

Imasco/Trust Company Bill

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Imasco Limited

1. Introduction

Lazard Brothers & Co., Limited has been asked by B.A.T Industries p.l.c. ('B.A.T') to look at the implications of the proposed new Canadian Trust Company Bill on the value of B.A.T's holding of 48 million ordinary shares in Imasco Ltd, a major listed Canadian consumer products and financial services corporation.

2. Imasco

Imasco is a substantial Canadian company listed on the Toronto, Montreal and Vancouver stock exchanges with a market capitalisation of C\$3.3 billion. Its business interests are in the tobacco, drugstore and financial services sectors in Canada and the restaurant and drugstore sectors in the U.S.

(i) Canadian activities

Imperial Tobacco, Imasco's tobacco subsidiary, is the largest Canadian tobacco company with over 50 per cent. of the market. Brokers are forecasting sales revenues of some C\$1.8 billion and trading profit of some C\$280 million for the year to December 1988.

Imasco's Canadian retail drugstore interests trade under the names of Shoppers Drug Mart and Super X Drugs and consist of some 625 retail outlets in aggregate; revenue is expected to be C\$205 million and trading profit C\$57 million in the year to December 1988.

Imasco also owns a chain of some 500 retail convenience tobacco stores trading throughout Canada under the name UCS Group with expected sales of C\$250 million and trading profit of C\$7 million in the year to December 1988.

Imasco acquired Canada Trustco in 1986. Canada Trustco is a major financial services operation engaged in the provision of retail banking services, real estate sales brokerage and management, mortgage lending, pension and asset management, lending and trust activities with

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total assets in excess of C\$25 billion and a further C\$35 billion under management (as at December 1987). In the year to December 1988 financial services is expected to contribute some C\$140 million to net profits.

(ii) U.S. activities

Imasco's U.S. operations are grouped in Imasco USA and comprise Hardees, a chain of 3,000 fast food restaurants and Peoples Drug Stores with some 800 retail branches. Hardees is estimated to be the third largest in its sector in the U.S. and in the year to December 1988 is expected to show sales of C\$1.9 billion and trading profit of C\$164 million. Peoples Drug Stores is forecast to contribute sales of some C\$1.9 billion and to show a trading profit of C\$16 million in the year to December 1988.

(iii) Group results

Imasco's total revenues and pre-tax profits are expected to be C\$6.1 billion and C\$473 million respectively for the year to December 1988. At 31st March 1987, Imasco shareholders' funds amounted to C\$2.1 billion.

(iv) Capitalisation

Imasco has some 119 million shares of common stock outstanding of which B.A.T owns 48 million. The current share price is C\$28. Imasco is therefore capitalised at C\$3.3 billion and B.A.T's interest is valued at \$1.3 billion.

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3. Implications of the proposed legislation

We understand that following the passing of the proposed new legislation:

- i) as long as Imasco continues to own Canada Trustco, no single entity will be able to acquire more than 10 per cent. of Imasco; although
- ii) B.A.T would be able to continue to hold its 40 per cent. holding.

Accordingly, if B.A.T wished to sell its 40 per cent. holding at some stage in the future it could only do so either by means of a placing with four or more individual shareholders each owning up to 10 per cent. or to the public by means of a public offer.

4. Control

A holding in excess of 50 per cent. of the voting capital of a company confers on the owner de jure control. Where the remaining shareholdings are wide spread however, a single shareholding in excess of 30 per cent. is generally considered to confer upon the holder de facto control. It is noteworthy that a 33 per cent. holding is presumed to be a controlling interest under the Investment Canada Act. Such a holder has the ability, whether or not he exercises it, to influence the decisions of the directors and, accordingly, the future direction of the company. Should there be a disagreement between the shareholder and the directors, the shareholder is well placed to succeed in having the directors removed from office at a general meeting of shareholders. In any event, the shareholder is well placed, subject to any legal restrictions, to increase his stake to one of de jure control.

Accordingly, in the principal world stock markets the holder of a voting stake in excess of 30 per cent. in a quoted company is generally able to obtain a "control premium" for that holding over and above the market value of the shares. The extent of this premium varies. We have set out in Appendix 1 certain sizeable Canadian take-overs. Although premia vary from case to case, the average tends to be around 30 per cent. This is in line with control premia in many other financial markets.

6. Impact on the value of B.A.T's holding

We have mentioned in Paragraph 4 above that we would expect that a single purchaser of B.A.T's stake in Imasco would be prepared to pay a control premium of at least 30 per cent. This represents a price of C\$1.7 billion as against the current market value of B.A.T's holding of C\$1.3 billion. We have also mentioned in Paragraph 5 that the options for sale available to B.A.T in the event that the Trust Company Bill is passed could result in B.A.T receiving a discount for its shares of the order of 5 to 15 per cent.

We would therefore estimate that the economic cost to B.A.T of the effects of the Trust Company Bill would, at the present time, be in the region of C\$500 million.

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Appendix 1

(The information in the Appendices has been derived from unpublished sources believed by Lazard Brothers to be reliable)

Recent Large Canadian Acquisitions

Bidder	Target	Value (\$m)	Amount acquired (%)	Premium over market (%) (1)
Campeau	Allied Stores	3500	100	34
Fletcher Challenge	BCFP	507	47	8
Gulf Canada	Hiram Walker	2500	81	35
Imasco	Genstar	2600	100	50
Oxdon (2)	Steinberg	930	100	47
Trans Canada Pipeline	ENCOR	1200	100	10
USSC Holdings	Husky Oil	1100	57	28

(1) The premium over market price represents the premium of the offer price over the price prevailing 30 days before the bid was announced.

(2) This transaction is currently being contested.

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## APPENDIX 2

Recent Canadian Equity Financings

The following are Canadian equity financings, over \$200 million,  
for 1986 and 1987:

	<u>\$ million</u>
BCE Development	300
Falconbridge Limited	212
First Australian Prime Investment Co.	413
Great West Lifeco	206
Inasco Limited	345
	200
Mitel Corporation	322
"B" Corp.	330
Hudson's Bay Company	200
British Petroleum Co.	784 - Canadian tranche
Gulf Canada Resources Inc.	450
Elders IXL Canada Inc.	400
Noranda Forest Inc.	351
Canadian Imperial Bank of Commerce	302
	214
Bank of Montreal	300
Campeau Corporation	264
GMAC	253
TBM NT Corporation	248
Onex Corporation	246
Lawson Mardon Group Limited	221
Canadian Oil Debco. Inc.	200
Laidlaw Transportation Limited	200
Wardair Finance Inc.	200

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