

Imasco's mission statement differs from that which would be preferred by BAT only to the extent that it does not imply a focus on Tobacco and Financial Services. The return on funds employed for Shoppers and FFM are both very high, but the returns for Hardee's, Genstar and UCS are at or below their cost of capital and they are therefore not contributing much shareholder value. The Plan does not demonstrate that Imasco's diversified approach adds more value than the focused approach. However it must also be said that the Plans for Imperial Tobacco and CT Financial do not significantly increase shareholder value.

Imperial Tobacco

Tobacco earnings from operations are projected to be slightly better than Preview, last year's Plan, and Guideline, with steady 6% growth projected.

This is a "business as usual" Plan, to optimise profit in a declining situation. It assumes that Imperial Tobacco continues to operate very effectively in its domestic market, maintaining its high market share. Volumes are projected to decline by 2.5% p.a., prices are assumed to increase by 3% p.a. (slightly less than in the Preview), and unit costs grow at 3.5% p.a. However earnings are projected to increase by 6% p.a. which does not follow from the figures given.

The Plan does not address the main strategic issues of the long term future of the company, assuming that it does not want to continue shrinking, nor the potential impact of NAFTA. The manufacturing and export strategies will be included in the strategic review to be completed in June 1994. The Plan does mention a possible US base, but does not include a possible international volume of 300m cigarettes/equivalents in 1994.

CT Financial

Financial Services earnings from operations are projected to be much higher than the Preview, and approximately equal to or higher than Guideline of 15% growth on the 1992 base. The 1993 forecast is nearly C\$100m below budget, but the Plan projections are for 19% p.a. growth on the 1993 base.

The Canadian financial services market is mature and saturated, with 6 or 8 large players. The banks have diversified into the trust company business (and, as far as allowed, into the insurance business) since the relaxation of regulations in 1992. Most are recovering well from the recession with a reduction in provisions. Their scope for growth is limited within Canada and more expansion in the US is likely.

The steep increase in CT Financial's projected earnings is mainly as a result of lower provisions (C\$145m in 1994 against C\$204m in 1993). Revenue growth at about 5% p.a. is modest but probably realistic, with mutual funds expected to continue to provide nearly half of money inflow. Operating expenses are projected to fall from 66% of revenue in 1993 to 64% in 1996. This expense ratio is slightly higher than the average for UK banks and is very much worse than UK building societies, and shows very little improvement over the Plan. There is no mention in the Plan of any possible redundancy or early retirement programme, and there is no provision for any one-off costs.

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The CT Financial Plan for 1993 to 1996 shows dividends to Imasco unchanged at C\$93.2m p.a. and the CT Plan does not address how the level of payment of dividends could be improved. Imasco head office is projecting CT dividend increases in 1997 and 1998. The CT return on common equity is projected to rise from 9.9% in 1994 to 12.2% in 1996 which is probably less than the cost of capital.

Imasco itself and most of its operating companies have clear succinct mission statements. The exception to this is First Federal which has a wordy, worthy-sounding but essentially meaningless statement. However its strategy is interestingly and well expressed. The Plan does not appear to include any acquisitions of either branches or whole companies.

Other Operations

Earnings from operations of other operations are projected to grow at 8.8% p.a. on a 1992 base against a Guideline of 14%. Growth in 1993 was 16% but only 2% is budgeted for 1994 with earnings falling for Shoppers Drug Mart and Genstar. The projections are also well down on last year's Plan, particularly Hardee's which is not showing the same dramatic improvement in earnings.

Hardee's and FFM

Both Hardee's and FFM have solid, well presented plans, which demonstrate that they are well run but have low growth potential. Both have revenue growth projections of 4%. The slower improvement in earnings than in last year's Plan at Hardee's may delay its potential disposal.

Shoppers Drug Mart

Shoppers' earnings are projected to fall in 1994, as a result of lower Tobacco sales. Revenue growth increases from 4% in 1994 to 8% by 1996 as the decrease in Tobacco sales is projected to slow down. Again the Plan presents a picture of a well run business in a difficult situation, providing good returns, with modest growth prospects.

UCS

There is no mention in the Plan of the possibility of managing UCS more closely with Imperial Tobacco. The profit turnaround has slipped another year. The number of "negative stores" is declining but very slowly and is still nearly a third of all stores by 1996. The number of "positive stores" also declines in 1994 before returning to 1992 levels by 1996.

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