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Canaccord gets some heft with takeover of Genuity

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The combination of the two independent securities firms will add 'a lot more arrows in the quiver' to take on the investment-banking arms of the big banks

Canaccord Financial Inc. CF-T is buying Genuity Capital Markets for about $290-million, uniting two of the country's most prominent independent securities firms in a deal that addresses each company's weaknesses.

In a deal set to be announced Wednesday, Vancouver-based Canaccord will pay about $232-million of the price in stock and a small portion in cash, and Canaccord's executive management team will remain in place. Genuity chief executive officer David Kassie, who started the firm five years ago with a group of partners after a controversial exit from Canadian Imperial Bank of Commerce, will become chairman of the merged firm, and other senior Genuity principals will take on big roles.

"There are many shared strengths, but there are also a lot of complementary differences," said Paul Reynolds, Canaccord's CEO. As a result, the purchase should add to Canaccord's earnings immediately, he said.

The combination will give the firm more heft to go up against independent rivals like GMP Capital Inc. and the investment-banking arms of the large banks because the Canaccord investment bankers will have "a lot more arrows in the quiver," Mr. Kassie said.

Genuity is known as a top-flight adviser on mergers and restructurings, an area in which Canaccord has been lacking. Canaccord's strength is helping companies do stock offerings, and it has a network of retail brokers who can help sell shares to clients, something that Genuity doesn't have.

In fact, some firms such as Yamana Gold have hired Canaccord when raising money with share sales, but turned to Genuity for advice when spending the cash on takeovers.

Canaccord also tends to focus its banking and research on smaller companies, while Genuity's aims at bigger ones, leaving little overlap. There is also little duplication with the firms' biggest investor clients.
The deal gives a first peak into the finances of closely-held Genuity, which made major headlines in early 2005 when Mr. Kassie poached some key employees from CIBC, drawing a lawsuit from the bank.
Contrary to rumours that it has struggled, in its short history the firm has turned into a money machine for its 45 partners. Genuity earned $22-million in the past 12 months, a slow period for M&A, on revenue of $100-million. That's after payouts of $52-million in salary and bonuses.

The firm has been even more profitable in boom years, generating $228-million in revenue and $83-million in profit at its peak in the year ended Jan. 31, 2008, which was a huge year for bonuses. A handful of Genuity partners are said to have made more than $10-million apiece that year.
Based on the two companies' earnings for the past 12 months, the deal would increase earnings per share at Canaccord by about 15 per cent.

"It's at the low end of the mergers and acquisitions cycle," said Canaccord CEO Mr. Reynolds. "We feel it's a very attractive time to buy."

Mr. Kassie said Genuity probably could have fetched more than the acquisition price had it sold shares in an initial public offering, which the firm considered, but the combination with Canaccord offered so much upside it was irresistible.

"It's a material discount to where we would have gone public at, but we're way ahead" because of the added profit opportunities at Canaccord, Mr. Kassie said.

The Genuity name will live on in the brand that Canaccord uses for its investment-banking division, which will become CanaccordGenuity.