



A RECIPE FOR SUCCESS IN A PROXY BATTLE!

THE PET VALU STORY

Peter Puccetti, Chairman and Chief Investment Officer of Goodwood Inc., was facing a dilemma. The Goodwood investment team had grown increasingly frustrated with the performance of their investment in Pet Valu Inc., a specialty retailer of pet food and pet-related supplies. Believing that Pet Valu was a business with loads of potential, Goodwood made a big investment in the company, accumulating approximately 20.4% of the exchangeable shares of Pet Valu Canada Inc. Further, that investment had shown significant increase in value.

However, Puccetti as well as other institutional investors felt that Pet Valu was missing the big picture and strongly disagreed with the strategic direction of the Pet Valu management team. While Pet Valu's store base had actually declined since 2003, competitor Global Pet Food Stores Inc. had more than doubled its Canadian store base since 2002 while Petsmart had almost tripled its Canadian store base since 2003. Further, both competitors had plans for continued aggressive store expansion in the Canadian marketplace. So Goodwood took issue with the company's decision to construct a new warehouse facility at a capital cost estimated to be in the US\$25 to US\$30 million range instead of responding with store growth plans of its own.

On April 8, 2008, Goodwood issued a press release announcing that it intended to propose a new slate of directors for Pet Valu as a result of their lack of confidence in the direction that the Pet Valu management and board were taking the company. Knowing that they faced a formidable challenge as Pet Valu's insiders controlled approximately 34% of the votes entitled to be cast at the 2008 AGM, it was imperative that Goodwood obtain the support of other institutional investors. Puccetti and Goodwood turned to a trusted partner with whom they had worked very successfully in the past, Kingsdale Shareholder Services Inc.

Before working with Goodwood to devise a communication strategy for the upcoming proxy battle, Kingsdale analyzed the Pet Valu shareholder list. Among Kingsdale's findings were that the top eleven Pet Valu shareholders, including the company insiders, controlled approximately 81% of the issued and outstanding shares and no single shareholder after this group had greater than 1%. Of these top eleven shareholders, four were company insiders and one was the Goodwood group of funds. Thus, it was quickly determined



that this battle would be won or lost based on the votes of five key shareholders and ensuring that shareholder votes were effectively navigated through the very complex proxy voting system. In addition, Pet Valu was a Delaware company and so faced additional proxy rules to be followed.

Kingsdale and Goodwood focused activities on convincing these key shareholders to vote for the Goodwood slate. There were three key points that worked in the favour of the dissident group.

The final results showed approximately 56% of the total issued and outstanding Pet Valu shares voting for the dissidents and only approximately 40% voting to support the incumbent board.

First, Goodwood put together an impressive slate of directors. They wanted to ensure that knowledgeable and informed Pet Valu shareholders would immediately recognize the experience and insights that the alternative slate would bring to the table.

Second, by any measure, Pet Valu did not have a sustained policy of communicating with their investors. In fact, the company insisted on not meeting with key shareholders, instead insisting that any questions or concerns be raised at its quarterly conference calls. In responding to the Goodwood claim of a lack of transparency in communicating with shareholders, the company stated in an April 21, 2008 press release:

... your Company provides equal access of information to all shareholders. Our quarterly conference calls are open to all shareholders and provide an opportunity for your questions to be answered by the management team.

Significant, sophisticated shareholders in any company

expect that management will listen to and address any concerns raised about the performance and strategic direction of the company. Obviously there are ways to set up regular private communication with such shareholders, but still ensure that they do not receive selective disclosure of information.

Third, the Goodwood message was convincing. At the expense of losing the attention of the ordinary retail shareholders of Pet Valu, Goodwood, Kingsdale and the legal team crafted a message that was specifically aimed at the key Pet Valu shareholders. These shareholders were sophisticated and understood that Pet Valu's good results were not necessarily good enough and the company's decision to build a warehouse was flawed. They also understood that the company had the potential to do much better and that the company's flawed strategic approach would eventually lead to substandard results.

At the end of the day, all of the key shareholders supported the dissident slate. The final results showed approximately 56% of the total issued and outstanding Pet Valu shares voting for the dissidents and only approximately 40% voting to support the incumbent board. Smart strategy and flawless execution won the day!

In fact, there were 22 proxy fights thus far in 2008. Of those 22, six involved companies that were too small to justify the engagement of a proxy solicitation firm by either side. Of the remaining 16 proxy fights, Kingsdale was involved in 15 of them.

Goodwood was just one of many proxy battle participants that viewed Kingsdale and the Kingsdale approach as key ingredients in their recipe for success. In fact, there were

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Quite simply, Kingsdale is in demand because the Kingsdale team delivers results.

The key to success in a proxy battle is winning the heart and minds – and votes! – of shareholders. The most crucial step in the process is first understanding the shareholder universe and then knowing how to reach and communicate with them. Our understanding begins with in-depth

research and analysis of the situation, so that we have a comprehensive appreciation of the shareholder dynamics. For example, what are the relative positions of the top shareholders, the institutional shareholders, and the retail shareholders? What are the specific issues? And where does everyone stand?

Despite commonalities in process, every company is unique and every proxy fight needs unique strategies to ensure the best chances of success. At Kingsdale, we develop shareholder communication strategies that are tailored to the specific circumstances of the engagement, to ensure we have shareholder support for our client's position.

CONTACT

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