

Vanguard Investment Stewardship Insights

Voting insight: Issuance of shares amid an acquisition by Skillsoft Corp.

April 2022



Vanguard publishes *Investment Stewardship Insights* to promote good governance practices and to provide investors and public companies with our perspectives on important governance topics and issues that come up for shareholder votes. Vanguard's *Investment Stewardship* team is responsible for engagement with portfolio companies and proxy voting at the direction of the boards of our internally managed global equity funds, including Vanguard index funds. Investment stewardship activities, including proxy voting, for Vanguard's externally managed active funds are supported by those funds' external advisors.

Company: Skillsoft Corp. (Skillsoft)

Meeting date: March 31, 2022

Proposal: Item 1 (management proposal)—Issue shares in connection with merger

How the funds voted

At the special meeting for Skillsoft, a U.S.-based educational technology company, the Vanguard funds supported the issuance of shares in connection with Skillsoft's acquisition of Ryzac, Inc., a private company offering a suite of online training courses across a wide range of popular coding languages. Ryzac offers its courses using the name Codecademy.

Approval of the transaction required majority support of shares that were present (in person or by proxy) and entitled to vote at the meeting. The proposal won the support of approximately 91% of shares voted.

Vanguard's principles and policies

Vanguard seeks to ensure that any merger or acquisition preserves, or can create, long-term value for shareholders. We evaluate these transactions case by case and apply a governance-centric approach that takes into consideration inputs from various sources, such as third-party research, company engagements, public materials, and in select cases our internal investment professionals.

In our evaluation of acquisitions, key focus areas include:

Valuation. The transaction value should represent a reasonable valuation for shareholders. In evaluating that reasonableness, we look at multiple sources: fairness opinions, credible third-party valuations, and the market's reaction.

Strategic rationale. We evaluate both the merits and the risks associated with the transaction. For example, how realistic are the stated benefits, and what are the risks in supporting or not supporting the transaction? Will the transaction lead to regulatory, integration, or industry concerns?

Board oversight. In evaluating a board's oversight of the transaction, we seek to understand the process, any mitigation of conflicts of interest, and how the board determined that the deal was in shareholders' best long-term interests.

Analysis and voting rationale

Ahead of Skillsoft's special meeting, Vanguard engaged with company leaders to discuss the board's oversight of the transaction, the strategic rationale, and concerns about perceived conflicts of interest and valuation.

Our engagement, research, and analysis showed that the strategic rationale for the transaction was strong. The combination is expected to expand Skillsoft's product offerings, leading to synergies and enhancing its ability to become a leader in the technology and development sector—the fastest-growing segment in digital learning.

Despite the strong rationale, we identified potential concerns about perceived conflicts of interests involving three directors who variously were either affiliated with Codecademy, invested with common ownership in both Codecademy and Skillsoft, or hired as a consultant to evaluate the transaction. We ultimately gained comfort with how the board managed the situation, as all three directors recused themselves from discussions about—and the board's vote on—the transaction.

The transaction also drew skepticism from outside groups regarding the valuation and market reaction to the deal. Although Skillsoft's shares continued to decline after it announced the Codecademy acquisition, our analysis showed that the decline was largely due to industry factors and less so to shareholders' disapproval of the transaction. We further believe that the negotiated collar mechanism—which establishes a range of prices within which a stock will be valued—helped mitigate the impact of Skillsoft's falling share price and the extent of dilution. The price also appeared to be a healthy, and not unreasonable, valuation based on the fairness opinions. We ultimately felt that this transaction was in shareholders' best long-term interest. The Vanguard funds supported the issuance of shares.

What we expect from boards on this matter

As with all board decisions, we expect a board's consideration of mergers and acquisitions to be determined by the long-term interests of company shareholders.

We expect clear disclosure of the strategic rationale for the transaction, the board's oversight of the deal and potential conflicts of interest, the valuation determination, and any expected changes to the company's corporate governance profile.