



## Activist Insight

# Doing it Allergan

An activist seeks to recreate Pershing Square Capital Management's pursuit of drug company Allergan.

More than eighteen months ago Bill Ackman held a conference call to announce that his fund had taken a major position in drugmaker Allergan. In an unprecedented move, the hedge fund manager would team up with a public company, Valeant Pharmaceuticals International, to make a bid for Allergan—with Pershing Square using a full range of activist tactics to force the target's board to bend to their will. Ackman's ambition to own a large chunk of Valeant no longer looks wise, but the estimated \$2.6 billion in profits Pershing Square reaped from Allergan's eventual sale to Actavis caught the attention of another up-and-coming activist investor.

Lone Star Value Management, a Connecticut-based hedge fund managed by former Soros and Viking Global Portfolio Manager Jeff Eberwein, is intent on recreating Ackman's success. Since May, it has been building a position in Massachusetts-based Edgewater Technology with the intention of agitating for the company to sell itself to AmeriHoldings, a platform company it helped to take public at around the same time and owns a 34% stake in. AmeriHoldings, which specializes in outsourcing technology companies to India, has already bought a small number of private companies, he says, before turning its sights on Edgewater. An investor presentation seen by

Activism Monthly draws direct parallels between this campaign and Ackman's at Allergan over a year ago—the first known example of an activist repeating the strategy. “I see this as Activism 2.0,” Eberwein told Activism Monthly. “Having an activist involved increases the probability of success.”

Eberwein says his fund and the company—who have formed a group—made a private offer for Edgewater in June, but were refused a meeting after management discovered he was an activist. A filing from Edgewater appears to confirm the company refused a meeting, but doesn't say why. Nonetheless, CEO and Chairman Shirley Singleton must have bad memories of the activist creed—in 2013 Echo Lake Capital wrote her a public e-mail offering congratulations on 11 years in the top job: “a remarkable accomplishment considering how poorly the company has performed under your leadership,” it said.

Four months since their initial approach, Lone Star and AmeriHoldings have gone public with the offer and plans for the removal of five of Edgewater's six board members through a consent solicitation. Edgewater, for its part, says the \$8.50 per share offer “substantially undervalues” the business. A preliminary revocation document filed with the SEC suggests it would demand a 40-44% premium to its moving

average, which would value shares at around \$10.60, but also believes it has strong standalone prospects. Moreover, it rejects the off-shore model AmeriHoldings is hoping to implement, saying its share price “has appreciated more than 150% since December 31, 2009, well above the company's self-selected peer group... a select group of U.S.-based IT-services companies and a select group of India-based IT-services companies comparable to the company.”

Eberwein rejects the suggestion that he might fall foul of litigation in the same way as Ackman and Valeant, who settled lawsuits brought by Allergan but now face a class action lawsuit from investors which accuses them of insider trading. He credits law firm Olshan Frome Wolosky with devising a strategy that avoids those pitfalls—AmeriHoldings has not launched a tender, for example—and says the board alone will never sell the company. “A stockholder should not have to resort to the extraordinary step of conducting a consent solicitation just to ensure that the board fulfils its duties to stockholders,” a preliminary statement by the activist said.

As Activism Monthly Premium went to press, Edgewater announced a review of strategic alternatives. However, it was too soon to tell whether the move was enough to dissuade Lone Star and AmeriHoldings from pressing on. ■