



## **PETER DEY REPORT TO THE BOARD OF DIRECTORS OF GILDAN ACTIVEWEAR INC.**

**April 8, 2024**

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I have been engaged by the board's legal advisers to consider whether the decision of the Gildan Activewear Inc. board of directors to terminate the Company's CEO, Mr. Glenn Chamandy, on December 10, 2023 was reasonable in the circumstances. In order to respond to this request, I have considered the respective roles of the board of directors, management and shareholders in a business corporation. I have also examined the process followed by the board of the Company in making its decision.

To understand the circumstances surrounding the board's decision to terminate the CEO, I have been provided by the Company with a chronology of events and materials backing up this chronology which include minutes of meetings of the board and board committees and copies of communications between Mr. Chamandy and the Company.

### **Gildan**

The Company is a global apparel manufacturing company with a head office in Montreal, Canada. The Company is listed on the Toronto Stock Exchange and on the New York Stock Exchange and has a market capitalization of approximately \$ Cdn 8 billion. The Company was founded by Mr. Chamandy's family. Mr. Chamandy was an employee for 40 years, the last 20 years as CEO.

### **Succession**

The internal issue which gave rise to the differences between the board of directors and the CEO related to the Company's decision to find a successor to the CEO.

Discussions between the Company and Mr. Chamandy concerning succession were led on behalf of the Company by Don Berg, who joined the board in February 2015 and became Chair of the board in May 2019. At the May 2021 board meeting, Mr. Chamandy informed the board that he had a potential retirement time frame of three to five years (i.e., 2024 – 2026). Mr. Berg and Mr. Chamandy further discussed this time frame in December 2021, and they agreed on a succession plan that would see Mr. Chamandy retiring sometime between December 2024 and May 2025. At that meeting, there was also a discussion of the need for a potential internal CEO successor. In January 2022, as the first step of the plan, the Company hired an international executive recruiting firm to advise the Company on succession matters.

Mr. Chamandy was a participant in the succession process. For example, part of his incentive compensation in 2022 and 2023 was based on recruiting senior executives with the potential to become candidates to succeed Mr. Chamandy. During the second half of 2022, Mr. Chamandy hired a potential successor whom he fired in the first half of 2023. On the heels of that event, and in accordance with the succession plan, the executive recruiting firm was instructed to initiate the process for an external search.

### **The First Signs of Misalignment**

Since May 2021, Mr. Chamandy's succession was an item for discussion at most board meetings, which included Mr. Chamandy. At a board meeting in early August 2023, Mr. Chamandy requested that the board give him a definitive succession timeline. It was decided that a special meeting of directors would be held on August 31, 2023 to consider Mr. Chamandy's request. In advance of that meeting, Mr. Chamandy sent

to Mr. Berg a new proposed succession timeline which contemplated a three year timeline for CEO succession, with Mr. Chamandy leaving the Company at the end of 2026.

It became clear at the August meeting that the board had one timeline and Mr. Chamandy favoured a different timeline. On September 6, 2023, Mr. Berg and Luc Jobin, director and Chair of the Audit and Finance Committee, met with Mr. Chamandy to advise him that the board was maintaining the original timeline and would begin engaging with external candidates which had been identified by the executive recruiting firm.

In early October, Mr. Chamandy met Mr. Berg to propose a new long term strategy that would require the board to reconsider the timeline for his succession. Mr. Berg advised Mr. Chamandy that the board would hear his proposal for a long term strategy and for succession at the regular board meeting at the end of October.

At the October board meeting, Mr. Chamandy proposed a “Long Range Plan” for the Company which included a different timeline for Mr. Chamandy's succession than the one discussed in December 2021. The plan indicated that organic growth had limited potential over the longer term but proposed an acquisition strategy for value creation. Shortly after the meeting, Mr. Berg advised Mr. Chamandy of concerns the board had expressed about the acquisition strategy and advised that the Company's involvement in any M&A strategy should be kept to a minimum for the time being. Mr. Chamandy responded stating that he did not want to have anything to do with the Company if his strategic plan was not accepted. He pressed Mr. Berg and the board repeatedly for an approval of the presented acquisition strategy and its related succession plan over the weeks following the October board meeting.

### **The CEO Moves Out**

On November 25, the day after Mr. Chamandy's stock appreciation rights and stock options vested, Mr. Chamandy issued a written ultimatum to the board that it respond to his strategy and succession proposal by Monday, November 27. On November 26, Mr. Chamandy started removing the contents of his office from the Company's premises.

### **Attempt at a Settlement**

Although Mr. Chamandy's employment was not formally terminated by the Company until December 10, Mr. Chamandy had effectively left the employ of the Company by November 27, and without pinpointing a specific date, the functional relationship between the board and the CEO had ended some time before November 27.

The Board and Mr. Chamandy, through their advisors, attempted over the weeks that followed November 27 to negotiate a settlement agreement, but were unable to reach an agreement.

### **Recruiting a Successor**

Recognizing that Mr. Chamandy's term as CEO was to end imminently, the board officially mandated the Ad Hoc Succession Planning Committee, comprised of all four board committee chairs, the board chair and a fifth director, which had until then been involved in the succession planning process, to negotiate with the board's final CEO successor candidate and settle the terms of his employment. The Ad Hoc Committee considered who could occupy the role of interim CEO if there was to be a gap between Mr. Chamandy's departure and the employment of the successor CEO.

### **Timing**

The Ad Hoc Committee set a date for a board meeting on December 10 to approve the appointment of the successor CEO, hoping that a settlement could be reached with Mr. Chamandy before the announcement of the successor CEO scheduled for December 11. However, Mr. Chamandy would not agree to finalize the terms of a mutually-agreed departure on December 10. Notwithstanding his statements to the board, Mr.

Chamandy did not tender his resignation nor announce his retirement.

### **The Dispute Goes Public**

On December 11, the Company issued a press release announcing that Mr. Chamandy “has left his position as President and Chief Executive Officer” and announced the appointment of a new CEO and the appointment of an interim CEO.

### **My Opinion: Was the Board's decision to terminate the CEO reasonable in the circumstances?**

A board of directors has the fiduciary duty to act in the best interests of the Company at all times. The Company's officers, including the CEO, have the same fiduciary duty. In the exercise of such fiduciary duties, the board must hire, manage and, if necessary, fire the CEO. Some say managing the CEO is the most important job of the board. Indeed, the board is dependent upon the CEO to execute the corporate strategy which has been approved and established by the board. The board must have complete confidence and trust in the CEO to execute the strategy. If the board loses confidence in the CEO, the board must act to replace the CEO. On the other hand, if the shareholders lose confidence in the board, they have the opportunity to elect directors in whom they have confidence. To be clear however, the shareholders have no direct power over the CEO; their power is restricted to constituting the board of directors.

In my opinion, the board acted reasonably in terminating the CEO in the circumstances. In reaching my opinion, I have examined the circumstances described above that existed up to the time the decision to terminate was made and the subsequent announcement by the Company on December 11.

In making its decision, any board would have to consider the potential downsides of terminating the CEO. In this case, the downsides could have included, amongst others:

- The possible disruption caused by losing a founder and 40 year employee of the Company
- The disruption caused by having to terminate the CEO rather than negotiating his departure
- The disruption of the relationships between the Company and its stakeholders (shareholders, suppliers, customers etc.)
- The possibility of a proxy contest
- The potential for litigation and a public dispute

The downsides did not go unnoticed by the board. Indeed, in the board and committee minutes for meetings held after August 2023, once the board realized that succession would not be as smooth as it had hoped, consideration was given to the potential downsides of terminating the CEO.

Beyond studying and understanding these potential consequences, the board's process to address the CEO succession was appropriate in the circumstances: the CEO was a participant in the process; the board engaged advisers qualified to advise on succession matters; the board kept succession on the board agenda at most board meetings; the board considered the CEO's proposals and listened to the CEO's long-term plan for the Company which would have had the effect of delaying the succession plan; as part of the succession planning process the board recruited a successor CEO; and importantly, the board was able to gauge on a current basis, due to the frequency of communications between Mr. Berg and the CEO, the commitment of the CEO to the Company and whether the board could rely on the CEO to act in the best interests of the Company. During this process, the board decided that it could no longer have confidence in the CEO, and when that tipping point is reached, the board must act to replace the CEO.

Against this background, in my opinion, the Gildan board of directors acted reasonably in terminating the CEO and followed a process which satisfies current standards of good governance.

By : (signed) Peter Dey  
Peter Dey