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Audet family was right to reject Rogers' attempted takeover of Cogeco

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In a surprising move, Rogers and Altice USA made an offer to buy Cogeco and Cogeco Communications and split their assets between them. If Cogeco were a typical Canadian corporation with a one-share, one-vote capital structure, the would-be buyers could disregard any reticence or opposition by the board of directors and transmit their offer directly to shareholders. Given that Rogers already holds a stake of 41 per cent in the subordinate shares of Cogeco and 33 per cent for Cogeco Communications, the outcome is fairly predictable. If shareholders representing two-thirds or more of the shares vote for their offer, the deal is done (leaving aside any possible wobbling by the CRTC or the Competition Bureau).

But because of multiple voting shares, the Audet family, which has effective control of these entities, can and did bluntly reject the attempted takeover. And for good reason. Under the family's leadership, Cogeco shareholders enjoyed a compound return of 9.8 per cent over the last five years and 11.8 per cent over the last ten. Shareholders of Cogeco Communications were rewarded with a compound return of 10.8 per cent over five years and 13.2 per cent over ten years.

Rogers/Altice offered a "generous" premium of some 30 per cent over the average share price of August 2020. But, compared to the share price of Cogeco entities at the beginning of 2020, the bid price represented a measly 2.3 per cent premium for Cogeco and just 18.6 per cent for Cogeco Communications.

On their face, those facts would justify a rejection of the Rogers/Altice offer and perhaps lead to further negotiations. That would prove a point often made in favor of multiple-voting shares: the controlling shareholders are in a great position to extract the best price from would-be buyers for the benefit of all shareholders.

That is not the denouement here, however, as the Audet family has made it clear their rejection of the "hostile" bid is not tactical but is firm and unconditional. Rogers should not be surprised by such a decision nor continue to pursue this acquisition: its own shareholder structure gives total control to the Rogers family (and now to a "control trust,").

In an era of exotic funds and of "activist" hedge funds seeking to bully companies into taking actions of only short-term benefit, a dual class of shares becomes very attractive and beneficial for the whole industrial system of a country. It is the ultimate defense mechanism, particularly in Canada, where staggered boards do not exist and poison pills are of very short duration. Even in the U.S., however, from 2017 to 2019 some 16.5 per cent of companies going public did so with a dual class of shares, a share structure that is especially popular among tech companies.

Some will argue, as they always do, that all shareholders should have a voice in a takeover decision, as they would with a one-share, one-vote model, and that multiple voting shares represent a breach of shareholder "democracy." That's balderdash. The equivalent of "one person-one vote" democracy in the domain of shareholding would be "one shareholder-one vote," irrespective of the number of shares held. In political democracies, citizens do not acquire more voting rights because they pay more taxes to the government.

Short-term "tourist" shareholders should no more get to vote than tourists who happen to be in a country on voting day should be able to claim voting rights. Like immigrants, newcomers to the shareholding of a company should have to wait a significant time before acquiring "citizenship" and the right to vote. Clearly, one share-one vote can't be taken seriously.

We live in an age when all institutional investors call on corporations to pursue ESG (Environment, Social, Governance) objectives and in a country where the legal framework as interpreted by the Supreme Court calls on boards of directors to take into account the interests of all stakeholders, without giving preference to any particular group, not even shareholders. Many dual-class companies become family businesses, which have a longer life, are better integrated in their communities and are more likely to plan and manage with a long-term perspective and careful consideration of all stakeholders. The controlling shareholders of the Cogeco companies are exemplars of these benefits associated with family control. May these family-controlled companies, including Rogers, remain impervious to unwanted takeovers and other financial shenanigans.