



KINGSDALE

Shareholder Services Inc.

The Role of a Proxy Solicitation Firm

Imagine yourself as a CEO of a publicly listed company. You are about to stand in front of a crowded room full of shareholders, colleagues, fellow board members and advisors at your Annual General Meeting. Your script has been dutifully prepared by your legal counsel, the IR team has made the final touches to the management presentation and the scrutineers are outside of the boardroom tallying the final numbers of the proxies received. Everything seems to be in order.

All of a sudden, one of the scrutineers comes pacing towards you with a worried look on their face and says to you, “We have a problem.” The scrutineer proceeds to tell you that it appears as though a small group of your shareholders have banded together in order to collect enough votes to vote in their own slate of directors, thereby removing you and your colleagues from the board and management. In other words, you and your fellow board members and management have just been fired.

Does this sound crazy? Stealth takeovers happen a lot more often than you think. Active one-on-one communication with shareholders is paramount. The past 10 years has seen a significant increase in shareholder activism in Canadian public markets. In 2003 there were only 6 proxy fights in Canada, whereas in 2009, 40 proxy fights were publicly announced. Given today’s sophisticated marketplace, issuers and their boards are expected to relay more information and provide better disclosure to their shareholders than ever before. The role of a proxy solicitation firm is to assist the issuer in this process by actively seeking out shareholders and communicating with them on a one-to-one basis. Proxy firms help an issuer identify its makeup of retail versus institutional shareholders, and then analyze their voting patterns. Through the delivery of daily reports, a proxy solicitation firm such as Kingsdale Shareholder Services Inc., will help the issuer know what to expect from its shareholders, well before the day of the meeting. This information is invaluable as management will have the tools required to assess whether a change in strategy is necessary before it’s too late.

The role of a proxy solicitation firm in Canada has historically involved simply contacting an issuer’s shareholders in order to obtain votes. This role, however, has evolved and proxy firms have become trusted advisors to issuers throughout the course of the year. Any issue relating to ongoing corporate governance, shareholder intelligence and communications can be better

managed with a proxy firm as a partner. Indeed, the market has responded to the need of proxy solicitations firms; in 2003, there was only one national proxy solicitation firm. Today, there are at least 4 national firms.

Proxy solicitation firms provide a wide scope of services, which has led some firms to retain experts in various fields. For example, at Kingsdale we have experts from legal, proxy advisory and investor relations backgrounds that bring their knowledge to the context of each shareholder engagement. Over the course of the year, a proxy solicitation firm will advise issuers of ongoing regulatory changes and hot button topics that independent advisory firms will focus on in the following proxy season. Last year, for example, Kingsdale liaised with various advisory firms such as the Canadian Coalition of Good Governance, STAC, ISS, among others in order to educate their clients well ahead of the proxy season. This allowed the management and boards of our clients to be ahead of the curve on the hot governance topics and potential shareholder proposals. Kingsdale's clients were able to anticipate and proactively address issues such as Executive Compensation, Say-on-Pay, ESG (Environmental, Social & Governance), Majority Voting, Broker Discretionary Voting. The end result of this proactive and informed attitude is a less stressful, yet meaningful, informative and engaging annual meeting.

Advocacy groups and proxy advisory firms such as Institutional Shareholder Services (ISS) and Glass Lewis wield a wide influence over an issuer, and they continue to be very active. These firms represent an issuer's institutional investor base and have the ability to pass or fail an issuer's resolution with ease. As such, a proxy solicitation firm with years of experience of interacting with these proxy advisory firms is essential in order to achieve the desired result. An issuer would be wise to retain a proxy firm as early as possible in the process in order to:

- Help manage announcement communications
- Review any annual or special meeting circular
- Analyze your shareholder base
- Proactively anticipate and interact with influential proxy advisor firms like ISS or Glass Lewis by:
 - Helping you anticipate what proxy advisor policies your company may come under – i.e. Say-on-Pay policies, Stock Option plan policies, Board structure;
 - Running through the questions you will be asked by ISS on any resolutions you may have;
 - Attend your meeting with ISS and conduct the formal and informal follow up engagement;
 - If you fail to convince ISS to recommend in your favour, a good proxy solicitor is critical to rallying shareholder support and over-riding ISS.

Even if you do not anticipate a stealth take-over, a proxy fight or a hostile bid being made for your company, it is still valuable to have a proxy solicitation firm on your side. In preparation

for a normal course annual meeting, a proxy firm will be able to provide you with an accurate analysis of your shareholder base and will lead to increased shareholder participation. Increased shareholder participation is a key deterrent against activist shareholders that may want to target a company that exhibits shareholder apathy.

With the combination of your legal counsel, IR team and proxy solicitation firm, an issuer is well equipped to handle the ever-changing landscape of the Canadian public markets. Your carefully crafted communications deserve to be heard by your shareholders and a proxy solicitation firm will ensure that your message is heard by the people who matter the most – your shareholders.