BUSINESS

Rogers is 'worst case scenario' for otherwise profitable dual-class share structures

By **Tara Deschamps** The Canadian Press
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TORONTO - A recent boardroom clash at Rogers Communications Inc. has revealed the governance risk associated with dual-class share companies, but experts say businesses with that structure can be hard to avoid for investors because they're big profit generators.

Companies with dual-class shares issue different sets of common shares that have different voting and control rights. This often gives one group of shareholders an outsized share of those rights, typically the firm's founders, family members or executives.

The structure is used by companies as wide-ranging as Google parent Alphabet and Ford Motor Company. In Canada, the list includes Shopify Inc., Canada Goose Holdings Inc., Bombardier Inc. and Alimentation Couche-Tard Inc.

Investment experts say the structure can be problematic when one class of shareholders wants to take the company in a contested direction, like Edward Rogers did with his late father's company.

Because Edward Rogers controlled 97.5 per cent of the telecommunication's firm's Class A shares, he was able to replace five board members over objections from other directors including his mother and sisters.

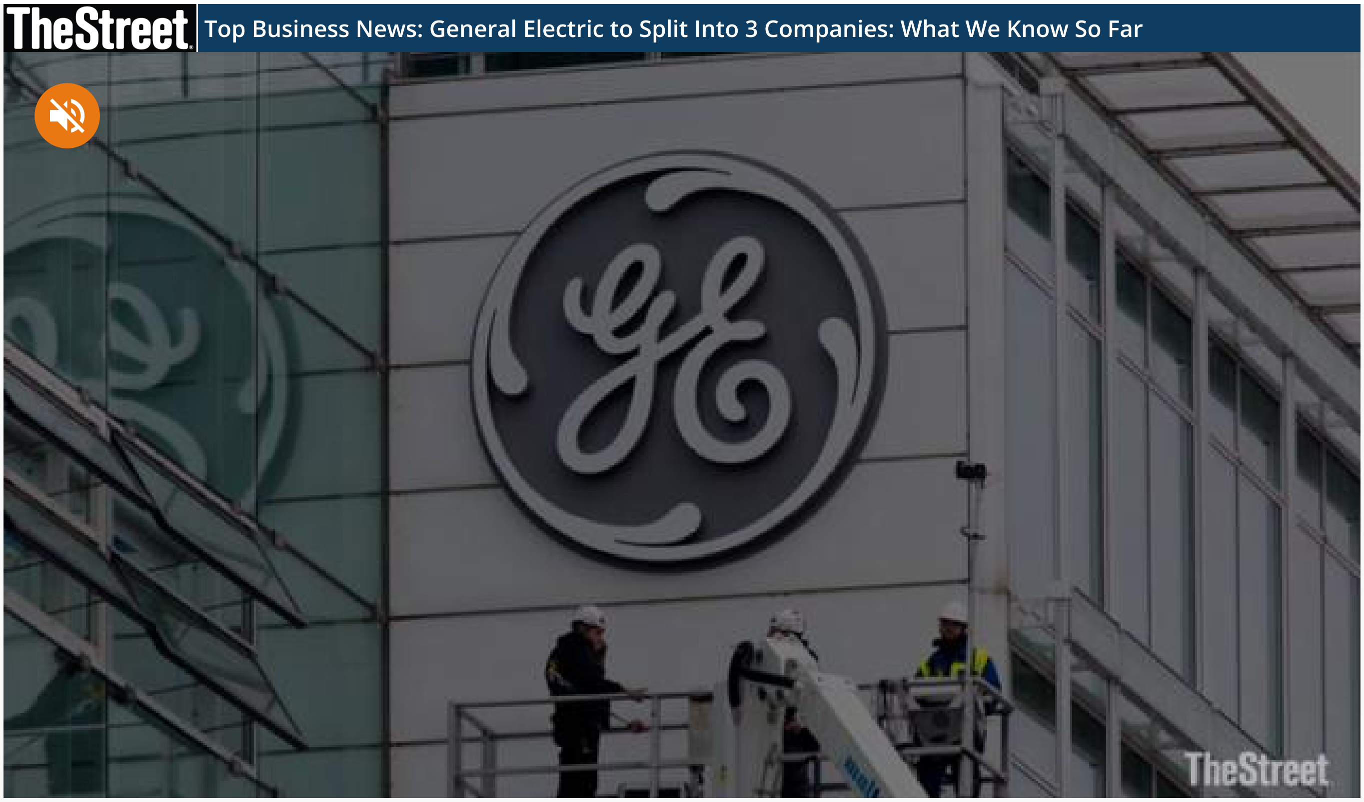
A court on Friday confirmed Edward Rogers' right to make the changes since he held voting control.

"The worst case (with dual-class shares) is what we see at Rogers now," said François Dauphin, chief executive of the Institute for Governance of Private and Public Organizations in Montreal.

But even these scenarios don't often cause investors to balk at putting money behind companies with dual-class shares because the structure is so common, especially at top-earning companies, he said.

TMX Group counts 90 companies on the Toronto Stock Exchange with dual-class structures. TSX firms using the arrangement span from financial services and retailers to industrial goods, mining, real estate and technology.

A dozen of the 90 companies listed in 2021, up from six in 2020 and three in 2019.



Dauphin pointed out that a lot of the names on that list — Shopify, Stingray Group Inc., Lightspeed Commerce Inc. and Nuvei Corp.-- have performed well on the stock market in recent years, making them hard to ignore for investors concerned about dual-class structures.

For example, Shopify shares were worth about $50 five years ago, but are worth nearly $2,000 now.

“Someone not investing in new class share structures would have missed out on a lot of very good, nice new companies, which do have the growth potential that no other companies do have now,” said Dauphin.

While Dauphin understands why people might worry about dual-class shares, he thinks they often make favourable investments because of the influence they have on entrepreneurs.

“They can really have a longer term horizon … which is extremely interesting for those new technology companies that need that time in order to get those new ideas to mature,” he said.

He also likes the structure because it typically offers some immunity to hostile takeovers, as the higher class and number of shares held by family members or founders is often enough to thwart an acquisition or merger, even if it’s supported by another class of shareholders.

However, for Alexander Dyck, professor of finance, economic analysis and policy at the University of Toronto, the protection against hostile takeovers is what he finds problematic.

“After the founder is no longer in charge, it might be very useful to have someone else coming in and overviewing and if management is not up to task, replacing them or having a take over in some other way,” he said.

Dyck finds the longer a company goes with a dual-class structure, the more likely it is to encounter problems, especially as a firm changes hands to a new generation of a family, sometimes one with less business acumen.

Despite the challenges and his belief in the need for oversight in corporate governance, Dyck agrees many dual-class share companies have had tremendous returns.

“It’s a risk, but when you’re trying to take a look at risk and return, you might find that there’s more return relative to the risk in this company,” he said.

“Investors understand that, so there is a cost.”

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Companies in this story: (TSX:RCI, TSX:SHOP, TSX:GOOS, TSX:ATD, TSX:BBD, TSX:LSPD, TSX:RAY, TSX:NVEI)

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