

### *Sale of Polymer*

informed and critical investor would take note of the earnings history of Polymer and its future earnings potential. He would examine the quality of these earnings and he would observe that while the company had been profitable over the years, earnings were on the decline, setting aside the exceptionally good year of 1969 which reflected unusually high product prices and favourable changes in foreign exchange rates.

• (1650)

**Mr. Nielsen:** Let us have a look at the last financial statement.

**Mr. Goyer:** I will table it when I receive it, as promised to the hon. member.

This investor will note that while the company was attempting to diversify, it was still dependent upon rubber as the prime source of its earnings, a product area of strong competition and increasingly higher raw material costs. For investment purposes, he would categorize it with other rubber based companies, but would conclude that it seemed more vulnerable and less well diversified than its competitors. On this basis, using a price/earnings method of valuation, he would give Polymer a multiple somewhat below those of other rubber companies which in themselves have relatively low price/earnings ratios in the order of 10 to 12. This is the case with Goodyear. Such was the investment approach taken in establishing the sale price of Polymer. The application of several investment valuation methods based on price/earnings ratios and discounted cash flows were used to arrive at a fair market selling price range of approximately \$55 to \$70 million. It was within this range that the selling price of \$62 million plus was negotiated.

The basic selling price of \$62 million can be expressed as a price/earnings ratio of approximately eight in relation to 1972 rubber, latex and plastics profits, as estimated at the time of valuation.

**Mr. Nielsen:** How can a government negotiate with itself?

**Mr. Goyer:** The selling price formula provides that the government will participate equally in 1973 and 1974 profits over a base amount, to a maximum of an additional \$10 million. Any additional payment will be calculated by multiplying by four, the amount by which the average of 1973 and 1974 profits exceeds a base of \$7.5 million. I bring to your attention that this calculation gives the same result as multiplying the one half of the excess profits over the base of \$7.5 million by a price/earnings ratio of eight.

**Mr. Stanfield:** Mr. Speaker, would the minister permit a question?

**Mr. Goyer:** May I finish and then I will answer. It is worth noting that the selling price falls approximately at the mid-point of the fair market selling price range and any additional payment received under the selling price formula will bring the final price into the upper end of the range.

To conclude, keeping in mind that establishing a market value for a company is not an exact science at any time, it

[Mr. Goyer.]

is my opinion that the methods used in evaluating Polymer for sale purposes were consistent with accepted investment valuation concepts and the selling price so arrived at was fair and reasonable.

**Mr. Deputy Speaker:** The hon. Leader of the Opposition has a question.

**Mr. Stanfield:** Mr. Speaker, I should like to ask the minister whether I understood him correctly when he said that the government would receive nothing more than the base price of \$60 million unless the earnings of Polymer during the next few years exceed \$7½ million in each year. Was the valuation of Polymer made on the basis of an assumed rate of earnings or \$7½ million?

**Mr. Goyer:** Mr. Speaker, in trying to find out the more exact figure which can really meet with our goal to have a reasonable price, of course we looked into the profits base of Polymer and where they came from. This is why we base our evaluation at \$7.5 million for rubber, latex and plastics bearing in mind that the company experienced a very bad year two years ago. It might be unusual because it is a cyclical process in this activity. If you look at the profits of Polymer over a period of ten years you will easily discover that this company has suffered ups and downs and we believe that might be the case in the future.

**Mr. Stanfield:** One further question.

**Mr. Deputy Speaker:** The hon. Leader of the Opposition (Mr. Stanfield) with a question.

**An hon. Member:** Make a speech.

**Mr. Stanfield:** I intend to. In view of the resumé the minister has given us as to the basis on which the valuation was reached will he table in this House the evaluation reports—he eventually got two or three, one from the government and two from outside. Will he table these or if not will he blame us for being suspicious of what is going on?

**Mr. Goyer:** The President of the Treasury Board (Mr. Drury) on behalf of the Minister of Finance (Mr. Turner) dealt with this question on Friday and answered that he was going to look into the question. One has to bear in mind that the future of Polymer may be at stake, and if those valuation reports were to be revealed publicly one could expect that the competitive position of the company could be impaired. I do not think this is the intention of the opposite side, to place Polymer in that situation.

**Mr. Lambert (Edmonton West):** This is patent nonsense.

**Mr. Yewchuk:** Mr. Speaker, in view of the fact that the explanation given as to how the price of \$62 million was arrived at, if the minister has a copy of the report, I wonder if he would agree to quote the paragraph in order to explain the situation a little better to members on this side?

**Mr. Deputy Speaker:** Order, please. I think that would put us in the position of ruling that if a report is quoted from in part, it would have to be tabled. I think the