



Efficient Capital Structures faces off with Vodafone – Shareholder Activism at Its Best

OVERVIEW

In June 2007, activist investor, Efficient Capital Structures, (“ECS”), placed four resolutions to Vodafone shareholders conceived to unlock shareholder value. The two core resolutions sought to:

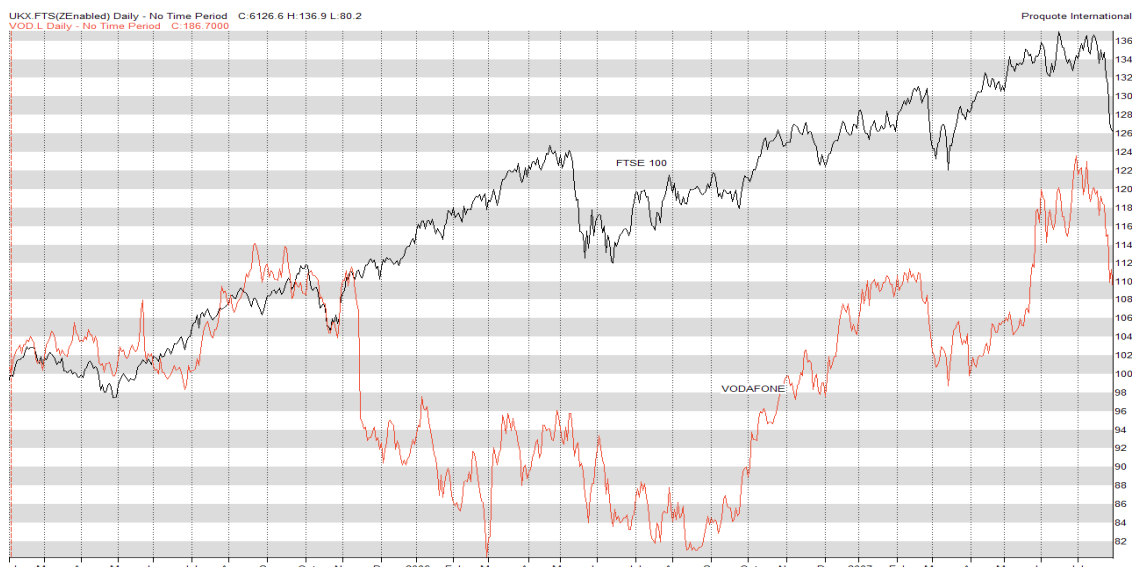
- Spin-out the 45% stake in Verizon Wireless to Vodafone’s shareholders and
- Repackage its annual dividend through the issuance of £35bn in new shareholder bonds.

By giving the Verizon Wireless stake to Vodafone shareholders, the value of that investment would be unlocked, with ECS estimating that Verizon Wireless alone would trade at a EPS multiple far higher than it did buried inside Vodafone thereby providing \$65bn additional value to shareholders.

The issuance of new bonds to shareholders would permit Vodafone to repackage its dividend payment in a more tax efficient manner. Instead of distributing the whole amount in the form of after tax dividends, the interest from the new bonds would have permitted Vodafone to provide the same amount of cash to investors (interest on the bonds and a lower dividend) while reducing its tax bill by £600m annual (NPV of £6bn to shareholders).

OBJECTIVE

ECS sought to garner as much shareholder support in the short AGM period. ECS needed to communicate its message to as large an institutional shareholder population as possible as quickly as possible following the announcement. Moreover, faced with Vodafone’s cold reception to its resolutions and its large communications team, ECS decided to take its case directly to as many of Vodafone’s large institutional shareholders and ADR holders directly as possible. The overall objective was to see the share price rise to reflect the value of the assets as the stock had underperformed for the past two years as illustrated in the chart below.



Vodafone performance for the two years prior ECS investments vs. FTSE 100 index



CHALLENGES

As a new and innovative activist shareholder, ECS faced hostility from the directors of Vodafone because de-merging Vodafone's interest in Verizon Wireless would reveal the low growth of Vodafone's wholly-owned businesses and make it more difficult for management to hit EPS growth targets and thus vest their options. The TMT giant's communications engine roared right away. Against the deployment of heavy artillery, a considerable effort was required to get large institutions to engage in an open dialogue with ECS. Additionally, the Vodafone shareholder base was international and finding the actual fund managers holding the share and the corresponding corporate governance executive was a great challenge. Salisbury was entrusted with this vital mission.

SOLUTION

Faced with these daunting challenges, ECS wisely chose to mandate us far in advance of its placement of its resolutions to Vodafone's board. Therefore, together we had time to put together a thought out strategy to create the innovative connectivity ECS required in collaboration with its other strategic advisors.

Salisbury offered ECS a multi-pronged solution which created communications channels to the larger institutional community as well as a far more targeted approach, focusing on the top 30 institutional shareholders and the international tenets of the corporate governance movement.

- Salisbury put together a data base of more than 7,000 institutional investors to whom a series of press releases were addressed. These pools of investors were selected because they were either investors in Vodafone securities or, were managing funds or hedge funds that may be invested in Vodafone.
- Salisbury created a dedicated website, www.vote4value.com which housed all ECS written communication to the market. It also served as a two-way communications platform for investors and also permitted ECS to monitor the amount of traffic there was on the website.
- Salisbury provided an inbound Shareholder Helpline for Vodafone's retail shareholders
- Salisbury took responsibility for issuing the press releases
- Additionally, a direct calling campaign was initiated with the top 250 Vodafone investors, with a special emphasis placed on the largest 30 holders. This campaign focused on providing detailed information to shareholders but also the arrangement of one-on-one discussions with ECS.

As ECS had chosen the AGM resolution route to effect change at Vodafone, we spearheaded the effort to engage the international corporate governance community.

- Along side the meetings with institutional holders, meetings were organised with major U.K. and international pension and corporate governance specialists including major proxy advisors such as PIRC, ISS and Glass-Lewis.
- Salisbury secured a speaking slot at the annual International Corporate Governance Network Conference held in South Africa in July 2007. Not only did ECS speak before the whole conference delegation about its position that the balance sheet was the natural interface between shareholders and management, but Salisbury organised on the ground more than 20 additional meetings with institutional holders of Vodafone.



- As the campaign came to its final week, Salisbury secured an invitation to Glass Lewis' "Proxy Talk" internet broadcast which is listened to weekly by Glass-Lewis' institutional subscribers.

IMPACT

The communication vectors put in place by Salisbury allowed ECS to commence and enrich a dialogue with the other 7,000 members of the institutional investor community interested in Vodafone and the activist's effort. Moreover, we helped transform ECS' value message into a call for action by shareholders.

On average, the six press releases that Salisbury organised for ECS were read by 16.5% of the 7,000 + person market community that it was addressed to. Salisbury was able to tell ECS who read them and provide contact details of these investors. One-on-one meetings occurred with 20 of the top 30 Vodafone shareholders, including 8 of the top 10 shareholders. In the short time between the posting of documents and the AGM ECS met 1-1 with more than 65 of the largest institutional shareholders, or approximately 40% of Vodafone's issued share capital. In addition Salisbury managed several open conference calls which attracted many further institutional shareholders and several "invitational" conference calls for clients of Nominees.

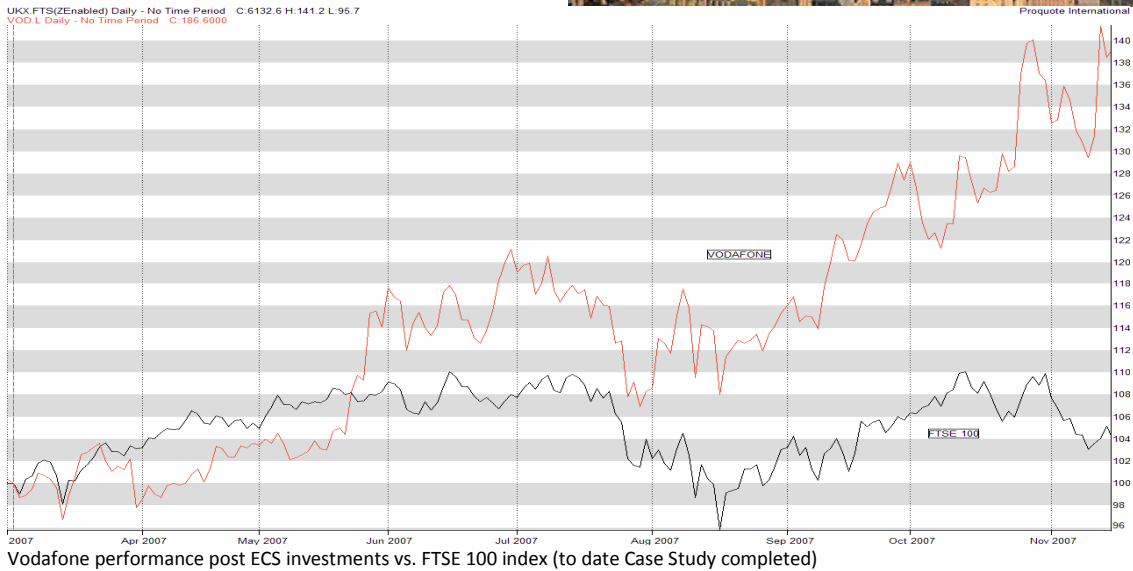
Much of the governance community was in support of ECS's innovative take on the impact that governance may have on financial issues that effect the owners of the company: the shareholders. In particular, the US-based proxy advisor Glass-Lewis openly supported three of the four resolutions, including the two that addressed the spin-out of Vodafone's Verizon Wireless stake and the issuance of bonds to shareholders.

Furthermore, the corporate governance community was appreciative for ECS' detection of the apparent conflict of interest between the positive effect of Verizon Wireless on Vodafone directors' stock-option plan and the opportunity to release value to Vodafone shareholders today. Essentially, much of the corporate governance community arrived at ECS' conclusion: Vodafone management did not want to spin out Verizon Wireless because the minority stake was the principle driver of the directors meeting their stock option hurdles for exercising. Billions in shareholder value were at stake to permit directors to have a stock option pay out worth tens of millions.

During the campaign the value of ECS's stake in Vodafone increased significantly, and this proof of concept campaign was adjudged a huge success by ECS. ECS has proved it can identify and exploit opportunities to increase shareholder value, and will continue to focus on Major European Companies in order to make significant return for its investors.

RESULTS

While the actual votes were not carried the stock price dramatically out performed the FTSE 100 as investors re-focused on the value story. This enabled all the shareholders, including ESC, to benefit from this re-valuation.



TESTIMONIALS FROM ECS:

“Salisbury was magnificent! They generated huge amount awareness, created great meetings with the key investors, facilitated invitations to speak at major international events, and helped significantly with the messaging. A fantastic value result for the shareholders in Vodafone by driving the re-rating of the stock.”
 Glenn Cooper, Chairman ECS

“The Salisbury Portal was hugely valuable in our global road show. It enabled us to travel the world and still have access to all the information we needed on the campaign. The Salisbury team did a wonderful job in getting us into institutions that we know have previously refused to meet major Activist Investors! Their knowledge and advice was invaluable and getting them engaged early enabled us to get the most benefit from this. Great Value Creators. We will use them next time for sure.” Rupert Darwall, Principal ECS.

Contact Us



Salisbury Associates

Leverton House
 13 Bedford Square
 London WC1B 3RA
 Office: +44 (0) 20-7291-5490
 Fax: +44 (0) 20-7291-5492
 Email: info@salisburyassociates.com

Salisbury Associés France

60, avenue Victor Hugo
 75016 Paris FRANCE
 Office: +33 (0)1 70 61 23 98
 Email: info@salisburyassociates.com