

March 5, 2020

Board of Directors
Colony Capital, Inc.
515 South Flower Street, 44th Floor
Los Angeles, CA 90071

Dear Colony Directors:

As you know, Blackwells continues to be a significant shareholder of Colony Capital, Inc. (NYSE: CLNY) (“Colony” or the “Company”) and has an extensive history of engagement with this Board around an urgent problem facing all shareholders: the Company’s destruction of nearly \$7 billion⁶ in shareholder equity since the tri-party merger with the NorthStar entities in January 2017 and a more than 80% decline in the share price from over \$26 per share after the April 2015 internalization to less than \$4 per share last week.⁷

These harrowing shareholder losses are the result of the ruinous leadership, lack of accountability, poor governance, related party transactions, and haphazard corporate strategy of Colony under the direction of Executive Chairman Thomas J. Barrack and this Board.

None of this should be news to you.

In our [August 29, 2019, letter](#),⁸ we called upon the Board to take a number of time-sensitive and critical corrective actions to unlock the value embedded in Colony’s assets and restore investor confidence. You have acted on none of our recommendations, save [our December 9, 2019, call for new leadership](#)⁹ at Colony Credit Real Estate (“CLNC”), whose shares, we note, significantly outperformed following the removal of its CEO.¹⁰ As a result of this Board’s inaction, Colony shareholders have been further harmed.

Instead of ousting Mr. Barrack due to his terrible track record, the Board has aggravated this harm, permitting Mr. Barrack to hand-pick his polo-playing friend¹¹ to succeed him as Colony’s Chief Executive Officer. The Board then acceded to Mr. Barrack’s vision of “Colony 2.0,” which marks a dramatic and seemingly baseless shift in corporate strategy, to better align the Company with Mr. Ganzi’s narrow field of expertise.

We believe that transactions should be driven by strategy. Not the other way around.

Certainly, the market agrees: Colony’s stock has fallen an additional 37%¹² since Mr. Barrack announced the acquisition of Digital Bridge Holdings LLC to anchor his Colony 2.0

strategy in July 2019,¹³ while the S&P 500 and MSCI US REIT Index have fallen 1% and 3% respectively over the same period.¹⁰

Since the January 2017 closing of the tri-party merger with the NorthStar entities, **Colony ranks in the bottom two percent of the 861 publicly traded REITs globally**, ranked by total shareholder returns.¹⁴ If we exclude retail REITs, which have faced tremendous secular challenges, **there is only one other REIT in the world that has destroyed more equity market value than Colony globally since 2017.**¹⁵ While Mr. Barrack's responsibility for this catastrophe is indisputable, he has remained at the helm while each director – save the three reluctantly appointed at our urging last year – has held their seat through this entire, disastrous time.

Your complacency suggests you believe that the second-to-last-place finish in the industry was inevitable and not the fault of anyone around the boardroom table, including Mr. Barrack, or of any decision you have made. We strongly disagree.

Today we renew our demand that this Board take decisive, urgently needed action to realize the full value of Colony Capital for its shareholders. Specifically, and consistent with our prior letters to you, we believe the following actions must be taken:

1. **Mr. Barrack must resign or be removed from both Executive Chairman and CEO positions immediately.** No one bears more responsibility than Mr. Barrack for the greater than 80% collapse of Colony's stock from a high of over \$26 to its recent trading price of less than \$4 per share. Mr. Barrack is the captain of Colony's slapdash, ever-changing but consistently value-destructive strategies. This culpability doesn't seem to weigh on him, either. Mr. Barrack acts as a remote, part-time CEO, treating the Company as his personal airline (taking, by our calculation, more than 170 flights per year on the Company's jet, at shareholders' expense, between 2015 and 2019¹⁵) and piggy bank (pocketing tens of millions in total compensation¹⁶ in addition to using Company assets to enrich his friends).

This Board has given Mr. Barrack opportunity after opportunity to prove himself, and he has failed each time. We can imagine no constructive outcome for Colony and its shareholders with Mr. Barrack in any Board or executive position at the Company.

2. **Capital should be returned to shareholders.** With Colony's stock sitting near an all-time low, a public market valuation that is less than 40% of net asset value and \$247 million remaining under a long-authorized buyback program,¹⁷ Colony has a tremendous opportunity to invest in its own shares. Why then has Colony not repurchased a single share during the past four quarters, even after receiving over

\$1.2 billion dollars in cash proceeds from the sale of its industrial business in December 2019¹⁷ – *an amount equal to more than half the current equity market cap of the entire Company?* Rather than purchase the Company's shares for a fraction of their net asset value, Mr. Ganzi and Mr. Barrack have chosen instead to purchase one of Mr. Ganzi's portfolio companies for more than an estimated 20-times EBITDA,¹⁸ undoubtedly full or more-than-full value. Why should Colony be buying Mr. Ganzi's assets at full value when it can buy Colony's own stock and assets at a 60% discount to fair value?

3. **Colony's bloated costs must be meaningfully cut.** In comparison with its peers, Colony's corporate general and administrative costs are exorbitant. As we previously noted, the Company has approximately \$49 billion in assets under management (AUM)¹⁹ and a market cap of \$2.1 billion,²⁰ yet it spends about the same amount on G&A as Brookfield Asset Management, which has 11-times the AUM²¹ and 28-times the market capitalization.²² Relative to its other peers, Colony is no less an outlier. Does this Board believe that Colony requires 21 offices to do what its peers could do with four?²³
4. **Colony's directors should step away from the wreckage they have wrought and appoint shareholder-selected replacements.** The failures of Colony Capital and Mr. Barrack lay at the feet of this Board, for which new independent, shareholder-selected directors are the only solution. In November 2019, Blackwells identified and recruited five extraordinary Board nominees – all independent, accomplished business leaders with significant, relevant expertise, and a commitment to create value for all shareholders. These professionals would be a refreshing, constructive change in the Board: they are dedicated to shareholder value, have no nostalgia for Mr. Barrack (or affection for his friends – some of whom now double as Colony's overpaid management team) and no embarrassing track record to obfuscate. In reaction to Blackwells' efforts, the Board scrambled to announce its own Board "refreshment" program.²⁴ But this Board can be trusted no more to identify new independent and objective directors than to select the best new CEO for the Company. Notably, in performing the CEO "search", the Board appears to have merely rubber-stamped the appointment of Mr. Barrack's good friend. Shareholders should, and will, presume that any new director appointed by the current Board will have been identified and vetted in precisely the same underwhelming manner. A true, merit-based "refreshment" would begin with the replacement of Mr. Barrack. Instead, the Board's announcement appears to be nothing more than an entrenchment maneuver aimed at throwing any or every director away as long as Mr. Barrack can choose his Board and remain in his seat.
5. **Colony's new Board should launch an independent investigation of the Company's transactions and operations.** We have spent eighteen months examining the Company's public filings, speaking with current and former

executives and employees, interviewing former corporate partners, engaging third-party consultants and attempting to work with the Company to examine its books and records. Far from arriving at answers to the cause of the Company's unprecedented decline, we have concluded that Colony shareholders deserve a comprehensive and independent investigation into the Company's inexplicable loss of value. Such an investigation can only be credibly led by a new, objective Board that is able to critically examine the potential sources of misalignment – GP, LP and OP units held, for example, by management and other economic interests and compensation as well as other related-party transactions – which may be partly to blame for the Company's miserable performance.

6. **Colony's new Board must apply a steady hand to correct the Company's erratic strategy shifts.** Colony has announced a shift or wholesale change in strategic direction nearly every quarter over the last five years.²⁵ Shareholders have been subjected to a dizzying array of strategic visions for Colony: “an equity investor looking for smart, risk-adjusted rates of return anywhere in the cap stack” (2015);²⁶ a “diversified NYSE REIT whose balance sheet is invested in a variety of property verticals alongside a global investment manager” (2017);²⁷ an investor where “industrial is the darling” (May 2019);²⁸ the quick *volte face* to a “sale process for our Industrial business” (August 2019);²⁹ and now a focus on becoming “the leading real asset solutions provider of occupancy, connectivity, and capital to the world's leading mobile communications and technology logos” (December 2019).³⁰ As if these many strategic pivots did not provide sufficient freedom, Mr. Barrack has strayed further afield, attempting to buy film and intellectual property assets from the Weinstein Company³¹ and acquiring the Latin America, Sub Saharan Africa, North Africa and Turkey Funds of Abraaj Investment Management, which focus on investing in “a portfolio of *mature businesses* covering diverse sectors including financial services, FMCG, industrials, healthcare, education, manufacturing and logistics.”³² Last August Mr. Barrack declared he was *not* “fully committed to the REIT structure,”³³ but then just months later emphasized the importance of “maintaining the dividend and REIT status.”³⁴ Shareholders are left to doubt whether there is *any strategic vision at Colony at all*, or whether Mr. Barrack has simply been on a random hunt for opportunistic transactions and ventures (many involving his friends) that are justified *post hoc* with a few edits to the Company's mission statement.

Colony's recently announced “pivot” to digital is no different. In November 2017 Mr. Barrack announced Colony would focus on Europe “as a favored geography” and that Colony would invest in “global digital real estate infrastructure.”³⁵ Then, in July 2018 Colony sold its European data center business, effectively exiting the digital real estate business.³⁶ But, a year later Colony purchased Digital Bridge and rededicated itself to digital assets.

Colony's shareholders are lost at sea, on a large ship, mastered by Mariners navigating in a desultory search for the elusive albatross. But, in a sad case of life

imitating art, the Company remains “as idle as a painted ship, upon a painted ocean.”³⁷

- 7. Colony’s Board must impose a moratorium on related-party transactions, including those that benefit Mr. Barrack, Mr. Ganzi or their friends and associates.** The perils of related-party transactions to Colony shareholders are amply illustrated by Colony’s initial balance sheet investment into Databank – at the direction of Mr. Ganzi, even though the investment was made by buying stock from one of Mr. Ganzi’s limited partners, in a transaction that triggered a performance fee to ... himself. Following opaque disclosures surrounding this transaction, we sent a private letter to Colony’s management on December 27, 2019 (attached as appendix), seeking meaningful disclosure and transparency for all shareholders. Nearly two months later, we still have not received a response. We defy any shareholder (or director) to understand this related-party transaction on the basis of the public disclosure that the Company has provided. In fact, in the initial one-page description of the transaction, the Company appears to have invented a non-GAAP accounting metric called “in-place EBITDA,”³⁸ which is neither defined nor reconciled with GAAP financials. On the same page, the Company also uses a metric it calls “LQA Adj. EBITDA,” which is defined (unhelpfully) in the footnotes as EBITDA (of some unknown amount) plus “backlog” and “MQI.”³⁸ We do not know what “in-place EBITDA” means or what the addition of “backlog” and “MQI” are intended to accomplish. Neither does anyone else. Furthering our concern around the Databank transaction disclosures is that the Company presented a *revised* version of that same page just weeks later at an investor conference, in which revenue was listed as \$13 million higher while the mysterious “LQA Adj. EBITDA” figure remained the same.³⁹ Is there even one person on the current Board who can justify this type of tomfoolery?

- 8. Mr. Ganzi should not set the strategy for or oversee all of Colony’s sprawling portfolio.** In the period since our August 29 letter, Mr. Ganzi’s public statements, his questionable sale of a stake in a Digital Bridge Holdings portfolio company to Colony, and the bumbled roll-out of the “Colony 2.0” strategy have removed all doubt that Mr. Ganzi is a contumacious choice to oversee the entirety of Colony’s portfolio, especially its non-digital businesses and assets. Mr. Ganzi has hardly any experience working for a public company, and none in the C-suite. Worse, his diversified, “end-to-end” digital investment strategy echoes the Company’s disastrous three-way NorthStar merger in 2017, about which Mr. Barrack recently commented, “this idea of a diversified REIT with an investment management toggle ... the market hated it.”⁴⁰ We believe this criticism applies no less to Mr. Ganzi’s new strategy for Colony, which Mr. Ganzi has characterized (incredibly) as the exact type of REIT Mr. Barrack decried: a “pivot into this new ... diversified REIT.”⁴¹ It is repugnant to us that the Board de facto has blessed Mr. Ganzi’s use of the Company’s battered balance sheet to buy assets in the single narrow domain where he has a

modicum of experience – digital assets – where Mr. Ganzi himself recently said, “everything is being priced to perfection.”⁴² Perhaps that is why he personally was a seller of Databank and not a buyer.

Of equal concern, this Board has entrusted Mr. Ganzi with the enormous task of also overseeing the Company’s more significant, non-digital assets, with which he has absolutely no experience or expertise. No Board would or should hire Mr. Ganzi, a digital specialist with limited managerial experience, to oversee or dispose of the potpourri of assets gathered by Mr. Barrack.

These eight critical items must be attended to if the incessant pattern of destruction of shareholder wealth is to be reversed. We believe that none among them is a greater priority than the removal of Mr. Barrack – Colony’s long-serving, value-destroying overlord – from his posts. From our perspective, there can be no justification – consistent with this Board’s fiduciary obligations to Colony shareholders – for protecting an Executive Chair and CEO who has delivered nearly the worst investment track record in the entire REIT sector. Somehow though, this Board continues to allow Mr. Barrack to fly on the Company’s jet,⁴³ work remotely from Aspen, single-handedly select his successor, shift strategies at whim, maintain a bloated cost structure and execute opaque transactions with his friends.

Colony cannot continue to do business like this. This Board should be ashamed for not having changed leaders and direction long ago. You have lost the confidence of shareholders and we expect that you will face deserved and severe opprobrium at the upcoming shareholder meeting.

Blackwells’ nominees are committed to moving forward, including taking the steps we have described above, to realize the value in Colony’s significant assets for the benefit of all shareholders. We are confident they will be members of the Board when shareholders are finally given their voice at the upcoming annual meeting.

Sincerely,

Jason Aintabi
Managing Partner

⁶ Per Colony Capital 8-K filing dated January 10, 2017, at the time of the tri-party merger’s closing on January 10, 2017, the three companies had a combined market capitalization of \$9 billion. Colony Capital, Inc’s market cap as of February 28, 2020 closing price approximated \$2.1 billion according to Bloomberg data.

⁷ CapitalIQ data.

- ⁸ <https://www.blackwellscap.com/pressrelease/blackwells-capital-to-nominate-five-exceptional-professionals-to-the-colony-capital-board-of-directors/#letter>
- ⁹ <https://www.blackwellscap.com/pressrelease/blackwells-capital-issues-open-letter-to-colony-credit-board-of-directors-in-response-to-value-destruction-and-mismanagement/>
- ¹⁰ Bloomberg data for February 28, 2020.
- ¹¹ <https://bit.ly/38oUv50>
- ¹² Colony Capital, Inc. share price from July 25, 2019 to February 28, 2020 per Bloomberg data.
- ¹³ Colony Capital, Inc. press release, July 25, 2019.
- ¹⁴ CapitalIQ data as of February 28, 2020.
- ¹⁵ Blackwells' proprietary corporate jet analysis.
- ¹⁶ Colony Capital, Inc. proxy statements for fiscal years ending 2016, 2017, and 2018.
- ¹⁷ Colony Capital, Inc. press release, February 28, 2020.
- ¹⁸ Blackwells' estimates based on limited Company disclosures in Colony Capital, Inc., Investor Update Presentation, December 11, 2019 and Colony Capital, Inc., Citi 2020 Global TMT West Conference Presentation, January 8, 2020.
- ¹⁹ Colony Capital, Inc. Corporate Overview and Supplemental Financial Report Fourth Quarter 2019.
- ²⁰ Equity market capitalization calculated using Colony Capital, Inc. closing price as of February 28, 2020 per Bloomberg data.
- ²¹ \$540 billion AUM listed on Brookfield Asset Management website as of February 28, 2020 (www.brookfield.com).
- ²² CapitalIQ data as of February 28, 2020.
- ²³ www.colonycapital.com.
- ²⁴ Colony Capital, Inc. Q4 2019 Earnings Call, February 28, 2020.
- ²⁵ Colony Capital, Inc. public filings, quarterly earnings press releases and earnings transcripts from 2015 to 2019.
- ²⁶ Colony Capital, Inc. Presentation at Citi 2015 Global Property CEO Conference, March 2, 2015.
- ²⁷ Colony Capital, Inc. annual report for fiscal year ending December 31, 2017.
- ²⁸ Colony Capital, Inc Q1 2019 earnings conference call, May 10, 2019.
- ²⁹ Colony Capital, Inc. press release, August 9, 2019.
- ³⁰ Colony Capital, Inc. Investor Update Presentation, December 11, 2019.
- ³¹ "Billionaire Tom Barrack Throws Harvey Weinstein a Lifeline," Bloomberg, October 16, 2017.
- ³² Colony Capital, Inc. press release, June 21, 2018.
- ³³ Colony Capital, Inc. comments at BAML Global REIT Conference, September 11, 2019.
- ³⁴ Colony Capital, Inc. Q2 2019 conference call, August 9, 2019.
- ³⁵ Colony Capital, Inc. 3Q 2017 earnings conference call, November 7, 2017.
- ³⁶ Colony Capital, Inc. press release, July 10, 2018.
- ³⁷ "Rime of the Ancient Mariner," Samuel Taylor Coleridge, 1798.
- ³⁸ Colony Capital, Inc. Investor Update Presentation, December 11, 2019.
- ³⁹ Colony Capital, Inc. Citi 2020 Global TMT West Conference Presentation, January 8, 2020.
- ⁴⁰ Bloomberg transcript of Colony Capital, Inc. presentation at the Bank of America Merrill Lynch 2019 REIT Conference, September 11, 2019.
- ⁴¹ Bloomberg Transcript of Colony Capital, Inc. presentation at the Citi 2020 Global TMT West Conference Presentation, January 8, 2020.

⁴² “Digital Colony Plans to Raise a New Digital-Infrastructure Fund,” The Wall Street Journal, February 5, 2020.