

Donald and David Sobey: Sobey clan keeps it fresh by keeping it simple

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Published May 5, 2007 Updated March 27, 2017

Twenty-one years ago, Donald Sobey paid a lunchtime visit to his dying father, Frank, whose body was ravaged with cancer. The 83-year-old Nova Scotia supermarket titan was in his home, eating the only meal he could bear, a simple boiled egg.

The talk, as it often did, got around to business, and Frank was eager to impart some advice. "Donald, watch values," he said. He then cracked the shell of the boiled egg. "They can just crumble overnight."

That was the last conversation Donald had with his father. "He died that night," Donald, now 72, says softly. "I'll always remember that, and how things can change so quickly."

Their father's parting words about the transitory nature of financial value is something Donald and his brother David, 76, have carried with them all these years, as they built Sobeys into a national supermarket chain, the second-largest in the country.

It was on their minds over the past two weeks as the family holding company Empire Co. Ltd. laid out its proposal to spend \$1-billion to buy out minority shareholders of the family supermarket company Sobeys Inc. It underlined that while the Sobeys are known for conservatism, they can move quickly and opportunistically. They know that value is a fast-changing proposition.

Now more engaged in golf (David) and art (Donald) than in commerce, the brothers argue that they no longer call the shots - that is the job of the next generation, led by David's son Paul, the CEO of Empire.

But with effective control over 56 per cent of Empire's class B voting shares, in addition to another 29 per cent held by the family of their late brother Bill, they clearly hold a veto over every major decision in the organization. And the privatization bid is no different.

Donald says he helped approve the deal "as a director," and David adds: "As a shareholder" - one of a number of occasions where they finish each other's thoughts. In their view, the privatization proposal brought to them by Empire's management is a good investment for Empire, and a good deal for Sobeys Inc. minority holders, who were offered a 53-per-cent premium over the recent trading value - which had been depressed by intense supermarket competition in Canada.

The brothers like that it simplifies the structure in order to offer a cleaner story to investors. Two public companies become one. Empire becomes more strongly focused as a food retailing company, with a real estate component and smaller interests in drugstores and theatres. "I think the simplicity of going to market was a driving force," David says.

Some analysts over the years had criticized the complex structure of the two public companies as negative for shareholder value. Did the family bend to this outside pressure? Donald denies it: "I think that would be the last driving force. It would not even be a part of our decision making."

The deal also brings the Sobeys family closer again to its major operating subsidiary. The plan is have Empire remain a publicly traded holding company and the grocery unit a wholly owned operating company run by professional managers. But the Sobeys get one level closer to their major investment, and it shows employees that the family is still strongly committed to the food business.

But the search for value means a continuous reappraisal of assets. This is the second time the family has privatized Sobeys, the first time occurring 20 years ago. After the 1998 takeover of Oshawa Group turned Sobeys from a regional chain into a national force, the family took the stores public again - and they might just do it another time.

"Keep in mind that, hopefully, Sobeys continues to be successful, and opportunities come along," David points out. "Who knows, maybe it will be public again, and Empire will manage its debt down to a level where they can look at other opportunities."

The brothers came this week to Toronto from their homes in Nova Scotia's Pictou County to be inducted into the Canadian Business Hall of Fame. Their father was already a member. It is the first time two generations of a single family have made it into the hall.

The other factor in everything the Sobeys do is the supermarket wars, which pits their stores against onrushing Wal-Mart Stores Inc., Metro Inc. and traditional rivals, the Weston family, controlling shareholders of Loblaw Cos. Ltd. Loblaw is the largest Canadian grocer, but is weakened by a flawed diversification and management upheaval.

When it is suggested the brothers must be enjoying the disarray at Loblaw, David snaps: "Why would we enjoy it? We have to work on our own problems and fix them and push ahead. We need to do the best job we can, instead of worrying what competitors are doing."

Donald adds: "I never think our competitor is in disarray. They may have to change things but Loblaw is a great company."

Loblaw has had trouble executing a move into general merchandise to try to ward off Wal-Mart, and it took its eye off its once-dominant food business.

Meanwhile, Sobeys reaffirmed its commitment to its core food operations, which has allowed it to pick up some momentum.

"We had the talent at Sobeys to be able to do that," David explains. "If we were to try to get into another business like general merchandise, you need a completely different type of talent, people and mindset. We looked at that years ago, and said, no, let's try to focus on food and do the best we can."

Despite the stores' westward push, the brothers are not inclined to move the corporate head office out of their home town of Stellarton, N.S. That means Sobeys CEO Bill McEwan continues to be based in the small East Coast town.

The idea of moving the head office "is fighting language," Donald snorts. As for the CEO, "he has a nice plane to fly around in," David says.

But why stay in Stellarton? "That's where the shareholders are," Donald says.

Not all shareholders, perhaps, but the ones who matter the most.