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Comvita takeover bid for Comvita a saucy move 11 December 2011

In a market devoid of interesting corporate plays, the recent takeover bid for natural products company Comvita by Cerebos NZ has attracted a bit of attention, not least because it was rejected by Comvita's directors as being unwelcome.

Any takeover bid is of interest because it presents an opportunity to crystallise value. Stocks can trade for years below their true valuation, but a takeover offer acts as a catalyst for shareholders, directors and the market to determine what the shares are really worth.

When a bid is an unwelcome one it becomes even more interesting, because the implication is that the bidder has a different view of the value of a company and how to crystallise that value, than the existing directors. Shareholders have to decide whether they think the existing directors are best placed to extract that value or whether the bidders might know better.

Shareholders are assisted in a bid situation by an independent report that assesses the value of the company, based on historical data and input from management and directors, accompanied by a recommendation from the target company's independent directors.

I use the word 'assisted' lightly because while the thought of having someone independent assess the company's value is comforting, in practice it is just as hard for an independent valuer to definitively value a business as it is for anyone else. And there is a risk, perhaps only small, that the company's directors in making their recommendation are slightly biased and they might also be ill-equipped to assess value.

A takeover bid is exciting in that it creates a pressure cooker environment as shareholders have to decide on a company's value in a certain timeframe. There is nothing like a closing date to focus the mind on what your shares are worth.

But of course after a takeover bid, things can go one of two ways.

If the bid is considered by shareholders to adequately reflect the value of the shares, it will be successful and shareholders will get paid out and reinvest elsewhere. If the takeover bid fails, the share price will likely fall back to where it was before the bid, and the onus will be on the directors to achieve the value that the bidders saw.

The Comvita situation is most interesting because of the many different assessments of value.



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Before the bid, the market valued Comvita shares at \$2.10 per share, the Cerebos offer came in at \$2.50, the independent valuers suggested a range from \$3.40 - \$4.00, and the Comvita Chairman says the company is worth even more than that range.

A \$4.00 per share value is not beyond the realms of possibility – Comvita shares traded at that value back in April 2007. But they have also traded as low as \$0.73 in April 2009, after failing to meet profit projections and moving from a profit to a loss in 2008.

Value is in the eye of the beholder, but regardless of the different perceptions of value, it is the crystallisation of it that matters most at the end of the day.