

Royal Group Draws Fire

Lower Profit Is Causing Shareholders To Question Old-World Management

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Old-world management is set to collide with modern corporate governance when **Royal Group Technologies Ltd.** welcomes shareholders to its annual meeting today.

Since the housing materials manufacturer went public in 1994, shareholders have mostly accepted with amusement the folksy, patriarchal management of Royal Group's controlling shareholder, founder and chief executive officer Vic De Zen. There is hardly an analyst or investment banker who, as one put it, hasn't been "lulled into a trance" by the Italian-born Mr. De Zen's rags-to-riches tale of transforming his small Toronto tool and die shop into a multinational company.

Few complained that Mr. De Zen, 61, awarded himself unusually large annual bonuses and option payments; that the the company's board was dominated by insiders; that there was scant disclosure about the profit performance of various divisions; or that few details were offered about product and asset sales, including the company jet, to members of the De Zen family.

Simply put, shareholders and analysts put up with Mr. De Zen's corporate incorrectness because Royal Group reigned as one of the fastest-growing businesses in the booming housing construction market.

But after a year of bad news, shareholders are starting to rise up.

A faltering housing market is depressing sales and profit margins, Royal Group's management has reduced its profit outlook four times this past year. Its stock price has tumbled 65 per cent to \$10.56 at yesterday's close. Last July, the stock was trading above \$31 a share.

Rubbing salt into shareholders' wounds, Royal Group disclosed that Mr. De Zen more than doubled the bonuses paid to himself and company president Douglas Dunsmuir last year.

"We have a big problem with this company. The compensation levels are totally out of line with its performance and has no bearing with corporate reality," said Robert Bertram, executive-vice president with the Ontario Teachers Pension Plan Board.

Last week, Royal Group announced key changes to its board and agreed to review nearly \$9-million in bonuses paid to Mr. De Zen and Mr. Dunsmuir, following private complaints from some pension and other fund managers.

But some analysts and investors say the company needs to address more fundamental problems. Specifically, they say they want Mr. De Zen to do away with controversial multiple voting shares that allow him to control 80.5 per cent of the company's votes while holding less than 20 per cent of all its voting and subordinate voting stock.

A number of analysts want Royal Group to be more forthcoming about the profitability of its various divisions.

"Vic needs to step back so that the company can move from the founding father to a professional

management team," said **Anthony Scilipoti**, executive vice-president with **Veritas Investment Research**.

Royal Group tried to soothe investors on a conference call last week, but Mr. De Zen's unvarnished style and broken English didn't help.

When another analyst urged the company to give more specific data about various divisions, Mr. De Zen interjected: "This company still making a lot of money. It's a good company."

Shareholders and analysts say they want more than Mr. De Zen's assurances. With the company operating at only 60 per cent of manufacturing capacity last year, investors remain unclear as to how the company can improve its output in a lacklustre housing market.

Other issues relate to the De Zen's family involvement in the company. Royal Group has made much of its sale of building material to a new Caribbean resort in St. Kitts. But until Dow Jones reported a year ago that the resort was being built by Mr. De Zen's brother and two nephews, shareholders had no idea about the family and corporate interconnections. Royal Group disclosed in its annual proxy circular last month that it sold its corporate airplane and certain land parcels for \$22.8-million to corporations affiliated with Mr. De Zen and a friend, but no details were provided.