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Blackwells Seeks to Oust Trump Ally in Boardroom Battle

The insurgent fund looks to install five dissident directors onto Colony Capital's board in a director fight that would put dissident Jason Aintabi in a position to oust CEO Tom Barrack.

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Jason Aintabi's Blackwells Capital LLC on Tuesday, Nov. 26, launched a campaign to install five dissident candidates on the board of \$43 billion Colony Capital Inc. (CLNY) as part of an effort to oust the real estate firm's CEO and president, Tom Barrack Jr.

The Deal reported in July, citing sources, that the company was seeking to sell its industrial unit but that the auction wouldn't be enough to appease Aintabi. In September, Colony sold the industrial real estate assets to Blackstone Group LP (BX) in a \$5.9 billion transaction. The Deal also reported in July, citing sources, that Blackwells was evaluating whether to nominate a slate of directors later this year at the Los Angeles-based real estate investment management firm if it didn't take steps to improve shareholder value.

A win for Blackwells could essentially put Aintabi in control, which could lead to the removal of Barrack, a confidant of President Donald Trump. The insurgent fund settled with Colony Capital in February in a deal that set up a strategic asset review committee and installed two Blackwells-backed directors, Raymond Mikulich and Craig Haitkoff, on its 12-person board. In June, the two sides added a mutually agreed upon director, Dale Anne Reiss.

On Tuesday, Blackwells called for Barrack to be replaced, arguing he was the architect of a problematic 2016-2017 three-way merger between Colony, NorthStar Realty Finance Corp. and NorthStar Asset Management Group Inc. In addition, Aintabi complained that Colony's board has allowed Barrack to "dilly dally" and work remotely from Aspen, Colo., where the firm has no offices, even as the business is "in need of extraordinary attention.

However, Barrack's primary residence is in LA, where Colony is based. In addition, according to a person familiar with the situation, Barrack spends the vast majority of his time in LA or in other Colony offices or on the road meeting partners.

Blackwells nominated its slate shortly before the Friday deadline to put director candidates up for election. 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, which likely means more asset sales beyond the industrial unit divestiture.

In his statement, Blackwells alluded to the idea that Aintabi is seeking more asset sales, noting he wants to see the company "simplified."

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

In addition to its recent industrial unit sale, Colony has sold its NorthStar Realty Europe unit and exceeded a previously communicated target of \$500 million of net proceeds from the sale of non-core assets from one of the company's Other Equity & Debt segment.

Aintabi's February settlement and cooperation agreement prohibited Blackwells from launching any campaign against the company until 30 days before Friday's expiration of the real estate firm's nomination window for director candidates. The director fight is expected to take place at the annual meeting in May or June if the two sides don't reach a settlement first.

At the center of Blackwells' campaign are problems associated with Colony's share price following its merger with NorthStar Realty and NorthStar Asset Management — a move prompted by another activist, Land and Buildings Investment Management LLC.

Analysts have noted that synergies that come with combining an asset management business with an operational portfolio haven't emerged from the NorthStar-Colony deal.

It is possible that Blackwells wants Colony's strategic review panel to evaluate whether a spinoff, sale or some sort of separation of all of Colony Capital makes sense. Such a move would leave NorthStar Realty Finance and NorthStar Asset Management on their own as a publicly traded company. A breakup of this magnitude would be a significantly larger undertaking than the reported sale process for the Colony Industrial unit.

An analyst familiar with the situation said 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 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 grocer 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.