

## Activist Hedge Funds: Claims vs. Truth

### **In Response to Altimeter and Par Capital's Letter to the United Board of Directors**

In a [letter](#) to the United board of directors on March 22, 2016, activist investors PAR Capital and Altimeter Capital claimed they are only interested in United's long-term success and are not trying to take over the company. However, it is clear from the evidence that this letter was simply a PR stunt after they suffered significant skepticism from the investment community and strong pushback from labor unions. Each of their claims is refuted below.

**Claim: They Aren't Seeking Control of UAL** "The stockholder nominees are a minority slate of six nominees – not a control slate. The Board consists of fifteen directors with a promised sixteenth director. Six out of fifteen (or sixteen) directors cannot possibly control the Board or the Company."

- **Truth:** The board *temporarily* consists of fifteen directors. Three will be stepping down, bringing the total back to twelve. Having six of the twelve board seats could very easily lead to control of the Board, especially as board decisions require only a majority of votes, not unanimous consent.

**Claim: They Aren't After Short-Term Gain.** "Altimeter and PAR have a well-established record of making long-term, passive investments in several industries, including the airline industry, and of supporting and seeking long-term value creation for companies and their stakeholders. Altimeter and PAR are not short-term traders; nor are we activists looking to extract short-term gains. Altimeter has continuously owned United stock for over six years."

- **Truth:** While Altimeter has owned UAL stock over the past six years, PAR Capital has not. PAR sold all of its UAL stock in 3<sup>rd</sup> quarter of 2012 and didn't begin buying again until the 4<sup>th</sup> quarter of 2015. In one year it went from owning no stock to owning 6.4M shares. Interestingly, Altimeter began increasing its ownership in UAL at exactly the same time PAR began buying again. From the 4<sup>th</sup> quarter 2014 through the 4<sup>th</sup> quarter 2015 Altimeter increased its ownership from 4.8M shares to 10.6M shares. Coincidence? Highly unlikely.
- **Truth:** Par Capital invested 14% of their multi-billion portfolio in Delta by buying 15.3M shares. If they can get control of United, slash costs, and drive up the short-term stock price it may be reflected in Delta's stock price as U.S. airlines often follow suit with one another in cost-saving policies. United and Delta stock make up 20% of Par's fund which means through this action they have the potential to reap billions in a short amount of time.

**Claim: They Support Oscar Munoz.** "We strongly believe that Oscar Munoz should be given the opportunity to succeed in his new role as CEO. We have great interest in Mr. Munoz's success, and, as he knows, we respect and admire him. Our campaign is not a campaign against Mr. Munoz."

- **Truth:** If they aren't against Mr. Munoz, why were they pushing to name a Chairman of the Board, even though that title is supposed to go to Mr. Munoz in 2017? Chairman of the Board is a powerful position especially with the support of five other directors. They could make it extremely difficult for Mr. Munoz to carry out his long-term vision for United – a vision that is already seeing results.

**Claim: They Support Improved Employee Relations.** “With the election of the stockholder nominees to the Board, we believe that Mr. Munoz will have the proper support and guidance to continue building upon his early momentum in establishing a more positive Company relationship with employees.”

- **Truth:** One of the stockholder nominees, Rodney O’Neal, was C.E.O. of Delphi Automotive during its bankruptcy and restructuring when 23,000 employee pensions were cut.
- **Truth:** Only one of the fund’s six nominees has airline experience; the others have none.
- **Truth:** Oscar has already surrounded himself with experienced industry veterans by naming James Whitehurst, former C.O.O. of Delta and Robert Milton, former C.E.O. of Air Canada to the United board.

**Claim: Board Members and Management Have Different Roles and Responsibilities.** “Questions have been raised about how the stockholder nominees would operate the Company differently. The premise behind this question is wrong. The executives manage the Company’s day-to-day operations. The Board governs.”

- **Truth:** The board governs – so if the new directors don’t like the direction Oscar is taking the company they have a myriad of ways to stop him, the board can even vote to remove him as C.E.O.

**Claim: They Support a Qualified and Independent Board Chairman.** “As a matter of good corporate governance, we do believe that United should have an independent Chairman with sufficient expertise in the airline industry to set the Board’s agenda and to supervise strategy and execution. Moreover, the incumbent Board has committed to combine the Chairman and CEO roles by next year, which will violate well-established principles of good corporate governance by leaving United without an independent Chairman. However, the Board has very recently appointed two new members with airline experience, which is a welcome development.”

- **Truth:** Having multiple titles is commonplace in the airline industry. Doug Parker at American is CEO & Chairman, Gary Kelly at Southwest is CEO & Chairman, Robin Hayes at JetBlue is CEO & President, and C. David Cush at Virgin America is CEO & President.
- **Truth:** At the time of the two appointments Brad Gerstner, Founder and CEO of Altimeter Capital said, “Yesterday’s last-ditch effort – adding just three people to its now 15-person Board – is a cynical attempt to preserve power by this entrenched Board.” Now they are backpedalling and calling it a “welcome development.” Which is it?

**Claim: “Fundamentally, our objective is to position United toward long-term success for the benefit of all United stockholders, employees, and customers.”**

- **Truth:** Activist investors are rarely concerned with the long-term success of any company they meddle with. The intentions are clear: drive up share price in the short term no matter what the long-term cost to employees or the company, sell at a high price, and get out with no regard for the consequences to employees and customers.