

1 Q. Re: Page 49 Line 29: Provide the specific set of procedures and criteria
2 used for the selection of the Canadian industrial companies.

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5 A. Regulated companies are generally characterized by relatively low volatility
6 with respect to both earnings and stock market performance. Since
7 consumer-oriented industries, due to their demand characteristics, are likely
8 to exhibit relatively greater stability than other industries (e.g., extractive
9 industries), the initial universe selection was limited to consumer-oriented
10 industries (SIC codes 2000-3999 and 5000-5999).

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12 Stability of earnings, dividends and market prices were the principal criteria
13 governing the selection of low risk industrials from the universe. This
14 universe of 95 Canadian companies is comprised of all firms with (1)
15 sufficient historical book and market data over the study periods; (2) common
16 equity of \$50 million or greater; and (3) 125,000 common shares or more
17 traded annually (1999). From this universe, all firms that had cut their
18 dividends by more than 25% or had not paid dividends since the beginning of
19 the most recent point-to-point business cycle (1991) were eliminated, leaving
20 35 companies. The remaining firms were ranked by (1) the 1991-1999
21 coefficient of variation of book returns (standard deviation/average return on
22 book equity); (2) the 1991-1999 coefficient of variation of earnings before
23 interest and taxes (EBIT); (3) the five-year beta (1995-1999); and (4) the five-
24 year standard deviation of market returns (1995-1999). The companies were
25 then arrayed by their composite ordinal ranking. The final sample is
26 comprised of 17 companies, representing the lower half of the 35 companies
27 based on their composite ordinal ranking.