

Village Roadshow's feud far from end credits



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Centennial Asset Management's Matthew Kidman has joined a growing chorus of investors who are concerned Village Roadshow is failing to adhere to basic corporate governance standards and has called for the reappointment of executive talent firm Egon Zehnder to complete a search for a new chief executive.

Village shareholders landed a significant victory last week, with Robert Kirby relinquishing his long-term grip on the chairman role, but some investors are concerned about the appointment of his son as chief executive to replace retiring boss Graham Burke at the end of the year and the fact the company has abandoned a planned process to fill the role before a search had begun.

Mr Kidman applauded the move for Village to appoint an independent chairman but said the board and new chairman should start the CEO search afresh, even if Clark Kirby, who was anointed on Thursday, ends up being the best candidate.

Clark Kirby, the son of Village Roadshow director Robert Kirby, is taking over as CEO.

"I hope there will be due process and they get a capable and strong chairperson because the board has some strong personalities that have been there for many years. I think it's really important the new chairperson isn't told who the new management is, that new chairperson should be intimately involved in selecting the new CEO," he said.

Analysts noted Clark Kirby had been driving a turnaround in Village's theme parks after the company took a hit following the tragic accident at rival Ardent Leisure's Dreamworld, when four people died after a raft flipped on the Thunder River Rapids ride in 2016. The accident saw a dramatic downturn in theme park attendance on the Gold Coast.

However, Mr Kidman said the board and a new chairman needed more independence in selecting a new chief executive.

"It is time the related-party appointments are dispensed with. A new independent chairperson needs to have fresh air to review and reset the business. The first step in that process is playing a substantial role in the selection of the new CEO once Graham Burke steps down at the end of the year."



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Clark Kirby's early appointment does have the support of major shareholder Vijay Vijendra Sethu, who owns 5.1 per cent of Village shares.

"I am delighted to hear the Clark has been appointed as the CEO to replace Graham," he said. "Clark has proven his mettle with his impressive turnaround of the theme parks division and I look forward to seeing what he can do with the whole ship."

Before last Thursday's board meeting, each member of Village's board of directors saw a letter pop into their email inboxes late on Wednesday night from Layon Asset Management managing director David Prescott with a list of demands to clean up the company and drive long-term shareholder value.

At the top of that list was the removal of Robert Kirby as chairman, which Village's board bowed to after sustained pressure from a broad base of shareholders over the last 12 months. However, the board's election of Clark Kirby, Robert's son, as the new chief executive to take over from Graham Burke on January 1, 2020, has again raised eyebrows over corporate governance and related party appointments.

Robert Kirby will remain on the board as an executive director, while departing chief executive Mr Burke will also serve on the board for a further three years.

Corporate governance has been a major sticking point for investors who have been emboldened by the public spat between Robert Kirby and his brother John, who was stripped of his deputy chairman title on Thursday.

John Kirby worked closely with his brother and Mr Burke until stepping down from an executive role in 2013. The three had long been criticised for their, at times, controversial use of their combined 42 per cent stake in the business.

John Kirby began his campaign with investor banker David Kingston almost a year ago after three key events over the preceding three years: the suspension of dividends in 2016; shareholders being asked to tip into a \$50 million capital raising; and the sale of Wet 'n' Wild Sydney at a substantial loss in last July.

The Lanyon letter called on independent directors Tim Antonie – who has worked with Solomon Lew agitating for change at department store Myer – Jennifer Gambrell, and Robert Le Tat to push for stronger corporate governance, something Village has been repeatedly criticised for over multiple years. The letter also sought more independent directors, executive changes, a reduction in "obscene" corporate overhead spending and the sale of assets, deemed a distraction, to focus on the core Gold Coast theme parks and cinema business.

Assets that would be unloaded could include overseas theme parks, Village's stake in loss-making film funding business VREG, US cinema chain iPic, and the company's London-based marketing services business. The only asset that seems to be on the chopping block at the moment is Wet 'n' Wild Las Vegas after the northern summer.

The letter noted Village's Gold Coast theme parks, Wet 'n' Wild, Warner Bros Movie World and Sea World are highly cash generative and have a long economic life, believing the break-up value of the company is materially higher than where the share price sits today, even after the improvement of the past year.

The letter suggests weak corporate governance has been a central issue that has hurt shareholders, and an independent chairman will help promote constructive relationships with the entire board, management and shareholders. It notes strong corporate governance is typically linked to better shareholder returns.

Mr Kidman said he invested in the company because he believed Village had two strong assets: Gold Coast theme parks and cinemas, both of which were undervalued.

However, he was not convinced any of the other assets would deliver good return on investment.

"What I think creates the most value is to trim down to those two main assets. We know they're good assets," he said.

Mr Kidman said capital expenditure surprises and large corporate overhead costs, particularly for a business the size of Village, were not acceptable for a public company.

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 out-voted by his brother and Mr Burke.

Mr Kidman called for the Kirbys and Mr Burke to reassess the 34 per cent block held in the private vehicle Village Roadshow, which has been a big deterrent to new shareholders coming into the company because it has been used to block changes.

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