



Report on
Business

SATURDAY, AUGUST 15, 2020 | GLOBEANDMAIL.COM

CPP posts return of 5.6 per cent for quarter

B3

E-COMMERCE
Competition Bureau probes Amazon over ‘abuse of dominance’ **B3**

ROB CARRICK
DIY investor, 88, looking for robo or human adviser **B8**

[COVER STORY]



INSIDE MEDICOM’S SPECTACULAR SURGE

A little-known Canadian mask manufacturer has executed a global expansion over the past eight months. And even when the pandemic fades, it has a plan to keep business booming

SEAN SILCOFF

In the last week of January, Chinese authorities arrived at the Shanghai factory that makes surgical masks for Canada’s AMD Medicom Inc. The facility had shut for the Lunar New Year break, but with the COVID-19 pandemic spreading fast, officials issued a directive: crank up the machines immediately. They even bused in substitutes for vacationing workers to start making masks.

MEDICOM, B6

CHRISTINNE MUSCHI/THE GLOBE AND MAIL

Ontario courts’ digital push boosts public access

Thomson Reuters acquires CaseLines, which is part of the province’s pilot project

CHRISTINE DOBBY
CORPORATE LAW REPORTER

In a push to modernize the province’s court system spurred by the COVID-19 pandemic, Ontario is conducting a pilot project with a provider of digital court services, and plans to make a web-based search portal available to the public.

CaseLines, the U.K.-based digital court platform, was acquired last week by news and information provider Thomson Reu-

ters Corp. for an undisclosed sum. Courts in Britain have been using the company’s document- and evidence-sharing platform for years, and Toronto-headquartered Thomson Reuters said the deal is part of a strategy to offer legal solutions internationally.

The Ontario Superior Court of Justice, Canada’s largest trial court, with more than 50 locations, last week began a two-week test phase with the platform, which allows parties in legal proceedings to share materials of all formats online and lets judges and court staff access files electronically

during court appearances. This reduces the need to exchange the material in person, and facilitates virtual proceedings. The trial started with a downtown Toronto court that handles primarily commercial cases, and the court plans to roll it out across the province by the end of the year.

A wide range of legal stakeholders have long called for Ontario’s court system to join the digital era, but the goal took on heightened urgency as the pandemic drastically limited physical access to courts.

CASELINES, B4

Entertainment veterans team up to build massive e-sports platform









ANDREW WILLIS

A collection of entertainment executives, including the owner of the Vancouver Canucks, are combining forces to build North America’s largest e-sports platform, **Enthusiast Gaming Holdings Inc.** And the Trump and Biden presidential campaigns are taking notice of Toronto-based Enthusiast’s growing audience of gamers.

Enthusiast, which features NHL franchise owner Francesco Aquilini as its chair and a significant shareholder, announced a \$44-million cash-and-stock takeover last week of rival electronic gaming platform Omnia Media.

Enthusiast is buying the business from Blue Ant Media Solutions Inc.

ENTHUSIAST, B4

MARKETS			
 S&P/TSX	16,514.61	-15.45	
 DOW	27,931.02	+34.30	
 S&P 500	3,372.85	-0.58	
 NASDAQ	11,019.30	-23.20	
 DOLLAR	75.47/1.3250	-0.19/+0.0033	
 GOLD (oz.)	US\$1,949.80	-20.60	
 OIL (WTI)	US\$42.01	-0.23	
 GCAN 10-YR	0.61%	-0.02	

COMPANIES		
ALPHABET	B5	
AMAZON	B3	
AMAZON.COM	B4	
AMC ENTERTAINMENT	B9	
APPLE	B5	
BROOKFIELD RENEWABLE	B8	
CISCO SYSTEMS	B9	
CORUS	B12	
FACEBOOK	B4	
FRESHII	B2	
HORIZON NORTH LOGISTICS	B9	
SHOPIFY	B4	
STEIN MART	B9	
TESLA	B9	
WATEROUS ENERGY FUND	B3	

Corporate profits on mend after pandemic hits earnings

TIM SHUFELT
INVESTMENT REPORTER

As ugly as this earnings season has been, the second quarter saw Canadian companies pull off a minor miracle.

Despite the quarter’s colossal challenges – a once-in-a-century pandemic, the full weight of a global lockdown, entire industries shuttered, mass layoffs and possibly the worst global economic shock since the Great Depression – corporate Canada managed to eke out a modest gain in profits.

About 80 per cent of Canada’s largest publicly listed companies have now reported results for the second quarter, and total earnings are on track to rise about 8 per cent over the first quarter of the year.

U.S. companies, meanwhile, have just posted their biggest earnings beat on record, with more than 80 per cent of S&P 500 Index names blowing past analysts’ forecasts.

sts’ forecasts.

To be clear, this reporting season was awash in red ink on both sides of the border, and it will take several more quarters before North American earnings get anywhere close to prepandemic levels. But a corporate rebound is undeniably under way.

“It really is remarkable just how well the corporate sector has been able to weather this crisis,” said Adam Butler, chief investment officer at ReSolve Asset Management in Toronto.

The resilience of large corporations is the result of equal parts economic resurgence – as COVID-19 constraints have gradually eased since midway through the quarter – and, on the cost side, budget cuts and layoffs.

As long as the pandemic does not intensify to the extent that it requires another round of sweeping restrictions, a little over a year from now, U.S. and Canadian profits should be on the cusp of a full recovery.

EARNINGS, B4



SPORTS

BASEBALL The Jays are still not a good team, Cathal Kelly says **B13**

HOCKEY Canadiens roll over Flyers to tie playoff series **B13**

SOCCER Bayern Munich humiliates hapless Barcelona **B23**

WEALTH

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From left: Ouriel Levy, Medicom’s executive vice-president, commercial; founder and CEO Ronald Reuben; and president Guillaume Laverdure. The company from Pointe-Claire, Que., is launching an unprecedented global expansion. PHOTOS BY CHRISTINNE MUSCHI/THE GLOBE AND MAIL



Medicom: Company will spend \$100-million this year on capital expenditures

■ FROM B1

With the factory under temporary Chinese control, all output was diverted to meet domestic needs. While China paid for the products, the move left the company with a big problem: That plant manufactured more than half of Medicom’s annual global output of 1.1 billion to 1.2 billion masks – and the majority of those made in Shanghai were intended for export.

Medicom had faced a similar situation in China during the 2003 SARS outbreak, but this time things got worse. Within days, authorities in Taiwan also banned the export of masks made at Medicom’s local plant. Then, in early March, the French government requisitioned all production from the company’s factory in the Loire region, Western Europe’s largest N95 respirator-making facility. Masks couldn’t leave the country, even for other EU countries. Company executives weren’t allowed to transport so much as one box of masks out of France.

“They were one after the other,” Medicom chief executive Ronald Reuben recalls. “I sat back and said, ‘Our entire customer base has no product’ ... you’re just frozen.”

Around the world, trade norms gave way to every-country-for-itself as the pandemic spread, allowed by an exemption in the General Agreement on Tariffs and Trade permitting protective health measures. Germany banned exports of personal protective equipment (PPE). So did India, South Korea, Russia, the Czech Republic and Kenya. U.S. President Donald Trump moved to stop N95 mask exports to Canada in April before backing down; Medicom’s Georgia plant was its only facility ultimately unaffected by government intervention.

The onset of the biggest pandemic in a century left a world economy built on globalized supply chains unprepared and geopolitically fraught. While export bans, including China’s, have now eased, shortages of masks and other PPE globally are expected to last months – and the reverberations longer still.

“Masks have become the new oil ... full of politics and complexity,” said Stanley Bergman, chairman and CEO of Henry Schein Inc., the world’s largest provider of health care products and services to office-based dentists and doctors, and a Medicom customer. Countries “scarred by what happened with masks” will reconsider how they source other products, he said. “Free trade is more at risk today than” before COVID-19.

In the past seven months, Medicom – which also sells gloves, gowns, disinfectants, sterilized packaging and other infection-control products for medical and dental markets – has gone from being at the heart of the global tug-of-war for PPE to launching an unprecedented expansion. The little-known company from Pointe Claire, Que., has opened or announced factories in Canada – where it had no manufacturing facilities as of January – as well as France, Britain and Singapore on the strength of long-term supply

agreements with their governments. It has launched massive expansions of existing facilities in the United States, Taiwan and France. It is talking to other countries that also want domestic PPE plants, but “we can’t do everything and we can’t be everything for everyone,” Mr. Reuben said.

Nobody has lived through a pandemic like COVID-19, but the PPE industry’s past experience with SARS, H1N1 and Ebola viral outbreaks has gone like this: An outbreak happens. Countries scramble for PPE. Manufacturers add equipment to meet demand ... only to be left with excess capacity when the crisis abates. With Russia claiming it has a COVID-19 vaccine and others racing to follow suit, who knows how long Medicom’s moment might last. U.S. mask maker Prestige Ameritech Ltd. almost went bankrupt a decade ago after over-investing to service H1N1-related demand that abated sooner than expected. Medicom, too, was hit twice by making ill-timed investments. “The reality is that post-COVID there will be a graveyard of mask machines,” said Ouriel Levy, Medicom’s executive vice-president, commercial.

But Medicom’s leadership believes this time is different. “Things are going to stick,” Mr. Reuben said of life after COVID-19. “Masks, disinfectants, wipes, infection-protection protocols – all will have a bigger role to play in everyone’s lives.”

As a private company, Medicom shares little financial data – but what it did disclose to The Globe and Mail shows the significant scope of its current bet. It usually invests less than \$10-million a year on capital expenditures. In 2020, it will spend

\$100-million, funded mostly from its “solid” balance sheet, said Mr. Reuben, the company’s majority shareholder. That will increase its mask-making capacity by two to three times. It aims to build multiple factories and complete expansions in a few months each, half the normal time, while increasing employment by almost 40 per cent, to 1,500 people. The surge in demand for masks will boost Medicom’s annual revenue, trending at about \$400-million pre-pandemic, by hundreds of millions of dollars this year.

The expansion has raised questions. Medicom got a \$4-million loan from Quebec and is in talks to receive support from Ottawa’s Strategic Innovation Fund, said Innovation, Science and Industry Minister Navdeep Bains earlier this year. As Ottawa news site Blacklock’s Reporter first reported, Opposition MPs have asked why Ottawa awarded Medicom a single-source order – an unprecedented length for a deal of this sort – this spring to make 20 million N95 masks and 24 million surgical masks annually over the next decade when it didn’t have a Canadian factory. (Medicom subsequently secured a 60,000-square-foot facility on Montreal Island, flew in equipment from abroad and began production in July.)

Mr. Reuben said Medicom could have added the capacity elsewhere, but chose Canada “because we wanted to bring production here and take care of our own backyard.” In an April memo to Public Services and Procurement Minister Anita Anand, department officials estimated the 10-year deal carried a \$381.7-million value; a government source said the parties have only agreed on a firm \$94-million price for the first three years, with the balance subject to further negotiation based on Medicom’s costs and profit levels established in the original agreement. While the per-unit prices have not been disclosed, the source said it is “competitive” with pre-pandemic levels and cheaper than other options available to Ottawa. (The Globe is not identifying the source because the individual was not authorized to discuss the deal.)

The world will look much different in three years – at least we all hope so. But Mr. Reuben is betting the private and public sectors will continue to need higher levels of PPE and will support “resilient” supply chains where they have greater certainty of delivery from domestic or nearshored plants – even though it means higher manufacturing costs – and therefore higher prices – compared with relying on lower-cost China, where most of the world’s PPE manufacturing happens.

Support for shorter supply chains is a growing trend as worsening China-U.S. relations force economies to reassess their reliance on low-cost offshore production, no more so than for PPE. Pointing at his copy of *The World is Flat*, Thomas Friedman’s 2006 book about globalization, during an online interview, Mr. Reuben said: “The world doesn’t seem flat any more.”

So Mr. Reuben is upending how masks flow from factories to customers, anticipating Medicom will retain much of its pandemic business. But he’s also aware of the risk involved.

“The market is fickle. You’re dealing with governments and policies could change when things quiet down. That’s the biggest concern – we’re going to have a lot of capacity in the market, and how do we deal with that.”

‘Masks have become the new oil ... full of politics and complexity’

Stanley Bergman, chairman and CEO of Henry Schein

Morris Goodman was on his way to Florida in early 1992 when he called Mr. Reuben from an airport payphone in Montreal. The CEO of generic drug maker Pharmascience Inc., one of Montreal’s most prominent entrepreneurs, had never met Mr. Reuben, then 26. But he knew from a mutual contact that Mr. Reuben was a hard-working, driven entrepreneur with integrity – a *mensch*. He also needed money.

Mr. Reuben had co-founded Medicom four years earlier during the HIV/AIDS pandemic. Health care providers were advised by the World Health Organization and other bodies to wear gloves when treating patients, prompting shortages. Gloves “were liquid gold,” he said.

Sensing an opportunity, Mr. Reuben, who had dabbled in entrepreneurship as a teenager, opened the Yellow Pages and found a British company that made gloves in Canada. He quit his economics studies at McGill University. Along with a buddy, he began exporting gloves to the U.S., benefiting from a strong exchange rate. Medicom picked up large U.S. clients including hospitals and medical equipment dealers. But the business was undercapitalized and while Mr. Reuben sought expansion, he said his partner was satisfied just supplying existing accounts. By early 1992, Mr. Reuben wanted to buy out his co-founder and another minority partner. Having grown up poor as the son of divorced immigrants originally from Iraq, he lacked the funds. His deeper-pocketed co-founder wanted him out instead.

“He tells me a story, how desperate he is,” Mr. Goodman recalled. “The man was crying from the depths of his heart. He got to me.” Mr. Goodman, trusting his gut, had his office wire \$200,000 for a loan to Mr. Reuben – enabling him to buy out his partners. Upon returning he discovered Medicom’s books were a mess. It was losing money on every order. Mr. Goodman berated his staff in front of Mr. Reuben for letting him invest. The young man was near tears, believing his credibility was shot.

And then, Mr. Goodman invited him to Passover dinner. Mr. Reuben said he was determined to repay Mr. Goodman’s kindness and earn his trust.

Mr. Goodman, his controller and secretary moved into Medicom’s offices for a year, helping Mr. Reuben prepare a proper set of books, teaching him “a little arithmetic.” Mr. Goodman was his overseer and became a 50-50 partner (Mr. Reuben later bought part of his stake) and a father figure to the young man, the Pharmascience CEO said. “I’m not sure Medicom would have made it had it not been for this intervention,” said Mr. Levy, an early employee.

When rivals started buying up its suppliers in the 1990s, Medicom decided to manufacture its own products. Mr. Reuben found an industrial machine-builder in Augusta, Ga., named Herschel Pitts who sold Medicom his business in 1997 and stayed to develop its manufacturing operations.

By Medicom’s 20th anniversary in 2008 it had 400 employees and \$100-million in sales in North America, Asia and Europe, supplying a range of infection-prevention productions to giant medical and dental products distributors including Paterson Companies Inc. and McKesson Corp. It built its first plant in China in the early 2000s and then bought and turned around a struggling state-of-the-art medical packaging manufacturer in Taiwan.

It also learned some costly lessons by scaling up for outbreaks. The company installed extra capacity at its U.S. plant for H1N1 only to later mothball the unneeded machines. Medicom also overpaid for its French facility in 2011, buying a company that was coming down from epidemic-level H1N1 sales and about to shed business as governments opted for low-cost, offshore product. The French operation struggled with high costs. By late 2019, Medicom was considering exiting France and shifting production to North Africa – a move Mr. Reuben is happy he didn’t make.

Another what-if situation went differently: Medicom walked from an opportunity to buy a Mexican mask factory in 2019, which would have helped this year.

By the eve of the pandemic, Medicom had gained a reputation as a market-leading supplier of quality medical products with strong management, said Omar Allam, CEO of Ottawa-based global trade consultancy Allam Advisory Group. “It’s an incredible Canadian company that’s a leader across a lot of different products,” Mr. Allam said. “One thing you hope is that they don’t get it wrong.”

After several viral outbreaks and warnings about the inevitability of another scourge on par with the 1918-19 Spanish Flu, countries were supposed to be prepared for a pandemic.

Instead, many including Canada were caught out. The federal government-run emergency stockpile management system had thrown out millions of expired masks without replacing them. (It also shut its pandemic early warning system in 2019.) In February, the U.S. Department of Health and Human Services needed 300 million N95 respirators. It only had a stockpile of 12 million – and five million of them were expired. “Prevention doesn’t sell,” Mr. Reuben said. “It’s an afterthought. We learned over the past 32 years there are patterns and trends that repeat themselves.”

The global PPE shortage was exacerbated



‘The reality is that post-COVID there will be a graveyard of mask machines’

Ouriel Levy, vice-president, commercial, at Medicom

ed by Lunar New Year celebrations, which had shut down production and forced China to appeal to other countries for supplies – which those countries would later need themselves. Canada shipped 16 tonnes of PPE to China early this year in what now seems an ill-timed and fruitless attempt to improve diplomatic relations.

As governments bid against each other for scarce PPE, opportunists and profiteers emerged everywhere. Thousands of mask producers opened in China – but the quality was often “garbage,” Mr. Reuben said.

3M Co., a giant maker of N95 masks, said in July it was dealing with 4,000 cases of fraud, counterfeiting and price gouging. Medicom, which typically uncovers one counterfeiting case annually, has dealt with 15 to 20, including an order of six million fake Medicom masks bought by the Hong Kong government.

One of Medicom’s first moves as the pandemic took hold was appointing an emergency response team of senior executives around the world including Mr. Reuben. Calling themselves “The Breakfast Club,” they met daily online at 7 a.m. for 30 minutes to accommodate differing time zones.

As export bans took hold, Medicom expanded production in the U.S. and France and put its biggest customers on allocation, drawing down from inventories it stored in several countries.

Mr. Levy said Medicom “made sure we took care of existing customers” with an emphasis on those with long-term buying patterns. Those it couldn’t fully supply were okayed to buy from its rivals. That played well with long-standing accounts. “They knew that their product was good, high quality and they could trust that we would remain a loyal customer even if we bought ... from others during this period,” Henry Schein CEO Mr. Bergman said.

The company also stuck to long-standing principles by resisting the temptation

to hike prices or opportunistically divert supplies from long-standing accounts to higher-paying newcomers. By contrast, rival mask maker Segetex-Eif of France was caught sending supply intended for British and French agencies to higher Chinese bidders. The company was subject to a French judicial investigation for flouting the country’s requisition order, according to reports. “I’m very happy we did not do that [and] that we stayed true to who we are,” said Medicom president and chief operating officer Guillaume Laverdure.

Medicom’s expansion plan hatched in January, originating in discussions with Singapore’s government. The city-state didn’t want to rely on Chinese-based shipments anymore and agreed to a long-term supply agreement if Medicom would build a factory on the island. Securing a multiyear contract was key for Medicom, which didn’t want to repeat past mistakes by investing in capacity that wouldn’t be needed postpandemic.

“I decided, let’s talk to our own government and see if they’d [also] be interested,” Mr. Reuben said. “We started looking in different markets where we could work, where we had a presence and engaged with local governments.”

The Canadian government “was very responsive, very quick,” he said. The British government also signed a multiyear purchase order for 100 million N99-equivalent respirators (masks that filter 99 per cent of airborne particles) and more than 500 million surgical masks believed to be valued at about \$500-million. The U.K. deal enabled Medicom to build a plant there. In France, Medicom will move surgical mask production to a new facility while focusing on N95s at its existing plant.

The expansion will see Medicom’s Chinese output shrink to one-third of its total mask production from more than half. Chinese-made masks will increasingly service the local market. The plants in Canada, Britain and Singapore will each serve their home markets; Medicom’s Canadian facility has a capacity to make four times as many surgical masks and twice as many N95 masks as Ottawa is ordering, allowing the company to serve other customers in the country. A second French plant ensures enough supply for that country and other EU countries.

The U.S. plant is picking up business from existing American private-sector clients plus new customers “who all want to inshore production and have a U.S. option,” Mr. Laverdure said. “Our customers will de-risk their supply by not relying that much on China. We’re listening to what [they] require.”

With its long-term supply deals in hand, Medicom figures it can whistle past the overcapacity woes that will inevitably hit the industry and pick up business in new markets such as Ukraine, the Philippines and South America.

“Many [rivals] will disappear,” Mr. Laverdure said. “If you’re not set up to be efficient, organized, structured, when the market scales back to normal, it will be very difficult.”

Medicom’s plan has the support of a key lender, the Caisse de dépôt et placement du Québec. “Yes, there’s a risk, but they are in various geographic markets and verticals,” said Geneviève Bouthillier, managing director, private mid-market companies with the pension giant. “It’s a pretty manageable risk.”

But it’s still a bold strategic bet for Medicom. Like many decisions made by businesses amid the economic fog of the pandemic, it has everyone involved holding their breath.

“When he started doing all this expansion I told Ron, ‘I want you to think about this,’” said Mr. Pitts, the Georgian machinist who is now semi-retired from Medicom. “Just be aware, if everything goes away what are we going to do? He’s very smart [to sign long-term supply deals] but he’s brave. He’s spending a lot right now. I told him we want to be doggone sure we keep those machines busy after this crisis is over.”