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DM MONTHLY REPORT
September 2024

SMALL POWER

Partway through the summer, Sleep Country Canada was bought by Fairfax Financial, marking the fifth acquisition of a DM stock position within a 12 month span. The good thing about buyouts is that to convince target company management and shareholders to accept such deals, a substantial price premium is usually required and, as the accompanying table illustrates, recent bids for DM holdings have followed this rule.

Why do DM positions tend to get acquired?

Throughout our history, we've had numerous stocks profitably disappear through acquisition. One explanation for this can be found in our investment philosophy and the corporate attributes that we deem attractive. Our process emphasizes valuation, cash flow growth, and management strength, with qualities such as pricing power, brand value, barriers to competition, and niche market dominance also contributing. Not surprisingly, these characteristics are also sought after by acquirers, who often find it easier to buy them than to build them.

COMPANY	TAKEOVER DATE	COMPANY VALUE (PRE-TRANSACTION)	DM PORTFOLIO WEIGHT	TAKEVOVER PREMIUM
Uni-Select Canada	Aug-2023	$1.8bn	2.5%	+19%
Neighbourly Pharma	Dec-2023	$543m	3.5%	+58%
Nuvei Corp.	Apr-2024	$4.1bn	8.0%	+45%
Cdn. Western Bank	Jun-2024	$2.4bn	2.1%	+110%
Sleep Country Canada	Jul-2024	$924m	1.8%	+28%
Average:		$2.0bn	3.6%	+52%

What role does manager size play?

In most industries, size is an advantage. When Boyd Group snaps up a mom & pop autobody shop, the cost of parts for that outlet drops significantly and every time Visa adds a user or a business to its platform, its network becomes a little bit more powerful. Investment management, however, is one of the few businesses where scale can quickly become a hindrance. This is because *the more money that a manager must invest, the fewer its options.* In other words, big managers are often restricted to buying the shares of big companies, with appealing investment ideas frequently bypassed due to liquidity limitations.

To illustrate what we mean, consider the following example. Let's say an investment firm has $50 billion under management (a significant sum, but less than the asset bases of Canada's large managers) and let's also say that it decides to take a position in the average company shown in the table below. If the manager wants to allocate 4% of its portfolio to the stock, it would have to buy the whole company (i.e. 4% of $50bn is $2bn). Even to establish a 2% weight, it would need to acquire half the company, an all but impossible feat in public markets. So, even if the manager loves the investment idea, it will likely have to skip it in favour of something larger, leaving this very lucrative hunting ground relatively open for smaller firms like DM.

And size can influence performance to a far greater extent than just boosting takeover probability. When we first bought Dollarama, for example, it was a $2.8bn company; today it's worth more than $37bn, or finally big enough to be bought by Canada's large investment managers. Though Dollarama remains a great company which we continue to own, *our clients really liked being able to catch the highest growth part of its life cycle!*