



Staff Report

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Report To:	General Government Committee		
Date of Meeting:	January 10, 2022	Report Number:	FSD-003-22
Submitted By:	Trevor Pinn, Director of Financial Services/Treasurer		
Reviewed By:	Andrew C. Allison, CAO	Resolution#:	
File Number:		By-law Number:	
Report Subject:	Obtaining Valuation of Elexicon Investment		

Recommendations:

1. That Report FSD-003-22 and any related communication items, be received;
2. That Staff be directed to procure the services of a business valuator for the purposes of determining an En Bloc Fair Market Value of the equity of Elexicon Corporation provided that the cost is equally shared between the Town of Ajax, Town of Whitby and the City of Belleville; and
3. That all interested parties listed in Report FSD-003-22 and any delegations be advised of Council's decision.

Report Overview

The City of Pickering is a shareholder in Elexicon Corporation. At its meeting of October 21, 2021, the City of Pickering announced plans to divest of its investment in Elexicon. As a shareholder, the Municipality of Clarington has the right of first refusal to purchase a pro-rata portion of the City of Pickering's shares. The first step in determining an advisable course of action for the Municipality of Clarington is to assess the value of Elexicon.

This Report seeks approval to single source a valuation expert and share costs with the Town of Ajax, Town of Whitby and the City of Belleville.

1. Background

Elexicon Corporation

- 1.1 The Municipality of Clarington is a shareholder of Elexicon Corporation, the parent company of Elexicon Energy and Elexicon Group. Elexicon Corporation is owned by municipal shareholders as follows:

Municipal Shareholder	% Share Ownership
Town of Ajax	21.83%
City of Belleville	9.04%
Municipality of Clarington	9.25%
City of Pickering	27.88%
Town of Whitby	32.00%

- 1.2 At its meeting on October 21, 2021, the Council for the City of Pickering passed resolution #694/21 directing City of Pickering staff to undertake phase two works (proposed divestiture of its Elexicon investment) and engage Deloitte LLP.

- 1.3 The other shareholders have a Right of First Refusal for any offer received by Pickering from a third party for the purchase of its shares. The other shareholders have 120 days to buy the shares or forfeit their right. The City of Pickering has not yet delivered a notice of an offer, so the 120 day time limit has not yet commenced.

Current Investment Returns

- 1.4 The following chart summarizes the return on investment of the equities held in Veridian and Elexicon from 2017:

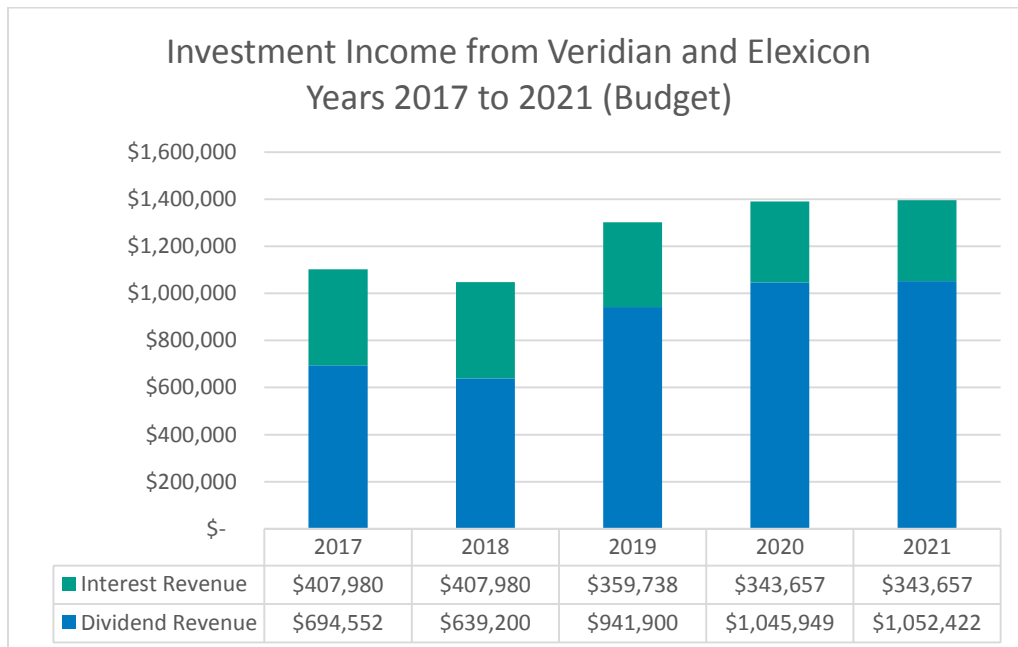
	2017	2018	2019	2020	2021
Dividend Revenue	\$ 694,552	\$ 639,200	\$ 941,900	\$ 1,045,949	\$ 1,052,422
Share Capital	10,546,621	10,546,621	10,546,621	10,546,621	10,546,621
Dividend Yield	6.59%	6.06%	8.93%	9.92%	9.98%

- 1.5 Part of the increase in dividends from 2019 to 2021 is due to the lower interest costs on the promissory notes. Lower interest expense increases net income, which can be provided to equity owners through dividends. Additionally, part of the increased dividend would be a return to the shareholders of the companies' retained earnings, which has accrued since inception. Dividends in the future will be based on Board of Directors discretion and the adopted dividend policy by Elexicon. Past performance does not guarantee future results.

1.6 The following chart summarizes the return on the promissory notes issued by Veridian and Elexicon since 2017:

	2017	2018	2019	2020	2021
Interest Income	\$407,980	\$407,980	\$359,738	\$343,657	\$343,657
Notes Receivable	8,321,000	8,321,000	8,321,000	8,321,000	8,321,000
Return on Investment	4.90%	4.90%	4.32%	4.13%	4.13%

1.7 Since the merger between Veridian and Whitby Hydro in 2019, the return on the promissory notes has decreased due to a change in the interest rate. Simultaneously, we have seen an increase in the dividend paid to shareholders. Overall, the investment income earned has increased from \$1.1mil in 2017 to \$1.4mil in 2021. The following chart shows the income the Municipality has received since 2017:



- 1.8 The above does not include the capital appreciation of the investment. Since its creation, Veridian, now Elexicon, has earned income in the business which has been reinvested to grow the company and create value. As the shares are not publicly traded, the two ways to determine the current market value of the equity are through an offer by a third party or through a business valuation to determine the fair market value of the equity. The equity appreciation, capital gains would only be realized upon the sale of shares.

2. Options to the Municipality

- 2.1 As a shareholder, the Municipality of Clarington can purchase shares from another shareholder (in this case, Pickering), sell its investment in Elexicon, or do nothing.
- 2.2 The first step for Staff to provide sound advice to Council on its options as an Elexicon shareholder would be to obtain an estimate of the current fair market value of the Elexicon shares. This opinion of value would be obtained from an independent business valuation expert.
- 2.3 It is crucial that a valuation expert be chosen that is independent of the previous merger activity. This will eliminate any potential bias and ensure an objective and independent opinion of value after the merger. Since many of the major business valuation firms had previous involvement in the merger process, it is Staff's recommendation that Council authorize a single source purchase for the procurement of these services.
- 2.4 It is proposed that Clarington would equally share the cost of the business valuation with Ajax, Whitby and Belleville. All four municipalities share a similar interest in this exercise, and all four would benefit from sharing in the cost. If the other shareholder municipalities do not agree to an equal cost sharing arrangement, Staff will seek further direction from Council.

3. Concurrence

This report has been reviewed by the Director of Legislative Services/Municipal Solicitor who concurs with the recommendations.

4. Conclusion

It is respectfully recommended that Council provide Staff with direction to proceed to obtain a business valuation of Elexicon to better inform the future decisions on share transactions.

Attachments:

Not Applicable

Interested Parties:

The following interested parties will be notified of Council's decision:

- Town of Ajax
- Town of Whitby
- City of Belleville
- Elexicon Corporation
- City of Pickering