

# The Deal

## Colony Unit Sale Won't Pacify Aintabi's Fund

*Sources say Tom Barrack's plan to explore the sale of Colony Capital's industrial division won't be enough to appease Blackwells Capital, which is considering a director fight.*

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Under pressure from an activist investor, Tom Barrack Jr.'s \$43 billion Colony Capital Inc. (CLNY) reportedly is exploring the sale of its Colony Industrial unit.

Sources, however, said the unit sale, if consummated, wouldn't be enough to appease Jason Aintabi's activist fund, Blackwells Capital LLC. Aintabi may nominate a dissident slate of directors later this year at Colony Capital if the Los Angeles-based real estate investment management firm doesn't take additional steps to improve shareholder value shortly, according to a person familiar with the situation.

Colony Industrial represents about 11% of Colony's total assets on its balance sheet.

Bloomberg, citing sources, reported Wednesday, July 17, that Colony is working with Eastdil Secured LLC to solicit interest from potential buyers for the warehouse unit, which could fetch more than \$5 billion.

The possibility of the unit sale and a blockbuster director fight comes after Colony Capital settled with Blackwells in February. As part of that deal, Colony agreed to form a strategic asset review committee to assess the company's assets and business configuration. It also installed two Blackwells-backed directors, Raymond Mikulich and Craig Haitkoff, on its 12-person board and in June added a mutually agreed upon director, Dale Anne Reiss.

According to people familiar with the situation, New York-based Blackwells, a 2% holder, believes the value of the portfolio of Colony assets to be more than \$11 per share, significantly more than the \$5.06 a share opening price on Friday. Shares have dropped since the February settlement, when the stock was trading at about \$6.15. The real estate management firm has a \$2.5 billion market capitalization.

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 a divestiture of the Colony Industrial unit.

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.

The settlement and cooperation agreement prohibits Blackwells from launching any campaign against the company until 30 days before the expiration of the real estate firm'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 critical.

At the center of Blackwells' campaign are problems associated with Colony's share price following its January 2017 merger with NorthStar Realty Finance Corp. and NorthStar Asset Management Group Inc. -- a move prompted by another activist, Land and Buildings Investment Management LLC. Colony Capital's shares have dropped by 65% since the deal closed, but shares are up about 8% in 2019.

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

One possibility is for the 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.

Analysts following the company, though, have suggested 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 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 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.

Colony Capital and Blackwells declined to comment.