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Oshawa Group takes over IGA \$120-million deal with Univa gives it much wider presence

by MARINA STRAUSS Consumer Products Reporter

Oshawa Group Ltd. will gain majority control of IGA stores in Canada by acquiring Univa Inc.'s grocery businesses in Ontario, Quebec and Alberta for \$120-million.

The deal, which caught some industry observers by surprise, will broaden Oshawa's presence across Canada and lessen, to some degree, its current concentration in economically troubled Ontario.

"The acquisition is one of the most significant in Oshawa's history," Allister Graham, Oshawa's chairman and chief executive officer, said in a statement.

Toronto-based Oshawa will become the sole supplier to IGA grocery stores in all provinces except British Columbia, where H. Y. Louie Co. Ltd. of Burnaby fills that role. The transaction will also double Oshawa's stake in IGA Canada Ltd., the holding company for IGA's Canadian franchisees, to 92 per cent.

Robert Boyd, Oshawa's executive vice-president and chief financial officer, said the purchase will give Oshawa the opportunity to operate on virtually a national scale, which should make the company more cost competitive by providing economies of scale in such areas as merchandising and advertising.

Investors greeted the announcement by lifting Oshawa's shares 62 cents to \$19.25 yesterday on the Toronto Stock Exchange.

The two-part transaction involves the acquisition of the principal business and assets of Edmonton-based Horne & Pitfield Foods Ltd., the IGA supplier in Alberta, from Univa, previously known as Provigo Inc.

As well, Oshawa will buy the shareholder interest in IGA Canada and the IGA franchising rights of M. Loeb Ltd. of Ottawa, another Univa subsidiary. This will give Oshawa the IGA franchising rights in parts of Ontario and Quebec where it was previously excluded.

"We've always been looking at whatever opportunity that came along to broaden our base in our core (grocery) business," said Sam Crystal, a spokesman for Oshawa.

Oshawa currently owns 46 corporate IGA stores along with Food City and Price Chopper outlets. It supplies certain IGA franchisees along with grocery chains Foodtown and Knechtel.

Yesterday's announcement follows Oshawa's recent purchase of the rights to 23 franchised Steinberg Inc. supermarkets for between \$55-million and \$60-million. These stores represent a portion of Steinberg's assets recently purchased by Montreal-based Univa and Metro-Richelieu Inc.

Oshawa's new Steinberg stores in Montreal and Quebec City have annual sales of about \$300-million, while the Horne & Pitfield business in Alberta has sales of more than \$500-million.

In the year ended Jan. 25, 1992, Oshawa had revenue of more than \$4.6- billion.

The company has suffered a couple of tough years, with profit for the latest fiscal year down more than 40 per cent to \$35.1-million from \$60.4- million in the previous year.

Analysts welcomed the deal with Univa.

"It helps employ (Oshawa's) excess cash, which was earning a decreasing rate of return as short-term interest rates came down," said Ross Cowan, an analyst with Levesque Beaubien Geoffrion Inc. in Toronto. "And it's still very conservatively financed."

A number of industry analysts, including Mr. Cowan, have been critical of Oshawa's management for running a conservative ship and not investing the company's surplus cash, which is mostly the proceeds of its sale of the **Towers department stores** in 1990.

"Now they have surprised us and have done this major deal," Mr. Cowan said.

Oshawa's Mr. Boyd said \$40-million to \$50-million of the \$120-million purchase price will be drawn from the company's cash reserves, while the remaining money will come from existing credit lines with the major chartered banks.

As a result of the transaction, Oshawa will probably have long-term debt of about \$100-million, compared with \$23.2-million in the year ended Jan. 25, he said.

But Oshawa will still have a conservative debt-to-equity position of less than 0.20:1, compared with the current 0.04:1, he added.

Univa said the sale of Horne & Pitfield is part of the company's strategy to concentrate its activities in regions where it has market leadership and growth potential.

It said the sale's proceeds will allow it to strengthen its remaining operating companies, which include Provigo Distribution Inc. in Quebec, Loeb in Ontario and northwestern Quebec, and Provigo Corp. in California.

Oshawa and Univa said all employees of the business being acquired will be asked to continue in their present positions.

The Horne & Pitfield deal will close Sept. 8, subject to regulatory approvals and the delivery of certain information. Oshawa will acquire the IGA franchising rights in parts of Ontario and Quebec by Sept. 8, 1993.

Loeb announced yesterday that with the sale to Oshawa, most Loeb and Loeb IGA stores will change their name to Loeb Club Plus. The name change follows positive consumer response to the retailer's Club Plus low pricing scheme, said Loeb president William Kipp.

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