Could a Jean Coutu Group PJC Inc. & Metro, Inc. Merger Be on the Horizon?

Description

With increasing difficulty in the grocery retail space and unfavourable, changing dynamics in the pharmacy business in Quebec, come rumours that two Quebec-based businesses — **Jean Coutu Group PJC Inc.** (TSX:PJC.A) and **Metro, Inc.** (TSX:MRU) — could potentially merge as a market share move to take on larger rivals such as **Loblaw Companies Ltd.** (TSX:L).

Among the catalysts which have been touted as potential drivers of such a deal are the successful integration of other large Canadian pharmacy chains with grocery retailers, most notably, the Shoppers Drug Mart integration with Canada's largest retailer Loblaw in 2013.

In the race for Canadian market share, pharmacy chains are often looked to as complementary businesses for grocery retailers, and the integration between two firms such as Jean Coutu and Metro would make sense from that standpoint.

Another major consideration that has been put out there as a reason why a potential friendly merger between these two firms may materialize is that both Metro and Jean Coutu are based in Quebec and have primarily served the Quebec market since inception.

Combining two Iconic Quebecois companies would prove to be a much easier exercise than a merger with firms operating primarily outside Quebec for obvious reasons.

Potential deal killers of such a merger remain, and one major one that has been pointed to is the fact that Jean Coutu's founder, (you guessed it) Jean Coutu, is 90 years old and is unlikely to give up control in an empire which has been built over decades; after all, the company, like many other Canadian publicly traded firms, has a dual-share voting structure in which the Coutu family still owns a majority stake in the voting rights of the Coutu chain.

If Mr. Coutu doesn't want a partnership, no partnership will be had. Good or bad, this is something that is simply out of everyone's control.

Another major consideration is that it may simply not be the right time to merge, given the recent dip in Jean Coutu's share price. While shares have rebounded approximately 5% from a dip experienced earlier this month, Jean Coutu's share price remains more than 12% below its 52-week high, making a deal much less attractive for Jean Coutu at current levels.

Bottom line

Jean Coutu's pharmacy business took a blow this past week with the announcement that the Quebec government would be cutting its generic drug budget by about 35%.

Jean Coutu's generic drug business, Pro Doc, is likely to be seriously hurt by these regulations, with brand-name drugs likely to pick up much of the slack left over.

I would wait to see how things shape up before making any sort of moves on either company, given the level of uncertainty that remains in the Canadian pharmacy/grocery space currently.

Stay Foolish, my friends.

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