

**CEOs/Business Leaders Tend to Favour Companies'  
Legal Rights to Dual-Class Share Structures;  
Believe That Voting Shares Should Be Worth Many  
Times more than Non-Voting Shares**



**COMPAS Inc.  
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## 1.0 Overview

Members of the COMPAS business panel were asked for their general thoughts about dual class shares following the controversial deal for Magna to purchase Frank Stronach's voting shares for a large multiple in non-voting shares.

CEOs and Business Leaders on the panel have a moderate tendency to believe that dual-class shares should be allowed in a modern stock market—52% favour allowing the two class system while 34% are opposed. Panelists agree that voting shares should be valued at many times the price of non-voting shares—33 times more on average.

The small majority who favour permitting dual-class shares do so because of their belief in the freedom in a democratic society of non-governmental corporations to make contracts of their own design. Panelists nonetheless agree in varying degrees with three key criticisms of dual-class share systems, namely that

- ❑ Dual-class structures are non-transparent to retail stockowners, who may not fully understand that their shares are nonvoting or the limits on the value of their own shares(60% agree vs 16% disagree);
- ❑ It is too confusing to value properly the two classes of shares and too difficult to know the magnitude of the extra side-benefits that may accrue to those who own voting shares (56 vs 21); and
- ❑ Dual-class shares cause an atmosphere of mistrust that discourages retail investors from buying into the stock market (52 vs. 25).

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine under sponsorship of BDO Dunwoody LLP.



## 2.0 Details

Table 2a displays the distribution of panel opinion about the propriety of dual-class share structures; table 2b, attitudes to some criticisms of dual-class structures; and table 2c, the average estimate of how much a voting share should be worth in non-voting shares.

*Table 2a: (Q1) Controversy and court action with respect to Magna's purchase of Frank Stronach's voting shares have raised the issue of dual-class shares. Which of the following opinions is closer to your own?*

	%
In a democratic society, non-governmental corporations should retain the complete freedom to offer dual-class share structures if they wish.	52
Dual-class share structures with separate classes of voting and non-voting shares have no place in modern stock markets because they are neither efficient nor transparent.	34
Don't Know	14

*Table 2b: (Q2-4) On a 7 point agreement scale, how much do you agree with each of the following criticisms of dual class share structures?*

	Mean	7	6	5	4	3	2	1	DNK
Dual-class structures are non-transparent to retail stockowners, who may not fully understand that their shares are nonvoting or the limits on the value of their own shares.	5.1	26	22	12	12	2	8	6	11



*Dual-Class Share Structures - BDO Dunwoody Weekly CEO/Business Leader  
Poll by COMPAS in Canadian Business for Publication August 23, 2010*

	Mean	7	6	5	4	3	2	1	DNK
It is too confusing to value properly the two classes of shares and too difficult to know the magnitude of the extra side-benefits that may accrue to those who own voting shares.	5.0	29	18	7	13	7	7	7	12
Dual-class shares cause an atmosphere of mistrust that discourages retail investors from buying into the stock market.	4.8	24	19	9	10	9	9	7	12

*Table 2c: (Q5) Suppose the average publicly traded corporation purchased all the outstanding voting shares in the company by issuing nonvoting shares. For each voting share being acquired, how many nonvoting shares should the typical company in such a situation exchange?*

Mean	33.0
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The following verbatim comments provide a nuanced sense of respondent opinion:

Once a company goes to the public well for money, the rules change and dual share structures seem an attempt to retain much of the benefits of being a private company.

Non-voting shares in any one company should be strictly limited.

Lets be very clear, Corporations should have the ability to issue two share classes voting and non-voting. that being said it is the responsibility of the corporation to clearly detail exactly what this means to a purchaser. It is then up to the potential purchaser to decide to buy or not. I personally would not purchase non-voting shares ever; however I am



also tired of the uninformed buying shares and then crying to the governments for protection! sometimes you make money - sometimes you don't, you always have a greater chance NOT to make money when you are not an informed investor. it is called buyer beware.

Publicly traded companies with two classes of shares should be required to state clearly who has voting control and should be subject to different regulations, notably that if 80% of the owners of non-voting shares want to change the rules, they should be able to [translated from the French]..

I don't have a major issue with non-voting shares per-se - in some cases they can help an entrepreneurial company grow without fear of take-over. However I believe that if/when the company is sold, the voting shares should be exchanged at the same rate as non-voting shares as is the case with more recent issues of dual class shares. The Magna transaction is yet another egregious screwing of Magna shareholders by Frank Stronach.

Multiple voting right common shares is a difficult issue; on the one hand is free-enterprise - right to not buy a share vs. right to sell a restricted right share; on the other is the right of the Board to secure the long term commitment of a critical leader. I suspect the true cost of these shares only comes up when there is a change of control question, but big groups like Teachers should know what they are buying; stronger argument for retail investors to complain, but their complaint should in part be addressed to their stockbroker (if they are buying on-line without advice then they are on their own.)

If I buy a non-voting share I understand what it is. If I don't like that concept I just don't buy the share. Is that too hard to understand?

Having a couple of classes of shares in a company is normal and serves a variety of purposes and I'd be concerned if, because of Magna, the government suddenly wanted to add some legislation restricting companies in this area. It is truly



up to share holders to understand the ramifications of the restrictions on any shares before they purchase them.

### **3.0 Methodology**

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted August 17-20, 2010. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=98 are deemed accurate to within approximately 9.9 percentage points 19 times out of 20. The principal investigator on this study is Conrad Winn, Ph.D.

