

PwC LINK

Issue 2, 2003

Are the Trinidadians taking us over—again? Our two partners in Advisory Services put the recent spate of corporate acquisitions in perspective

Q. Victor E. Mouttet Limited of Trinidad has made a bid to acquire control of Brydens here in Barbados, and again we are hearing the talk about Trinidadians taking over our corporate sector. Are the comments justifiable?



Christopher Sambrano,
Partner, Business Advisory Services

A. Sambrano: Trinidadian companies are buying into Barbados because it makes good strategic business sense for them. What we are seeing happen here is a natural process of growth and market penetration through acquisition, and it's common enough practice for

companies anywhere in the world. It's just that the pace has picked up here in Barbados recently, and a lot of the acquisition behaviour is coming out of Trinidad.

Robinson: I agree. I believe that we are hearing this kind of talk again because there have been several acquisitions, or attempted acquisitions, by Trinidadian concerns that have all happened here in Barbados in fairly short order. Eighteen months ago

it was Guardian Holdings Limited battling the Barbados Mutual for ownership of Life of Barbados, and that is still fresh in our minds. Earlier this year it was Republic Bank acquiring control of Barbados National Bank. Now the target is Brydens, which happens to be one of our oldest distribution companies. They are all high profile.

Q. But a Bermuda-based bank, N.T. Butterfield & Son, has just acquired The Mutual Bank of Barbados from Sagicor and we seem to accept this. So why does it seem to strike a nerve when Trinidadian companies make acquisitions here?

A. Robinson: I think it's because for the man in the street there has always been a rivalry of sorts between Barbados and Trinidad. What is more, we have the stronger currency, and we have tended to see ourselves as further along the road to being a fully developed country and so forth. However, in the business community, and I'm talking here about senior executives and shareholders in our publicly listed companies, I think the greater issue is the potential loss of control. Majority ownership of our businesses by Trinidadians might mean that key decisions will be made in Port of Spain and not Bridgetown.

Q. Christopher said earlier that Trinidadian companies are buying in Barbados because it makes good sense. Why is this so?

Interview with Christopher Sambrano and Brian Robinson



Brian Robinson,
Partner, Business Advisory Services

A. Robinson: Well, like companies the world over, they want to expand into markets where they can deliver their core products and services, and often the easiest way to acquire market share is to buy existing businesses in the target markets. Barbados is close, we have a stable economy, and we are an affluent market by Caribbean standards. It would be strange if Trinidadian companies weren't looking for acquisition opportunities here. My own view is that some of the bigger ones are also moving as quickly as they can to build critical mass in the region before trade liberalization opens up the Caribbean to the big global players.

Sambrano: Brian is right. Several of the big financial services players in Trinidad such as Republic Bank, Royal Bank of Trinidad & Tobago and Guardian Holdings Limited have been aggressively expanding over the past five to 10 years through acquisitions across the

Caribbean. For example, they have been buying in Jamaica, the Dominican Republic, Guyana and elsewhere. We are seeing similar behaviour from Trinidad companies in other industries as well, and we can't expect them to ignore Barbados.

Q. They seem to be able to buy companies in Barbados so much easier than we can buy businesses there. Where do they get the financial "muscle"?

A. Sambrano: Well, they have some distinct economic advantages to start with because they serve a much larger home market and enjoy greater economies of scale, and they pay less for their inputs such as energy and labour. But more importantly they have been steadily building their financial muscle since Trinidad went through its economic crisis and structural adjustment in the mid-80s. Trinidadian companies had to reinvent themselves, and the ones that came through the tough times did so not only by becoming strong local businesses, but also by putting heavy emphasis on exports and by diversifying through acquisitions in other countries. As a result, Trinidadian companies overall have grown strong. And don't forget that Trinidad also has a large petro-chemical sector that is generating very strong profits and foreign investment in U.S. dollars. There is no foreign exchange control, and the Banks in Trinidad are happy to provide these U.S. dollars to local companies to help fund more acquisitions in Barbados and

elsewhere. By comparison, foreign exchange control is still something of an obstacle for Bajan companies.

Robinson: I'd just like to add that it is not only a combination of economic advantages and access to foreign exchange that is enabling Trinidadian companies to widen their presence in the Caribbean, including Barbados. They also happen to be well strategized and aggressively managed. They have ambitious game plans, and their executives are willing to take risks to make them happen.

Q. But is it not fair to say also that they are able to buy our companies easier than we can buy theirs because our shares are trading at a discount, whereas theirs tend to trade at a premium?

A. Sambrano: Yes, there's a lot of truth in that. If you look at several of our bigger public companies, for quite some time the market value of their shares was below their book value, although in some instances that has recently changed. By comparison, when you look at similar companies in Trinidad the market value of their shares has tended to be above book value. There are a number of reasons for this. First of all, the stock market in Trinidad is a lot bigger than ours, with a lot more action, and it is far more liquid. When an investor can get in and out of the market quickly, there is a much bigger incentive to buy. Greater liquidity also means that stocks tend to be priced closer to their true values as measured by income earning ability and future opportunities. The other thing is the difference in our

investor mindset. Trinidadians are more prepared than Bajans to take greater risks for greater rewards by investing in equities.

Robinson: You need to appreciate how frustrating all of this has been for our senior executives here in Barbados. If they enjoyed the same market conditions, they could consider issuing new shares to raise money for acquisitions. But they can't do this when their shares are trading below book value because it would disadvantage existing shareholders. Instead they would have to borrow, and a structure that is highly leveraged is not sustainable.

Q. In the meantime, are our publicly listed companies in Barbados sitting ducks?

A. Robinson: Publicly listed companies anywhere are vulnerable to a takeover or major change of ownership if the shareholders are prepared to accept an offer, and if the purchaser has the money, so we can't "bullet-proof" our companies against this unless we pass a law limiting share ownership to Bajans. This is unthinkable in this day and age. It would make an absolute mockery of the Caricom Single Market and Economy, which is very much about cross border ownership and movement of investment capital.

Q. So what can they do?

A. Sambrano: I think the most proactive approach for our bigger public companies is to continue to move off the island as best they can and look for growth and acquisition

opportunities. They should be cross listing their shares on the Trinidad and Jamaican markets as well. The more shareholders you can attract with the prospect of future growth and better earnings the more expensive it becomes for someone to take over your company.

Robinson: Chris is right. It is not an easy problem to solve, but we can't afford to respond by being insular or defensive in our thinking. At the moment, it is very popular in Barbados to express strong nationalistic

"...We have come to the point in Barbados where we need to encourage the evolution of strong pan-Caribbean companies that are widely owned by Caribbean people,..."

sentiments as part of identifying who we are. It may be all well and good for the development of our culture, but we need to be careful how we apply it to our corporate sector. If we care about nation-building, we also have to concentrate on building strong companies that create jobs and wealth, and we have to accept the role that foreign investment and ownership plays in this, whether that investment comes from Trinidad or somewhere else.

Sambrano: I believe we have come to the point in Barbados where we need to encourage the evolution of strong pan-Caribbean companies that are widely owned by Caribbean people, and it really doesn't matter where that evolution begins, whether it is Barbados, Trinidad or Jamaica. Let's not worry about which country

their corporate head offices will be located in or about the nationality of their CEOs. As Barbadians we should welcome these companies not fear them, and we should invest in them. These are the companies that will create wealth for us because of their size and provide jobs and career opportunities for our children all across the Caribbean. These are also the companies that will create services opportunities for a host of small businesses and entrepreneurs.

Q. Can some of these pan-Caribbean companies evolve from existing companies here in Barbados?

A. Sambrano: I don't see why not. We already have a very good example of one such company in Sagicor, which used to be the Barbados Mutual Life Assurance Company before it demutualized last year. It was started in Barbados over 160 years ago, and is managed in Barbados by mostly Barbadian executives. Yet the majority of its revenues, its employees and its shareholders are now from outside the island. This is a financial services company that now operates in 19 countries in the Caribbean, including Trinidad by the way, and it has grown by being a very astute and aggressive acquirer. Provided the foreign exchange is available, I don't see why other

Interview with Christopher Sambrano and Brian Robinson

strong, well run companies like Goddard Enterprises, which is also widespread in the Caribbean, and the Barbados Shipping & Trading Company Limited, can't do the same; in other words, look aggressively for some acquisition and business opportunities in the larger markets in the region such as Jamaica and Trinidad. These two markets represent significant sources of cash flow

businesses are.

Sambrano: If I may add to that, strategic planning and focusing on core businesses often mean making tough decisions about divestitures; in other words, letting go of non-core businesses that are not doing so well and which you can't turn into a market leader. These can be a drag on the company when

"Trinidadian executives are not looking to acquire trophies. They won't get into businesses here that don't make strong business sense for them."

and capital, and they have stronger investor cultures than Barbados does. We can create pan-Caribbean companies here in Barbados if we are prepared to tap into all of this.

Q. *Where do we start?*

A. Robinson: By focusing on strategic planning and deciding what will be our core businesses. If we are going to be more aggressive we need to leverage our strengths and look for opportunities across the region that match our core areas. In other words, we have to acquire or establish businesses that we are good at, so we had better be very clear what those

you are trying to grow your core business in other countries. This will be a challenge for us, because Barbadian companies have tended to grow through diversification of a fairly widespread nature due to the small size of the local market.

Q. *Are you saying that some of our conglomerates may have to close or sell some of their operations?*

A. Sambrano: It may come to that, and there will be the potential issue of job losses to deal with, but divestitures don't always mean that those businesses must close. A lot of the time it means that they can

be bought by other companies who are already strong in that area, or who want to be strong in that area and make it their core business.

Robinson: Absolutely. Of course the other opportunity that exists in this scenario is for a management buy-out, whereby the management of the non-core business buys it from the parent company and makes a successful business out of it. There are frequently new opportunities created by divestitures, and this is how new smaller companies spring up all the time. But the point we are trying to make is that the parent company has to acknowledge that it is no longer a fit and let it go.

Q. *In summary, do you think the Trinidadian interest in publicly owned Barbadian companies will continue?*

A. Sambrano: I think it will always be there, but there won't be any "shopping spree" as one of our newspapers described it. Trinidadian executives are not looking to acquire trophies. They won't get into businesses here that don't make strong business sense for them. As Brian said earlier, these companies are well strategized, they have a game plan, and I am pretty sure they will stick to it. Of course it is possible that they could turn their attention to our successful privately owned companies but, as they say, that's another story. —