report when 60% of activists expected to take part in three or four campaigns and just 7% thought they would be involved in at least five. Those increases are another sign that activism is set to accelerate over the course of 2025 – and that corporates' pessimism is not misplaced.

Shifting spotlights

Moreover, many corporates are nervous that activist campaigns are increasingly likely to play out in public. More than nine in 10 respondents to this research agree with the suggestion that activists intend to pursue more visible and public campaigns, rather than approaching corporates privately and confidentially. Indeed, every activist participating in the research takes this view.

"Activists in Europe are already adopting this practice," warns the CEO of an Italian corporate. "Quiet, confidential activism may not be getting enough results for the activists. Company managements in certain sectors are to blame for not dealing with demands on time."

This shift reflects frustration among activists with the limited success of private negotiations, which some believe have allowed management teams to brush aside shareholder demands without meaningful consequences. By moving their campaigns into the public eye, activists hope to exert unavoidable pressure and push companies toward faster, more decisive responses.

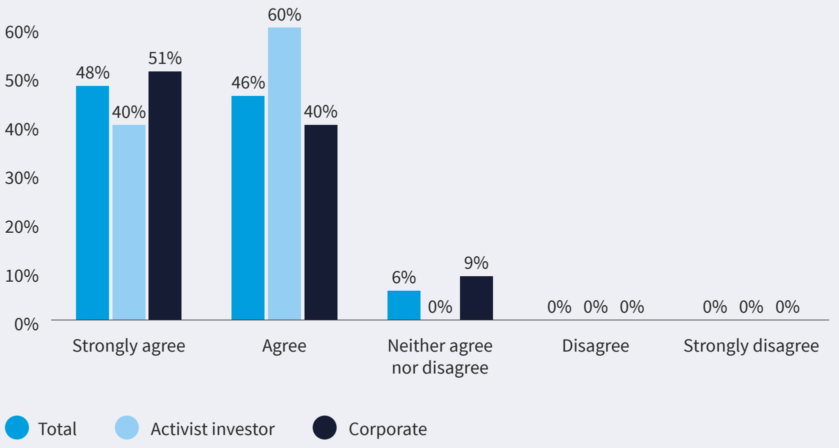
Indeed, the managing director of a France-based activist investor feels that public campaigns are inevitable. "Activist investors want to speak about a wider range of issues, but if they keep their talks confidential and private, then companies get more leeway to ignore them," the director says. "Right from the start, showing the intent of public activism is essential to get management's attention."

Many corporates will rightly worry about that trend, though this research suggests boards and management teams in some sectors should be more concerned than others. The industrials & chemicals sector is tipped to be the industry targeted most often in activist campaigns, accruing just under a third of respondents' first-choice votes (32%) as well as 20% of secondary ballots. The consumer/retail sector is also widely expected to see significant numbers of campaigns (32% and 8% of votes, respectively.)

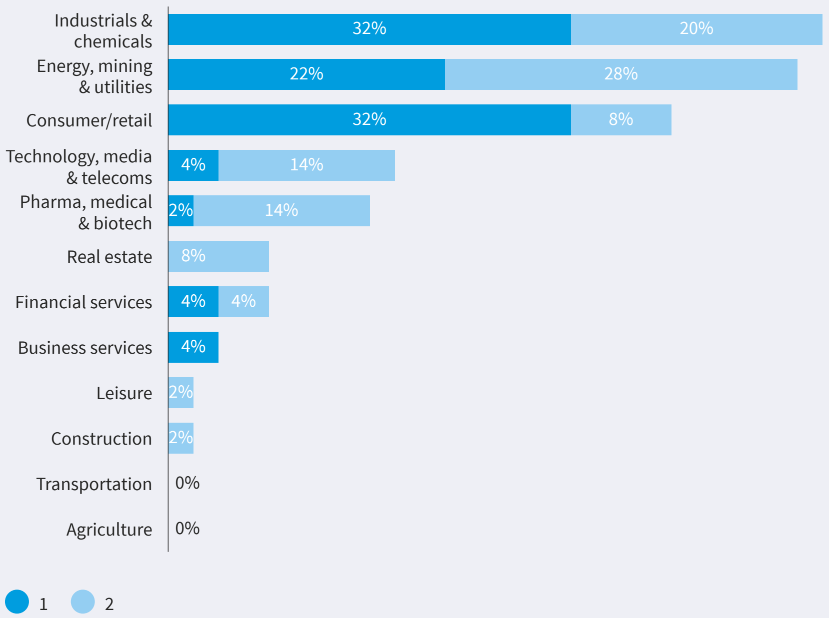
That is quite a change from last year's report, when technology, media and telecoms (TMT) companies were seen as more likely targets for activists. The pivot towards industrials & chemicals stems from persistent challenges in the asset-heavy sector, including volatility in commodity and energy markets, ongoing supply-chain disruption and mounting scrutiny over environmental sustainability.

In retail and consumer, the shift to online business models remains a key driver of transformation, but the inflationary environment is emerging as an equally significant factor. Rising costs, eroded consumer confidence and reduced discretionary spending are placing additional pressure on businesses to adapt. Companies failing to address these challenges – whether through effective pricing strategies, cost management or multi-channel sales evolution – are increasingly vulnerable to activist scrutiny.

To what extent do you agree with the following statement: 'Over the next 12 months, activists in Europe will increasingly employ a strategy of visible, public activism (i.e. public letters, media & campaigns), as opposed to one of private, "quiet", confidential activism.'?



In Europe, in which industries do you expect to see the most activist campaigns over the next 12 months? (Select top two and rank 1-2)



> Activists will monitor European industrial and energy companies' US-related strategies especially closely amid global geopolitical challenges. They will push for M&A and/or board changes if action is taken too slowly or strategies lack coherence.

Holger Hofmeister, Partner in Skadden's Frankfurt office

By geography, respondents are most likely to identify Italy as a hotspot of activity, with 40% of activist investors citing it as offering the best opportunities for campaigns over the next 12 months. The UK is also in activists' sights, with 27% seeing it as offering the best option, while Germany attracts 20% of first-place votes, followed by France with 13%.

The UK was a popular answer in last year's research, too, but activists' focus on Italy and Germany is a more recent phenomenon. "Italy has been facing more economic challenges," reflects the managing director of a French activist investor. "The financial crisis and the shifts in the stock market in recent years will increase the opportunities for activists there." In Germany, meanwhile, an activist investor says: "German markets are mainly formed of small and medium-sized companies and they've faced competition challenges recently."

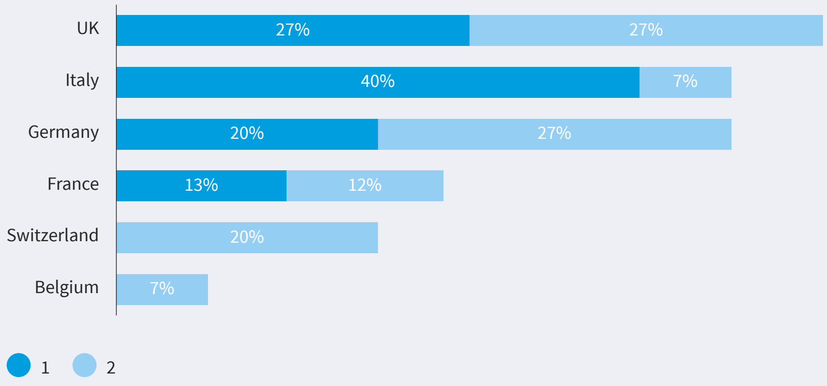
2 Confronting activist posturing

Two areas in particular stand out as likely points of emphasis for activist campaigns in 2025. More than a quarter of respondents (26% of first-choice votes) expect the most prevalent demands from activists to relate to changes to the board or management team, while 24% cite demands relating to the environment or broader ESG agenda.

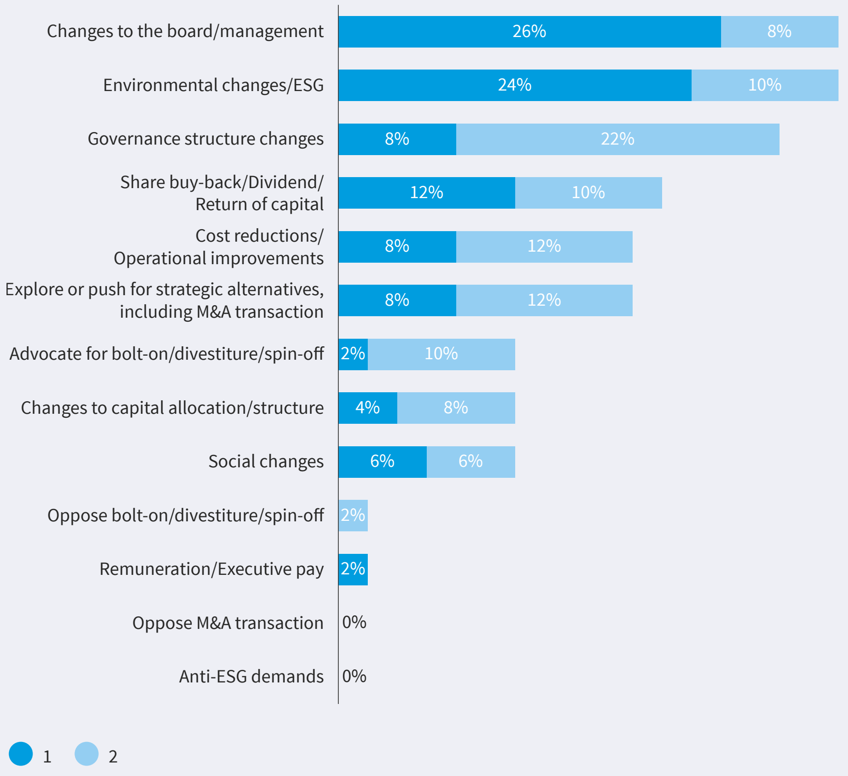
Demands related to ESG and for changes at the top of the company were also widely forecast in last year's edition of this research, and clearly remain a focus for activists. By contrast, 12 months ago a significant share of respondents expected demands for governance structure changes to be the most prevalent In Europe (26%), while this year these concerns are not commonly expected to be a top priority for activists (just 8%).

The battle lines are set. "Activists want more board members they can control," explains a board member at a French corporate. "Many want to control the initiatives taken by the board and additional influence on decision-making overall." In Germany, the CEO of another corporate adds: "Changes to the board are a popular way for activists to gain more control on the company's activities. They want to side-line members and bring in more influential leaders."

Which European markets do you expect to offer the best opportunities for activist campaigns over the next 12 months? (Select top two and rank 1-2)



Of the various categories of activist demands, which of the following do you believe will be the most prevalent in Europe over the next 12 months? (Select top two and rank 1-2)



On the ESG debate, some activists say corporates have been dragging their feet when it comes to updating their sustainability practices and net-zero initiatives. However, some corporates accuse activists of posturing. "Institutional investors want to create an image that they are only investing in sustainable companies," says the CEO of an Italian corporate. "They've enhanced their ESG priorities and invest largely based on this premise. It increases pressure on them to follow through on these objectives, and they, in turn, will pressure companies to include better ESG goals."

Heed DEI developments
Indeed, this research suggests ESG is going to be at the centre of many activist campaigns over the next 12 months. The vast majority of respondents (92%) agree that activists are set to prioritise ESG, including 40% who strongly agree with this idea. The latter figure is up from 28% in last year's edition of this report, underlining how ESG issues continue to move up the agenda in Europe.

That being said, the position is slightly more nuanced among activists themselves, with 33% strongly agreeing that they will push ESG campaigns this year – that figure is actually down from 53% 12 months ago. Corporates who expect ESG to be a single-minded pursuit for activists may therefore be surprised.

Many respondents expect the ESG debate to broaden. "Investors may demand complete transformation from current practices for more accelerated results," says the CEO of a corporate in France. "Even though companies are already doing well to identify and mitigate ESG risks, the pro-ESG demands have increased and will increase in the future as well." The managing partner of an activist in Switzerland adds: "Workforce diversity, climate-related targets, transparency of pay and more will be topics that activist investors want to discuss with companies."

Equally, it is important to recognise that many see ESG as a value issue. "Stable financial output will depend on good ESG performance in the future," says a partner at a German activist. "Consumers are closely watching the sustainability initiatives of companies before purchasing products." And the chairman of an Italian corporate concedes: "Companies' progress on ESG can be closely tied to their financial performance, which is why activists are focusing on this topic."

The other interesting development to watch this year is whether any sort of backlash against the ESG agenda takes hold in Europe. In some parts of North America there have been legal challenges and political action against investors and institutions that take investment decisions with ESG considerations in mind, and this may proliferate under a second Trump administration. Some expect that to spread to Europe.

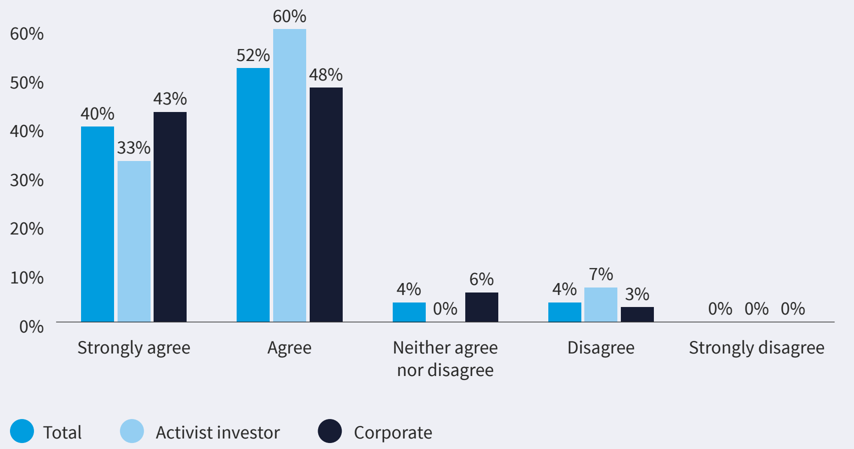
In the UK, for example, a corporate board member expects some activists to push for a reversal of corporates' ESG positions. "There will be anti-ESG demands," the board member says. "It will not be long before investors realise that ESG efforts are not bringing in the financial value that they expect." This may put some corporates in a difficult position, caught between pro-ESG and anti-ESG activists. Although the former remain by far the dominant group in Europe at the moment, certain financial realities may complicate the debate.

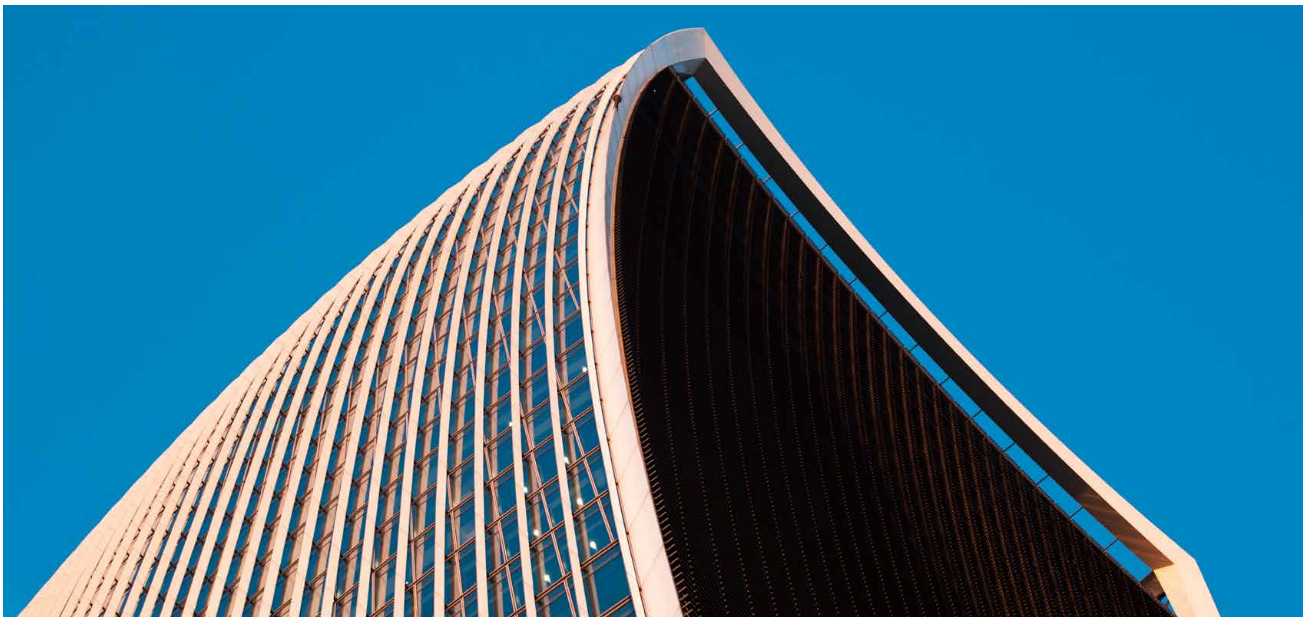
Relatedly, there is a question mark over how prescriptive activist investors will be in their ESG-related demands. Around half of respondents (54%) say they don't expect activists to become more prescriptive in this regard, though more than a quarter (26%) take the opposite view. For activists themselves, there is a balance to be struck between pushing for very specific ESG changes that may not get broad shareholder approval and making a more generalised approach that may not entirely satisfy their agenda but stands more chance of getting traction.

> Enhanced ESG reporting frameworks such as the EU CSRD will require companies to publish and report more detailed data than ever before, which may broaden the scope of activism. Companies will also be mindful of the backlash against ESG measures in the US and whether this takes hold in Europe.

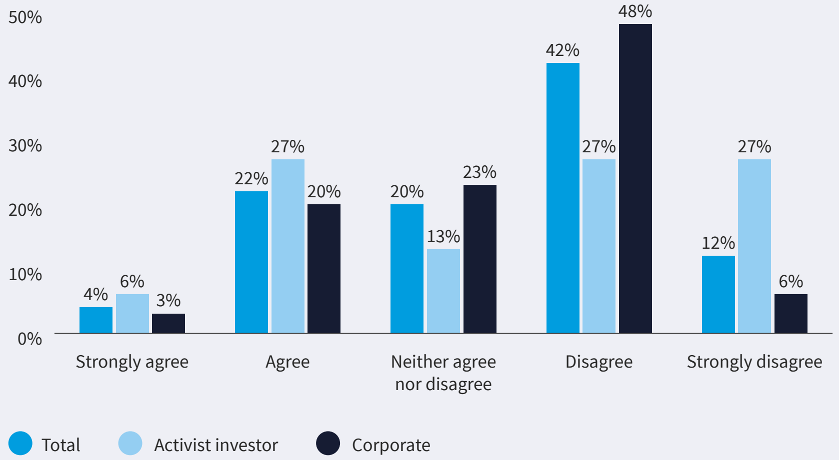
Simon Toms, Partner in Skadden's London office

To what extent do you agree with the following statement: 'Activists will increasingly prioritise environmental, social and governance (ESG) issues in their campaign demands.'?

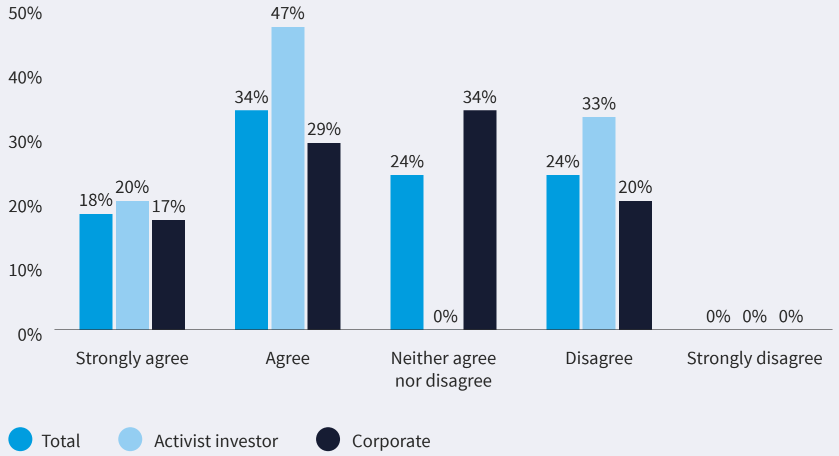




To what extent do you agree with the following statement: 'Activists have recently become more prescriptive in their ESG-related demands and are less likely to find broader shareholder approval for these demands than they were 12 months ago.'?



To what extent do you agree with the following statement: 'Activists will increasingly prioritise diversity, equity and inclusion (DEI) issues in their campaign demands.'?



"They are still likely to get shareholder approval for most of their ESG demands," admits the CEO of a UK corporate. "The list of ESG demands is widening. Shareholders all support strong practices." However, the CEO of an Italian corporate warns activists to be realistic. "Demands can be highly prescriptive and we cannot incorporate them completely," the CEO says. "If these demands were less prescriptive, it would allow us to prepare more pragmatic strategies for dealing with the issues they highlight."

One particular area of ESG emphasis this year looks likely to be diversity, equity & inclusion (DEI), with more than half of respondents (52%) expecting activists to prioritise concerns in this area. Corporates should note that among activists themselves, this figure rises to more than two-thirds (67%), suggesting that some boards may be underestimating the significance of DEI.

"Companies should consider the legal liabilities of not proceeding effectively with their DEI initiatives," warns the partner of an activist investor in the UK. "What organisations have not realised is it will increase the value of the company globally and also improve the quality of output – employees will be working in a more productive environment and feel comfortable at work."

Share price panacea

As far as other factors that are likely to motivate activists are concerned, corporates should note that respondents find underwhelming shareholder returns to be the most common cause of a campaign for changes to the board or the management team. This accrues 30% of respondents' first-place votes as well as 22% of secondary ballots, the largest such shares in both cases. Maintaining a strong share price is almost a universal remedy for boards that want to thwart potential campaigns – activists are much less likely to find support from other investors while a share price is high.

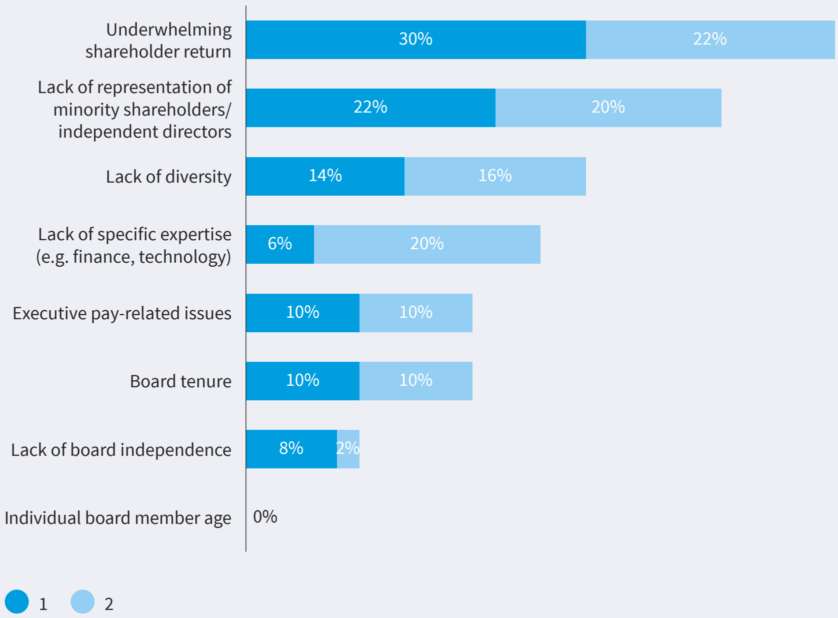
Still, other issues matter too – for example, 42% of respondents suggest activists are commonly demanding changes if they feel minority shareholders are poorly represented or that there is a lack of independent directors. Relating to our earlier finding relating to DEI, lack of diversity, which accrues 30% of combined votes, can also give rise to demands such as these.

On share buybacks and dividends, meanwhile, 78% of survey participants believe activists will focus on these over the next 12 months, including 26% who strongly agree with this suggestion.

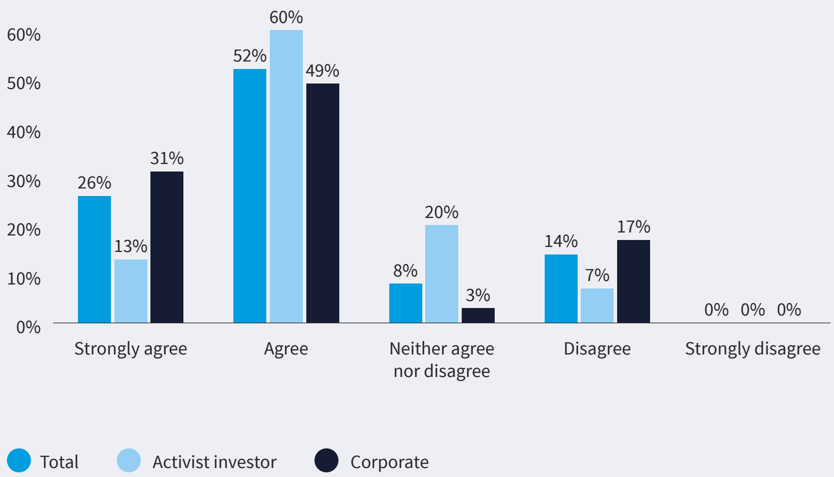
These figures have risen since last year's report, with many respondents arguing that investors are looking to lock in some value during a period of stock market volatility. "The demands are clear," says the managing director of an activist investor in Italy. "Activists want more returns – companies need to step up with strategies to fulfil this demand."

The CEO of a French corporate adds that activists may issue such demands as a way to gauge a board's conviction in these still-uncertain times. "Activists will focus on buybacks as they seek to understand how confident the management is about the company's progress and its projected financial performance for the years ahead," the CEO says. "The dividend will also be a concern because the financial performance of companies has been unstable."

What are activists' main motivations when demanding changes to the board/management of a company? (Select top two and rank 1-2)



To what extent do you agree with the following statement: 'Activists will particularly focus on share buy-back or dividend issues over the next 12 months.'?



3 Positive engagement

When it comes to preventing campaigns from emerging in the first instance, respondents believe the most effective measures are promoting broader shareholder engagement (24% of most-important votes), maintaining transparent disclosure practices (20%) and engaging frequently with a regular set of advisers to evaluate shareholder sentiment (also 20%).

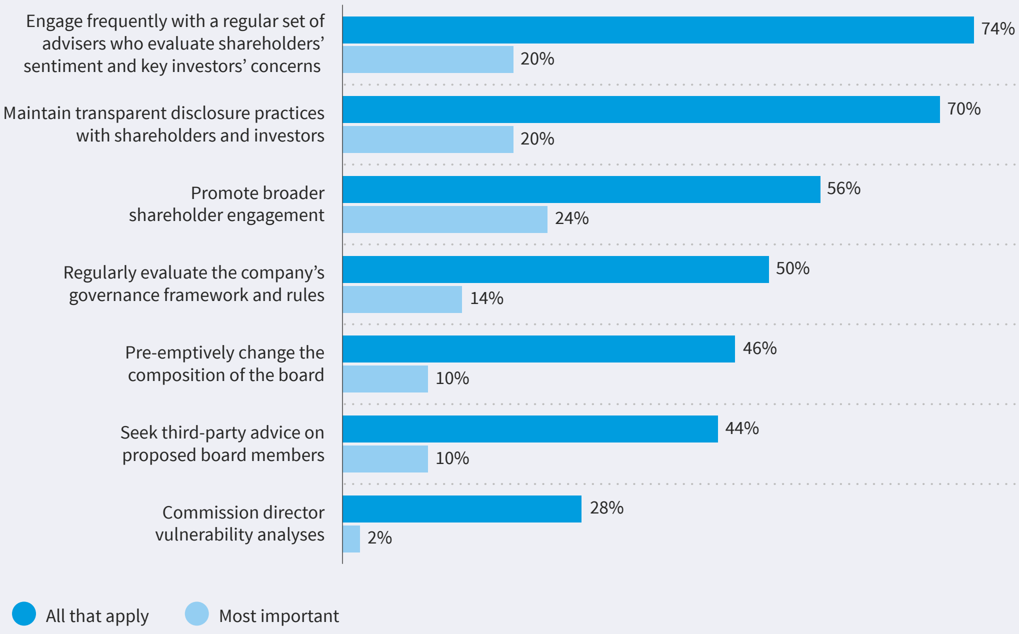
While an emphasis on transparency was also evident in previous editions of this research, the importance ascribed to broader shareholder engagement has increased significantly over the last 12 months (14% of most-important votes in last year's study).

"Promoting broader shareholder engagement is the best way for companies to show their positive intentions," advises the CEO of a German corporate. "They can reassure activists that they are all working towards the same growth and revenue generation ambitions. Opinions can be shared in a positive environment."

The distinction between direct engagement and contact through impartial, specialist advisers is an interesting one. "They provide an objective perspective, which is important," says the managing director of an Italian activist investor. "Their reports often come as a surprise to management, who may not previously have been fully aware of their shareholders' expectations.

Ultimately, being open and forthright with major investors is the best policy, says the CEO of a French corporate: "Maintaining transparent disclosure practices would be ideal. Companies should also understand the perception of activist investors. If activism has stemmed from a lack of transparency and disclosure, this can be remedied by changing these practices as soon as possible."

In your view, what are the most effective preventative measures that companies can use to mitigate the chances of activist campaigns? (Select all that apply and most important)



Exploring M&A

Nevertheless, some activist campaigns will inevitably go public – in which event, corporates must be prepared to defend themselves. Here, too, our survey respondents believe engagement to be an effective tactic. Indeed, the largest share of respondents (26%) identify investor engagement as the most important defensive tactic that companies use when facing a public activist campaign. Relatedly, 16% say obtaining support (whether public or private) from other shareholders and/or investors is the most valuable defensive tactic.

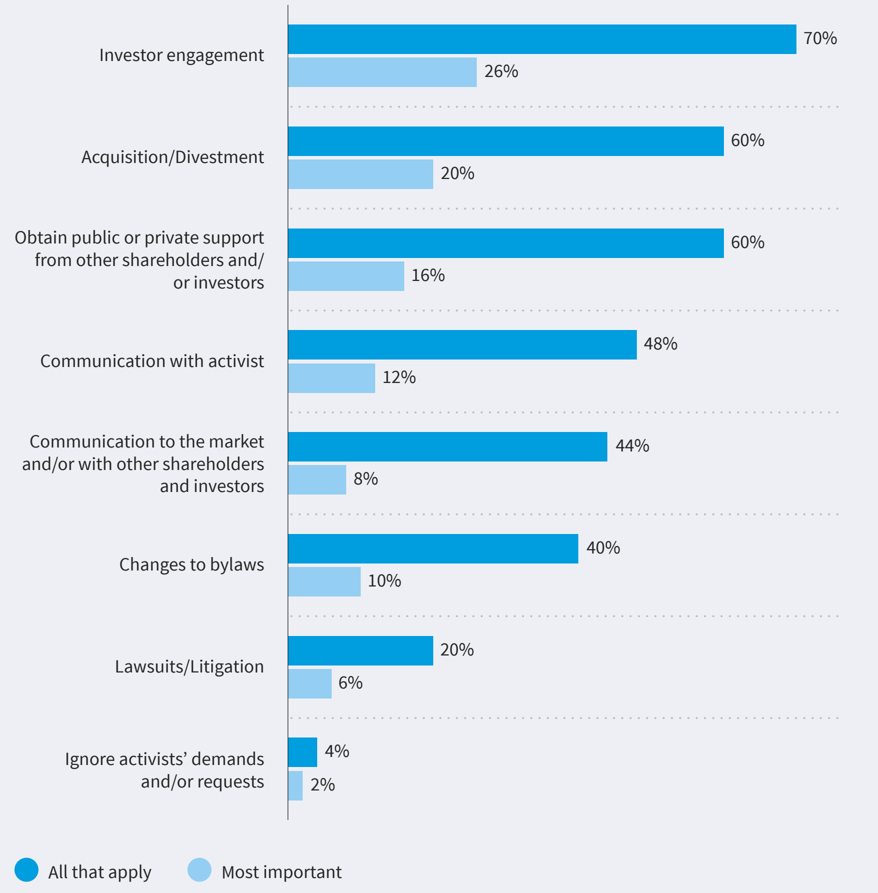
Another popular answer option in the current economic climate, however, is acquisition/divestment, which 20% of respondents identify as most important. This is a major shift from last year's report, when not one survey respondent singled this out as most important.

"Acquisitions are become noticeably more popular," says a board director at an Italian corporate. "A deal demonstrates the company's commitment towards growth and shows we do not shy away from taking these inorganic measures." The managing director of an activist investor, also in Italy, adds: "A timely divestment or acquisition shows everyone that the company is doing everything possible to maintain a good financial position in its markets."

While M&A has grown more popular as a defensive tactic, direct communication with activists is no longer a top point of emphasis for our respondents (12%, down from 38% of most-important votes in the previous edition of this research). "Other shareholders feel that we are singling out specific activists and discussing the details of their demands with them alone," explains the CEO of a French corporate. "It is better to focus on investor engagement as a whole."

Activists themselves are also sceptical about direct communication, with the partner in one UK firm arguing that corporates are not always genuine. "Companies do not approach activists with the intent of dealing with their concerns," the partner says. "They only want to avoid a public campaign and litigation."

What are the most effective defensive tactics that companies use when faced with a public activist campaign? (Select all that apply and most important)



> One of the keys to effectively defend against activism is agility. In the current environment, executives demonstrating flexibility and proactivity by conducting M&A transactions (including divestments in non-core areas), before activists seize the initiative on such matters, are less likely to face activist campaigns.

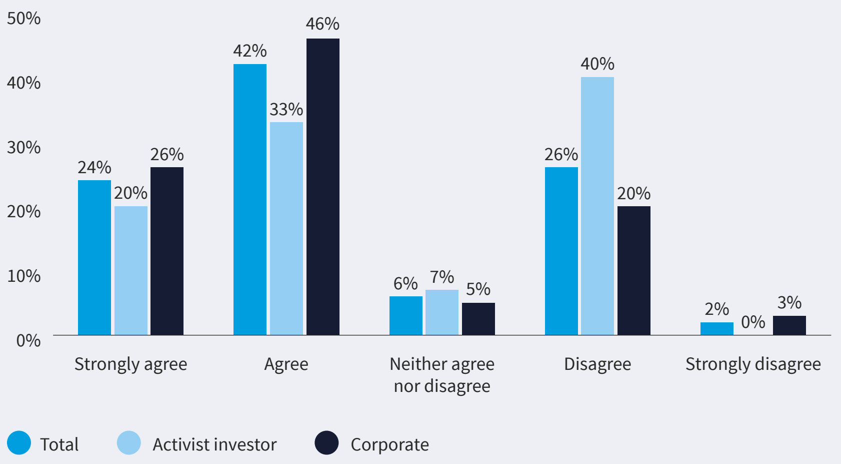
Armand Grumberg, Head of Skadden's European M&A practice

In the face of such adversarial posturing, many respondents to this research believe that it is important for companies to build closer relationships with their large institutional investors. This will make it much tougher for activist investors to run effective campaigns, agree two-thirds of respondents.

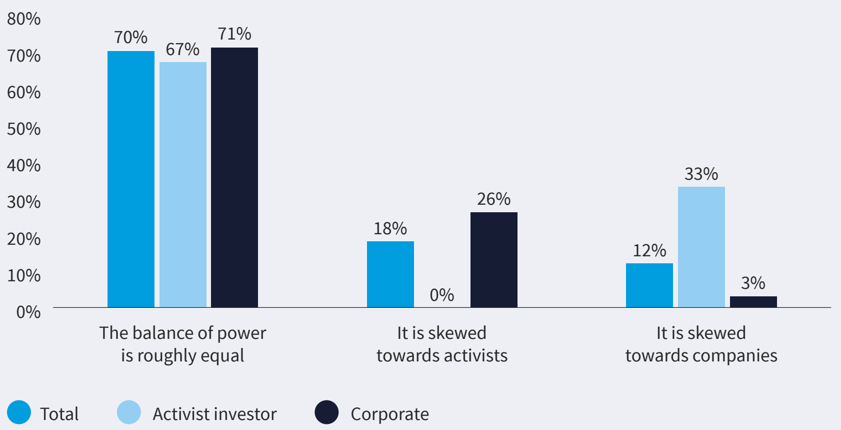
"Activism has increased because of poor engagement with the key investors of companies," says the board member of a French corporate. "Increased engagement with major shareholders will result in the role of activist investors decreasing." As respondents' emphasis on shareholder engagement and transparency illustrates, maintaining a consistent dialogue with investors is crucial in a charged business environment.

Activists themselves are not necessarily convinced. A significant minority, 40%, explicitly disagree that their role will be diminished at companies that engage effectively with institutional investors. Still, the managing director of an Italian activist investor conceded: "Large institutional investors are more influential, so getting their support for the company's activities would not leave any room for future public and private activism campaigns."

To what extent do you agree with the following statement: 'Increasing engagement between large, institutional investors and the companies in which they control major shareholdings will greatly diminish the role of activist investors.'?



Regarding the 'balance of power' between activists and companies, do you think it is roughly equal, or skewed more towards one side? (Select one)



4 Precarious power dynamics

Who holds the trump card when a battle of wills develops between an activist investor and a corporate board? In previous iterations of this report, the answer to that question has typically depended on who was asked, with activists and corporates alike often feeling that regulation, legislation and the broader marketplace gave the other side an unfair advantage. This year, however, there is much more widespread agreement that the balance of power is broadly equal.

Overall, 70% of survey respondents believe that neither side has an advantage. By contrast, only 33% of activists complain that the deck is stacked in favour of corporates, and just 26% of corporates feel the system leaves them in an unfair position.

"The balance has remained roughly equal," says the CEO of a Swiss corporate. "Companies are using defensive tactics to their advantage, while activist investors are using all the information on company board, statistics and financial data to their benefit. I do not see any additional power being held by companies or activists."

The managing director of an activist investor in Italy agrees with this sentiment: "Even if activists specify their demands, companies are also well-equipped to use their defensive measures. There is more proactive thinking on both sides, and eventually it's for the benefit of the company altogether."

Nevertheless, the system is not perfect, and respondents do advocate some changes to the legal framework governing activist investment. For example, a third of activists surveyed say stipulation for a mandatory dialogue period prior to any public campaign should be the number one focus, a view shared by 17% of corporates. Activists are clearly keen to force corporates to take their initial approaches more seriously, while corporates can see the benefit of engagement before hostilities break out in public.

"A public campaign is an extreme step that highlights the weaknesses to everyone," says the head of investor relations at an activist investor in Switzerland. "We would like a dialogue period to urge companies to accept requests so we can build a productive relationship." The CEO of a French corporate adds: "Mandating a dialogue period should be done so that companies get a chance to justify their position – we can get to a scenario where mutual agreement over future growth and returns expectations can be achieved."

Another change that many activists believe should be the top priority is a reduction in the thresholds that trigger mandatory disclosures of shareholdings when they are crossed. "Investors do not want to keep companies in the dark about their shareholder percentages," says the CEO of an Italian corporate. "Investors are open to lowering the minimum crossing threshold and want to declare their holdings accurately. Voting rights would then be known to companies and we can proceed with more honesty and transparency in the future."

Among corporate respondents, 20% say the most focused-on evolutionary change to the legal framework should be around rules on the disclosure of activists' identities, and those of broader parties and beneficiaries. Meanwhile, 17% say the priority should lay with extending the scope of provisions related to false or misleading information.

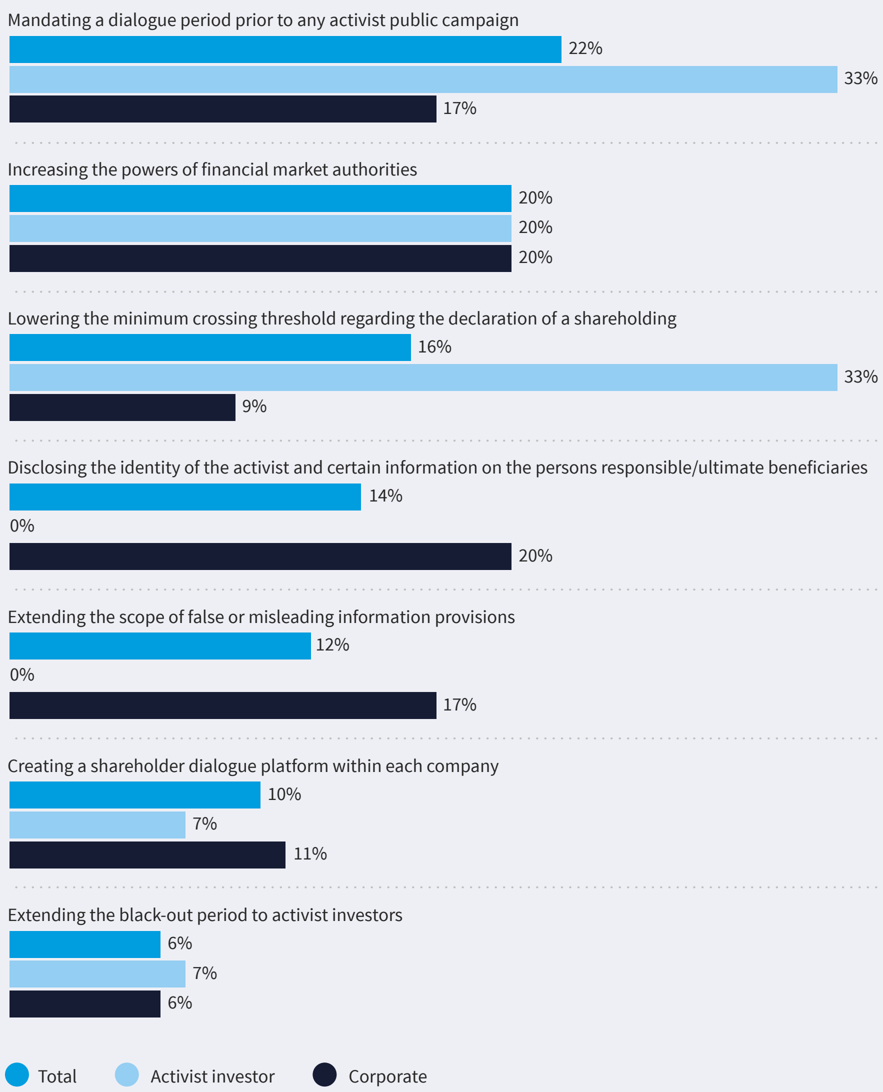
"It should be mandatory to disclose the identities of activists and beneficiary parties," says a corporate board member in France. "It's understandable that they want to protect their interests and avoid retaliation, but there should be proper communication and transparency both ways."

Finally, there are calls from both corporates and activists to prioritise greater powers for market authorities, with 20% of respondents in both groups highlighting this as the most important change. "Increasing the powers of the financial market authorities would promote better reporting and disclosure practices," says the managing partner of an activist investor in the UK. "The powers of financial market authorities should increase in order to control any deceptive activity or unrealistic financial projections in markets."

Disclosure regimes are probably due for a refresh. Greater transparency should benefit both listed companies and their shareholders, whether activist or traditional, since it allows earlier visibility and dialogue.

George Knighton, Partner in Skadden's London office

On which area do you believe the evolution of the legal framework should focus with respect to activist investors and public campaigns? (Select one)



Navigating the noise

Our latest research underscores a pressing reality: shareholder activism in Europe is gaining further momentum, with activists becoming both more assertive in their demands and more frequent in their approaches. For corporates, this means preparing even more for intensified scrutiny and navigating a growing number of challenges as activists push for change.

Some of the risk factors that are giving rise to further shareholder activism are difficult to manage. In particular, the business environment across Europe remains volatile. Geopolitical upheaval, economic headwinds and supply-chain disruption will continue to impact many companies in the near to medium term. Activists will be focused on the effectiveness of the response to such difficulties and may often take a different view about the right strategic direction for the business in this context.

Meanwhile, the ESG debate adds another lens through which to view investor activism. The environmental agenda is one element of this debate, with companies under pressure to set out credible strategies for reducing their carbon emissions and hitting net-zero targets. But there is also pressure to take action on broader concerns, particularly around DEI. While some activists in other regions have begun pushing back against certain ESG positions, this trend has yet to become a significant factor in Europe, where the emphasis remains on advancing sustainability and inclusivity.

Boards and management teams that are not alert to the concerns of activist investors may be in for a shock. They are more likely to receive approaches from activists demanding change – and more of those approaches may develop into full-blown public confrontations.

The good news is that many corporates have already recognised these potential threats. They are seeking to be more open about how they will address key issues facing their businesses – and they are more open to engaging with shareholders and securing a better understanding of investors' concerns. On this latter point, third-party advisers will increasingly have an important role to play.

Those relationships may see corporates and activists reaching a better understanding about competing visions of what is in the best interests of the business. And many corporates are willing to contemplate the sort of strategic transformations for which activists are pushing – that could include anything from major investment in new technology to an increase in M&A activity through both acquisitions and divestments.

The bottom line? While activism continues to gain ground in Europe, not all campaigns serve the broader interests of the business or its stakeholders. Activists will often prioritise their own financial returns, sometimes at the expense of long-term value creation and operational stability.

For corporates, the challenge lies in distinguishing between constructive input and disruptive agendas. By staying ahead of potential concerns – strategic foresight, through transparent communication and strong, proactive governance – companies will not only mitigate the risk of activism but also strengthen their position in an increasingly volatile market. Activists may be more vocal in 2025, but well-prepared businesses can ensure they remain in charge of the agenda.

Key takeaways:

1. Heavy industry under strain. Both corporates and activists are projecting an increase in the number of campaigns in Europe over the next 12 months, with companies in the industrials and energy sectors expected to come under especially high scrutiny. Besides traditional demands focusing on operational efficiency and governance, these heavy industries are especially vulnerable to sustainability-related campaigns, and will remain vulnerable in Europe to the political and geopolitical environment. Though anti-ESG sentiment may be bubbling in other parts of the world, "in Europe, the regulations relating to ESG performance remain strict. Companies need to follow these compliance requirements and not waver from any of their ESG responsibilities," warns the head of business development at an activist investor in France.

2. Don't disregard diversity. Activists are certainly continuing to prioritise ESG issues in their campaigns, but corporates should be mindful of the next potential governance flashpoint – DEI demands. Our findings indicate that activists' interest in ESG factors has overall slightly decelerated since last year's study, and this shift may catch some corporates off guard. As a board member of a German corporate explains, in the current economic climate "companies are more focused on operations and financial growth aspects. They may not be emphasising diversity progress, which will give rise to more public campaigns."

3. Fortifying defensive foundations. Amid today's volatile economic and geopolitical environment, the boards of European companies must refine their defensive strategies. Drastic steps such as 'poison pills' or other defensive measures have fallen out of favour over the last 12 months, but so, too, has communicating directly with activists. Corporates are instead relying on adaptive strategies that focus on broader shareholder engagement, supported by insights from private, third-party advisers. And, as a last resort, exploring M&A deals is one way that corporates can clearly demonstrate their commitment to growth, even in trying economic times.

About Skadden

Skadden is a global leader among law firms involved in mergers and acquisitions and other corporate transactions, and a top adviser for clients on corporate governance, takeover preparedness, contests for corporate control, proxy fights, and other forms of shareholder activism defence. We provide clients with an integrated team from different areas of law, including attorneys from our M&A, corporate governance, and litigation practices. Our diversity of experience helps clients address the full spectrum of issues presented by activists and is key to helping our clients prepare for and respond to activist shareholders advocating strategic, financial, or structural changes.

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