

## press release

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### The opportunities and threats of takeover talk

- Merger and acquisition (M&A) rumours currently circulate the market
- Profit warnings and international consolidation can be triggers for M&A activity
- The Share Centre highlights buying opportunities for high risk investors

**Nick Raynor, investment adviser at The Share Centre, explains the opportunities mergers and acquisitions can create for investors and the key factors to consider.**

“Speculation is traditionally higher over the summer months and it can be difficult for investors to distinguish between a serious bid and those just raising interest in the quieter period.

**Commenting on triggers of merger and acquisition activity, Raynor said:** “If a company issues a profit warning it can become susceptible to a takeover, especially if it still holds attractive assets and a purchaser sees value in the company. However, the company’s management may be reluctant to succumb to the advance if they believe the market’s reaction to the profit warning doesn’t reflect a true valuation of the shares. Companies have been known to offer one off dividend payments or share buyback schemes in an effort to avoid potential takeovers and create more value for investors.

“Since issuing a profit warning in June, **Charter International’s** share price plummeted by over 20% to 560p and the company has been subjected to an opportunistic bid from rival engineering group **Melrose**. Directors initially rejected a bid of 780p, which was then upped to 840p, and the market believes this will have to be higher still to secure the deal. However, **Charter** has since acquired a 60% stake in Brazilian gas apparatus manufacturer **Condor Equipamentos Industriais** in an effort to resist the bid and convince shareholders to stay with the company.

“International consolidations can also trigger acquisition activity as companies are currently awash with cash and may look for opportunities to become the predator rather than the prey in an effort to

remain independent. There has been a lot of merger activity in the US, in both the insurance and mining sectors, which we believe could trigger multibillion dollar offers amongst high profile companies in the FTSE 100.

**Commenting on factors investors should consider, Raynor added:** “Profit warnings and weakness in the share price can create a trading opportunity for investors. Long term investors willing to accept high risk may want to buy into the company for growth or the chance of a takeover.

We suggest more cautious investors take a cooling off period once a profit warning is issued to allow a settling of the share price as it can continue to fall before it recovers. For example **Thomas Cook** issued its third profit warning at the beginning of July and saw its share price initially fall by 27% to 90p, however it has since fallen further to below 70p.

“Investors should also note that takeovers can become complicated and not always mean a quick profit. The **BSkyB** bid ordeal is an example of how those looking for a short-term benefit may be disappointed. If a takeover does fail there may still be an attraction for an investor as the value seen by the purchaser is still there. **BSkyB** is still performing well and continues to increase its customer base, so despite the uncertain short term position there looks to be a real upside in the longer-term, hence our ‘buy’ recommendation.

“Those wanting to take this high risk strategy may want to look at sectors that have previously seen consolidations, such as travel, mining, banks, retail and utilities, for the next opportunity. Companies from the utilities sector are one by one subject to takeover speculation, with **Northumbrian Water** expected to be the next to surrender to Hong Kong infrastructure group **Cheung Kong**.

“Takeover bids can cause a significant increase in a company’s share price and as it does, investors should assess how much more they could potentially gain by holding on, against the downside, what they would lose – this strategy is not for the faint hearted. There is the danger the bid may not come off and investors should be aware that speculation and rumour only have a temporary impact on the share price.

“Investors who bought into **Axis-Shield** on our initial recommendation in December 2010 would have made profits of almost 90% when the company turned down a bid from US listed company **Alere Inc** earlier this month. **Yule Catto, Reckitt Benckiser, Dragon Oil, Premier Oil** and the mining sector in general are the current suspects for takeovers and could offer potential opportunities for the higher risk investor.”

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The Share Centre was established in 1990 to provide value-for-money share services for private investors. Its range of services includes buying and selling shares (by Internet, telephone and post) and a comprehensive share administration and safe custody service. Tax-efficient investment 'wrappers' including ISAs, CTFs and SIPP's are also available.

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