B. New Definition of Financial Self-Sufficiency

Now that Canada Post has realized an operating surplus, it has been instructed by the federal government to function increasingly on a commercial basis, by borrowing in private capital markets, by establishing financial targets and by remitting a dividend to the government. The government is also prepared to consider providing the Corporation with a share capital structure which would enable traditional measures of financial performance to be applied.

To help establish a new, private-sector definition of financial self-sufficiency for Canada Post, the government commissioned a study of financial performance targets by the investment firms S.G. Warburg Securities and RBC Dominion Securities Inc. Their report (the Warburg/DS study), produced in August 1989, examined a number of relevant companies and appropriate financial criteria against which the Corporation's financial practices and performance could be assessed. Included in the universe of firms selected were the following: other postal administrations, courier companies, regulated utilities in Canada and the U.S., several major Canadian firms and a number of domestic Crown corporations. Of these groups, the regulated utilities and the courier companies were most comparable to Canada Post in terms of business risk, although the study did state that the utilities faced a lower risk in that they had a lower percentage of competitive activities in their operations.

The definition of financial self-sufficiency adopted in the Warburg/DS study took into account the cost of capital when developing private-sector financial criteria for Canada Post. To be "self- sustaining," the study concluded that a firm must have access to capital in order to finance investments to sustain its asset base. Since private capital comes in only two forms, debt and equity, it is necessary for the Corporation to provide adequate financial return to potential investors, whether they be bond or shareholders. As the study noted, "to ensure access to the debt markets the Corporation would have to provide comfort to potential lenders by meeting a variety of financial tests, and ... to ensure access to equity capital, Canada Post would have to earn profits sufficient to provide a return comparable to other competing investments."

After examination of financial performance in other firms, the study arrived at appropriate ranges for key financial criteria for Canada Post. Of greatest significance was the setting of a 14–15% range for return on equity and a dividend payout ratio of 35–45%. Achievement of an adequate level of return, it was noted, is important since shareholders need to be compensated for the risk associated with their investment. Similarly, a dividend payout ratio of the size mentioned would ensure that investors were adequately compensated and that Canada Post had the financial freedom to maintain its capital investment program. While the Corporation has not, up to now, paid out a dividend, the