Vanguard

Vanguard Investment Stewardship Voting Insights

Contested director elections at Atos

November 2023

Company: Atos SE (Atos)

Meeting date: June 28, 2023

Proposals[1]: Item A—Removal of Bertrand Meunier from his term of office as director; Item B—Removal of Aminata Niane from her term of office as director; Item C—Removal of Vernon Sankey from his term of office as director; and Item D—Appointment of Léo Apotheker as director.

How the funds voted

Atos SE (Atos), a French information technology company, faced a contested director election, also known as a proxy contest, at its 2023 annual shareholder meeting. The Vanguard-advised funds did not support four resolutions put forward by three shareholders (Sycomore Asset Management SA, ASDI SAS, and NACTIS SAS Family Office), holding in aggregate approximately 1.9% of the total issued share capital, that sought to dismiss three board members and elect a director nominated by the dissidents.[2]

The funds' proxy voting policies

The Vanguard-advised funds evaluate contested director elections on a case-by-case basis, with an assessment of what is in the best interests of shareholders' long-term investment returns as the determinant of the funds' votes. On behalf of the funds, our process for evaluating contested director elections focuses on three key areas:

Strategic case for change

Does the dissident make a compelling case that a change in the target company's strategy and board composition is likely to create value for shareholders over the long term, versus the status quo? When engaging with the dissident, we seek to understand that perspective on the company's current state and future trajectory, as well as the changes the dissident believes would benefit the company and be in the best interests of long-term shareholders.

Company's approach to governance

Has the company demonstrated good governance practices? By reviewing a company's public reporting and disclosures, and through discussions with company leaders, we seek to understand how the board's directors serve as engaged, effective stewards of shareholders'

1 A fifth resolution, requesting that the role of lead independent director be reinstated, was rejected by the board as "not applicable" after Atos announced the immediate appointment of a lead independent director.

2 Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.

capital through independent oversight of company management, strategy, and material risks.

Quality of directors

Do the company's nominated directors appear to bring the necessary capabilities to the company's board? Assessing a board's composition starts with understanding the company's strategy and how the board's skills (collectively and individually) align with that strategy and position the board to provide effective oversight on behalf of all shareholders. We also assess director nominees put forth by the dissident to understand how their skills align with the company's strategy and/or the dissident's strategic case for change. We seek to understand the qualifications and perspectives of both sets of nominees so we can make informed judgments about which nominees are best positioned to provide for the company's long-term success.

Analysis and voting rationale

Atos provides digital transformation solutions and services globally. The firm faced significant challenges in recent years in maintaining its competitive advantage in a rapidly evolving sector. Investor confidence in Atos had also been shaken by various controversies and setbacks.

In 2021, the company disclosed accounting irregularities at its U.S.-based subsidiaries. That year, Atos failed in its attempt to acquire U.S. firm DXC Technology after a negative market reaction to the proposed deal.

In June 2022, Atos announced plans to restructure the business, potentially splitting the company into two separately listed entities.[3] In an apparent dispute over strategy, the firm's CEO resigned after only a few months in the role, further dampening investor sentiment.

Ahead of the company's 2023 annual meeting, we met with both Atos leaders and leaders from Sycomore, one of the dissidents, to better understand the proposed case for change. Via a public letter and during our engagement, Sycomore leaders outlined a range of concerns regarding Atos. They explained why they had been calling for the reinstatement of the lead independent director role, which they felt would improve dialogue with shareholders and the company's corporate governance practices more broadly. They questioned the board's oversight of management and critiqued the board's approach to CEO succession planning, oversight of company strategy, and oversight of risk. Sycomore also highlighted concerns about Atos' prior communications regarding strategy and earnings targets, which they deemed to be inconsistent on strategy and somewhat aggressive with respect to the company's earnings targets. Ultimately, Sycomore argued that accountability for the firm's poor performance should be apportioned to the directors they proposed for removal, and that replacement directors with a deeper understanding of digital business transformation were essential to address concerns regarding Atos' performance.

During our engagement with Atos, company executives and directors acknowledged that company performance relative to peers remained poor but expressed confidence in the restructuring plan articulated by the board, which they believed would restore the company's standing among investors. Describing a comprehensive, company-wide effort, Atos leaders pointed to signs of progress including the successful refinancing of the business and strong employee engagement.

Given our board-centric approach to corporate governance, we sought to understand Atos' board composition strategy and evolution, including individual director competencies. We also discussed the board's approach to CEO succession planning and the board's oversight role in the context of past controversies. Atos outlined extensive board refreshment that had taken place, with five new directors joining the board in 2022. According to Atos leaders, the new directors strengthened the board in key areas such as technology, banking, and transformation, and had reinvigorated board-level discussions.

3 Atos SE press release, June 14, 2022: Atos studying a possible separation into two publicly listed companies to unlock value and implement an ambitious transformation plan.

Atos leaders conveyed that the board had completed an extensive review of the entire business transformation project announced in 2022, using its sector expertise to validate the strategy, and that the board was formulating next steps, including leadership succession plans and governance structures for the separate entities.

Following our analysis and engagements with Atos and Sycomore leaders, we concluded that Sycomore had raised valid concerns about previous processes for nominating independent directors with diverse skills; maintaining effective board oversight, including through the creation of a lead independent director role; and providing consistent and accurate communication to shareholders. In addition, our analysis identified clear historical underperformance at Atos versus its peers.

However, our assessment of Atos' board did not highlight significant weaknesses, nor did we identify a clear link between past company setbacks and the responsibilities of individual directors. While mistakes may have been made at board level, the recent board changes, including addressing potential skill gaps and appointing a lead independent director, indicated movement in a positive direction. Furthermore, on reviewing the profile of the dissident nominee, we did not have conviction that his appointment would materially improve the board's composition. Therefore, after careful consideration, we concluded that further changes to Atos' board were not justified at that time. The Vanguard-advised funds thus voted against the shareholder resolutions.

In August 2023, Atos announced plans to complete its transformation project through the sale of its Tech Foundations unit.[4] The remaining business, focused on digital transformation, big data, and cybersecurity, will be renamed Eviden SE. Atos' plan will be submitted for shareholder approval at an extraordinary general meeting to be announced in the coming months.

The board changes at Atos are ongoing. In October 2023, the company appointed a new CEO. He will be tasked with completing the next stages of the transformation project. A new chair was also appointed in October, following the resignation of Bertrand Meunier. We will continue to engage with Atos as necessary.

What we look for from companies on this matter

On behalf of the Vanguard-advised funds, we look for boards to represent the interests of all shareholders and to make independent decisions about a company's leadership, strategy, and risks to long-term investment returns for shareholders. We also look for boards to demonstrate oversight of company strategy and risks that supports positive long-term performance. If a board lacks the appropriate composition to independently oversee areas of material risk and company strategy, we look for the company to conduct a thorough search to identify qualified directors who will bring the necessary skills to the boardroom.

4 Atos SE press release, August 16, 2023: Atos to complete its transformation through the contemplated sale of Tech Foundations.

Vanguard publishes Investment Stewardship Policy and Voting Insights to promote good corporate governance practices and to provide public companies and investors with our perspectives on important governance topics and key votes. This is part of our growing effort to enhance disclosure of Vanguard's investment stewardship voting and engagement activities. We aim to provide additional clarity on Vanguard's stance on governance matters beyond what a policy document or a single vote can do. Insights should be viewed in conjunction with the most recent region- and country-specific voting policies.

The funds for which Vanguard acts as investment advisor (Vanguard-advised funds) retain the authority to vote proxies that the funds receive. To facilitate the funds' proxy voting, the boards of the Vanguard-advised funds have adopted Proxy Voting Procedures and Policies that reflect the fund boards' instructions governing proxy voting. The boards of the funds that are advised by managers not affiliated with Vanguard (external managers) have delegated the authority to vote proxies related to the funds' portfolio securities to their respective investment advisor(s). Each external manager votes such proxies in accordance with its own proxy voting policies and procedures, which are reviewed and approved by the fund board annually. The Vanguard Group, Inc., has not been delegated proxy voting authority on behalf of the Vanguard-advised funds.

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