

At Gildan, a board's defeat offers lessons in shareholder management

[NICOLAS VAN PRAET](#) AND [ANDREW WILLIS](#)

MONTREAL AND TORONTO, PUBLISHED MAY 24, 2024

<https://www.theglobeandmail.com/business/article-at-gildan-a-boards-defeat-offers-lessons-in-shareholder-management/>

Glenn Chamandy, co-founder of Gildan Activewear Inc. GIL-T, left his job as chief executive officer last year in a cloud of mystery after relations with his board soured. Now he returns triumphant – and under more pressure than ever before to deliver returns for the investors who won his job back.

The raucous five-month battle that engulfed the T-shirt maker came to a sudden conclusion late Thursday, when Gildan's [entire board of directors and CEO Vince Tyra quit](#), admitting defeat at the hands of activist investor Browning West. The Los Angeles-based firm, which owns about 5 per cent of Gildan's shares, has now taken control of the company and will reinstate Mr. Chamandy as CEO, with United Rentals Inc. CEO Michael Kneeland becoming chairman.

Mr. Tyra's bio has already been scrubbed from the [Gildan](#) website.

The feud was a rare case of activists pushing for the status quo. And though it's often hazardous to predict whether the fallout from such cases will have a lasting impact on the Canadian corporate landscape, observers say it does provide a cautionary tale for other boards overseeing strong-willed executives who directors think might be past their best-before date.

Gildan's legacy board, the directors who [dismissed](#) Mr. Chamandy last December, weren't fast or blunt enough in explaining publicly why they showed him the door, according to one insider who spoke openly on condition they not be named.

Other experts say those directors underestimated the strength of Mr. Chamandy's backing from Browning West and other institutional investors – and their resolve.

“It does show that sometimes the personality, the charisma, and the history of a long-time CEO and founder with investors is not something you can break easily,” said François Dauphin, president of the Institute of Governance for Public and Private Organizations. “Once you start pushing against that, it’s really hard to get yourself out.”

Former Gildan chairman Don Berg and the other directors who dismissed Mr. Chamandy initially said that they didn’t see eye to eye with the CEO on the timing of a leadership handover and they worked until the very last moment to try to hammer out a compromise with him. It wasn’t until after Mr. Chamandy was gone that they took a harsher tone, saying he’d become increasingly detached from his job and unable to articulate a credible long-term growth strategy for the company.

Even if the board’s process to address CEO succession was appropriate – engaging advisers and considering Mr. Chamandy’s proposals, for example – the announcement of his termination still took investors by surprise. And if there’s one warning for other companies from this saga, it’s to communicate with shareholders more closely when working through leadership issues, said Catherine McCall, executive director of the Canadian Coalition for Good Governance.

“I don’t think the lesson is that shareholders should micromanage the board because I think the situation, the circumstances, don’t encourage that takeaway,” Ms. McCall said. “[But] they should have maybe been talking to shareholders more. ... If anything, this is going to prompt or encourage more shareholder engagement.”

Gildan’s board decided to resign on Thursday after counting shareholder votes cast ahead of the company’s annual meeting next Tuesday and realizing they had no path to victory – Browning West’s slate of directors had amassed more than enough support to win the battle. The board decided to step down after receiving roughly 15 per cent of votes cast, according to information obtained by The Globe and Mail.

Two departed Gildan executives, Mr. Tyra and executive vice-president Arun Bajaj, will receive severance packages made up of two years’ worth of salary and bonus, plus vesting of all their performance-based stock in the clothing company, according to Gildan’s regulatory filings. Mr. Tyra walked away with approximately US\$16-million in total, while Mr. Bajaj received about

US\$8-million, according to one source familiar with the company's compensation plan. The Globe and Mail agreed not to identify the individual because they are not permitted to speak for Gildan.

Gildan also halted a sales process launched last winter by the previous board after the company received a takeover offer from an undisclosed potential buyer. Several U.S. private equity funds, including Bain Capital and Sycamore Partners, kicked tires at Gildan after the board put the company up for sale, The Globe reported.

The now-departed board members expected to win endorsements from two shareholder advisers – Institutional Shareholder Services Inc. and Glass Lewis & Co. When the two firms endorsed the Browning West slate instead, directors were shocked and realized they were likely to be voted out, according to two sources familiar with the board's deliberations. ISS and Glass Lewis are extremely influential in determining how index funds cast ballots.

With Browning West controlling the company, Gildan is now expected to take a series of steps to try to boost financial returns. Mr. Chamandy will likely "face pressure to execute" on a new operating plan, which is underpinned by several aggressive financial targets to drive a roughly 19-per-cent annual earnings per share growth through 2028, BMO Capital Markets analyst Stephen MacLeod said in a research note Friday.

The plan is to move production of basic clothing, including T-shirts and socks, from facilities in Latin America to a newly constructed, lower-cost factory in Bangladesh. Gildan would then increase production of higher profit margin lines such as fleece wear at its factory in Honduras, and beef up its share buybacks and dividend payout.

"Glenn Chamandy's return as CEO is the best outcome for everyone" because of his operational knowledge and management team support, Stifel analyst Martin Landry said in a separate note. He said the most important near-term catalyst for Gildan stock would be if Mr. Chamandy bought back shares after selling his entire stake in December following his termination. "It would send a strong positive signal," he said.