

# THE ACTIVIST REPORT

## 13D Monitor

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## 10 Questions with Galen Smith

Galen C. Smith is the chief financial officer of Outerwall Inc. (Nasdaq: OUTR), responsible for the company's treasury, budgeting and forecasting, accounting and financial reporting, merger and acquisitions, tax planning and investor relations functions. In October of 2013, JANA



Partners filed a 13D on Outerwall and worked with management to create value for shareholders. Galen Smith took the time to sit down with us for this month's edition of *10 Questions* to discuss JANA's engagement and activism in general.

**13DM:** Take us through the activist process from management's standpoint. When did you first know JANA was a stockholder? When did you first find out about their 13D? When did you hire your advisers specifically with respect to JANA's engagement?

**GS:** Each situation is unique, but we had spoken with JANA several times regarding our business prior to their 13D filing. We knew they were shareholders but did not know the size of their holdings or their intentions until the filing. Shortly before JANA filing its 13D on October 4, 2013, they informed us of both the filing and the fact that they were now our largest shareholder.

We did not expect an activist would come into our stock, but were certainly

prepared. We had existing relationships with experienced advisors (bankers, legal counsel, and an IR/PR firm) who were ready in case a situation developed. This enabled us to quickly respond to the filing through a press release and begin to connect with investors and the company's other key constituencies to share management's and the Board's perspective.

**13DM:** Were your shareholders more or less receptive to the overtures of JANA than you expected?

**GS:** I believe all shareholders are aligned on enhancing a company's value – a tenet of any activist, and frankly, any management team. However, investors' views on the best way to accomplish this objective can vary substantially. After the filing of the 13D, we heard from a number of our top investors that while they wanted to see a return on their investment, they had differing opinions on how best to achieve this. We were encouraged that many of our investors expressed that they would stand by management's decision on what actions would be best to enhance value.

**13DM:** What were your impressions of activism prior to JANA's engagement?

**GS:** Our company is quite familiar with activist situations. Prior to JANA's engagement, we had an activist investor serve on our Board for approximately 5 years. In addition, before I joined Outerwall, I was an investment banker and helped advise companies on activism defense tactics. Therefore, I have experienced and was well aware of all aspects of activism.

**13DM:** What are your impressions now?

**GS:** My impressions haven't changed, but I do appreciate the approach JANA

took in engaging with Outerwall. JANA had a thesis about the company being undervalued and were supportive of the work management had done and was doing. As a result, our interactions with JANA never migrated to anything adversarial – we were working toward common goals. This allowed us to accomplish our objectives in a structured and thoughtful way, and in the end, created substantial value for all shareholders.

**13DM:** How prepared were you for an activist engagement?

**GS:** We were as prepared as we could be. It is important for every company to understand its defense profile and review it annually. In our situation, prior to JANA's engagement, we were already working with investment bankers, legal counsel and an IR/PR firm to develop a comprehensive plan should an activist situation arise. We also established and had in place a very robust IR program in which management spent a considerable amount of time, energy and resources to communicate regularly with shareholders.

**13DM:** What are you doing differently now from a corporate governance/investor relations standpoint?

**GS:** I think the successful outcome from the situation with JANA was driven by the strong corporate governance and investor relations that we already had in place. We have and will continue to talk with investors on a regular basis to help them understand our story as well as to get their perspective as shareholders. We remain focused on executing against what the Board and management believe will drive the highest value for all shareholders.

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**13DM:** What was the most disruptive part of having an activist engage Outerwall?

**GS:** It consumes a significant amount of management and Board time and can take you away from where your focus needs to be, which is on strategy and execution. It's important to find a balance between engaging with your activist, meeting with other investors and working to run the company.

**13DM:** Where did the activist add the most value?

**GS:** Each situation is different, but for us, there were two things that I appreciated. First, was a validation of our story and opportunity. There was a disconnect between where the market valued us and how management and the board viewed the value of the company. Not only did JANA acquire a significant stake, but they also talked with other investors about our story and the longevity of the physical DVD.

Second, it served as a catalyst for some changes we wanted to make as a management team. Well before JANA showed up, our Board and management team had been working hard to reduce costs and increase the return of capital to shareholders. Much of this we announced prior to JANA's 13D filing. The 13D filing enabled us to continue on our path to build value, with the added benefit of public support from

our investors - in this case JANA - for the initiatives we were implementing.

**13DM:** Do you think a long term relationship with an activist on the board could be beneficial to a Company?

**GS:** It depends. In 2008, our company was in a proxy fight and immediately prior to the vote, we reached a settlement by which we agreed to add one new director, an employee of the activist fund, to the Board. For us, it resulted in gaining a thoughtful Board member who added a different perspective in the Boardroom, but it's not right in every situation. This director remained on the Board even

after the activist firm sold its position and it was a constructive relationship up until that director's departure last year. One reason it worked was the shared focus - between the activist and the incumbent directors - of working hard to create value for all shareholders, rather than generating a quick return or benefitting one shareholder over everyone else.

**13DM:** Do you think that activists add value to the marketplace in general? Is a market without any activism preferable to the level of activism we have in the market today?

**GS:** Not all activists are created equal. There are examples of constructive activism and examples of destructive activism. If done right, an activist investor can work cooperatively with Boards and management teams to help companies execute against their strategies, validate their stories and drive shareholder value for the benefit of all shareholders. It is equally important that there is a shared goal of driving value for all shareholders and accomplishing this

objective in such a way that does not distract management from operating the business.



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