

Crescendo falls flat in scattershot board bid

ANDREW WILLIS

26 August 2005

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A new chapter in the history of Canadian shareholder activism is about to be written at software company Geac.

In the past, we've seen smart, motivated investors make an enormous, positive contribution to a company's fortunes. Think of what's played out at Nexen, or Creo, or Sherritt Gordon, for those with long memories.

We also have a few cases of institutions throwing their weight around, and their targets making unexpected parries — take a bow, Manitoba Tel. There are likely happy endings in the works at the likes of Cinram, and there's one or two situations where the best efforts of fund managers have accomplished next to nothing — see Caldwell Partners and Frank Stronach's MI Developments.

Geac is shaping up to be a case study in activists who end up with egg on their faces. The bigger lesson here is there may be too much activist money chasing too few opportunities.

A New York-based fund called Crescendo Partners, which has notched up wins on several Canadian investments, launched a proxy battle last week to put two directors on Geac's nine-member board. One of Crescendo's nominees is Eric Rosenfeld, a co-founder of the fund and a veteran of the game who contributed to the boards of Spar Aerospace and BCE Emergis.

Yesterday, Geac responded to Mr. Rosenfeld's push. The company made Crescendo look inept. It appears that Mr. Rosenfeld didn't do his homework before launching this proxy fight, and now he looks silly.

The heart of Mr. Rosenfeld's plea for board representation is that he wants to hire an investment bank to review Geac's strategic options and squelch any takeover that might hurt the share's performance.

In a letter asking shareholder not to endorse the Crescendo nominees, Geac CEO Charles Jones explained yesterday that the company has been working with brokerage house Bear Stearns since late 2004 on potential acquisitions and overall strategic reviews. On the issue of takeovers, Mr. Jones pointed to the company's impressive and well-known track record for buying smart, and backing away from bad deals.

More seriously, Mr. Jones challenged the credibility of Crescendo's other nominee to the Geac board. In its first submission to shareholders, Crescendo put forward an individual named Gerry Smith, who was described as a venture partner of Udata Partners, a technology-focused private equity firm.

“In actuality, Mr. Smith never had a formal relationship with Udata Partners,” Mr. Jones told shareholders. “In fact, Udata has publicly endorsed Michael Marvin, a director that Crescendo has targeted to be replaced by its nominees.” Crescendo has since pulled Mr. Smith's name for consideration due to a “conflict,” and is now pushing a candidate named Dennis Conroy.

Geac's board includes lawyer Tom Allen, one of Canada's deans of governance, and former OMERS senior executive Robert Sillcox, who Crescendo also wants to boot off the board. This gang of directors

and officers have proved their worth, so with some justification, Mr. Jones argues that Mr. Rosenfeld “has very limited experience as a director of a large, established, successful company and is well known for seeking short-term economic gain for himself without consideration for anyone else or for the long-term consequences for the company.”

On the current crew's watch, Geac shares are up 129 per cent, performance that's about three times better than the energy-heavy S&P/TSX benchmark and six times superior to tech benchmarks. It's one thing to lean hard, at the board level, at a company that is troubled. It's quite another to target a team that's outperforming rivals and has built a billion-dollar company, with a widely respected board.

Activists have an important role to play in this market. But if fund managers start abusing their power, or even take a ready-shoot-aim approach to corporate governance, then the whole movement suffers.

TAL waves goodbye

There's been a changing of the guard at TAL Global Asset Management. The money management arm of CIBC said goodbye to about eight employees yesterday, with both portfolio managers and marketing professions departing. Among those leaving is Ian Joseph, a well known stock picker who ran TAL's Canadian equity growth funds. He used to be with Altamira, and has also worked tirelessly as a volunteer in industry groups.

Goodmans' trust financings

Correction: Poor typing meant that law firm Goodmans didn't get proper credit for the income trust financings that it's worked on this year. Goodmans has been involved in 19 IPOs and secondary sales of trusts that have closed so far this year and has deep experience in cross-border deals in the sector.