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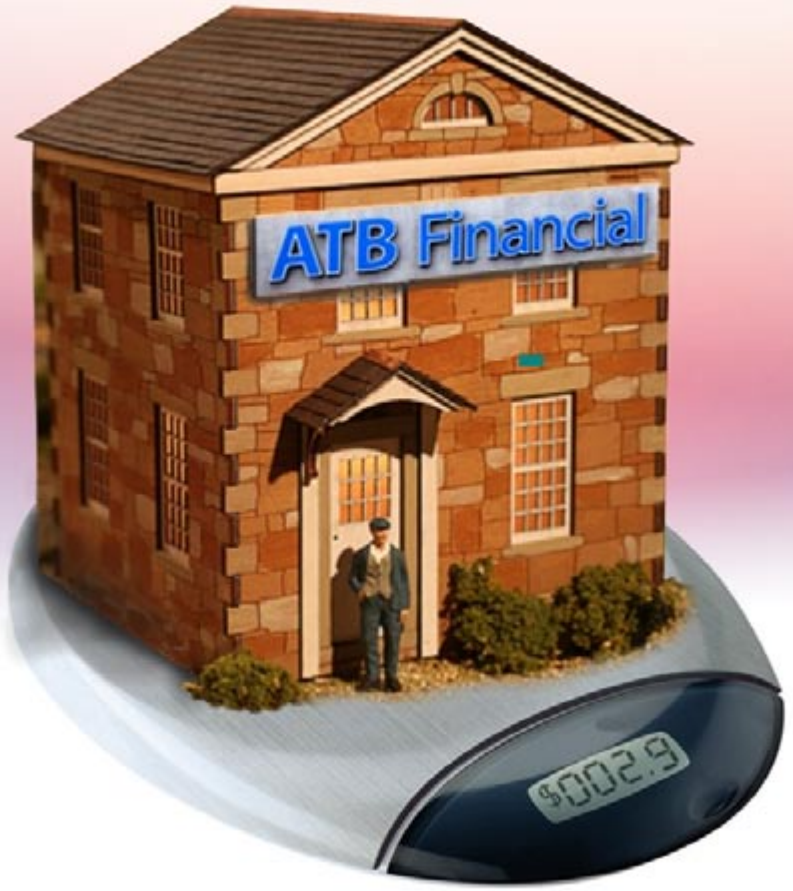

A Valuation Analysis of ATB Financial

By Ian Madsen, CFA

About the author

Ian Madsen is an investment and financial analyst based in Surrey, BC. He earned a BA in Economics from the University of Alberta and an MBA in Finance from the University of Toronto. He has managed institutional investment portfolios, lectured at colleges, managed investment research operations, and developed financial valuation models. For several years Ian was vice president at a U.S. investment research firm with extensive operations in India, where he worked and managed staff. He also ran his own investment counseling firm and advisory newsletter. He holds the Chartered Financial Analyst (CFA) designation and is a former president of the Saskatchewan and Edmonton CFA Societies.

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Preface

Many Canadians will be surprised to hear that the Government of Alberta, alone among the provinces, owns a bank, the Alberta Treasury Branch (ATB), currently marketed in the province as ATB Financial Group, (we've simplified this in this paper to ATB Financial, or just 'the ATB'). Its origins lie partly in the traditional western desire to have less central Canada control over the Alberta economy. And while the ATB has been a part of the many Alberta successes over time, times do change. We need to question whether government ownership of financial services business is necessary in a time of internet and smartphone banking and, more broadly, a vigorously competitive financial services market.

This paper continues a discussion began last year with the publication of Frank Atkins' paper, *The Role of Alberta Treasury Branches in the Alberta Financial Market.*

As Professor Atkins noted in his paper, the Alberta Treasury Branch was born out of a peculiar set of circumstances in the history of the province, and out of the ideological world view of the Social Credit Party that governed Alberta at the time.

ATB's monetary value is quantifiable to some degree, and its value has significantly been affected by the advantage of its public ownership: As Atkins wrote,

> *"ATB has enjoyed several market advantages that include not paying deposit insurance or paying lower rates for it, not having to pay taxes, having lax capital controls, and receiving government cash infusions when it has gotten itself into financial troubles because of its undisciplined ways. These many advantages, often lacking in transparency, have not provided the necessary incentives for ATB to maintain fiscal discipline."*

In other words, the ATB has benefited from hidden subsidies that come at a cost to the broader taxpayer.

Exiting the banking business would provide financial benefits to Alberta by eliminating these subsidies while providing a substantial one-time cash infusion from the sale of the ATB likely to another player in the financial marketplace. These proceeds would be available for spending on other priorities (like the reduction of Alberta's debt, or reducing its taxes) in the broader Alberta economy.

Exactly how much the ATB is worth in today's dollars is not easy to ascertain and one can only approximate its value conducting an analysis of its assets, which Ian Madsen adeptly does in this paper.

As such, this is the first published valuation of the Alberta Treasury Branch. We hope that it will encourage Albertans to think about the potential value that is locked in the ATB, and to spark a debate as to whether that value locked into the institution best serves Albertans where it is, or whether it should be used to better benefit Albertans in the smarter use of these valuable funds.

So, while this paper is meant to be the second part of what will become a trilogy of papers on the ATB, it also represents the beginning of a much broader discussion at the Frontier Centre which will identify and estimate the substantial asset values available for other uses that are presently locked, often for reasons of historical inertia, under state control in Crown Corporations.

Peter Holle, President
Frontier Centre for Public Policy

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Executive Summary

Alberta Treasury Branches, now called ATB Financial, is a banking institution formed in the first half of the twentieth century by the provincial government of Alberta. Crucial to any owner, when deciding on changes in strategy for a major operation, is to try to determine its value in its current going concern state. There are two ways to make such a valuation: using comparisons with other companies that are publicly listed and traded, and estimating an intrinsic value using the present value of the net cash flows that it generates.

In the case of ATB Financial, there are only two fairly comparable banking institutions in Canada that are similarly small—regional savings and lending institutions. Some comparisons can be made with the large chartered banks, but there are limits to such comparisons, owing to the major differences in scale, nature of operations, and geographic spread. Some smaller U.S. regional banks are partly more useful to compare with ATB. The valuation range, using established investment analysis methods appropriate for financial institutions, was estimated at between $1.994-billion to $3.044-billion.

As to the second valuation method, discounted cash flow (DCF) analysis, some judgments had to be made regarding appropriate and reasonable rates of return, growth rates, and normal profitability or normalized current or recent cash flow. The valuation can be quite sensitive to those three main judgments. Using this DCF method, the value of ATB Financial is estimated at between $1.451-billion to $2.959-billion.

Introduction

This analysis attempts to arrive at approximations of the value of the ATB, a provincial crown corporation owned by the Alberta government, and thus the citizens of Alberta. Every organization needs to review what it could or should do to serve its clients, and whether its present array of assets is appropriate for its strategy and its future operations.

Generally, *if there is not a compelling reason* for a government to directly participate in the economy via an enterprise that it owns (either in whole or in part), then the capital, or funds, invested in that enterprise are nearly always better used to generate higher returns by being returned to the public.

The valuation of the ATB thus offers to Albertans, policy makers and the Albertan public at large, crucial information. This information may be used to assess the opportunity costs of keeping the ATB, and concerned Albertans can then better decide what they may need to forgo, in terms of provincial programs and services, for the sake of retaining ownership of the ATB.

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Comments on the two valuation methods used

Market-based Valuation of the ATB

The best *probable* estimate of the total market capitalization, that is, the total value of the company traded on a public stock exchange, is **$1.994-billion to $3.044-billion.** This conclusion was reached using comparison companies, with the closest peers being two Canadian regional banks, but large Canadian chartered banks and several smaller, but profitable U.S. regional banks have been used.

Intrinsic, Discounted Free Cash Flow Valuation (DFCF) of the ATB

Using this method, the *probable range of value* for ATB Financial is **$1.451-billion to $2.959-billion.**

The lower figure is based on the average of two projected adjusted free cash flows that in turn were projected into the future at a growth rate of 2 per cent and then discounted to present value at 10 per cent. The higher figure uses the same projected adjusted free cash flow average that in turn was projected into the future at a growth rate of 4 per cent and then discounted to present value at 8 per cent. Other methods, estimates and the use of the Dividend Discount (or Gordon) Model arrived at figures that were far below the numbers given above.

Adjustments to cash flow were required, as there were a number of unusual trends or circumstances evident in the financial performance of the company in both recent and earlier years.

As a caveat, note that neither of the valuation ranges above constitutes a private market value that a corporate acquisitor may pay, and thus have the benefit of synergies, cost-cutting, asset disposal and optimization, and perhaps the use of previous years' tax-free losses.

Note: For details, please read the entire study, which follows this section.

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Comments on analysis of ATB Financial assets

The financial analysis of a not-publicly traded entity (whether it is owned by a government body or agency, or controlled by individuals, a family, or other private group) is more challenging than one conducted on a publicly traded commercial enterprise.

Metrics used in valuing a publicly traded company may not be applicable, or some data may not be available.

This analysis makes no effort to assess or adjust the financial data for any public policy or other aspect of the strategy or operation of this entity, as it is difficult to separate the effects of any non-commercial actions from those that would also be done by a similar commercial entity.

This analysis incorporates some assumptions and projections. All are elucidated, although a few may have been inadvertently omitted. Comments are also inserted in the spread sheet files showing details of the calculations and how and why they were done the way they were (due to limitations they are posted online in the Appendix to this paper, at http://www.fcpp.org/publication.php/4044).

All the estimates and the final estimated valuation of ATB Financial are just that: estimates. They should *not* be taken to be definitive, authoritative or unassailable, and they can be open targets of legitimate, alternative valuation by other analysts using other techniques, assumptions or both.

Since the valuation analysis is not definitive, the possible values of the firm, whether using market comparators or intrinsic valuation methods, are given as *ranges only,* not single numbers.

It is useful to remember that the market valuation of a company that is listed on a public stock exchange can vary widely, even wildly, from day to day, week to week, month to month, year to year or even within one trading day. Since even a public market-determined share price is not an eternal verity, the possible value of the company in this study should not be given in a single number.

Consider however, that this study will make no attempt to estimate or include any pension, other value impairment or derivative, or other liabilities or contingent liabilities, that have not already been fully discounted and included in the main income, financial position, cash flow statements (or any other estimate of liabilities or assets) that could augment or detract from the valuations that were calculated.

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Summary of findings

Market-based Valuation of ATB Financial	Intrinsic (Discounted Free Cash Flow—DFCF) Valuation of ATB Financial
A range of $1.994-billion to $3.044-billion The lower figure is based on peers' Price to Earnings, or P/E, ratios; the higher figure on Price to Book Value, or P/B or P/BV ratios, using adjusted net income for ATB Financial.	**A range of $1.451-billion to $2.959-billion** The lower figure is based on the average of two projected adjusted free cash flows that in turn were projected into the future at a growth rate of 2 per cent and then discounted to present value at 10 per cent. The higher figure uses the same projected adjusted free cash flow average that in turn was projected into the future at a growth rate of 4 per cent and then discounted to present value at 8 per cent. Other methods, estimates and the use of the Dividend Discount (or Gordon) Model arrived at figures that were far below the numbers given above.

Comments on Market Valuation Analysis

ATB Financial is not a publicly listed company. The market metrics analysis uses standard valuation metrics for public companies and banking holding companies to establish a probable range for a company's equity, or common shares, were it to be publicly listed, in whole or in part.

As in the Intrinsic (DFCF) Analysis following this section of the study, adjustments were made to take account of the firm's current recovery of losses previously recognized and booked on its investments in value-impaired and illiquid asset-backed commercial paper. Effectively, the losses and then gains from recovery were netted out. The recovery amount was removed from net income for fiscal 2011 and losses were added back into prior years, where necessary. Ordinary loan losses were retained, as they are a normal part of the banking business.

Parenthetically, the ATB only began making a payment in lieu of income tax to the Alberta provincial government in fiscal 2010. Hence, adjustments were made to the annual financial statements of the company for prior years. That does not affect this, the market valuation analysis, but it does affect the next section.

For the market valuation, appropriate comparison companies needed to be chosen. As ATB Financial is, in essence, a bank, only banks were used for comparison data. As it is a small regional entity, the most appropriate comparison for the ATB is against similar Canadian regional banks.

However, there are only two of these.

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Therefore, the comparison sample was expanded to include the large Canadian chartered banks, and solvent, profitable regional banks in the United States that did not exceed US$4-billion in market capitalization. Since U.S. banks have different regulations, reserve requirements and taxation regimes, some caution needs to be exercised in making direct comparisons with Canadian banks of any size. In addition, the recently ended financial crisis has depressed net income for many of the U.S. banks and forced them to issue common equity, which may have, at least temporarily, distorted some of their financial and valuation metrics.

Nevertheless, in some ways, they are better vehicles for comparison than are the large Canadian chartered banks, which are much more involved in national and global capital markets, financial derivatives, insurance and other activities that smaller regional bank holding companies are not.

Looking at return on assets, return on equity and revenue or net income per branch or employee, the ATB performs worse than average when compared with all the comparison groups. Hence, it is justifiable to use, wherever available, the lowest of a range of comparison valuation ratios that arise from using the valuation metrics to estimate the ATB's market value. This is reinforced by the non-financial expenses and net income growth trends, both quite low compared with revenue growth, the latter being troubling. When a firm by several measures is not operating as efficiently or growing as quickly as its peers are, it will tend to have a lower valuation in the stock market.

Looking at the final financial metrics used for the ATB, Price to (Trailing) Earnings (Net Income), Price to Sales (or Revenue), and Price to Book (Value), it becomes evident that there is a wide range of possible values.

As the Price to Sales ratios yield comparatively much higher values (and, as noted earlier, this analysis is intended to be conservative), the Price to Sales ratio set of values is removed, leaving the other metrics, shown below in Table 1 that details the results.

TABLE 1

Market Value of ATB Financial Using Valuation Ratios for Peers (per millions $Cdn)

Valuation Metrics Applied to the ATB	Trailing P/E (Market Value to Net Income)	Price to Sales	Price to Book Value
Average Big Six Canadian Banks	$ 2,192.17	$ 3,372.19	$ 4,091.67
Average CWB & Lrtn	$ 1,994.16	$ 3,458.79	$ 3,044.20
Average Canada	$ 2,142.66	$ 3,393.84	$ 3,829.80
Average U.S. (18 regional banks)	$ 2,886.07	$ 3,735.56	$ 2,904.54
Average of all above	$ 2,648.18	$ 3,630.42	$ 3,189.23

Note: CWB is the Canadian Western Bank, and Lrtn is the Laurentian Bank.

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As can be seen in Table 1, the large Canadian chartered banks could have inflated values on a Book Value basis, and the U.S. regional banks could have inflated values on a Trailing P/E basis, especially as the latter have had volatile earnings experiences—their net incomes in many cases are still recovering from the financial crisis of 2008-2009.

The large Canadian banks are also accorded a higher valuation than Canadian or U.S. regional banks, owing to their geographic and business line diversification, and their size and stability.

In Table 1 the figures highlighted in yellow, using the ratios for the Canadian regional banks, show a more reasonable, conservative valuation for the ATB, *in light of its below-average operating performance.*

To summarize, here is the best *probable* estimate of the likely total market capitalization; that is, the total value of the company traded on a public stock exchange: $1.994-billion to $3.044-billion.

Comments on Intrinsic Value

As mentioned earlier, the net income of ATB Financial was adjusted to eliminate the recoveries, or losses, on the investment in asset-backed commercial paper and to make net income fully taxed in the years prior to fiscal 2010.

The balance sheet items were not adjusted.

Generally, when calculating an intrinsic value for an enterprise, one needs to estimate an appropriate discount rate to apply to the free cash flows the entity generates and a reasonable, sustainable, constant growth rate for those cash flows into the indefinite future.

Operating cash flow is net income adjusting for changes in working capital and adding back non-cash charges such as depreciation and amortization. Free cash flow, or FCF, is simply operating cash flow minus purchases of fixed assets.

The discount rate is usually the required rate of return; that is, the rate of return that the investor requires that would make purchasing all or part of the enterprise attractive. This varies from individual to individual, institution to institution and company to company. Therefore, a range of discount rates must be employed in the analysis.

Commonly, the future cash flows are estimated by projecting all major cash inflows and outflows for the next several years and discounting them to the present in one aggregate amount. However, the recent, as well as long-term trends in those cash inflows and outflows can be variable and inconsistent.

When it comes to growth rates, the ATB is a difficult case. Revenue and cost items are growing at different rates and fluctuate in different directions in different years. Net

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income is growing at a much different rate than free cash flow. In fact, free cash flow has been volatile and highly variable and tending to decline over the past several years, even as net income has been showing an increase.

To overcome these complications, an attempt was made to establish a relationship whereby free cash flow could be estimated reliably. These projections were based on free cash flow as both a proportion of equity and as a proportion of operating revenue. These seemed to be more stable and reliable than the actual most recent adjusted free cash flow, which seemed to be depressed. This average of FCF projections was used to estimate the value of the recent fiscal year free cash flow. It turned out to be substantially higher than the actual adjusted free cash flow, but, in some check or confirmation of the methodology, still substantially lower than the adjusted net income for the fiscal year. Essentially, since free cash flow is normally lower, the fact that this projection or estimate of it is also lower gives greater confidence that the estimation method has some rigour and thus one can have confidence in its results.

Operating expenses have been increasing at a faster pace than cash flow or net income. However, so has revenue. This could be the result of an upturn from the recent recession, the prolonged and extraordinary period of very low short-term interest rates, and the rebound in the oil and gas industry that is so important to Alberta, the ATB's market base. Interestingly, the imputed effective tax rate ATB Financial used to calculate its payment in lieu of tax to the Alberta provincial government turned out to be almost the exact average for all Canadian banks over the past five years. This tax rate was then used to compute the adjusted fully taxed net income for the years before fiscal 2010, when the company first applied it.

While free cash flow has been declining and net income increasing, in general, for slower growing, mature enterprises such as the ATB, free cash flow generally tracks net income in variability and in growth. If we take a cue from the growth rate in fully taxed net income, the probable ranges for growth in FCF go from a low of 0 per cent to a high of 5 per cent, with 2 per cent to 4 per cent chosen as the most likely range, despite a history of a declining trend in FCF, with some judgment that FCF can and will track net income in the future.

When it comes to discount rates and required rates of return, with the poor returns in the equity markets over the past decade, it can be argued that a reasonable prediction for long-term nominal (i.e., including inflation) returns, including any dividends, is roughly an average of 8 per cent, or perhaps lower, for a Canadian investor. However, an investor may demand or expect a higher rate, particularly since the banking sector has, excluding the 2008-2009 period, performed better than the overall Canadian stock market. So, a range of 7 per cent to 11 per cent was used, with a narrower range of 8 per cent to 10 per cent as the more likely true preference zone. Since riskless Canada long bonds are trading to yield about 4 per cent, the minimum risk premium an investor would likely expect would bring a required rate of return of at least 7 per cent for a smaller regional financial institution with somewhat below average operating and financial performance, such as ATB Financial.

The use of the average adjusted free cash flow projection estimates and the growth and discount rates discussed above give the results shown in Table 2 (next page), which illustrates the probable Discounted Free Cash Flow, or DFCF, valuations for ATB Financial.

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TABLE 2

Intrinsic (or DFCF) Valuation of ATB Financial Using Adjusted Free Cash Flow (FCF) plus Two Variations of Dividend Discount (Gordon) Model (DDM)

	Growth Rate	2.00%	2.00%	2.00%	3.00%	3.00%	3.00%	4.00%	4.00%	4.00%
	Required Rate of Return	8.00%	9.00%	10.00%	8.00%	9.00%	10.00%	8.00%	9.00%	10.00%
Adjusted Free Cash Flow II Projection Using Mean of Averages for Proportion of Revenue: A	$132,246.58	$2,248,192	$1,927,022	$1,686,144	$2,724,279	$2,270,233	$1,945,914	$3,438,411	$2,750,729	$2,292,274
Adjusted Free Cash Flow II Projection Using Mean of Averages for Proportion of Equity: B	$95,387.09	$1,621,581	$1,389,926	$1,216,185	$1,964,974	$1,637,478	$1,403,553	$2,480,064	$1,984,052	$1,653,376
Average of the Preceding Two Estimates, A & B: C	$113,816.84	$1,934,886	$1,658,474	$1,451,165	$2,344,627	$1,953,856	$1,674,733	$2,959,238	$2,367,390	$1,972,825
Net Income Fully Taxed and Removing ABCP Recoveries or Losses (for comparison only, not true DFCF: D	$169,716.00	$2,885,172	$2,473,005	$2,163,879	$3,496,150	$2,913,458	$2,497,250	$4,412,616	$3,530,093	$2,941,744
Actual Adjusted Free Cash Flow II: E	$43,363.00	$737,171	$631,861	$552,878	$893,278	$744,398	$638,056	$1,127,438	$901,950	$751,625
Average of the Preceding Two Estimates, D & E: F	$106,539.50	$1,811,172	$1,552,433	$1,358,379	$2,194,714	$1,828,928	$1,567,653	$2,770,027	$2,216,022	$1,846,685
Dividend Payout Using Adjusted Net Income, D and Average Payout of CWB, LB: Dividend Discount Model: G	$49,217.64	$836,700	$717,171	$627,525	$1,013,883	$844,903	$724,202	$1,279,659	$1,023,727	$853,106
Variation of Dividend Discount Model Using Figure Immediately Above, G, Averaged with the Average of Adjusted Free Cash Flow Projections, C: H	$81,517.24	$1,385,793	$1,187,823	$1,039,345	$1,679,255	$1,399,379	$1,199,468	$2,119,448	$1,695,559	$1,412,965

Thus, the probable range of value for ATB Financial is $1.451-billion to $2.959-billion.

The lower figure is based on the average of two projected adjusted free cash flows that are in turn projected into the future at a growth rate of 2 per cent and then discounted to present value at 10 per cent. The higher figure uses the same projected adjusted free cash flow average that is in turn projected into the future at a growth rate of 4 per cent and then discounted to present value at 8 per cent. Other methods, estimates and the use of the Dividend Discount (or Gordon) Model arrived at figures that were far below the numbers given above.

Note 1: The figures above are only estimates, and other analyses and analysts may find or calculate different values using other valid methods.

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Note 2: The range above is not a private market value, which a corporate acquisitor may pay and thus have the benefits of synergies, cost-cutting, asset disposal and optimization, and perhaps the use of previous years' tax-free losses.

Further Discussion and Observations

There can be a variety of reasons for the direct involvement of a regional, provincial, state, territorial, national, federal or even municipal government in an industry or endeavour. That involvement is always present in regulation that no industry escapes; sometimes it is in direct investment in a commercial or quasi-commercial service or enterprise.

Over time, the Canadian federal government and the Alberta provincial government have extricated themselves from direct ownership of various commercial enterprises, and few such corporations remain in the hands of these governments.

One of the last is ATB Financial, formerly the Alberta Treasury Branches. They were originally created to provide all citizens of Alberta with access to financial services, principally savings and loans, whatever their income, assets or location, however remote the latter may have been.

At the time the enterprise was founded, in 1938, some Alberta families, particularly rural ones, had little access to credit or the services of a financial institution of any sort. Rural transportation was bad and slow. It was difficult to get to in winter, during planting or harvesting or when rain made the roads impassable. Some distances were far and impractical.

Communication in those days was not universal, as not everyone had a telephone. It could be expensive to get a telephone and keep up service payments, and, of course, the internet had not yet materialized.

Telephone service is now ubiquitous and inexpensive. Financial transactions in person or by telephone can be easily arranged or pre-arranged with banks, credit unions and other financial institutions once a customer opens an account or contracts for services. With the internet and mobile wireless devices, even more types of financial transactions, including securities and commodities trading, can occur without the need to interact directly with a live client-services associate.

ATB Financial still has agents in hundreds of small towns, who have local clients for whom they perform financial services. Many of those clients undoubtedly like to deal directly, and often personally, with someone they know and trust. This is one way ATB Financial could distinguish itself from its rivals in the competitive financial services marketplace, whatever form the ownership of ATB Financial takes.

Whether a government takes a direct stake in a commercial enterprise is a matter for taxpayers, voters and policy-makers to discuss, debate and decide.

The result of those deliberations and decisions will in some large measure be influenced by what some people think is a matter of political ideology. Some people believe in strong government involvement in the economy in some, many or all industries, sectors and markets. Others believe the opposite: that economic progress, growth and prosperity depend on the best use of natural, technical, commercial, financial and intellectual resources and that they need to be bid

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for in competitive fashion by as many economic actors as possible. In this way, it is contended, these resources will attain the highest possible value and the maximum return, from which the entire society will benefit, either directly or indirectly, through increased profit, tax revenue, employment, or efficient and cost-contained goods and services.

Rationale for Divestiture

While it is up to the people of Alberta, via their elected representatives, to decide if ATB Financial should be sold off or otherwise privatized and the proceeds used for the benefit of all Alberta's citizens and taxpayers, there are some established reasons cited for embarking on such a path:

1. The government has no real mandate directly to own or run a commercial enterprise. The provision of citizens' safety, security and justice are the government's primary roles, and its involvement in the economy should generally not extend beyond them.
2. Any public policy reason for the direct involvement in an industry can usually be accomplished by regulation. If regulation is not easily feasible, then a direct contract with or a subsidy to the affected individuals or entities may be more efficient or effective and less economically disruptive or costly.
3. A government-owned or -sponsored enterprise may compete directly with private sector firms, which are owned by or employ citizens, or with individual citizens, all of whom the government is supposed to serve, not disadvantage.
4. The government-owned or -sponsored enterprise may compete *unfairly* with its private sector rivals in that it has access to cheaper government-sourced and -guaranteed capital (debt). It may be allowed to have a much larger debt component in its capital versus that which would be tolerated in the private sector. It may not be required to meet high standards for profit and cost control, and it may not be required to pay provincial or federal income taxes. All of which may thereby allow it to subsidize or lower the prices at which it can sell its product or services and compete with private sector rivals.
5. Government-owned or -sponsored enterprises may not have any kind of profit orientation or target and may be used as public policy vehicles and be given preference in their activities or even transgressions, such as labour or environmental abuses.
6. Government-owned or -sponsored enterprises by virtue of being public sector vehicles overseen by bureaucrats and politicians may be places where favoured individuals find employment, particularly at management levels.
7. Since profit is a secondary goal of a government-owned or -sponsored enterprise, it is difficult to evaluate the effectiveness, efficiency and productivity of the enterprise or its employees. Consequently, these employees may not be very productive or effective.
8. Government-owned or -sponsored enterprises are often creations of historical and political circumstances

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rooted in specific times and outlive whatever use they may have had. Often, advances in technology, the modernization of transport, telecommunication or information technology, the evolution of the economy and available products and services, and increasing standards of living make these enterprises obsolete. In the private sector, firms and individuals must adapt and evolve or they decline.

9. Government-owned or -sponsored enterprises perpetuate their obsolete existences by virtue of the constituencies that build up around them: employees, managers, directors, bureaucrats, customers, suppliers and associated advocates and consultants. These directly concerned parties can lobby to keep the enterprise going despite dysfunction or losses. They are far more motivated to do so than taxpayers are, whose average cost is much less per person.
10. By virtue of not being profit oriented, government-owned or -sponsored enterprises are usually less efficient and thus they lower the overall efficiency of the entire economy. This can also make a whole nation less competitive versus its global rivals, whether nations or individual companies, and the effects are worse the greater the government involvement in the economy. This was taken to an extreme in 20th century communist states, which were unable to compete against capitalist companies despite immense direct and indirect subsidies, government support and the lack of a profit requirement.
11. Funds tied up in the capital of government-owned or -sponsored enterprises could be used to reduce government debt or lower taxes for individuals or corporations, which they can then spend or invest as they freely choose and inject the money back into the economy in more lucrative ways.

While it is possible that the citizens, taxpayers and government of Alberta would be better off, and better served, if ATB Financial became part of the private sector, the purpose of this study is merely to estimate the value that Alberta could accrue by doing so.

Pathway Options for Divestiture

There are several ways ATB Financial could be privatized:

1. Sell as is in the public equity, or stock, market in its entirety as an Initial Public Offering, or IPO. If this is done, it needs to be decided if ATB would have any restrictions, as it would under the *Bank Act (Canada).* This could slightly lower its potential value. These restrictions include no single owner controlling more than 10 per cent of the outstanding voting common shares, and it limits foreign ownership to 25 per cent.
2. Partial sale in order to have some government control or influence for a few years or even permanently and to ensure that the initial sale is not conducted at too low a price. Any follow-on or secondary offerings would then add to the total proceeds garnered and capture more of the total potential value.

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3. Sell to a large strategic buyer such as a bank or other financial institution. This could result in greater total proceeds to the government, as the rationalization and synergies the buyer could realize cannot be done by simply making an IPO.
4. Transfer ownership to AIMCo, the investment portfolio manager of assets for the government of Alberta. AIMCo would have to undertake ownership restructuring later and execute one of the above three actions.
5. Distribute ATB shares to each household, citizen, voter or taxpayer in Alberta for them to retain or sell in the stock market. This has been done elsewhere, and it is cumbersome and expensive.
6. Optimize the company as a fully commercial, profit-seeking and profitable financial corporation, and allow it to dispose of underperforming assets and extinguish liabilities, perhaps with the help of the government. Doing so would fetch the best possible price in the public marketplace, either from a strategic buyer or in the stock market, as in the first three points above.

These are only suggestions. Proceeds from an ATB sale could lower taxes, reduce the government's current or future debt, be used for needed spending priorities or to rationalize government and reduce costs or be added to the assets the government entrusts to AIMCo. Others could suggest yet more ways to remove the Alberta government from ATB Financial and thus allow the former to realize the financial benefits and the latter to realize its own destiny and freedom.

Appendix: Notes and Financial Data

This paper's Appendix includes complete Notes and further Financial Data via Tables 3 to 6, illustrating or enhancing several points made in our analysis. Due to the detail and size of these Tables we've posted them online, together with the Notes, at the Frontier's Policy Series section of our website. We encourage review of these Tables and Notes as they augment our analysis and complete the underlying accounting that is at the heart of this analysis. Please see:

http://www.fcpp.org/publication.php/4044

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Further Reading

April 2011

The Role of Alberta Treasury Branches in the Alberta Financial Market

By Frank Atkins

http://www.fcpp.org/publication.php/3721

February 2011

Reforming the Jurassic Crown

By Bryan Schwartz

http://www.fcpp.org/publication.php/3615

November 2010

Having it Three Ways: The competing interest of the investor, customer and employee in Saskatchewan's Crown Corporations

By David Seymour

http://www.fcpp.org/publication.php/3481

June 2010

Saskatchewan's Commercial Crown Corporation Dividend Policy

By Sheldon Schwartz

http://www.fcpp.org/publication.php/3310

For more see

www.fcpp.org