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Blackwells-Backed Directors Eye Colony Review: Sources

According to a person familiar with the situation, Blackwells' Jason Aintabi has been engaging with Colony Capital since September and has received two board seats.

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12 February 2019

Blackwells Capital's Jason Aintabi reached a settlement Monday, Feb. 11, with Tom Barrack Jr.'s $44 billion Colony Capital Inc. (CLNY) to form a strategic review committee to assess the company's "assets" and business configuration and install two new directors immediately.

According to people familiar with the situation, Blackwells, a 2% holder, believes the portfolio of Colony assets is worth upwards of $11 per share, significantly more than its current $6.15 a share trading price. Colony's share price spiked on Monday from about $5.92 a share on news of the settlement.

According to sources, Aintabi wants Colony to take a close look at its assets and its business configuration and identify the best way to drive shareholder value. This likely means he likely wants to see some units spun off or sold.

Barrack, a long-time ally of President Donald Trump, has been both chairman and CEO at Colony since November when the board removed Richard Saltzman, his deputy.

Colony agreed to add two new directors immediately - Raymond Mikulich, who has served public and private real estate companies on the boards, and Craig Hatkoff, who has a real estate and investment banking background. Mikulich had previously served as chief of North American real estate for buyout shop Apollo Global Management and Hatkoff was previously a managing partner at Victor Capital Group and co-head of real estate investment banking at Chemical Bank. In addition, Colony Capital and Blackwells will pick a third director within the next 45 days.

Interestingly, Colony Capital's five-person strategic review committee will include both Mikulich and Hatkoff, which means that they will have an outsized influence among board members in the direction of the review.

The deadline for Colony's annual meeting director nominations was in December, so the settlement appears to have come at an unusual time. It is likely that Colony Capital privately extended the deadline for director nominations. According to a person familiar with the situation, Aintabi has been engaging with the company since September and both Mikulich and Hatkoff were Blackwells nominees.

At the center of Blackwell's campaign involves problems associated with Colony's shares price following its 2016 merger with NorthStar Realty Finance Corp. and NorthStar Asset

Management Group Inc. Colony Capital's shares have dropped over 58% since the deal was completed in January 2017.

According to people familiar with the situation, Blackwells believes there are a number of options for the company to pursue, which is why they believed a strategic committee of the board was needed and critical.

Analysts have noted that synergies that come with combining an assets management business alongside an operational portfolio haven't emerged from the NorthStar-Colony deal. The activist fund believes that the strategic review panel should work with the company's board and management to thoroughly evaluate the portfolio and business configuration, the people added.

One possibility is for the strategic review panel to evaluate whether a spinoff, sale or some sort of separation of Colony Capital makes sense. Such a move would leave the NorthStar Realty Finance and NorthStar Asset Management on their own as a publicly traded company.

Analysts have already been pushing for changes. Keefe Bruyette & Woods analysts in November said in a report that Colony Capital should undertake a strategic shift to accelerate the disposition of all non-core assets.

In addition, third parties have suggested that Blackwells also wants to see Colony consider strategic options such as a sale for non-core assets, such as the company's industrials assets and healthcare portfolio, which includes senior housing, medical office properties, nursing facilities, as well as some hospital properties. Private equity may also be interested in the industrials portfolio - Colony Industrial.

One attorney familiar with Aintabi said that Blackwells has shown they can do activism the public aggressive way, as they did in a successful director-fight and M&A push last year at SuperValu, and the old fashioned, collaborative way as they have done at Colony.

It is very possible that Aintabi and Barrack are on the same page, at least when it comes to some divestitures. In November, Barrack suggested on an earnings call that non-core divestitures could emerge. He also acknowledged at the time that the Northstar merger was "more complicated" than expected and that the firm plans to shift in the direction of asset management. "We missed it. That merger was much more complicated than we thought, bring two cultures together, the retail market faded and health care business got in trouble and we just missed it," Barrack told Bloomberg in November.

However, one analyst suggested that Colony Capital is a long-term turnaround story, rather than a break up situation. He suggested that it might be difficult to separate the assets now into two publicly-traded companies. However, the analyst also noted that one approach could be to put all the real estate into one format, cut costs and possibly hire an outside manager for the assets. He added that the assets should be put into three segments -- high quality assets, medium quality assets that can generate returns but ultimately have to be fixed or sold and lower quality assets that should be sold at whatever price and someone else fixes them. However, he added that this kind of portfolio rationalization is a long-term turnaround story.