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ACTIVISTMONITOR

Leder Holdings moves to next real-estate target – Activist Profiler

*By David Carnevali
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Leder Holdings has started accumulating shares in a potential new target it has identified in the real-estate space, founder and CEO Sean Leder told *Activistmonitor*.

The investment trades at a discount of 30% to 40% to its net asset value (NAV) and the enterprise value is below USD 1bn, Leder said. The target is neither a closed-end fund nor a REIT, but owns plenty of real-estate assets. It does not have a staggered or entrenched board, and does not have a poison pill in place, he added.

As part of its due diligence, Leder said he has engaged in talks with some of the company's shareholders, who are supportive of an activist stepping-in to bring about change and propose better decisions that should allow the company to close its valuation gap.

A special purpose investment vehicle approach

Leder Holdings sets-up special purpose investment vehicles to make activist investments. This allows the firm to pitch specific ideas to the investment committees of prospective co-investors, who in turn have greater clarity on how the money is allocated. The firm is raising capital for its new investment vehicle, reaching out mainly to family-offices and institutional investors, Leder noted.

Leveraging the experience gained in its activist campaign against PICO Holdings (NASDAQ: PICO) is an area of focus, Leder said. Owning less than 0.5% of PICO in the spring of 2015, Leder Holdings contested the company's decision to reincorporate in Delaware and introduce a number of unfriendly shareholder provisions.

At the time, 13D filers Central Square Management and River Road Asset Management - owning little less than 15% of PICO - were already protesting against the board and management's poor execution but both failed to make much of an impact, Leder said.

To turn the situation around, Leder Holdings took a number of "concrete steps", the first of which was sending a letter to PICO's shareholders to vote down the reincorporation proposal at the 2015 AGM. The company withdrew the proposal and, in early 2016, Leder Holdings followed-up with a consent solicitation proposal to call a special meeting and replace PICO's four longstanding board members, including CEO John Hart.

By that time, Leder Holdings had built a position of around 1.5%, taking advantage of the company's depressed share price in the first quarter of 2016. Ultimately, Leder Holdings settled

but its actions triggered a domino effect leading to the removal of CEO Hart and a deep overhaul of the board.

The PICO campaign was an “incredible learning experience”, Leder said. Not only did he see PICO’s share price increase nearly 50% from where it was trading the day after it filed the consent solicitation, but it allowed him to become familiar with all the aspects of activist investing, including terminology, costs, and nuances related to behaviors and communication with fellow shareholders and the company management and board, Leder said. The firm originally invested in the USD 15 per-share area and later it bulked up its stake in the USD 8.60 area, Leder noted. PICO is trading today at USD 12.45 a share.

The experience has been so enriching that Leder said he decided to regularly employ activism as a tool for finding better values in the real estate space.

A few investments per year

The firm plans to run a very concentrated portfolio, with a maximum of two activist investments per year, Leder said. It will target asset-rich companies trading at a significant discount to NAV and with enterprise values at USD 1bn or below. The fund will avoid going beyond this figure as it does not want to step in a territory crowded with larger funds. The firm’s strategy will be to acquire larger stakes in order to have more power to make changes, and the firm could aim to build stakes of more than 20% in companies it targets, he noted.

Leder said he does not employ an analyst and personally takes charge of all the due diligence of its targets. This includes reading all the public material as well as visiting facilities and management.

He said he plans to outsource other activities, such as any legal, financial, tax, communication or proxy solicitation service it may need. Leder Holdings relied on Kramer Levin, Okapi Partners and Sloane & Company, for legal, proxy solicitation and communication assistance in its campaign against PICO, respectively. The cost of the PICO campaign was around USD 250,000, he noted.

As a private investor, Leder participated in a proxy contest in June 2013 against Qualstar Corporation (QBAK:US) to replace the entire company’s board. Leder, together with Steven N. Bronson and another three nominees, were appointed to the company’s board. The company’s CEO Larry Firestone was fired immediately and replaced by Bronson.

Leder started his career on Wall Street at Chase Manhattan Bank and later at Merrill Lynch in their real estate investment banking group. Over the past 20 years he has worked on nearly a half billion dollars in real estate transactions encompassing over 2m sq feet of commercial buildings. He formed privately held Leder Holdings to pursue investment opportunities in equities and real-estate.