



# Crossing the Wall

Insights from the M&A and Activism  
Communications Team



ARTICLE

## Activating Retail Investors in Shareholder Activism

One of the most talked-about trends in equity markets right now is the rise of the retail investor. This once sleepy segment of the shareholder registry has gone from a few shares owned by your grandmother to meme-stocks owned by that crazy cousin. But while it is fun to read about the equities that are trending with the Reddit crowd, retail voters can have influence beyond one-off exciting stock pops.

As the world buzzes about the retail investor, management teams should focus less on reaching for fleeting valuation impacts and more on establishing a proactive communications strategy to build positive sentiment and secure favorable long-term voting habits. A focus on voting over value can unlock significant defensive benefits as the power of investor votes continues to rise.

### Overlooked and under-counted in shareholder voting

There has long been one simple rule about retail investors: they do not vote. The reality is that less than 30% of retail investors vote their shares, compared to more than 92% for institutional investors.<sup>1</sup> In fact, one estimate says that just 12% of the average company's retail accounts vote.<sup>2</sup> Three reasons explain this trend:

1. This group often has limited familiarity with the issues presented at a vote or simply does not view voting as part of value creation.
2. Not only do they often lack acumen on the issues, but they have even less knowledge on how to vote. Voting shares at a U.S. annual general meeting or special meeting is highly complicated and requires the investor to have a level of information not regularly or easily accessed.
3. Unfortunately, it is not until an active proxy vote that the retail shareholder becomes relevant again. Realizing that the outcome of a vote may be uncertain or too close to call often results in a mad dash to engage these investors and convince them to vote. This is a fool's errand.

To effectively evaluate any engagement with an activist investor or shareholder proposal filer, a board and management team need to have a view into a potential voting outcome. In that analysis, the retail investor base is largely left out or greatly discounted.

Despite this reality, retail investors still make up a sizable potential voting bloc at most companies. A typical public company would have somewhere between 10% to 30% of shares outstanding held by retail investors. The amount is likely even higher for U.S public companies. <sup>3</sup> When it comes to tipping the scale in an activist defense campaign, that's a compelling number.

### Flipping the script

The current cycle of limited engagement from the company and little action from retail investors is one that must be broken.

Each year boards are faced with more demands from investors for action ranging from activists calling for dramatic changes to strategy or shareholder proposal filers demanding new disclosures. Gaining and keeping investor support at the ballot box is vital, which means retail investors are simply too big to ignore as a voting bloc.

For companies with an established base of retail investors, building a tailored program to not only reach individual investors but create consumable content specific for this audience will better engage this group and can pay dividends in a pivotal moment. Consider these common traits of a retail base:

- **Loyalty** - Retail investors put money into the company because they believe in it. They have a higher level of loyalty and affinity than most other stakeholders.
- **Patience** - Unlike institutional holders, retail investors have real long-term patience with no targets to hit or bosses to satisfy.
- **Independence** - When this group does vote, they are noticeably less correlated to proxy advisory recommendations.
- **Connection** - Retail investors develop personal connections with companies. Activists spend lots of time with institutional funds, but they could never replicate retail relationships in the same fashion.
- **Interest** - Recent research has shown that younger retail investors in particular are keen to vote. <sup>4</sup> The newer trading platforms have also made voting easier for this group.

Loyalty

Independence

Patience

Connection

Interest

## Unlock the power of digital for reaching retail investors

The rising importance of the corporate ballot box and the growing effectiveness of digital outreach has prompted a re-examination of regular engagement with retail investors.

A thoughtful digital program can best reach these investors, further educate them on key issues, and help them vote.

Boards and management teams should consider the following to transform this large piece of your shareholder base into a reliable bloc of votes:

- **Know your voters** – Identify key online influencers for your individual shareholders and build an understanding of their general profile in partnership with a digital campaign strategist. Many companies feel that their base is too dispersed to be effectively reached, but this discounts the level of online connectivity observed by this audience and its tendency to “hunt in packs.”
- **Go where they are** – Put messages into the market where your specific retail base is likely to engage with them. If an established retail investor program has been implemented, tapping into a list of content subscribers or posting on a centralized hub could be the most targeted approach. Alternative avenues could include ads in local media, message boards, or engaging with social media influencers. FTI Consulting research found that half of retail investors view social media as a reliable source of investment information.<sup>5</sup>
- **Create ongoing connections** – Engaging these investors and encouraging them to take action will require an ongoing campaign that is consistently executed, likely across multiple channels. Investors want to hear from companies about their progress against strategic and financial goals. Become their trusted resource.
- **Educate on voting** – The primary goal of the campaign is to move these investors toward the action of voting. Be sure to keep the message simple and the campaign focus clear.
- **Measure and adapt** – Key performance indicators will be able to show that the effort is driving increasing engagement and education that will increase confidence in taking the desired action. Set clear goals both on engagement and voting turnout.

<sup>1</sup> “2020 Proxy Season Review,” Broadridge Investor Communication Solutions, Inc. & PricewaterhouseCoopers LLP (2020), <https://www.broadridge.com/resource/2020-proxy-season-review>

<sup>2</sup> Alon Brav, Matthew D. Cain, & Jonathon Zytznick, “Retail Shareholder Participation in the Proxy Process: Monitoring, Engagement, and Voting,” Harvard Law School Forum on Corporate Governance (November 19, 2019), <https://corpgov.law.harvard.edu/2019/11/19/retail-shareholder-participation/>.

<sup>3</sup> Garnet Roach, “What’s the retail investment sweet spot?,” irmagazine.com (May 18, 2021). <https://www.irmagazine.com/small-cap/whats-retail-investment-sweet-spot>

<sup>4</sup> Garnet Roach, “Retail investors: Millennials most likely to vote their proxy, finds new survey,” irmagazine.com (May 4, 2021). <https://www.irmagazine.com/shareholder-targeting-id/retail-investors-millennials-most-likely-vote-their-proxy-finds-new-survey>

<sup>5</sup> “Decoding the new retail investor,” FTI Consulting, Inc. (2021), <https://fticonsulting.com/fti-consulting-report-decoding-the-new-retail-investor/>

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