

# Raid Defence

Mergers and acquisitions in the resources sector will be one of the hot topics for investors in 2007. But there are strategies that companies and shareholders can undertake to prevent their company from succumbing to corporate raiders or have them properly value the company if they do.

By **David Noort**



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Over the course of 2006, a flurry of IPOs raised \$831 million as 86 new resource companies were listed on the Australian Stock Exchange.

Historically, this phase is often followed by either consolidation among the players, in the form of mergers and acquisitions, or the cessation of operations (including bankruptcy). As the commodities boom continues into 2007, managers and directors should be aware of the possibility of their company becoming a takeover target.

In the current environment, international commodity players are becoming increasingly interested in Australia's rich resources. An example being Russian steel billionaire Alisher Usmanov's move to secure 20% of Aztec, and Shanghai Merchant's raid on both Aztec and Mt Gibson.

Directors should never undertake a strategy that effectively precludes or

obstructs any acquisition as this may not be in the best interests of shareholders, but a hostile takeover bid may not be in the best interests of shareholders for a number of reasons.

Such reasons might be that the target company is stressed or in the midst of a significant transition and significantly undervalued, or that strategic assets are likely to be spun off which will damage the long-term viability of the business.

In these situations, company executives and directors should adopt pre-emptive strategies to defend against potentially unhealthy takeovers, adopting the approach that "an ounce of prevention is worth a pound of cure."

Developing an overarching takeover defence plan is critical to ensure speed, coordination and decisiveness. This plan should include the following:

**Step-by-step action plan.** This should include procedures to call board meetings at short notice, draft documents, details of a defence team (including advisors), and a defence timetable and action list;

**Communications strategy.** Effective market announcements and public relations responses are powerful methods to generate support for a company's defence. Coles' recent media tactics being a good case in point;

**Selection and retention of "friendly" shareholder base.** The best way to maximise shareholders' support of current management is to perform on a consistent basis through regular growth in earnings per share, share price and dividends;

**Buy-back of own shares.** As a defensive technique, this may support the company's share price, as well as enable the company to use some of its cash reserves or increase its gearing, both of which may help

discourage unfriendly takeovers; and

**Regulatory lobbying.** At times, getting alongside regulatory and government authorities can provide a strong defence. The Corporations Act, ASX Listing Rules and the Takeovers Panel should all be considered in preparing the plan.

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When a company undergoes a hostile takeover, shareholders should also do their own due diligence before they relinquish their shares.

If the bid is only cash, it's a more straightforward situation: shareholders should accept a price that they believe is fair and which reflects their confidence in the competitive advantages of the company and growth potential of the industry sector.

If the bid is made by scrip, it is advisable for a shareholder to also ascertain the acquirer's past performance as a company (and how it performed subsequent to any previous acquisitions). If the bid is debt leveraged, assess whether the company will be able to comfortably service its debt instruments.

The pace of M&A deal growth does not look like stopping in 2007, which suggests that it should be an interesting year.

*Momentum Partners is a Perth-based management consulting firm focused on servicing the mining sector.*

