10 QUESTIONS WITH DAVID HUNKER

David Hunker is a managing director and global head of activist defense and shareholder engagement within the Piper Sandler investment banking platform.

Hunker brings 18 years of experience in investment banking and shareholder activism defense to Piper Sandler. Prior to joining Piper Sandler, Hunker was head of shareholder activism defense at Ernst & Young Capital Advisors where he focused on advising public and pre-IPO companies on activism preparation and response strategies. Previously, he spent fifteen years at J.P. Morgan Securities in New York and London where he founded and led their global shareholder activism defense practice for nearly a decade. Hunker began his career at J.P. Morgan Securities in their mergers & acquisitions group, executing transactions across all major client sectors in the Americas, Europe and emerging markets in the Middle East, Asia, Africa and Russia.

Hunker graduated with a bachelor's degree from the University of Oregon and received his Master of Business Administration degree from McCombs School of Business at The University of Texas at Austin.

13DM// You recently joined Piper Sandler as global head of activist defense and shareholder engagement. Prior to that, you held senior roles advising companies at Ernst & Young and J.P. Morgan. Tell us a bit more about Piper Sandler, why you joined, and what you will be focusing on in your new role.

DH// Piper Sandler is a mid-market investment bank and a leader in the healthcare, energy, consumer and financial sectors. I've always been impressed by the caliber of the bankers at Piper Sandler and the relationships they have with their clients. The partnership focused culture permeates throughout the organization and was a key reason I wanted to join the firm. The bankers here have extremely strong client relationships with private equity portfolio and mid-market companies, both areas where we are seeing increased demand from clients to deal with the risk of activism.

We're building a full-service defense and shareholder engagement practice. We already have an experienced team in place and have been very busy in the few months since we started. This will be the third practice I've built from the ground up and I'm excited about the opportunity to bring the experience and capabilities of our team to Piper Sandler and their clients. I'm also looking forward to working together with the many other advisors (legal, communications, proxy solicitation) who have become friends over the years.

13DM// Over the last month there has been extraordinary market disruption and volatility driven by economic uncertainty effectuated by the Trump administration's tariffs and trade policy. What effect do you expect this to have on shareholder activism this year?

DH// The dynamics we have seen recently are a double-edged sword for shareholder activism. On one hand, market volatility has a tendency to identify underperforming companies by pushing share prices down further and faster than other companies in the sector. In theory, this creates a set of potential activist targets where shareholders are likely more receptive to catalysts that could move the share price back up. However, when exogenous factors start having a material impact on company performance and underlying share prices, the ability for an activist investor to underwrite the downside scenario becomes challenging. It's also more difficult to effectively articulate the level of underperformance at the company or the path to shareholder value creation amid so much noise.

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For the 2025 proxy season, that likely means we see fewer protracted activist campaigns and more settlement activity for already launched campaigns. There will always be exceptions and in this environment, activists with longer holding periods and a value creation thesis that does not rely on a near-term catalyst (i.e. M&A) will likely be more willing to push ahead with their campaigns. Beyond this season, this may boost activism going forward as activists seek to deploy idled capital and additional targets have self-identified during the market challenges.

13DM// With the new administration, we were expecting a revived and robust M&A environment that has not happened. What do you make of this? Is it just on pause?

DH// The M&A outlook coming in to 2025 could not have been higher. Surging equity markets, the expectations of falling interest rates and more relaxed regulatory environment, as well as the build-up of private equity dry powder, meant that buyers, sellers and advisors all expected to be knee-deep in deals. Companies initially held off on transacting as they awaited a better rate environment. More recently, the impact of trade policy caused companies to revise performance expectations and dented consumer confidence, putting further pressure on the M&A market.

When the current volatility dies down and we return to a more stable environment, deal activity will resume. The fundamentals still support smart deal-making. Equity markets are still near their all-time highs and rates are still relatively low, when you look over a longer-term time horizon. A significant amount of undeployed capital sits on the sidelines, whether on company balance sheets or with PE funds, that needs to be put to work. I expect to see an increase in M&A focused activism later this year and into 2026 as activists look to capitalize on these dynamics.

13DM// What expertise or skillset is the most critical for board members to have today and would make a board vulnerable if it lacked it?

DH// There is no one single attribute that is most important for a board to possess, but rather a balanced mix of expertise and experience. Failure to get the balance right is what creates boardroom vulnerabilities and an opportunity for an activist. In addition to the board's independence, which shareholders expect, board composition should include directors with relevant industry, operational, financial and C-suite experience. The company's current lifecycle stage as well as near and long-term strategy should also impact board composition. Individuals with a shareholder perspective and those who can engage directly with top shareholders (as needed) are also becoming more important.

Companies must be able to articulate the rationale behind board composition and what each individual director brings to the table. Being able to walk shareholders through the thought process in selecting directors is crucial. More companies today use a board skills / attribute matrix to demonstrate how individual directors fit into a broader board puzzle. A distribution of director tenures and overall director diversity are also important factors to many investors.

13DM// We have seen a lot of CEO succession activism lately. How does this differ from activism that does not target the CEO? How does your advice change?

DH// Activism that directly targets the CEO nearly always makes a campaign more contentious, which is particularly true of founder CEOs. While all campaigns are implicit criticism of the CEO's strategy, a campaign to replace the CEO outright implies that not only does the activist oppose the current strategy or its execution, but also that the CEO themself is unable to execute in a way that creates value for shareholders. These

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campaigns frequently start more aggressively and elicit a more defensive response.

For campaigns targeting the CEO, it is even more important for the company to remain focused on fundamental messages to shareholders. Focus should be on how the current strategy will create long-term sustainable value for shareholders, where the company is in executing on that strategy and how shareholders will be able to measure success in the near, medium and long term. While supporting the board's choice of CEO is important, it must be framed as being in the best interest of shareholders and not simply responsive to the unfairness of the activist's critique. A response that seems like a personal defense of one individual, rather than a rebuke of a flawed activist analysis, will not be effective with shareholders. History is littered with activist campaigns where companies focused too much on defending an individual and failed to defend the strategy and progress in its execution, ultimately resulting in the ouster of the CEO as well as a few directors along the way.

13DM// Is there an effective way for companies to predict which activist engagements will settle quickly versus which are more likely to result in a proxy fight? Is there more of an appetite for settlement these days?

DH// There is no way to definitively predict if a campaign will result in a proxy fight or not, other than a company's own willingness to capitulate to activist pressure. An activist's past campaigns will provide a good roadmap of what to expect and the activist's own willingness to go the distance. Larger, higher profile activists may be more likely to run a proxy contest if their initial demands are not met as they have both the professional and financial bandwidth to support a proxy fight. On the other hand, newer entrants to shareholder activism may feel the need to pursue a proxy fight to demonstrate their resolve, with an eye towards being viewed as a credible threat in future activist campaigns.

Despite the attention that activism receives, the vast majority of campaigns never reach a shareholder vote. The incentives to settle are compelling on both sides. For the activist, settlement demonstrates a willingness to be collaborative and reasonable. It also frequently comes with the added benefit of expense reimbursement. For the company, settlement allows the management team and board to remain focused on executing and delivering value to shareholders. Many investors would prefer a company settle with an activist rather than engaging in a prolonged fight that may be costly and will certainly take management and the board away from running the company and creating value for shareholders.

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13DM// Are CEOs of vulnerable companies self aware? What can CEOs and companies do to be well prepared and ahead of the curve when it comes to shareholder activism and what steps can be taken to prevent an activist engagement?

DH// The self-awareness of a CEO can certainly play a role in a company's vulnerability. CEOs who lack self-awareness are often too focused on their own vision for the company and block out value-creating ideas from both inside and outside the organization. More aware CEOs tend to seek out various viewpoints and are more open to being persuaded by the merits of an idea rather than the origin of it. But self-awareness (or lack thereof) is not the primary driver of activist activity. Most CEOs who end up dealing with activist attention are thoughtful and self-aware – they simply have a different view than that of the activist.

To be well prepared, CEOs and boards should understand how activist shareholders differ from other shareholders, and how those differences shape an activist view on value-creating ideas for the company. After realizing an activist may look at the company through a different lens, try to anticipate their critique and what they view as value-accretive (even if the CEO and board strongly disagree). Use those insights to mitigate critiques before they are presented – help shareholders understand the value creation of the existing strategy better, provide more granular information and provide mile-markers that allow shareholders to monitor progress going forward. This may not fully insulate a company from activist attention, but it should lower the risk and position the company to respond more effectively should an activist take interest.

13DM// There has been more activist activity at companies with high valuations and strong share price performance over the last few years. What is driving this trend and why are these companies no longer immune?

DH// Some of this was driven by broader market conditions, but not all. Activism is often driven by relative valuation differences rather than absolute valuation. Until recently, the market was trading at all-time highs with correspondingly rich valuation multiples. Even in this type of environment there will always be companies underperforming relative to their peers. That provides an opportunity for activists to examine why a potential target is trading at a discount and launch a campaign.

The dynamics on both the activist and the company side have evolved as well. There are more activists today than there were 10 years ago (even if some eschew the term "activist"), and the more experienced activists can articulate their envisioned path to value creation much more effectively than in the past. This allows those activists to target companies that are performing well, but could be doing even better, rather than just targeting the truly poor performing companies. Similarly, as companies are generally doing more to prevent activist attention, they are eliminating much of the "low hanging fruit", forcing activists to look at companies whose strong performance would have put them further down on their targeting list in the past.

13DM// Japan's M&A market increased by 51.7% in 2023, with deal volume in the first half of 2024 exceeding the same period in 2023 by 20%. Moreover, incredibly unusual for Japan and emblematic of the change in culture there, from January 2023 through May 2024, at least seven hostile bids were announced, many of which were successful. Is international activism something you advise on?

DH// We have a significant presence outside the U.S. and advise companies dealing with shareholder activism in the markets we serve. Personally, I have spent a lot of time on the ground in Europe and Asia over the last 15 years helping clients prepare

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for, and defend against, shareholder activism. It wasn't easy early on. Many CEOs and boards early response was "it's different here", pointing to their unique shareholder bases, legal and regulatory environment or culture with respect to confrontation. And often they were right, at the time.

However, things have changed dramatically. Most importantly, shareholder registers have globalized. A large Japanese corporate shareholder register looks much closer to a U.S. shareholder register today than it did 20 years ago. The same large institutional investors we expect to see at the top of the shareholder list in the U.S. are now also the top of the list in Japan. Large domestic shareholders have changed how they act as well. Tired of years (or decades) of share price underperformance, many have shifted their attitudes towards company engagement and are now more open to activist involvement in underperforming companies. Finally, regulations in Japan have become more shareholder friendly in recent years, with increased attention on shareholder rights and delivering value for shareholders.

13DM// Are there certain sectors in which you're expecting to see heavier engagement this proxy season?

DH// Like past years, we'll see activism in every sector, but sectors that will likely see more activism are healthcare/pharmaceuticals, technology/semiconductors, energy and services/industrials. Other sectors, such as consumer, may show more activity if the broader market uncertainty abates, but short-term impacts on consumer spending will limit the upside on some of those companies, making activism a challenge. It's a very difficult market to predict right now.

This may be a time of opportunity for longer term activists, however. Lower valuations and a need to be seen as proactive by shareholders could be an even bigger incentive for companies to seek settlement and open the door to activists gaining board seats where they are willing to stick around and help guide the company through challenging times.