

Building market: Doman shakes up CanWel

New CEO acquires competitor and creates Canada's largest building-products distributor

GLEN KORSTROM

Amar Doman brought huge changes with him February 1 when he took over as **CanWel Building Materials Income Fund's** (TSX:CWX, UN) CEO.

Before lunch, the head of the fund that sells home-renovation products to chains such as **Home Depot Canada**, **Rona Inc.** (TSX:RON) and **Lowe's** had:

- completed a \$110 million deal to buy Quebec's **Broadleaf Logistics Co.**, which doubled his company's size and made it the largest building-materials distribution company in Canada;
- converted his income fund into a corporation; and
- strengthened his company's balance sheet by finalizing a \$325 million senior line of credit with **Wachovia Finance Canada** and completing a \$575 million bought deal equity financing with **GMP Securities LP**.

Doman told *Business in Vancouver* that flush coffers will enable CanWel to make acquisitions, possibly some south of the border, in the next couple years.

The federal government ended its home-renovation tax credit January 31.

But Doman is optimistic that Canada's economic recovery and growing housing starts will keep building-product sales strong.

CanWel generated \$804 million in its 2008 fiscal year. The acquisition puts the combined entity, **CanWel Building Materials** (TSX:CWX), on track to generate \$1.4 billion annually. That will catapult it past **Taiga Building Products Ltd.** (TSX:TBL), which recorded just over \$1 billion in revenue in its 2008 fiscal year. Tai-



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ga is slated to report its 2009 earnings February 8.

Other large national building-products players include **Goodfellow Inc.** (TSX:GDL), which generated about \$437 million last year, and privately held **AFA Forest Products Inc.**

"When we started in the business, there was probably 30 distributors. We're now down to three or four national distributors," said **Cam White**, who will take over as Taiga president and CEO in April.

White was taken aback by the Broadleaf-CanWel pact because he thought his industry had absorbed enough consolidation.

"It was surprising that there would be a desire on either [CanWel's or Broadleaf's] part to make the acquisition happen," White said.

CanWel generates revenue from sales to retail outlets. The end customers are new home

developers (about 40%), consumers (about 40%) and industrial and commercial buyers (about 20%).

Analysts like CanWel's moves. They say the Broadleaf acquisition will help Can-

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- Catherine Siu, associate analyst, Canaccord Adams

Wel cut costs and streamline operations.

"The synergy potential of CanWel's Broadleaf acquisition is going to be huge," said **Canaccord Adams** associate analyst **Catherine Siu**. "They both have similar distribution centres in areas that are simi-

lar. It will be easy for them to close one down and get rid of that cost."

She believes CanWel could close up to 10 distribution centres.

Doman told *BIV* that CanWel has 12 distribution centres and Broadleaf has 16. He expects to shutter at least six.

Broadleaf will add 300 employees to CanWel's 700 workers.

Doman would not estimate how many people will be laid off as a result of the acquisition. But he pointed out that both Broadleaf and CanWel have been running distribution centres at 40% capacity. Doman wants to double that capacity and run some of his distribution warehouses 24 hours a day.

"We're the just-in-time delivery for the retail space in Canada. We ship to 7,000 retail points in Canada," said the 39-year-old *BIV* Forty under

40 winner and nephew of late forest-products icon **Herb Doman**.

CanWel income trust is converting to a corporation because the federal government plans to tax trust distributions beginning in 2011, which removes the advantage of the income-trust structure.

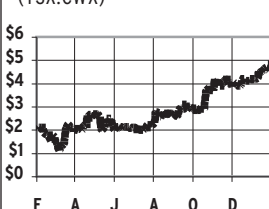
Doman said CanWel made the transition "early" because many investors are scared to put their money into income trusts.

"Investors will get something similar to what we were paying out before," Doman said. "For a trust, that's amazing. In a lot of these conversions, the distribution or dividend is being wiped right out."

The CanWel income trust formerly distributed \$0.50 per share annually to investors. Doman plans to replace that with quarterly per-share dividend payments that total \$0.40

CANWEL BUILDING MATERIALS INCOME FUND

(TSX:CWX)



Vancouver

CEO: Amar Doman

Employees: 758

Market cap: \$172 million

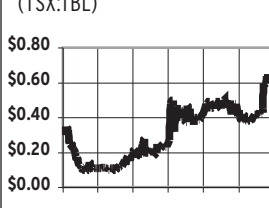
P/E ratio: 10.40

EPS: \$0.47

SOURCES: STOCKWATCH, GLOBE INVESTOR

TAIGA BUILDING PRODUCTS LTD.

(TSX:TBL)



Burnaby

CEO: Jimmie Bradshaw

Employees: N/A

Market cap: \$19 million

P/E ratio: 7

EPS: \$0.08

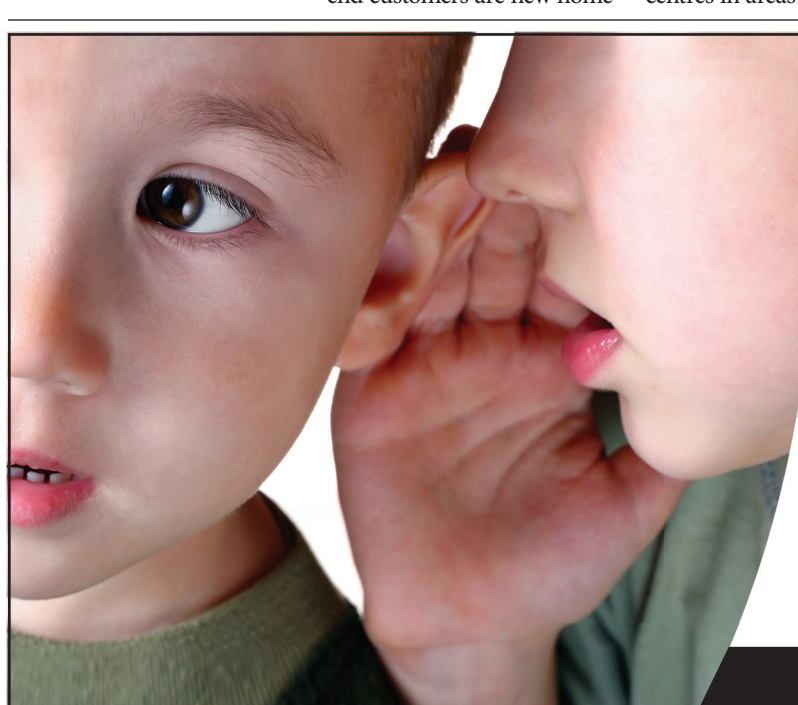
SOURCES: STOCKWATCH, GLOBE INVESTOR

per year.

Dividends tend to be taxed at a 20% rate whereas income trust distributions tend to be taxed at 33%, depending on individual circumstances.

Doman is the majority owner of B.C.'s 10th largest private company (ranked by revenue), **Futura Corp.** (*BIV's* Top 100 private companies list - issue 1025; June 16-22, 2009).

Doman told *BIV* that Futura generated \$1.4 billion in 2009 from its stakes in companies such as CanWel, **Tree Island Wire Income Fund** (TSX:TIL.UN) and **Hardwoods Distribution Income Fund** (TSX:HWD.UN). It also owns parts of other businesses that it does not disclose. ■ gkorstrom@biv.com



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