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QV Investors Inc.

Family Matters

Some of Canada's most powerful companies are family-controlled businesses that evolved over decades from tiny operations into national empires. In a recent report, National Bank of Canada (NBC) showed that family-controlled public companies (defined as those with founding families who control at least 10% of the firm's voting rights, or non-founders that control at least 33%) have outperformed the broader market by 2.3% per year since June 2005.

NBC Canadian Family Index – Cumulative Performance

Source: National Bank of Canada, QV Investors; data to May 31, 2018

Family-owned businesses are well-represented in our Canadian equity strategies, with current investments in 11 of the index's 43 constituents (shown in the table below). We are also owners of several other family-controlled businesses, including Leon's Furniture Ltd. and Lassonde Industries Inc., that did not meet NBC's liquidity criteria. Their long-term performance has also been impressive, with annualized total returns of over 8% and 21%, respectively, over the same period.

QV's family-controlled businesses	Family Voting Control (%)
Empire Company Ltd.	92%
Canadian Utilities Ltd.	89%
ATCO Ltd.	85%
Power Financial Corp.	66%
Canadian Tire Corp.	61%
Alimentation Couche-Tard	60%
CGI Group Inc.	56%
Loblaw Companies Ltd.	47%
Saputo Inc.	43%
Linamar Corp.	23%
Knight Therapeutics Inc.	15%

Source: National Bank of Canada, QV Investors

Here are some characteristics that may contribute to the sizable outperformance of family-controlled companies:

Tenure – Research by Forbes shows that the average CEO tenure in the U.S. is less than 5 years, compared to large family businesses at 13 years. In a recent interview with the Globe and Mail, Serge Godin, founder and executive Chairman of CGI Group, explained that this drastically lower executive turnaround provides much more time for management to master their competitive environments.

More effective use of capital – NBC identified that family-controlled businesses generally have lower debt levels and more disciplined cost controls compared to the broader market. This could be a result of family-controlled firms being more selective with regard to large capital expenditures. QV holding Saputo Inc. is a prime example, having delivered an average return on capital of 20% over the last decade, while maintaining a healthy balance sheet.

Long-term thinking – In contrast to the many firms under increasing criticism for their emphasis on short-term results, family-controlled firms are often much more focused on creating value over the long term, with corporate cultures that emphasize legacy and reputation.

Despite the many positive qualities of family businesses, they also face significant challenges, particularly the issue of minority shareholder rights. Families often maintain ownership control via equity that carries multiple votes per share. These multiple voting shares provide voting control beyond their economic interest. Among the 43 constituents of NBC Canadian Family Index, 27 (63%) feature dual class structures. Critics of unequal voting rights oppose the transfer of financial risks from controlling shareholders onto public owners, and suggest that they can entrench poorly performing management.

Alignment of interests through meaningful equity ownership by controlling shareholders may offset some of these governance concerns, as family members with most of their personal wealth invested in the business will typically seek to maximize long-term returns without undue risk. Further, an independent board of directors can help to mitigate potential conflicts of interest and hold management accountable.

Family-controlled companies, particularly those with multiple voting shares, present unique risks and opportunities. Over the years, strong shareholder alignment and a long-term focus have made many family-controlled businesses worthwhile investments in our portfolios.