



national
union

series

Corporate Profile
of Laidlaw Inc.

January 1999

LIDLAW INC.

Introduction

Laidlaw Inc. provides passenger services, including education transportation service and tour and transit services, in the United States and Canada. Laidlaw also provides emergency healthcare services, including healthcare transportation and physician practice management services, in the United States.

Laidlaw employs some 80,000 people. Originally called Laidlaw Motor Leasing Limited, Laidlaw is traditionally identified with garbage and waste management (an industry it first entered in 1969). As discussed later on, the company's connection to that industry has changed in some significant ways.

In 1998, passenger services and emergency healthcare services each constituted about 45% of Laidlaw's revenues; while hazardous waste services accounted for around 10%. Laidlaw is the largest participant in each of the industries in which it operates.

Laidlaw is a Canadian company, with head offices in Burlington, Ontario. However, over 90% of the company's business is in the United States. Laidlaw is listed on the New York, Toronto, and Montreal Stock Exchanges. The company has 6,400 shareholders, who hold almost 330 million shares. Two hundred and seventy-nine institutional investors hold almost 40% of those shares.

Note: This is an updated version of a February, 1997 National Union study of Laidlaw. The company has gone through some significant restructuring over the ensuing two-year period. As such, readers familiar with our earlier study will note that for the most part, this one differs substantially from that earlier version. In a similar vein, the news reports on the company³ which comprise the last section of this document³ only include material that is relevant to current operations.

Passenger Services

The company provides passenger services, primarily under the names Laidlaw Transit, Mayflower Contract Services and National School Bus Services in the United States; and Laidlaw Transit, Charterways, Greyhound, and Grey Goose Bus Lines in Canada.

A special meeting of Greyhound's board must approve Laidlaw's October, 1998 acquisition of Greyhound Lines Inc. of the U.S., a \$650 million transaction. News reports indicate that this will likely occur in January, 1999. Greyhound Lines is a separate company from Greyhound Canada Transportation, acquired earlier by Laidlaw. Greyhound Transportation split off Greyhound Lines ten years ago.

School Buses and Special Education Vehicles

Laidlaw is the largest school bus operator in North America. It has contracts with 66 school boards and districts in Canada, 1,050 in the United States, and various other educational institutions. Laidlaw provides transportation for approximately 2.2 million students each day. The company also uses its school bus fleet for charter purposes.

Municipal and Inter-City Transit, Charter Bus and Other Services

Laidlaw provides services to 232 municipal transit customers in the United States and Canada. It is the largest operator of para-transit services in the United States; and also operates fix-route transit, scheduled daily bus and parcel express services. The acquisition of Greyhound significantly expanded Laidlaw's inter-city bus operations.

Employees

Approximately 55,000 of Laidlaw's employees provide passenger services; 20,500 of these workers are unionized.

Emergency Healthcare Services

Laidlaw entered the healthcare transportation business in 1993. During 1998, the company significantly expanded its operations through the acquisition of EmCare Holdings Inc., Spectrum Emergency Care, Inc., and 20 other businesses. The 1998 acquisitions were primarily physician practice management businesses.

Laidlaw provides healthcare transportation services primarily under the name American Medical Response (AMR); and physician practice management services,

primarily under the EmCare name. AMR is the result of the consolidation of over 100 smaller companies—which in turn merged with Laidlaw Inc. Med Trans in 1997. Laidlaw's President, J.R. Bullock, recently said that Laidlaw has moved beyond healthcare transportation into the broader emergency healthcare industry. While transporting patients will still dominate Laidlaw's healthcare activities, Mr. Bullock says that the company is now positioned to plan and co-ordinate a broad range of healthcare activities within health maintenance organizations and the wider healthcare system. He also brags that Laidlaw is now in an "unassailable" position in terms of expanding the emergency healthcare side of the business¹.

Healthcare Transportation Services

Laidlaw is now the largest provider of healthcare transportation services in the United States, operating from locations in 39 states. It also operates in Ontario. These services consist of critical care transportation services, non-emergency ambulance and transportation services, and emergency response services. The company provides 5.8 million ambulance transfers annually. Laidlaw now has more than 300 agreements with municipalities or counties to provide performance based contracts for 9-1-1 response. It also provides joint training, shared staffing and stationing arrangements and contracted dispatching. Laidlaw enters into contracts with integrated healthcare delivery networks to provide turnkey managed healthcare transportation systems. The company also provides on-site medical care and transport services for all types of special events.

Among the subsidiary companies worth noting is AMR Pathways. Pathways' goal is to "provide the bridge between public safety response and healthcare". According to the company's literature, by calling one number, health care consumers access their own "personal healthcare system". Call management "specialists" then determine the type of care, and health care worker, appropriate to the situation. This helps "save dollars by reducing over-utilization" of the health care system. AMR Pathways now operates in three states, and plans to go national in the United States.

Physician Practice Management Services

Laidlaw provides physician practice management services to hospital based emergency departments. The company recruits physicians, evaluates their

¹ In a speech delivered to an institutional investors conference, Mr. Bullock said that the emergency health service market in the U.S. is worth \$40 billion annually: \$21 billion spent by hospitals on their emergency departments for nursing and other staff, drugs, equipment, and supplies; \$7 billion to provide the services of emergency physicians; \$7 billion for ambulance services; and \$4 billion for lower acuity, urgent care centre services. The potential of that market accounts for Laidlaw's expansion in this area.

credentials, and arranges contracts and schedules for their services. Laidlaw also assists in such operational areas as staff co-ordination, quality assurance, departmental accreditation, billing, record keeping, third party payment, and other administrative services. The company has approximately 400 contracts for the management of emergency departments and provides emergency services in 42 states to 6.8 million patients annually.

Employees

The company now employs approximately 27,950 people who provide emergency healthcare services. Approximately 12,300 of these workers are unionized.

Waste Management

As noted earlier, Laidlaw has been traditionally identified with garbage collection and waste management. The company now considers this to be a mature business, with little room for growth. As such, Laidlaw recently engaged in a complex restructuring of its operations to divest itself of its direct activities in that area. Among other things, this removed about \$500 million in debt from Laidlaw's books.

Laidlaw's current involvement in this industry is through its 35% ownership share in a separate company, Safety-Kleen Corp. (formerly Laidlaw Environmental Services). Safety-Kleen, re-constituted this past year through a series of transactions—involving itself, Laidlaw, and Rollins Environmental—has more than 300 locations in 45 U.S. states, seven Canadian provinces, and seven western European countries.

Safety-Kleen, whose 1998 consolidated operating revenues were \$1.2 billion, is engaged in three primary lines of business:

- Collection and recovery services, provided to industrial, commercial, and institutional customers;
- Treatment and disposal services, defined by the technologies employed—thermal treatment, landfill and speciality services; and
- European operations.

Properties

The company provides passenger services from 620 locations in the United States and 110 in Canada, of which 120 and 70 respectively are owned; and the balance leased or operated under contract. To provide its passenger services, Laidlaw operates roughly 39,000 school buses and special education vehicles; 7,000 transit and highways coaches and charter vehicles; and 950 service vehicles.

The company provides healthcare transportation services from 172 locations in the United States. To provide these services, Laidlaw operates approximately 5,200 ambulances and other operating vehicles.

Financial Results

For the year ended August 31, 1998, Laidlaw earned \$3.7 billion (U.S.) in revenues, and had a net income of \$346 million. Its stated goal is to earn \$5 billion by the year 2000. As noted earlier, passenger services and emergency healthcare services each constitute about 45% of Laidlaw's revenues; while hazardous waste services accounted for around 10%.

Officers

Peter N.T. Widdrington, Chairman of the Board²
James R. Bullock, President and Chief Executive Officer
Ivan R. Cairns, Senior Vice-President and General Counsel
John R. Grainger, Executive Vice-President and Chief Operating Officer
Leslie W. Haworth, Senior Vice-President and Chief Financial Officer
William S. Schilling, Vice-President, Human Resources
Bob Richards, Senior Vice-President for Canada
George DeHuff, CEO, AMR
Dr. Leonard Riggs, CEO, EmCare

² Mr. Widdrington is probably best known as the former Chairman of the Board of the Toronto Blue Jays.

Recent News about Laidlaw

Kaiser Permanente-American Medical Response Contract

In December 1998, Kaiser Permanente, America's leading integrated healthcare organization (serving 9.3 million people in 18 states and D.C.), signed a national contract with American Medical Response to manage and provide medical transportation for Kaiser Permanente members across the U.S. This is the first national partnership between a managed care organization and an emergency medical services provider.

The arrangement will begin in Colorado in March 1999, and will be implemented in stages across the country by January 1, 2000. Kaiser Permanente will pay AMR a monthly per member fee that will cover all costs of the service provided. Currently, medical transportation is covered on a fee-for-service basis. AMR will operate according to performance criteria developed by Kaiser Permanente. In areas where it does not operate, AMR will manage and co-ordinate healthcare transportation through a network of public or other private providers.

According to material issued by both companies, the partnership exemplifies several aspects of the *EMS Agenda for the Future*, a 1996 document issued by the EMS community.

Laidlaw Cuts Costs in its Healthcare Division

The October 16, 1998, issue of the *Globe and Mail* reported that Laidlaw has implemented a cost-cutting program to turn its "slumping" healthcare division around. As an example, the report referred to the loss of 700 ambulance workers' jobs to save \$15 million (U.S.). The report also noted how the company had centralized payroll, fleet maintenance, accounts payable and purchasing functions. Although Laidlaw reported revenue of \$1.66 billion (U.S.) from its healthcare operations in the 1998 fiscal year (an increase of 73% over the previous year), the growth was attributed to the purchase of new companies. Among the problem issues cited by Laidlaw was that some hospitals have chosen to take back control of their emergency rooms.

The article went on to note how Laidlaw is slowing its acquisition program in healthcare, but continuing to acquire new companies in its school bus and passenger busing operations. The company has obtained a \$40 million contract for school busing in Boston; and has purchased Dufour Transportation Services Inc. of Connecticut and charter bus company Fitchberg and Leominster Street Railway Co.

of Massachusetts. Laidlaw has also acquired Empex Ventures Inc. of San Francisco; and Toronto City Tours, a double-decker tour bus service in downtown Toronto.

Underperforming Ambulance Unit

As a prelude to the report appearing immediately above, Laidlaw had announced, in April 1998, that some of its ambulance operations were underperforming, as a result of competition and low prices. As a result, Laidlaw shut its Chicago ambulance operation in January 1998, and walked away from \$35 million in other business. At the time of this report, Laidlaw also noted that it was reviewing other underperforming areas of its operations. Source: *The Globe and Mail*, April 10, 1998.

AMR Terminates Services

The International Association of Fire Chiefs noted, in its August 1998 newsletter, that AMR intended to reduce expenses by about \$5 million per month. Some of this involved "streamlining" the company by reducing the number of divisions to 13 from 20. Another strategy was to withdraw from several markets, either by not bidding on new contracts; or by terminating some services, in accordance with contract provisions. Some fire departments in the northeast and Texas were contacted, and given dates when AMR intended to discontinue service unless a cash subsidy was made to the company.

AMR was also in the process of marketing a new program, Contracted Assistance to Municipal Providers (CAMP), designed to provide ancillary services such as dispatching, training, billing, maintenance and other services to municipal EMS providers.

Acquisition of Greyhound Inc.

When the October 1998 acquisition of Greyhound Lines Inc. has been completed, Laidlaw will be the biggest inter-city coach line on the continent. According to a *Globe and Mail* report, the proposed deal (which must be approved by Greyhound's board) will bring 2,500 coaches, 12,500 workers, and about \$900 million in new revenues to Laidlaw. The deal is worth \$650 million (U.S.). Two debt rating agencies expressed concerns about the acquisition.

Income Tax

Laidlaw's U.S. subsidiaries petitioned the United States Tax Court with respect to their consolidated federal income tax returns for the 1986, 1987, and 1988 fiscal years. The main issue related to the deductibility of interest attributable to loans owing to a financial affiliate in Holland. The Tax Court issued an opinion on June 30, 1998, disallowing the interest deductions for tax purposes. Based on this opinion, taxes of \$46.2 million, plus interest of \$88.8 million, are payable.

Similar claims have been made with respect to tax returns for 1989 to 1991 inclusive. The income taxes at issue total approximately \$143.5 million, plus interest of approximately \$156.7 million. Laidlaw has filed a petition with the U.S. Tax Court relating to this claim. In September, 1998, Laidlaw's subsidiaries received a letter, proposing that they pay additional taxes of \$96 million (plus \$51.2 million in interest) relating to interest deductions for the 1992 to 1994 fiscal years.

Laidlaw and the Commission of Internal Revenue have entered into detailed negotiations regarding all of these claims. If these negotiations prove unsuccessful, Laidlaw intends to appeal the Tax Court's opinion. Should Laidlaw ultimately have to pay everything that is claimed, the total cost would be \$500 million.

Laidlaw has also noted that it has established a similar type of affiliate in Ireland, and that it is doing similar things to the company in Holland that is responsible for the above-noted issues. Similar tax questions could arise in relation to that firm.