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A media family's tough decision

The first domino that would begin the long-awaited shakeup in the Canadian broadcasting industry began to tumble last May.

The Waters family, which owned 88.6% of Chum Ltd.'s voting stock and 13.2% of the non-voting shares, was faced with an agonizing decision.

Six months earlier, Allan Waters, the founder of the 52-year-old family business of television and radio stations, had died. His two sons James and Ron, although active in the business, were not destined for the CEO office < and their sister Sherry wanted her share of the spoils.

Although they¹d vowed not to sell the family firm after the patriarch¹s death, they couldn¹t escape the increasing pressure on broadcasters to bulk up. In order to survive, Chum needed deeper pockets to buy the programming its larger peers were airing to attract viewers and advertisers.

For the Waters children, the decision was either to go big, or walk away. They chose the latter, which is why on May 4, 2006, they met with Jonathan Levin, a senior partner at Fasken Martineau DuMoulin LLP.

An expert in mergers and acquisitions, Mr. Levin walked the Waters and Fred Sherratt, a Chum director and family friend, through a number of possible scenarios.

There was a perception that there had to be a fundamental shift in the way over-the-air television was shaping up, Mr. Levin recalled. They saw the status quo wasn't tenable in the long run. An auction for the family's 8.79 million voting and non-voting shares appeared inevitable.

To that end, Mr. Levin created a short list of potential investment banks to advise the family. They steered away from the bank-owned dealers believing they would likely represent a bidder for the assets, and eventually lead a bank financing.

Instead, the Waters opted for independents and narrowed the field to Blair Franklin Capital Partners Inc., a Toronto-based advisory firm, and Genuity Capital Markets.

On May 12, almost two weeks after his first meeting with the Waters, Mr. Levin called Gordon Cheesbrough, Blair Franklin¹s managing partner.

"They had come to the conclusion that at the very least they were going to explore doing something," Mr. Cheesbrough recalled in an interview.

A 30-year veteran of investment banking with Scotia Capital and later Altamira Investment Services Inc., Mr. Cheesbrough created Blair Franklin in 2003 in a partnership with Steven Sharpe.

Mr. Cheesbrough was well aware the Waters family represented a significant client for his fledgling firm.

During their conversation, he asked Mr. Levin for advice on how to deal with Chum¹s controlling shareholders.

The response: Forget the big investment banking sales pitch, set aside the slides and charts, park the ego and instead, bring your sincerity.

"Jon [Levin] could tell them whether we were smart or not, but they had to feel that we were capable of giving them good advice and that we warranted their trust," Mr. Cheesbrough explained.

On May 19, he and partner Joel Kazman met with the Waters brothers and Mr. Sherratt.

For a couple of hours, Mr. Cheesbrough and Mr. Kazman gave their views on dual-class shares, the governance issues, and the importance that all shareholders be treated equally.

The investment bankers also outlined their views on the role of the financial advisor and the firm's willingness to be personally involved in all aspects of the transaction.

"We developed a great relationship," Mr. Cheesbrough said. "They were absolutely first class. I have never in my career dealt with finer people." The feelings were mutual.

"Blair Franklin handled the relationship very well. They gave it top attention and the chemistry was excellent," said Mr. Levin.

Apparently, the rapport was so comfortable, the Waters family never met with the folks at Genuity.

For the next four weeks, a team from Blair Franklin, which also included associates Lindsay Skinner and John Medland, Mr. Levin and the Waters family devised an auction strategy and scouted the marketplace for likely bidders.

Astral Media Inc. and Bell Globemedia Inc. emerged as the two prime suitors because they had the greatest financial capacity and the least regulatory issues to bog down a deal.

"The brothers were very good listeners," Mr. Cheesbrough recalled. "There was always good healthy debate. We had to be extremely careful about how we handled communications because we were dealing with a public company. Client confidentiality was of the utmost importance." By the first week of June, the wheels were in motion based on a "disciplined process to get the client to the conclusion they wanted." The first overture was made by Mr. Cheesbrough to Geoffrey Beattie, president of Woodbridge Co. Ltd., a private holding company controlled by the billionaire Thomson family, which has a majority stake in Bell Globemedia. The company owns the CTV television network, TSN, and the Globe and Mail newspaper.

Apparently, the late Ken Thomson had a gentleman's agreement with Allan Waters that if Chum was ever on the sale block, the Thomson family would be interested.

A similar call was made to Astral.

However, the meeting between Mr. Beattie and Mr. Cheesbrough was delayed because of the untimely death of Ken Thomson on June 13.

As the Thomson family mourned, Blair Franklin stalled its discussions with Astral.

By the end of June, the Waters family advisors had met with the potential bidders about eight times, and the dialogue was reasonably advanced.

As a result, Mr. Levin called CIBC World Markets Inc., BMO Nesbitt Burns and Scotia Capital to pitch on the business to advise Chum's special committee of independent directors.

On June 28, Astral and Bell Globemedia delivered their final proposals, and the latter won the day with an offer of \$47.25 for each Chum class B share, and \$52.50 for each common share, totaling \$1.7-billion.

That evening, Mr. Cheesbrough informed Mr. Beattie that his company's offer had prevailed.

Ron, James and Sherry Waters made it official on July 3 by agreeing to negotiate exclusively with Bell Globemedia.

On July 4, Chum's special committee hired CIBC World Markets based on the firm's expertise in the media sector and strong M&A experience.

For the next two weeks, a team of eight from the bank-owned dealer's mergers and acquisitions and corporate finance divisions, including vice-chairman Paul Spafford, met with the Waters family and Blair Franklin to obtain background on the events leading up to the tentative deal with Bell Globemedia.

"The special committee wanted our advice as to whether or not this was a fair transaction and whether it was one we thought they should support and make a recommendation to the other shareholders to accept," explained Kevin Li, CIBC's managing director and co-head of technology, media and telecom.

And they had a very small window of time -- less than two weeks -- to deliver.

"The special committee was very meticulous,"² recalled Chris Hind, CIBC's managing director, mergers and acquisitions. ³"We had very thorough discussions." By July 11, the CIBC team, which also included Ted Nash, Jason Menard, Chris Seto, Mike Lauzon, Jack Lui and Myles Hiscock, compiled a comprehensive set of financial analysis to examine fairness of the offer.

The next day, Chum's special committee relied on that fairness opinion when it voted to support Bell Globemedia's offer and recommended the company's shareholders do the same.

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