Initial Public Offerings by Quebec Firms: the Current State of Affairs

CIRANO note based on a report written by Michel Magnan, Bryan Campbell, in collaboration with Laurence-Allaire Jean and Jonathan Wang, October 2014

In this study we seek to answer three questions. First, are Quebec firms underrepresented in Initial Public Offerings (IPOs) on Canadian exchanges? Second, what factors might explain any potential discrepancy between the relative population of Quebec, or its industrial production, and the percentage of firms headquartered in Quebec that undertake IPOs? Third, is there a need for the Government of Quebec to intervene with fiscal or budgetary measures?

With regard to the first question, a comprehensive quantitative analysis of Canadian IPOs conducted on the Toronto Stock Exchange (TSX) and the TSX Venture Exchange (TSXV) during the years 2003–2012 indicates that Quebec businesses are indeed underrepresented from several angles. In fact, with a few notable exceptions (Dollarama, BRP), Quebec firms have been virtually absent from Canada's IPO market since 2007. From an international perspective, we further observe that Canada's IPO market is much more cyclical than that of the United States. It is also more concentrated in energy and resources (vs. technology and transformation) and less profitable at the time of the initial launch. In the long term, acquiring and holding shares issued during IPOs has not proved to be a sound investment.

As to the second question, conversations with some fifteen actors on financial markets in Montreal and Toronto have revealed that IPOs are essentially perceived as one (of several) indicators of the health of the financial ecosystem. In other words, the degree of dynamism or stagnation observed on the IPO market directly mirrors the state of several other components of financial markets.

Consequently, any first impressions garnered from quantitative data on the IPO market might lead to false conclusions with regard to the true financial and economic situation of the underlying businesses. According to most respondents, several factors contribute to reducing the attractiveness of IPOs to business. These include, in particular, the increasing concentration of Canadian portfolio managers in a few large institutions, the greater distance between entrepreneurs and portfolio managers based (mostly) in Toronto, the preponderance of private or tax-advantaged capital in Quebec, and higher compliance costs incurred in association with being listed on exchanges. Other factors also include the ambition (or lack thereof) of Quebec's entrepreneurs and the risk attitudes of individual investors in Quebec.

While IPOs are not the only financing option available to firms having attained a certain level of maturity, our conversations clearly reveal that an active and dynamic IPO market is an essential characteristic of an active and dynamic financial centre, and the expertise and competencies required for IPOs are dissipated over time if they are not used. Consequently, some of the respondents expressed concern regarding Montreal's future as a financial centre.

Our recommendations follow from the findings in our quantitative and qualitative analyses and are designed to reinvigorate Montreal as a financial hub.

The full study (French only) is available on CIRANO's Website at:

http://www.cirano.qc.ca/pdf/publication/2014RP-09.pdf