



Institute for governance
of private and public organizations

Transat v. Groupe Mach: what's the score?

Financial Post

Yvan Allaire, PhD (MIT), FRSC
Executive Chair, IGOPP
Emeritus professor of strategy



Mergers and acquisitions are well-choreographed ballets. Both companies call on financial and legal advisers. The board of the target company sets up an independent committee, which promptly retains its own independent legal and financial advisers. Financial advisers produce an opinion letter assuring all and sundry that the price offered is a fair one for the target company's shareholders. Both boards approve the transaction, which is then submitted to a vote of the target company's shareholders.

The Air Canada acquisition of Transat followed the guidebook to the letter. The only step remaining is set to occur on August 23rd when, at a special meeting, shareholders holding at least two-thirds of Transat's class B shares are expected to vote in favour of the transaction as per the recommendation of Transat's board of directors.

But Group Mach, a Quebec-based real-estate investor and operator, is trying to throw a monkey-wrench in this well-oiled mechanics (or, not to mix metaphors, to trip the ballerina). The group has come up with an unusual maneuver in an attempt to block the transaction. They are proposing that shareholders (representing at least 19.5% of class B shares) transfer their voting rights to Mach in exchange for a promise of \$14 a share (as compared to the \$13 offered by Air Canada).

That promise is highly contingent. If Mach does not receive at least 19.5% of the shares, it will simply return the shares to their owners. If Mach does receive the requisite number of shares but somehow the transaction still gets more than 66.6% of votes supporting it, then again Mach's offer is moot and the shares tended to them will simply be returned to their owners.

If this stratagem seems too clever by half, well it is. Shareholders are asked to transfer their voting rights in exchange for an iffy promise of a \$1 gain above the Air Canada offer. Yet, it creates a "prisoner's dilemma situation" for shareholders of Transat: if one believes that other large shareholders may also reject the transaction, thus blocking it, better get in the \$14 safety boat as the Transat's stock price will drop precipitously on August 24th. (But if the number of shares tended exceed the 19.5%, only a proportional number of shares will be bought by Mach).



Indeed if the move is successful in blocking the transaction Transat's share price will quickly drop to what it was before the prospective acquisition became public and perhaps even lower as Transat has been announcing bad news ever since. It is unclear how Group Mach would turn around the situation and bring back the stock price. They state rather vaguely: *"Mach intends to work with other stakeholders and shareholders to advocate for improved corporate governance, management accountability and financial performance at Transat, with a view to maximizing returns for Transat shareholders."*

Of course one may wish that Transat had continued as an independent operator providing some needed competition to Air Canada. Mach pushes the argument that with their offer one gets cash right away while the Air Canada transaction will not close until 2020 and hints at competition hurdles with regulatory authorities.

So shareholders may favour the transaction with Air Canada but fear that it will be blocked thus motivating them to accept the Mach offer. If a large number of shares, much more than 19.5%, were tendered, the \$14 offer would apply only to a fraction of their shareholding, the balance would suffer from the ensuing drop in Transat's share price. Mach's offer is valid until August 13th. It would be useful if large shareholders of Transat were to announce their voting intentions before that date.

All in all, the Mach proposal is unusual and does put shareholders, particularly small shareholders, in a sort of double-bind; it deserves scrutiny by the securities commissions.

Opinions expressed are strictly those of the author.