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# EXCLUSIVE: Greg Boland vs. Newton Glassman

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Greg Boland, one of Canada's most powerful hedge fund managers, is laying out a short thesis against Callidus Capital, a company run by Newton Glassman, perhaps the country's most aggressive investor.

It's the type of Goliath vs. Goliath battle that is almost never seen on Bay St., but it is about to burst into the open. Boland, through his fund at West Face Capital, has compiled a 59-page presentation on why the loans Callidus is extending should concern investors, according to documents obtained by BNN.

A presentation entitled "Short Callidus Capital – Not Your Average Lender" came to light as part of a civil dispute between the parent company of Callidus, Catalyst Capital Group, and West Face over an employee who left Glassman's shop for Boland's. It was entered into evidence earlier this month.

Callidus is an asset-based lender that provides loans to distressed companies, typically charging 20 percent interest and securing first lien against assets in the event of bankruptcy. West Face alleges the quality of the Callidus' loan portfolio is weak. Much of this is masked, says West Face, by limited disclosure on the part of Callidus or companies that Callidus lends to. Lastly, West Face says the portfolio is not well diversified meaning a few bad loans could have a big impact. As a result, Callidus should be trading 13-to-34 percent below where is closed on Friday, according to the presentation. West Face would not confirm whether it has amassed a short position against Glassman's company.

West Face Capital had no comment on the presentation. Callidus reports quarterly results Monday after hours and thus management is in a quiet period before earnings and not able to comment. Callidus management will hold a conference call with analysts Tuesday morning to discuss the results.

Glassman has built his reputation on finding prosperity in distressed companies and runs the second largest private equity investment firm in Canada. Though exact performance numbers are confidential, his funds at Catalyst have consistently notched percent returns in the high 30's since 2002, according to a source familiar with funds performance. Boland is no shrinking violet either and is known for his activist tendencies. Forcing Maple Leaf Foods to modernize was one of his more high profile activist campaigns.

It is a clash of two Bay Street titans. Both are currently embroiled in a dispute over Wind Mobile. Boland's West Face is a major backer, but Glassman asserts confidential information from a former employee helped Boland secure a position that Catalyst wanted.

## CALDUS CPTL CORP

Stock data delayed up to 20 minutes



chart type: 1 year

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Now, Boland is striking at one of Glassman's core businesses.

Tensions have been growing for months and became public when an employee, Brandon Moyses, who worked for Glassman at Catalyst left to work for Boland's West Face. Catalyst launched a lawsuit against Moyses claiming he provided confidential information to West Face. It was also alleged that Moyses provided information helping West Face to short Callidus, which is the reason the presentation was submitted into evidence.

In the presentation, West Face states that Callidus should not be trading at a premium to other lending companies. West Face says if Callidus were to trade at a discount to book value, which they believe is appropriate, the stock should trade closer to \$11.17-\$14.75 per share compared to Friday's closing price of \$17.04 per share.

West Face says that of the 14 outstanding loans they have identified, 43 percent of the companies are in bankruptcy, restructuring or court proceedings. They single out six of the loans that highlight concerns about Callidus' investment decisions. Those are: Xchange Technology, Arthon Industries, Esco Marine, Deepak International, Leader Energy Services and North American Tungsten.

For example, according to the presentation, Arthon, Deepak and Leader International are described as troubled companies with questionable recoverable assets, while North American Tungsten, West Face alleges, has generated zero or negative cash flow for the past 10 years. Xchange Technology is shown as an example of poor disclosure: the company's receivership status, West Face says, was not disclosed as a non-performing loan at the time of Callidus' IPO.

The net result, according to West Face, is that these problems amount to a possible 20-percent write-down of the identified loan book.

However, Catalyst guaranteed the principal of all companies that were in the portfolio prior to Callidus' IPO. This would include three companies mentioned by West Face: Xchange Technology, Arthon Industries and Leader Energy Services, thus insulating Callidus shareholders from any losses.

While West Face acknowledges this in their presentation, they go on to say that new loans will not have the Catalyst guarantee and highlight the high level of bankruptcies as a cause for concern going forward.

Defenders of Callidus say bankruptcy does not necessarily signal trouble with the loan book. "This guy (Newton Glassman) knows what he is doing," Tyler Hewlett, portfolio manager at BMO whose fund is the second largest shareholder of Callidus, said in a phone interview. "Yes you will have some that have problems, but that is the nature of lending to distressed companies."

Hewlett has been adding to his Callidus stake as the stock has taken a hit. He is not fussed by the lack of disclosure regarding specific companies. "Given the sensitive nature of the business, I don't expect much in the way of disclosure," said Hewlett, who has not seen West Face's presentation but is aware of its existence. "It is us making a call on our comfort with the management team and their ability to execute."

One analyst echoed this sentiment, "Our call on Callidus boils down to a call on management," said Lemar Persaud, analyst at TD who has a Buy rating on Callidus. In a preview note to clients, TD says because Callidus invests in distressed businesses, legal proceedings should be expected. TD says while 16% of the portfolio appears to be in legal proceedings, this only represents 4% of the portfolio after considering the Catalyst guarantee, repayments and collateral values.

Callidus (CBL.TO 0.00%) reports quarterly results after the close of trading on Monday, March 30 and the company will hold a conference call for analysts on Tuesday, March 31.

[West Face Capital presentation on Callidus Capital by Business News Network](#)