PINK SHEET
CITELINE REGULATORY

20 May 2015 |

Shareholder Activism Methodology

by

EY conducted a comprehensive analysis of all life sciences activism cases between January 1, 2006 and December 31, 2014.

Researchers at EY (formerly Ernst & Young) conducted a comprehensive analysis of all life sciences activism cases between January 1, 2006 and December 31, 2014. This universe of companies included biopharmaceutical companies, medical technology and device manufacturers, and nutritional product developers. We collected data using Capital IQ's and FactSet's Shark Repellent databases. Additional details were confirmed via researching company-specific filings using the US Securities and Exchange Commission's EDGAR database.

In defining shareholder activism, we excluded certain activities from our data set as not representative: 1) 13-D filings with no publicly disclosed activism; 2) activist short-selling campaigns; 3) hostile M&A (e.g., Sanofi's bid in 2010 for Genzyme or Roche's 2008 overture to buy the outstanding shares of Genentech that it didn't already own). In certain cases, different investor groups launched related campaigns within the time frame of an ongoing campaign. In such instances, we considered the activities as part of a single campaign unless the investors' underlying motives were different. For consistency, we used the earliest 13-D filing date on record as the official start of an activist campaign.

To understand if the drivers of activism were changing over time, we assessed motives based on five parameters:

1. Capital structure: The allocation of cash toward share repurchases or dividends
2. Operational performance: Activism triggered by R&D investment choices, SG&A spend, or tax structures
3. Sale of the company: Activism that blocks or promotes the sale of a company to a strategic investor
4. Business portfolio restructuring: Activism that pushes for spin-offs and/or divestitures
5. Governance: Activism related to board independence, executive compensation and

PINK SHEET
CITELINE REGULATORY

incentive alignment and strategic direction.

In many cases, activists sought to make governance changes to further different, primary objectives, such as the sale of the company or the divestiture of a particular business that was underperforming. In such cases, we categorized the campaign motive as M&A or business portfolio restructuring, not governance. In cases where there were multiple drivers of activism, we assessed each trigger individually so that we could develop a more complete picture for the causes of activism. In addition, lacking specific information about objectives, we classified campaigns that were “driven by an increase in shareholder value” in the operational performance category.