

Imasco Plan 1989-1993

The CPC meeting to discuss the Imasco 1989-1993 Plan was held on 13th January 1989.

Present: Mr. P. Sheehy, Mr. P. Crawford and Mr. A.C. Long.
Mr. B.P. Garraway and Mr. E.A.A. Bruell were unable to attend.

Mr. G.J. Burgess was in attendance.

1. Mr. Crawford introduced the Imasco Plan by reviewing the recent progress of each division and the main issues facing each business.
2. It was noted that Imperial Tobacco had continued to perform well during 1988, with gains in earnings, returns and market share and that despite the expectation that total market demand will decline by about 4% p.a., the Plan projects increased earnings based on market share gains and productivity improvements. Mr. Crawford said that although the Plan incorporates an earnings gap of C\$0.57 million in 1989 rising to C\$44.35 million in 1991, Imasco are confident that the projected earnings will be achieved as the Plan has been prepared on conservative assumptions about price increases and market share improvements.
3. Mr. Crawford reported that the Tobacco Products Control Act (Bill C-51) had been adopted in 1988 and that the new regulations restricting advertising and sponsorship activities will be phased in over a four-year period to 31st December 1992. He noted, however, that the Government is committed to introducing amendments to the Act in response to arguments put forward by the Tobacco industry, and that this would re-open the subject to the Parliamentary process and the possibility of further, adverse amendments.
4. Concern was expressed that the US/Canada Free Trade Agreement would improve the competitive position of US Tobacco products in Canada, for although the US products would need to carry the Canadian health warning, there would be a progressive reduction in the import duty and the US brands would also benefit from their advertising in the US media. In particular, the CPC emphasised that the increased competitive pressures re-inforced the need for Imperial Tobacco to ensure both that it retained its position as the lowest-cost producer of quality cigarettes in Canada and that it is able to match the efficiency of the leading US producers.
5. With regard to Shoppers Drug Mart, Mr. Crawford said that the business was continuing to perform well, with operating earnings up by 10% in 1988 and the expectation that increases of about 15% p.a. can be achieved over the planning period. Mr. Crawford indicated that the projected improvements in earnings would be achieved through improved efficiency, generating additional sales through re-fitting older stores and extending the extent of the chain through the acquisition and conversion of independent outlets. In addition, the Food Basket and Home Health Care operations are expected to increase customer traffic.
6. Mr. Crawford reported that the UCS Group continued to perform consistently, with 1988 earnings above budget, and he emphasised Imasco's intention that the business would be run as a profitable, self-sufficient operation. He noted, however, that the business was also of wider strategic importance to Imasco inasmuch as it could be used to support the continued development of the Tobacco division. This aspect would be increasingly important in view of the recently-introduced restrictions on Tobacco advertising.

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7. It was noted that, commencing in 1989, it is proposed to progressively replace the trade name used in the majority of UCS stores, though the new name has yet to be agreed.
8. Mr. Crawford reported that the strong performance by the mid-Atlantic Peoples Drug Stores in the pre-Christmas period would result in the expected 1988 loss for Peoples being about US\$5-6 million rather than the US\$9 million indicated in the Plan.
9. X It was noted that an oral agreement had been reached regarding the sale of the Peoples stores in the Atlanta area and that this agreement is scheduled for completion in late January 1989. At that time, Imasco will indicate publically that the stores in Indiana and Ohio are for sale and that the performance of the remaining stores in Regions II and III is to be closely monitored. Although a final decision has yet to be taken, Mr. Crawford indicated that consideration is also being given to the divestment of the remaining Peoples stores.
10. With regard to the Imasco USA division, it was noted that significant improvements in performance were being achieved by Hardees, with improved use of I.T., higher productivity, less waste and better margins and that the business was well placed to build on its position as a strong regional chain. Mr. Crawford also reported that the financial position of the business was being strengthened through the completion of two sale-and-leaseback deals in February and December 1988 involving 379 company-owned restaurants for a total consideration of US\$275 million and the proposed sale of 31 Grisanti restaurants in early 1989 for about US\$35 million. He further noted that Imasco are considering the feasibility of selling an interest in the Fast Food Merchandisers business, but with the intention of retaining control.
11. The CPC welcomed the actions being taken to reduce the level of debt in Imasco USA and supported the decision that Hardees should concentrate on building a strong regional network rather than seeking to establish itself as a national chain.
12. For Financial Services, Mr. Crawford reported that Canada Trust had achieved deposit growth of about 14% in 1988 and so increased its market share slightly. Net earnings in 1988 are estimated by Imasco to be about C\$232 million (including C\$16 million Dome recoveries net of tax), with fully-diluted EPS at C\$1.95 or above, compared with CT's budget of C\$215 million and EPS of C\$1.81. Mr. Crawford noted that, historically, CT's management has tended to underestimate future earnings growth, and reported that Imasco and other members of the CT Board were seeking improvements in this regard. However, because of this conservative approach by CT, Imasco had prepared its own estimates for future CT earnings and these assumed growth of 6% in 1989 (or 13% after allowing for the Dome recoveries in 1988) and 12% p.a. in the two following years. One aspect of particular concern to both Imasco and CT was the pressures on CT's operation costs and Mr. Crawford noted that the control and containment of such costs was a primary objective for the business in 1989.
13. It was noted that although the CT Plan assumed deposit growth of 10% in 1989, action is in hand to improve upon that performance, in particular through a strengthening of the marketing effort. In addition, consideration is being given to ways in which the Financial Services activities in Canada, and in particular in Quebec, might be extended through acquisition in the medium-term.

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14. Mr. Crawford explained that no allowance had been made in the Plan for a possible secondary issue of CT Financial Services common shares as the proposed legislation restricting ownership has not yet been finalised. He indicated that when the legislation is re-introduced, probably in Spring 1989, it may not be as restrictive as previously proposed, with the commercial links restriction omitted and the possibility of a limited easing of the 65% shareholding limit.
15. Mr. Crawford confirmed that while both Genstar Development Company and the Venture Capital business continue to be profitable operations, neither is central to Imasco's strategic development and they will be divested at an appropriate opportunity.
16. The CPC supported efforts being made to strengthen the working relationship between Imasco and CT, emphasising in particular the need to contain costs, improve organic growth and develop plans for extending the Group's Financial Services activities in Canada.
17. With regard to Imasco, Mr. Crawford said that Imasco's primary focus at the present time was on improving the quality of the existing businesses and on strengthening Imasco's balance sheet. In order to assist in this a number of key senior management changes were being undertaken, including the appointments of Mr. Mercier as Vice-Chairman of Imasco and of Mr. Bennett to strengthen Imasco's Financial Services capabilities and the recruitment of a Vice-President of Corporate Affairs.
18. Mr. Crawford noted that although there had been an improvement in Imasco's debt/equity ratio compared with the 1987 position, the business remained vulnerable to a rise in interest rates as about half of its long-term debt was floating-rate debt. He indicated, however, that the debt/equity ratio was expected to improve substantially over the next few years and that Imasco hoped to reach their debt/equity objective of 35/65 ahead of the end-1990 target identified in the Plan.
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19. Mr. Crawford confirmed that Imasco proposed to pay a dividend of \times C\$1.12 per share in 1989 (equivalent to 45% of the previous year's earnings per share) and that it is Imasco's intention that in future years dividends per share should increase in line with the growth in earnings per share.
20. In conclusion, the Chairman noted that the Plan had been extremely helpful in identifying the major issues facing Imasco and its individual businesses and had facilitated a constructive discussion of those issues. He indicated that B.A.T Industries supported the efforts being made to improve the performance of the existing businesses and suggested that the most important issues facing Imasco are:-
 - the need for further strengthening of Imasco's balance sheet, particularly through a continued reduction of debt;
 - to consider the early divestment of the remaining Peoples stores;
 - to improve Imasco's participation in the strategic direction and development of Canada Trust;
 - to seek continued improvements in store-for-store growth of sales and profits in each of the retail operations, in addition to growth through opening new stores.

GJB/DJA

19th January 1989

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