

Activist fund Trian launches public fight to add CEO Peltz to P&G's board

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Activist fund Trian Fund Management LP launched its public push for changes at Procter & Gamble Co on Monday, nominating its Chief Executive Officer Nelson Peltz to the board in a bid to press for more drastic steps to revive sales and profits.



Reuters

Trian's move marks the official start of the largest proxy fight ever, with the activist squaring off against a \$223 billion consumer products giant, which sells everything from Tide detergent and Gillette razors to Pampers diapers.

The battle comes as activist investors, emboldened by years of successful campaigns for changes at corporations across the U.S. and abroad, use their growing coffers to seek bigger targets.

Trian, which owns about \$3.3 billion (2.52 billion pounds) of P&G's stock, or 1.5 percent of the company, urged shareholders to vote for Peltz at the company's upcoming shareholder meeting, citing his history of working with management teams to turn around consumer companies.

In a CNBC interview on Monday, Peltz, 75, talked more about his track record than actual proposed changes he would suggest for the company. Peltz railed against the company's "suffocating bureaucracy" and organizational structure, adding that he had a lot of respect for CEO David Taylor.

P&G's proxy filing, disclosed on Monday, shows that Trian's dialogue with the company goes back to Feb. 16, when Peltz called Taylor shortly after disclosing the stake to make the introduction and set up an in-person meeting.

What followed was five months of discussions between senior leaders at Trian and P&G over the company's strategic direction and what was needed to boost its lagging share price.

But over the course of the meetings, the two sides failed to reach an agreement that would avoid a public fight.

"I am quite surprised and very disappointed because I think David (Taylor) and I have developed a very positive relationship," Peltz told CNBC, when asked if he was surprised that the dialogue had turned into a proxy fight. "I like the man."

Trian said in a press release that its bid to get Peltz elected to the board centres on P&G's continuing underperformance, excessive costs and complex bureaucracy.

"We believe that many of (P&G's) challenges relate to the company's organizational structure and culture, which can be highly resistant to change," the fund said.

Shares of the company were up slightly at \$87.53 in morning trade on the New York Stock Exchange.

OCTOBER ANNUAL MEETING

With P&G's annual meeting usually held in October, the two sides have roughly three months to continue to discuss ways to avoid a shareholder vote on Peltz, who if elected would boost the board to 12 members.

Avoiding a fight will largely hinge on what other P&G shareholders think is best for the company.

"As we have written previously, we think P&G is doing the right things and the issues they have will take time to fix," said RBC Capital Markets analyst Nik Modi in a research note.

P&G's proxy filing noted that last Tuesday, in a meeting between Trian and members of P&G's board, Trian said it was moving ahead with its campaign to elect Peltz because the company was not moving fast enough to improve its performance.

P&G directors at the meeting said they too were not happy with the performance, but that they felt that Trian's representation on the board was unnecessary in light of recent initiatives undertaken by the company," the filing said.

In a bid to boost profits even as sales remain stagnant, P&G has sold unprofitable brands, including 41 beauty brands to Coty Inc , and focused on core brands such as Tide, Pampers and Gillette.

However, those efforts have failed to boost the company's stock much beyond the level where it traded at the beginning of this year.

The two sides appeared near an agreement to avoid a public fight, the filing shows, which hinged on P&G publicly committing to certain performance goals over a 12-month stretch and appointing Peltz to the board if the goals were not met.

But talks on such a statement broke down in May.

P&G said in an email on Monday that its board was confident that the changes being made by the company were producing results and expressed complete support for its strategy, plans, and management.

Trian said in its press release that it was not seeking a break-up of P&G or the ouster of the company's chief executive, adding that in case Peltz was elected he would seek re-election of the director he replaced.

Trian said that P&G's last cost-cutting programme, launched in 2012, failed to impact profit or sales growth.

Deutsche Bank said in an analyst note on Monday that the best way for P&G to

improve was "to not just take out costs for profits, but to grow the top-line, which requires strategic investments in marketing, sales and innovation."

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