

The Deal

Blackwells May Launch Director Fight at Colony

Jason Aintabi's activist fund may nominate a dissident slate of board candidates to Tom Barrack Jr.'s \$43 billion real estate conglomerate if it doesn't take some M&A steps soon, sources say.

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Blackwells Capital LLC's Jason Aintabi may nominate a dissident slate of directors soon at Tom Barrack Jr.'s \$43 billion Colony Capital Inc. (CLNY) if the real estate investment management firm doesn't take steps to improve shareholder value shortly, according to a person familiar with the situation.

The possibility of a blockbuster director fight comes after Colony Capital settled with Blackwells in February to form a strategic asset review committee to assess the company's assets and business configuration. As part of the deal, the company installed two Blackwells-backed directors on its 12-person board, and it subsequently added a mutually agreed upon director.

According to people familiar with the situation, Blackwells, a 2% holder, believes the portfolio of Colony assets is worth more than \$11 per share, significantly more than its current \$5.05 a share trading price.

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 auctioned or have the whole business sold.

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

In February, Colony agreed to add Raymond Mikulich, who has served on public and private real estate company boards, and Craig Hatkoff, who has a real estate and investment banking background. Mikulich also previously served as chief of North American real estate for buyout shop Apollo Global Management LP (APO). Hatkoff was previously a managing partner at Victor Capital Group. A third mutually agreed upon director was subsequently chosen. In June, Colony added Dale Anne Reiss, a director on the board of Starwood REIT and former senior partner at Ernst & Young LLP, as the mutually agreed upon board member.

Since the settlement, the strategic asset review committee has been busy. Colony Industrial, the industrial platform of Colony Capital, has taken a few actions, including a move in February to divest its 2.3 million square feet of light industrial properties to Nuveen Real Estate, a division of TIAA, for \$136 million. It also acquired some assets in northeast Dallas and later in northern New Jersey and Las Vegas. In March, it bought a national portfolio of light and bulk industrial buildings for \$1.16 billion, in a move to scale the REIT's industrial platform.

Nevertheless, Colony's share price has mostly been on a downward trajectory since February, dropping from about \$6.15 after the settlement to trade recently at \$5.05 a share.

The settlement and cooperation agreement prohibits Blackwells from launching any campaign against the company until, in some circumstances, 30 days before the expiration of the REIT's nomination window for director candidates, which is Nov. 29 for a meeting expected to take place in May or June.

As a result, Colony Capital likely has a few months before any Blackwells proxy contest. According to people familiar with the situation, Blackwells believes there are several options for the company to pursue, which is why they believed a strategic committee of the board was needed and critical.

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 20% since the deal closed in January 2017. Colony Capital's shares are up about 8% in 2019.

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.

However, analysts following the company suggest a more holistic M&A review, rather than a separation of Colony from NorthStar. Jade Rahmani, an analyst at Keefe, Bruyette & Woods Inc., issued a note in May suggesting that Colony could undertake a strategic shift to accelerate the disposition of all noncore assets, including potentially some operations in its debt and equity and property divisions. He added that the company needs to make investments in asset management by hiring new personnel.

An analyst familiar with the situation said that Colony Capital is a sprawling collection of assets under one balance sheet, which makes the business difficult to understand. He said its operations include three parts — core property, which includes healthcare, hospitality and industrial real estate; other equity and debt, a diverse collection of assets including mortgages, collateralized debt obligations and secondary private equity investments; and its investment management segment, which includes the management of funds for third parties.

He added that Colony could sell its healthcare or hospitality portfolios and that there would be a wide variety of REITs and other buyers of sizable real estate operations that could be interested.

Blackwells doesn't have much of a history of activism, but it has had some success with at least one previous campaign. United Natural Foods Inc. (UNFI) agreed to buy SuperValu Inc. for \$2.9 billion last year just three weeks before the grocer and food distributor was set to face a change-of-control proxy contest launched by Blackwells Capital. That deal closed in October, though this year, United Natural Foods filed a lawsuit against its banker on the sale, Goldman Sachs Group Inc. (GS), arguing the financial institution put its interests ahead of the deal.

Colony Capital declined to comment.