‘There’s no war without cost’: Gildan’s proxy fight racked up US$77-million in expenses

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Gildan Activewear Inc. CEO Glenn Chamandy picks up his briefcase after speaking with the media following their annual meeting in Montreal, on May 28.

CHRISTINNE MUSCHI/THE CANADIAN PRESS

The nasty proxy fight that plunged Gildan Activewear Inc. into turmoil for nearly half a year and ended with the return of chief executive Glenn Chamandy cost the company US$76.8-million, delivering a US$33-million windfall for lawyers and other advisers in exchange for their expertise. The CEO calls it an “abusive” waste of money.

The Canadian maker of T-shirts and fleece on Thursday published a financial accounting of the battle that climaxed this past spring between Gildan’s former board of directors and rebel shareholders led by U.S. investment firm Browning West. It lays bare the millions that were spent on lawyers, strategic advisers and consultants of all kinds as well as severance for departed executives in what the company believes is one of the most costly proxy fights in history.

"It was an abusive amount of money being spent," Mr. Chamandy said in an interview with The Globe and Mail following the company's second-quarter earnings report, his first since he was reinstated as CEO in late May. "For a small company like Gildan, it just doesn't make a lot of sense."

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

Mr. Chamandy said the cost is a direct result of a former board that used aggressive tactics, launching three lawsuits against Browning West and agreeing to generous payouts for executives who are now no longer with the company. The board could have avoided the entire saga by communicating its thoughts on his leadership to investors instead of surprising them with a dismissal they opposed, he said.

Gildan's former directors ousted Mr. Chamandy last December over what they said was his refusal to comply with a succession plan to which he had agreed. Directors later blasted him for his work ethic and lack of ideas, and said they tried to reach a compromise with him right up until the announcement of his termination.

But they then failed to convince investors there was a good reason to show him the door. A rebellion swelled up soon after, with nine dissident investors holding an estimated 35 per cent of Gildan's stock calling for Mr. Chamandy to be reinstated.

The battle came to a sudden conclusion when Gildan's entire board of directors and then CEO Vince Tyra, hired to replace Mr. Chamandy, quit. The resignations happened after shareholder votes cast ahead of the company's annual meeting in May were counted and the board realized it had no path to victory.

A new board now oversees Gildan and includes seven directors nominated by Browning West in addition to Mr. Chamandy. They're implementing a refocused strategy for the company that will shift manufacturing of socks and other fashion basics to newly-built facilities in Bangladesh while boosting share buybacks. The clothing maker on Thursday announced a normal course issuer bid to repurchase up to 10 per cent of the company's public float over the coming year.

Gildan board resigns, clearing the way for Glenn Chamandy to retake control of clothing company

The breakdown of the one-time costs incurred by the company in relation to the proxy fight include a US$15.3-million cash payout to Mr. Tyra, who was in the CEO job just over four months, and a US$9.1-million payout to Arun Bajaj, former executive vice-president and chief of human resources and legal affairs. Mr. Chamandy was fighting for a hefty severance payment, a fight he's now dropped, but the company is awarding him US$8.9-million in back pay related to his reinstatement.

Gildan also tallied US$7.4-million in incremental costs tied to the previous board and a refreshed board with new directors, announced in April. And there’s another US$3-million for a sales review process that was subsequently abandoned.

As part of the legal and advisory fees, the new board is reimbursing Browning West for the costs it racked up in waging its dissident campaign, which total US$9.4-million. Mr. Chamandy said the move is justified because it largely amounts to the firm defending itself against attacks by the former board, which he said sought to entrench itself and therefore spent more than twice what Browning West spent on such fees.

That’s one view. Another is that the original board believed it was acting in good faith and in the best interest of the corporation when they removed the CEO, said Catherine McCall, CEO of the Canadian Coalition for Good Governance. The board would then naturally move to bolster that position.

“I wouldn’t think that you should fold if you firmly believe in the rightness of what you’re doing just because somebody comes along and challenges that,” Ms. McCall said.

Ex-CEO Glenn Chamandy finds his record scrutinized as Gildan’s shareholders mull leadership change

To put Gildan’s US$76.8-million proxy contest bill in perspective, Walt Disney Co. won a high-profile proxy battle earlier this year with activist investor Nelson Peltz that could cost the two sides US$70-million by the time the dust settles, The Wall Street Journal reported in February. Disney is several times the size of Gildan as measured by revenue and market capitalization. A separate shareholder battle by Mr. Peltz at Proctor & Gamble Co. in 2017 cost an estimated US$60-million, the priciest ever at the time, the newspaper said.

Gildan’s expenses for the fight and its related leadership changes ate up US$57.2-million during the company’s second quarter alone. That’s equal to almost all of Gildan’s US$58.4-million in net earnings for the period.

“It’s a bit mind-blowing, but there’s no war without cost,” said François Dauphin, CEO of the Montreal-based Institute for Governance of Private and Public Organizations, adding the sum should have been expected given the intensity and length of the proxy fight.

“It was a confrontation of two visions for the future of the company,” Mr. Dauphin said. “And the jury is still out. We will see in a few years whether that cost was prohibitive or whether it was a good investment.”

Browning West has said a combination of operational improvements at Gildan, share buybacks and an improved executive compensation scheme could nearly double the company’s stock price to US$60 by the end of next year and propel it to US$100 within five years.

The shares closed at US$41.29 Thursday on the New York Stock Exchange and $57.26 in Toronto.