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NOTE TO READERS: Our pages are numbered sequentially from the start of the year to facilitate production of a crossreferenced index that will accompany December's issue.

# Crucial Lessons from Connaught

**AWATTO** 

Investment Cล้าเล้นล้า ริยัยยังเขามา permit the sale of Connaught BioSciences Inc. to Institut Merieux SA of Franceiscousing considerable re-thinking in Ottawa, particularly with respect to high-technology companies and the "Canada is open for business" stance of the government.

At the time of the sale, Connaught was the second-largest producer in the world of vaccines, trailing only French government-controlled Mérieux and holding 30% of the lucrative United States market. It was financially strong with no debt and more than \$180 million in short-term assets. Earnings increased year after year and shareholders saw their investment appreciate at a rate much faster than the increase in the value of the market as a whole. Indeed, Connaught was in a position itself to engage inan active acquisition programme.

Mérieux produces many of the same products as Connaught and was the Canadian company's principal competitor in most areas of the world. However, Mérieux was not able to gain ground in the U.S., so it was not surprising that it launched a hostile takeover bid for Connaught in the spring of 1988, planning to use Connaught as a lever for obtaining American sales.

The initial attempt was defeated by Connaught's board of directors on the basis that it was not fair to all shareholders. Then, almost a year later, the Connaught board announced that an agreement had been reached with Mérieux for the formation of a new company in the Netherlands, into which Connaught would fold all its assets and Mérieux would place its vaccine business. The new venture was to be controlled and managed by Mérieux. Connaught would disappear.

Despite the opinion of investment bankers that the deal was "fair", the market value of Connaught's shares plunged by 30% when merger details were released. A counter-offer of \$31 cash for all of the shares in Connaught was made by a consortium of Switzerland's Ciba-Geigy Ltd. and California-based Chiron Corp., at which point Mérieux abandoned the merger idea and bid \$37 a share. The Connaught board recommended shareholder acceptance. Investment Canada sanctioned it and the company became foreign-owned.

### **Directors Hands Tied**

The only way Connaught could have been kept Canadain would have been an Investment Canada determination that the sale was not in the national interest. .. continued on page 26

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