Edper begins to liquidate

Selling assets will buy the Bronfmans a little more time, but it will not save them.

The blowout of the Edper group of Canada's Edward and Peter Bronfman escalated sharply during the second week of February, with the sales of the group's large holdings in MacMillan Bloedel Ltd. and John Labatt Ltd., and the public expression of concern by Canadian regulators that Canada's banks and other financial institutions set aside sufficient reserves to cover their exposures to the various Edper companies.

The rush to sell assets indicates that Edper is having serious difficulty raising money to meet its debt payments and other expenses.

The Office of the Superintendent of Financial Institutions, Canada's financial services regulator, expressed its concern over the fate of Edper during the same week, by asking Canada's banks, trust companies, and insurance companies to provide it with full details of their exposure to companies in the Edper group.

The problems at Edper are worthy of such concern. Edper is Canada's largest corporate group, with 32 publicly held companies and 500 private companies which employ 100,000 people. With a nominal $78 billion in assets, Edper is roughly five times the size of the defunct Olympia & York Developments. But that asset base is shrinking fast.

On Feb. 9, Noranda Forest Inc. agreed to sell its 49.3% stake in Canadian forestry giant MacMillan Bloedel to a group of investment firms for $793 million. Noranda Forest is controlled by the huge Canadian natural resources company Noranda Inc., which is in turn controlled by Brascan, Edper's natural resources holding company.

The proceeds from the sale will be used to pay down some of Noranda's $785 million in debt, and to pay stock dividends to Brascan.

On Feb. 12, Edper announced that Brascan would sell its 37% stake in John Labatt Inc. for $775 million. Labatt is Canada's second largest brewer, and owns 90% of the Toronto Blue Jays baseball team.

The proceeds for the sale would be used to reduce Brascan's debt and would be available to invest in other Brascan affiliates, according to Brascan chairman Trevor Eyton.

Whereas a year ago, the Edper public companies accounted for some 10% of the market capitalization of the companies listed on the Toronto Stock Exchange, that figure is now down to 6%. During 1992, the value of the stock of bankrupt Edper real estate unit Bramalea fell by 90%, and stock in the Edper financial services company Royal Trustco fell by 65%. Similarly, the stock of Edper merchant bank Hees International Bancorp. dropped 47%, and the stock of Edper Enterprises, one of the group's top public holding companies, fell 46%.

Overall, the stock of Edper's public companies ended 1992 some 52% lower than their 1989 values, including a 90% drop at Bramalea (which filed for bankruptcy in December), an 88% drop at Trizec Corp., which currently owns 73% of Bramalea, and a 90% drop at Carena Developments, the Edper real estate holding company which controls Trizec. Royal Trustco dropped 86% during the period, and its parent, Trilon Financial, dropped 83%. Trilon is in turn controlled by Hees International, which heads Edper's financial services division.

Sitting atop the trio of main public holding companies (Brascan, Hees International, and Carena Developments), is the public Edper Enterprises, which is 19%-owned by Edward Bronfman and family, and 74%-owned by the private Edper Holdings. Edper Holdings is owned 51% by Peter Bronfman and family, and 49% by the publicly held Pagurian Corp. Pagurian is controlled by Edper's non-family senior managers, including Jack Cockwell, whom many consider to be the architect of Edper's rise and fall.

During the 1970s and 1980s, Edper grew rapidly through a series of takeovers, with the assets of each acquisition being used to capture the next victim. Using a technique called cascade financing, a company at the top of the Edper pyramid would issue stock; it would buy perhaps half the stock itself, and sell the other half to the public. It would then invest the proceeds from the public sale in a similar but larger stock offering by one of its subsidiaries. This process would be repeated down the chain of companies, allowing Edper to control a large empire with a relatively small amount of its own money.

This process, which appeared to work so well during the speculative boom of the 1970s and 1980s, turned nasty when the bubble popped and the stock dividend flows upon which the companies at the top of the Edper looting scheme depended for their income, began to dry up.

By selling off operating companies like Labatt and MacMillan Bloedel, Edper is buying itself a little time. But this cannibalization is a self-defeating strategy, since liquidated assets pay no dividends.