Wealth creation in Quebec: the missing link

The Quebec Stock Savings Plan is slated to end on December 31, 2014, and Quebec counts for only 7% of the corporations listed on the exchanges of the TMX Group, whereas the province's economic weight in the Canadian economy is 20%. By comparison, 33% of the corporations listed on TMX Group exchanges are from Ontario and 50% are from Western Canada. In 2013, only 5.3% of new listings on those exchanges were by Quebec corporations, versus 11% from abroad. That same year, all of the listed Canadian corporations raised an aggregate of $43.6 billion, versus only $4 billion by corporations from Quebec, and of the 59 new exchange listings of structured products, none was from Quebec.¹ Quebec is thus far from fully benefitting from Canadian securities exchanges, which have a solid reputation and are known for supporting SMBs.²

There was a time when Quebec succeeded in listing many SMBs on the stock market, some of which went on to become giants, such as CGI,Québecor, Couche-Tard and Jean Coutu, to name but a few. While their initial public offerings raised only modest amounts, the exercise gave these SMBs a higher valuation than when they were private companies, as well as access to new and less costly sources of financing and, above all, a keystone for expansion, in the form of publicly tradable shares. These corporations, run by visionary builders, became major consolidators through mergers and acquisitions. Thus, improved prospects for future growth can be seen

¹ TMX Group, December 2013.
as the primary reason for listing on an exchange. The Quebec financial ecosystem has evidently changed significantly since then.

It should first of all be emphasized that for a junior company an exchange listing is not always the best course: it is not within the means of every small business and is not necessarily suited to the personality of the owner of the business. And when listing is a viable option, the environment must be favourable if the exercise is to be successful.

It must also be acknowledged that there has been a decline in exchange listings in Quebec and Canada, as well as in the United States, for a variety of reasons of which some are structural, on both the general and local levels. In particular, there is an increasing recourse to pre-IPO private financing, plus a pronounced aversion to reputational risk on the part of the investing financial institutions, and an evolution of sorts in the role of securities brokers, who have gone from investment advisors to asset managers proposing a selection of investments that are often pre-packaged and carefully structured by the brokerages, leaving little room in the market for SMBs aspiring to go public. Another factor that should not be underplayed is the swallowing up of innovative Quebec technology companies by larger corporations, most of which are already listed on an exchange. In addition, Quebec has its own ways of doing things.

Going public is an operation that often must coincide with a favourable stock market cycle for the type of business involved. To seize an opportune moment, the company must be ready and well organized. Unfortunately, Quebec businesses tend not to make their

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move until the favourable market cycle is peaking, and only a few are successful at listing.\textsuperscript{5}

**Financial sector**

The dynamic nature of Quebec's financial sector is often vaunted, particularly in connection with its investment sector. And while it is true that there are many high quality firms in Quebec engaged in those activities, in the context of an analysis on contributing to wealth creation it is important to differentiate between the "buy side" and "sell side" of the financial sector.

The firms alluded to above are definitely successful in terms of investing (the buy side). However, the "sell side" of Quebec's financial sector, insofar as it involves SMBs, is not nearly as developed. This situation has far from negligible consequences for our economy and for wealth and job creation. By way of example, the major banking institutions in Quebec provide corporate finance services through their securities brokerages, i.e. their investment bankers, who cater primarily to companies of a certain size. In 2010 at a conference on this issue, Jacques Ménard, the chairman of BMO Nesbitt Burns and president of BMO Financial Group, Quebec, pointed out that in Canada taking SMBs public is the stock-in-trade of small brokerages, often termed "boutiques", and that very few of them are present in Quebec.\textsuperscript{6}

In order to succeed in obtaining an exchange listing, the aspiring issuer must be well prepared and have the support of both key investors and the local public financing milieu. The operation thus requires both specific expertise and a favourable local environment. The sad reality is that both of those aspects are lacking in Quebec.

\textsuperscript{5} PWC & FMC (now Dentons), "Pour une démocratisation du financement de nos entreprises" (2011).

\textsuperscript{6} Ménard, J., "A Perspective on the Canadian IPO Marketplace" (breakfast conference organized by Réseau Capital, April 29, 2010).
What's missing in Quebec

The globalization of equity markets necessitates heightened visibility and access to investors in both Canada and abroad, which publicly listed companies often enjoy. They also benefit from an expanded network, greater opportunities for mergers and acquisitions, and access to new types of financing.

Canadian securities exchanges have a reputation for welcoming SMBs as public issuers.7 That being so, why is Quebec not part of this scenario? Whatever the answer may be, this situation has to change.

While many feel that any such change will be slow and protracted,8 Quebec should nonetheless immediately set about establishing a public financing sector for SMBs that is permanent, dynamic and open to a changing economy, and which integrates investment bankers, analysts, retail and institutional brokers and market makers, and is accompanied by fiscal and other incentives.

The lack of this segment in Quebec's financing sector results in the following:

- fewer investment opportunities for Quebec companies and investors;
- departures from Quebec of businesses and entrepreneurs who move to a more propitious investment climate;
- the absence of a means for entrepreneurs to monetize the value they have built up in their businesses when they retire;
- the sale of innovative Quebec companies to foreign corporations – over the last ten years, in Canada and to a lesser degree in


Quebec, bulk sales by venture capital firms have predominantly been to foreign buyers;

- fewer opportunities to realize value on the part of Quebec investment funds;

- the absence of the mobilizing and stimulating effects of a public listing for Quebec entrepreneurs;

- a lack of synergy between our businesses and markets outside Quebec.

This situation negatively impacts:

- access to long-term development capital;

- integration with international capital funding networks;

- the ability of certain Quebec companies to realize their full value;

- return of capital from government incentives;

- access to new sources of financing;

- job creation and preservation;

- the vulnerability of Quebec businesses, who are too often gobbled up by public companies instead of becoming consolidators themselves;

- the visibility that some businesses deserve.

Some considerations

Quebec must implement long-term structural measures so that listing on an exchange becomes a viable alternative for Quebec corporations that are willing and able to do so.

Measures to consider for the sustainable structuring of the "sell side" of Quebec's financial sector include the following:

- incentives for the creation of units within Quebec financial services corporations composed of investment bankers dedicated to taking SMBs public. They could, for example, be offered incentives similar to those for international financial centres;
simplify the financial information reporting rules applicable to public SMBs;

use the latest information technology in order to adapt to current methods and accelerate the process for listing and maintaining an exchange listing, at the lowest possible cost;

incentivize brokerages to include stakes in junior issuers in their clients' investment options;

ensure that universities and professional associations offer relevant continuing education courses;

make incentives for investing in junior issuers available to Quebec-based and other investment funds;

better inform Quebec investors on the risk-return ratio of investments in junior issuers;\(^9\)

revise the Quebec Stock Savings Plan II to make it more attractive for Quebec corporations and investors;

amend Quebec's income tax laws so that listing on an exchange by an SMB no longer results in the loss of tax benefits;

implement measures promoting the emergence of managers specialized in exchange-listed structured products.

The potential for SMBs to list their shares on a stock exchange is an important component of a healthy economy. This is borne out by the reaction of entrepreneurs, professionals and government in the United States when it became apparent that the number of publicly listed American SMBs was stagnating. To remedy this, several economic measures to stimulate that segment of the economy were hurriedly put in place, including the federal \textit{Jumpstart our Business Startups Act (Jobs Act)}.

Let's hope that Quebec follows the same course by adding to its wealth-creation toolbox a series of measures that, through converging incentives and policies, encourages more Quebec corporations to become publicly listed.

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a cautionary note

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