

Defending Against Short Attacks

Short attacks are on the rise.

A public short position often creates immediate market pressure, threatens a company's ability to operate and presents serious risk to its long-term reputation. For many companies facing a public short attack, taking fast and assertive action is key to regaining control and stabilizing the situation. Quickly assess the credibility of the short activist and the attack's likelihood to gain traction to determine when a more limited public response may be more effective.

Investors holding short positions are generally uninterested in engaging with management and believe they have an incentive to go public with their views. With social media as a major driver of online traffic and AI increasing automated trading activity, a single investor can easily post unverified or disputed claims online, causing volatility in the stock, distracting management teams, and potentially damaging trust among the broader financial community.

HOW DO I RESPOND TO A SHORT ATTACK?

- 1 Know your short activist.**
Research the individual or firm that has taken the short position to understand their motivations and credibility and assess their playbook. Evaluate their reach and influence to inform your response strategy.
- 2 Engage with your investors and sell-side analysts to discredit the claims as soon as possible.**
Use facts and data publicly and privately to discredit the short activist and refute their positions. Take the temperature of your shareholders to determine if any of the short activist's messages are resonating. Set the record straight with your priority narrative and the rationale for your strategy before you're defined by the short activist. Sell-side analysis dismissing the short activist and/or its claims can move the calm investors before the activist gains traction.
- 3 Communicate clearly through all available channels.**
Do not assume shareholders and other stakeholders understand your story. You must tell them directly. Short activists will publish lengthy reports that appear to be comprehensive, and data-driven, and will publicly boast to media about their claims and whisper behind the scenes. A short attack narrative can gain credibility if left unchecked.
- 4 Identify third-party allies for support.**
Third-party supporters can buttress management's arguments and lend additional credibility with investors. A short activist's arguments can lose traction if analysts and others quickly support the company's strategy. Strategically deploy these voices through media, digital channels and direct conversations that influence your stakeholders.

HOW DO I PREPARE *AHEAD OF A POSSIBLE SHORT ATTACK?*

- 1 Develop a 'break glass' plan to align on a response strategy in advance.**
Prepare for anticipated short activist scenarios and develop preliminary communications responses, messaging and engagement tactics in advance. This plan should identify a core response team of legal, financial and communications advisors and address expected known vulnerabilities.
- 2 Proactively engage with your institutional and retail shareholders.**
An effective ongoing investor relations program is one of the best defenses against activist shorts. Understand your holders' concerns. Refine your investment narrative regularly to ensure you are clearly articulating the company's near- and long-term strategy, including how the company plans to grow, and with actionable plans and regular progress updates.
- 3 Assess your vulnerabilities.**
Take an honest assessment of your risk areas and vulnerabilities. Take action to articulate the rationale for these factors if possible.
- 4 Monitor trading activity.**
While short attacks are difficult to predict, pay close attention to any accumulating short positions in your stock. Online investor forums, such as Reddit, can be a leading indicator to short activity and a future short attack, so your investor relations team should monitor these sites as well, without directly engaging in these forums. An early warning signal can make all the difference.

A trusted communications advisor, H/Advisors Abernathy specializes in advising CEOs, board directors and senior executives on effective stakeholder communications and engagement. Our experienced team helps companies prepare for, engage with and defend against activist shareholders, and advises boards and management teams on ESG-related issues, investor engagement and proxy advisory matters. For nearly 40 years, we have been entrusted by clients across sectors to help build, protect and enhance their reputations, boost value and seize new opportunities. Abernathy has been named "Public Relations Firm of the Year" by The Deal and is ranked by Chambers.