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- Exclusive

Village Roadshow pressed to outline future direction amid Kirby brothers dispute

By **Max Mason**

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Village Roadshow's board and management face growing pressure from shareholders to offload assets deemed a "distraction" and get better returns from its cinema and Gold Coast theme-parks businesses.

The push comes amid the bitter dispute between the Kirby brothers over the company's poor performance in the past five years – shares have dropped 54 per cent to $3.25 – and lack of clarity on direction.

Sydney-based funds manager Lanyon Asset Management believes shareholder returns will improve under a new, independent chairman, executive changes, a reduction in "obscene" corporate overheads and asset sales it deems a "distraction".

The sale of Sydney Wet 'n' Wild came at a heavy loss. ***Nic Walker***

New York-based Mittleman Brothers supports asset sales, to focus on driving better profits at the cinema and theme-park businesses, and cutting corporate overheads, but wants to see who is proposed as chairman and management before supporting such a move.

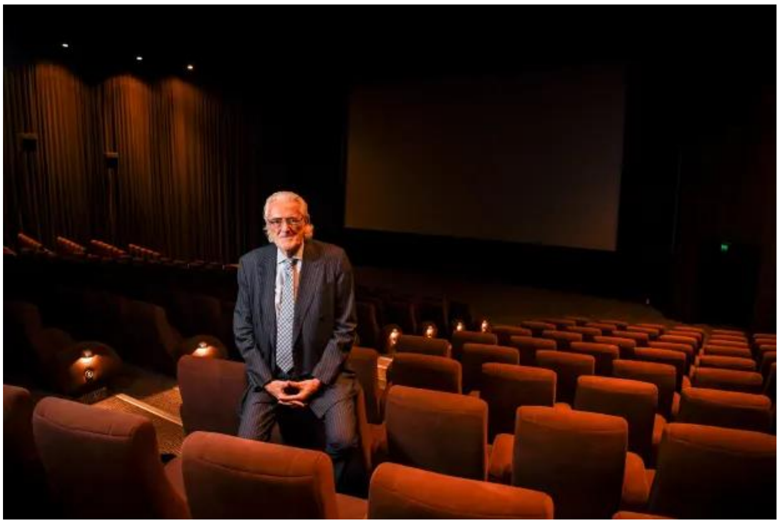
Mittleman Brothers is Village's third-largest shareholder – after the bloc held jointly by the disputing Kirby brothers and chief executive Graham Burke and Vijay Vijendra Sethu – with a little less than 5 per cent of the company.

However, Mr Sethu, who owns 5.1 per cent, has backed Robert Kirby and Mr Burke to continue as executive chairman and chief executive respectively, but to outline what is core and non-core to the business and proceed in an orderly manner on potential asset sales, arguing there is no rush.

CCZ Equities has outlined a sum of the parks valuation on estimated 2020 earnings of $7.12, while JPMorgan said the business could be worth up to $5 a share on a break-up.

Lanyon managing director David Prescott has called on the three independent board members – Tim Antonie, who is working with Solomon Lew agitating for change at department store Myer, Jennifer Gambrell, and Robert Le Tat – to push for the sale of "distraction" assets, reduce "obscene" corporate overheads and introduce new management.

Assets that could be unloaded were overseas theme parks, stakes in loss-making film-funding arm VREG, and United States premium cinema chain iPic, and the London marketing services business, he said.



Village Roadshow chief executive Graham Burke started as boss in 1988. ***Eddie Jim***

"We feel that companies should have a board of effective composition; ideally, we think best practice is an independent chairman – one who facilitates effective contribution and promotes constructive and positive relationship between all of the board members and management and shareholders. That clearly hasn't been the case at Village," Mr Prescott said.

"In our view, Village has been poorly managed and shareholders have suffered from their weak corporate governance framework."

Village's theme parks have struggled since the accident at rival Ardent Leisure's Dreamworld, when four people died after a raft flipped on the Thunder River Rapids ride in 2016. Village will report on Friday and its result is expected to improve thanks to good summer weather on the Gold Coast.

There has been growing tension between Village Roadshow's largest shareholders and board members – John Kirby, his brother Robert Kirby and Graham Burke – over the direction of leadership.

The Kirby brothers, John, left, and Robert in 2003. ***DAVE HUNT***

Deputy chairman John Kirby is at loggerheads with Robert Kirby and Mr Burke, seeking to oust them from their long-held roles and sell underperforming assets.

Robert Kirby has been chairman intermittently since 1994 and Mr Burke has been chief executive since 1988. From 2013 to 2018, they held the dual roles of co-chief executive and co-executive chairman. John Kirby stepped down from Village in an executive capacity in 2013 but remained on its board.

Together, the Kirby brothers and Mr Burke control about 42 per cent of Village Roadshow, through a combination of direct shareholdings and their ownership of Village Roadshow Corp, which speaks for 34 per cent of the ASX-listed company. They each own a third of Village Roadshow Corp.

John Kirby cannot use the majority of his shares to vote for change because they are held in the private corporation, and he is outvoted by his brother and Mr Burke. He is exploring his legal options and may end up in court seeking a break-up of the private company.

John Kirby hired investment banker David Kingston last July to pressure his brother and management for change after the share price hit of low of $1.73, the company asked for shareholders to tip into a $50 million capital raising and it suspended dividends in 2016.

However, Mr Sethu said he believed Robert Kirby and Mr Burke had made their decisions with good intentions, and "hindsight is 20:20".

"These guys have more skin in the game than anyone else, they will obviously do what's right for the shareholders. Any mistake in the game, they own it more than us," he said.

"With hindsight it's easy to look at something and say, it's not core. The Sydney water park that they exited last year, that's about as core as it gets."

Last year, Village sold Wet 'n' Wild Sydney for $40 million, taking a heavy loss on its investment as it looked to fix a growing debt problem. It also raised $50 million in capital last July to pay debt and invest in cinemas and Topgolf.

The Australian Financial Review revealed in January Village's board had halted plans to build eight Topgolf venues throughout Australian and the Asia-Pacific until the first Gold Coast centre, opened mid-last year, had proved its earning.

In 2017, the company completed the sale of its half stake in its Singapore cinema business for $165 million to joint-venture partner Orange Sky Golden Harvest Entertainment. It also sold the land its Gold Coast theme parks, Movie World and Wet'n'Wild, stand on for $100 million to super fund LGIAsuper, before signing an initial 30-year lease, with rent starting at $6.2 million annually.

"They have a track record of when they make a bad investment of exiting. There's no rush. The debt problem is completely over. There's no urgency to exit, you figure it out and tell the market and say what's core and non-core," Mr Sethu said.

Mr Sethu said he believed the disputing parties were not far apart, and achieving an acceptable price for non-core assets was down to timing.

Mittleman Brothers' Chris Mittleman said he would need to see who the proposed executive replacements were, but generally supported John Kirby's proposal because there was room to improve profit margins, capital allocation —such as buying back shares when they were cheap, not raising capital — and disclosure, such as per-patron data on movie theatres, information other companies provide.

"We have never operated as a group before with any other investment firm or individual, but I would be willing to talk and consider proposals from anyone inside or outside of Village Roadshow who seemed to have reasonable ideas on how to improve the business and thus its returns for shareholders," Mr Mittleman said.

"If reasonable prices can be obtained, the lower margin businesses like loyalty or marketing services and VREG for example, would be better off sold so capital could be redeployed into higher return assets."

Mr Mittleman said he did not support last year's $50 million capital raising because he believed previous assets sales had been enough to ease Village's debt problems. In 2017-18, Village reduced its net debt $527.1 million to $338.5 million.

He said Village's management should get credit for the returns on a 10-year and 15-year basis, but on a five-year basis they had been poor.

"The owner-operators here deserve some credit for those longer-term results which are very good, and some understanding given the Dreamworld related issues that were a large factor in the under-performance of the past two years. That said, I think EBITDA margin should be much higher for the corporation overall, given what competing businesses generate."
