

Mergers and Acquisitions – Are they back?

Mergers and acquisitions (M&A) activity has slowed over the last year. But recent announcements suggest it may be on its way back. Nick Raynor, Investment Adviser reminds shareholders what they need to know in the run-up to a takeover.

In early September, T-Mobile's UK business agreed to merge with the UK arm of Orange to create the UK's largest mobile carrier with around 37% of market share, a move expected to deliver savings of around £500m per year by 2014. In the same week, Cadbury rejected a hostile bid from Kraft Foods. This could be the start of a flurry of M&A activity, so how can you benefit?

Well that depends if you're lucky (or wise) enough to hold shares in any of the companies involved prior to rumour or announcement. M&A announcements are made outside market hours so when the market opens, the market-makers will already have factored the proposed deal

into the price. If you buy shares in the target company immediately after that announcement you need to monitor the potential success of the bid. If the bid fails and you have bought in at an elevated price you may lose money. If the bid continues as expected you may find your investment remains stable. However, if there are alternative bids for the target company the share price may rise further. In the case of Cadbury, shares rose almost 40% after it rejected a hostile £10.2bn bid from Kraft Foods, sparking talk of a bidding war. Note that if the bid is hostile that doesn't mean it won't go ahead. If the shareholders of the target company are happy that the deal is a good one then the

predator may build up enough acceptances for the bid to succeed.

Any takeover or merger is governed by The Panel on Takeovers and Mergers (generally referred to as PTM or POTAM). Any leakage of information or unsubstantiated rumours can lead to significant price movements so the Panel can force a potential bidder into showing their hand. This helps prevent the potential for a false market to develop in the target company's shares. Once an announcement has been made, both parties have to conform to a detailed and fixed timetable as shown in the table below: that's when the clock starts ticking.

Takeover timetable

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| Announcement Day | The bid is announced publicly and the predator has a maximum of 28 days in which to mail details of its offer to the target company's shareholders. |
| Posting day | The date on which the 'offer letter' is sent by the predator to shareholders. Counts as day zero for the purpose of the takeover timetable. |
| Day 14 | The latest time by which the board of the defending company has to give its opinion on the bid. |
| Day 21 | <p>The earliest date at which a bid can close: it is at this point that the predator will review the responses. The initial letter will have identified the level of acceptance at which the offer becomes 'unconditional' (e.g. 50, 60 or 70%). Once the total of acceptances exceeds that level, the offer is declared as having gone 'unconditional with regard to acceptances'. Any investor who hasn't accepted the offer then has a further 14 days to accept or to sell their shares in the market.</p> <p>Should the acceptance level not be reached after 21 days, the predator has the option of extending the offer period and increasing their bid. The increased bid applies to all shareholders accepting the offer. If at any time the predator states this is the final bid or that no extension is available, they cannot amend the offer at a later date UNLESS a further party enters the bidding race.</p> |
| Day 39 | Last date available for the defending company to issue its final defence document. |
| Day 46 | Last chance for the predator to amend its final price. It may not at any time buy shares in the market above the offer price. If at any point along the way the predator acquires acceptances of 90% or more, it has the option to invoke compulsory purchase procedures for the remaining minority of shares. |
| Day 60 | A bid may remain open for a maximum of 60 days. At this point it must either be declared 'unconditional' OR lapse, in which case the predator cannot launch a new bid for another 12 months. If during a bid process another bidder comes forward, the timetable starts anew from the date they enter the race. |

Researching the markets can give you some indication of what takeovers may be in the offing. For example, Smith & Nephew has been noted as a takeover target in recent years. Man Group is also seen as a takeover target due to its new influx of money. Exxon has cash to spend and is rumoured to be interested in British Gas. Lonmin rejected a bid from Xstrata last year (which looks generous now) and a new bid is expected soon. Again, timing is crucial, as the market will factor any takeover rumour into the share price. As an alternative strategy you could target sectors that may be ripe for consolidation. For example, there is speculation that insurance companies could merge ahead of new EU rules that would force them to hold more capital. Talk to our Advice team on 01296 41 43 45 if you want some guidance.

Shareholder communications

The Share Centre's success in achieving changes to the Companies Act 2006 means that personal investors whose shares are administered in Share Nominees can receive a much improved standard of communication from both predator and target companies. If you 'opt in' for shareholder communications through your 'Customer Profile' at www.share.com or by telephoning our Shareholder Rights team on 08456 185 180, you will be sent all proposal and defence documents applying to a takeover bid involving fully listed companies. POTAM places an obligation on all bidders to keep nominee shareholders who've opted in properly informed. So if you've 'opted in', you'll now have the same quality of information as institutional investors when you decide whether to accept or reject the bid, or sell the shares.

At a glance

If you buy shares in a target company then:

- if a bid fails, you may lose money.
- if the bid continues your investment may be stable.
- if there are alternative bids you may make money.

Nick looked set on a career in retail management until his interest in shares led him to The Share Centre over 11 years ago. After a successful grounding in the Dealing team, he was promoted to Team Leader before joining the Advice team in 2002 as an Investment Adviser. As one of The Share Centre's longer serving employees he has played a key role in developing our advice offerings and interfacing with both our customers and the media.

Nick's area of advice expertise is shares, particularly with regard to smaller companies and developing companies. He provides both education for those new to investing and recommendations for more experienced investors. He has studied and passed multiple units of the Certificate for Financial Advisers and plans to study for the Private Client Investment Advice and Management exam which is part of the Securities and Investment Institute Diploma.

In addition to being an experienced adviser, Nick is regularly asked to offer his insight on a wide range of financial matters to the UK media including The Telegraph and The Times. He provides weekly share tips and comment to several regional newspapers, as well as finance-based websites such as www.moneyextra.com.

Elsewhere, Raynor Reviews – Nick's fortnightly column for www.orange.co.uk – is recognised as an important touchstone for investors looking for concise comment on the financial markets, while his contributions to the national press and broadcast media including Independent Radio News have earned him widespread respect from the UK's leading financial journalists. Nick also writes The Share Centre's weekly Forward Look column, published by the Eastern Daily Press and Scotland's Business 7, giving his opinion on those companies due to report financial results in the forthcoming week.

When not working, Nick divides his time between his family and sport. He joined the local cricket team at the age of 5 and has managed the Westcott U15 cricket team for the last 3 years. He has been an active footballer for 20 years and was part of The Share Centre football team which won the 2008 Nationwide Six-A-Side Invitation Trophy. Nick also takes part in fund-raising events for charity, the most extreme of which have been the '24 peaks in 24 hours' challenge and a free-fall parachute drop from 10,000 feet.

Nick and other members of the Advice team can be contacted on 01296 41 43 45.

Here to help you...



Nick Raynor

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