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Ardent Leisure's capitulation the biggest win by activist investors in decades

Activist shareholder Gary Weiss (left) gave Ardent Leisure chairman George Vernardos a knock out blow. **David Rowe**

by **Tony Boyd**

It is hard to see how Ardent Leisure chairman George Vernardos can survive the humiliating defeat at the hands of shareholder activist Gary Weiss who successfully pushed for two board seats as part of a campaign to lift Ardent's value by $1 billion.

Vernardos, at the weekend, finally ended his stubborn opposition to the activist campaign and invited Weiss and experienced American executive Brad Richmond to join the Ardent board.

After spending months telling Ardent shareholders that Weiss would not work co-operatively with fellow directors and would be a disruptive, negative force on the Ardent board, Vernardos now says Weiss and Richmond "can bring assistance and additional insight to the board".

An extraordinary general meeting of Ardent shareholders scheduled to be held on Monday morning at a hotel in Sydney was cancelled on Sunday.

The best that can be said about the Vernardos backflip is that it proved he could read shareholder proxy votes. It is understood these votes showed the board was completely out of touch with its institutional and retail shareholders.

Sources close to the proxy fight between Weiss and Ardent have calculated that Richmond was going to be elected at Monday's general meeting of shareholders by a majority of about 70 to 30 and Weiss was going to be elected by a majority of least 60 to 40.

The Ardent shareholder activist campaign carries important lessons for other activists as well as for boards of directors and their corporate advisers. This was the largest successful activist campaign in Australia for decades.

The campaign, which was spearheaded by Weiss and property investor Kevin Seymour, started with the right message to other shareholders when Weiss and Seymour invested about $100 million in the target company.

Having skin in the game helped Weiss immensely because when he spoke to Ardent's institutional shareholders his interests were aligned with theirs.

The second reason why the activist campaign was a success was the depth of research and professionalism shown by Weiss and his advisers, Investec, in the plan for turning around Ardent's fortunes.

The comprehensive turnaround plan was shared with shareholders through a special website, www.fixardent.com.au.

Unlike the board of Ardent, Weiss showed considerable flexibility in his tactics during the activist campaign. He initially called for the appointment of four directors – himself, Seymour, Richmond and Andy Hedges.

In mid-August he withdrew the resolutions relating to Seymour and Hedges in response to feedback from shareholders. Weiss showed he was in touch with the shareholder base and willing to respond in the interests of all shareholders.

An important reason for the success of the activist campaign was strong shareholder engagement.

Weiss employed Maria Leftakis at proxy solicitation group, Morrow Sodali, to engage with retail and institutional shareholders.

This engagement process gave the activists an edge over the incumbent board, which assumed retail shareholders would blindly follow their recommendation not to vote in favour of Weiss or Richmond.

The high level of shareholder engagement was of critical importance when two leading proxy advisory firms, ISS and CGI Glass Lewis, advised shareholders not to support the election of Weiss and Richmond.

The Ardent outcome completely skewers these two proxy advisers and the advice provided to shareholders. They totally missed the dissatisfaction among shareholders about the performance of the incumbent board.

A third proxy advisory firm, Ownership Matters, recommended in favour of Richmond and said Weiss might be worth considering as a non-executive director if he bought more shares in Ardent.

The board of Ardent made some fatal mistakes during its failed campaign to rebuff Weiss and Seymour.

The board was first approached by Weiss in May. But instead of working collaboratively with someone with a proven track record in helping companies lift their performance, the board dug in its heels and treated the activists with contempt.

The board, which was advised by Credit Suisse and Goldman Sachs, failed to show flexibility during the four months following the first approach from Weiss. It painted Weiss as a disruptive and negative force but shareholders did not swallow this story.

The board is sensible to now talk about its "absolute focus on executing its stated strategy" and its commitment to delivering security holder value.

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