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HD **Price pressure on Goodman**

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Goodman Fielder chairman Steven Gregg is in a tight spot. He is under pressure to accept a lower offer price for the food **group** or face the prospect of Goodman's two Asian suitors walking away at a time when the **company** is in bad shape.

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The Goodman **board** met on Tuesday night to make a recommendation on a watered-down offer from Singapore's Wilmar International and **Hong Kong** investment management **firm** First Pacific.

One of Gregg's challenges has been dealing with the boards of two separate entities who are said to have differing views about Goodman's value. After lifting their proposed offer from 65¢ to 70¢ a share in May, the number now on the table is two to three cents below that. The stock last traded at 68¢. This looks like a change of heart by the bidders but the reality is there was always going to be some wriggle room to re-trade on price.

The 70¢ price allowed the Goodman **board** to save some face and open the door for negotiations as Wilmar and First Pacific began what has been an exhaustive due diligence process.

Wilmar are understood to have had more than 100 people going through the books. While they did not uncover any black holes, the Asian bidders have been worried from the beginning about underinvestment in Goodman's plant and equipment.

That has been at the centre of their argument to get the **board** to agree to a lower price. A huge amount of capital expenditure will be needed to bring the **business** back to the point where Goodman's new owners can grow the **business** and innovate.Expected to take the offer

While the **board** had not made a recommendation at the time of writing, there is an expectation that Gregg will listen to arguments from major shareholders to take the offer that is on the table.

Gregg could still decide to send the Asian bidders packing but this would mean a sharp drop in Goodman's share price. If this happens management would have to continue with a review of the **dairy business** and find a way to lift earnings and cut costs further.

This would be a tough call given Goodman's financial results have been in steady decline and money from cost savings has been returned to shareholders instead of invested back in the **business**. This has made it challenging for the breadmaker to compete with supermarket giants Woolworths and Coles.

While the outcome will not be what the **board** hoped, Gregg has done the right thing by at least opening the door to talks and trying to secure a better price for stakeholders.

If Goodman decided to accept a lower offer, it will not necessarily announce the decision on Wednesday morning as a scheme implementation deed could take time to finalise. Goodman shares are due to come out of a trading halt on Wednesday morning.

Bidders usually raise rather than lower their offer price during takeover negotiations, but it is not unprecedented to go the other way.

Aspen Pharmacare lowered its offer price for Sigma Pharmaceuticals by more than 8 per cent in 2010 after completing due diligence. Two US bidders also lowered their $527 **million** bid for surfwear retailer Billabong International last year.

While it did not lower its price, private **equity firm**KKR walked away from a $1.75 **billion** bid for fund manager Perpetual in 2010.

Goodman has been under pressure from its two largest shareholders, Perpetual Investments and Ellerston Capital, to sell up at the right price. They are keen to get out following a series of earnings downgrades.

Goodman was also too slow to kick-off the **sale** process for its New Zealand **dairy business** which would have fetched a good price if it had been offloaded before Wilmar and First Pacific came on the scene.

Indonesian tycoon Anthony Salim heads up First Pacific, which is one of the bidders for Goodman Fielder. But he is also a key player in another Australian deal.

Salim's Droxford International is the biggest shareholder in Australia's Robust Resources with a 20 per cent **stake**. **Hong Kong**-based Stanhill Capital made a $54.7 **million** cash bid for Robust on Tuesday.

Robust recently agreed to sell its Andash **gold**-**copper** project in the Kyrgyz Republic. While Salim's Australian **mining** interests are being diluted, a successful Goodman Fielder bid will ensure he retains an interest here.

Another deal struggling to get off the ground at the moment is the proposed $800 **million** tie-up between Roc **Oil** and Horizon **Oil**.

With a mysterious Asian bidder sniffing around and rebel stakeholders seeking to overturn the **company**'s constitution, there is more uncertainty than ever around the deal. Horizon did not do its shareholders any favours when its lawyers convinced it to disclose a preliminary approach to Roc by a third party.

Four proxy firms, ISS, Ownership Matters, CGI Glass Lewis and the Australian Council of Superannuation Investors (ACSI) have now recommended in favour of fund manager Allan Gray's push to amend the Roc constitution. An extraordinary general meeting is scheduled for July 11.

Grant Samuel, the expert hired by Roc to assess the controversial deal, found last month that the deal is in the best interests of shareholders.

Roc and Horizon believe that reports vindicate their arguments in favour of merging the businesses, something Allan Gray argues sells Roc shareholders short.

Some digging into Grant Samuel's connections with Roc and Horizon makes for some interesting reading though.

It turns out Grant Samuel owns an interest in Tribeca Investment Partners, a fund manager which holds a 5.25 per cent **stake** in Horizon. according to the independent expert's report.

An ASIC search shows that Tribeca is 100 per owned by Sydney-based Alycon Investments. Alycon is just under 50 per cent owned by Grant Samuel Funds Management which has 107,305 shares in that entity.Noise around credibility of deal

Grant Samuel did not disclose this interest in the report. While it is not legally obligated to make that disclosure it would have been a good idea given the noise around the credibility of the deal.

ASIC's regulatory guide 112 deals with the issue of identifying an expert's interests and Grant Samuel says in the report it has complied with the law.

An indirect holding like this is not unusual in a market like Australia where there a limited number of independent expert's to turn.

But even running the risk of creating the perception there is some kind of conflict should be avoided. Grant Samuel did not respond to inquiries on Tuesday.

When asked about Grant Samuel's interest in Alycon, Allan Gray's Simon Mawhinney said: "This pushes the independence envelope to its limits! It's staggering that this was not disclosed."

As previously reported by Matthew Stevens in this column, RISC Advisory audits the reserves of both Horizon and Roc on behalf of their respective bankers and it was hired to help Deloitte make its independent assessment of the merger for Horizon shareholders.

The amendment proposed by Allan Gray would prevent Roc from issuing shares without the prior approval of shareholders if the volume of shares is greater than 30 per cent of the total shares on issue.

It remains unclear whether Allan Gray, which controls a 19 per cent **stake** in Roc , will have enough backing to topple the deal. If that happens, there is also a question mark over what happens next and whether regulators will need to step in.

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Matthew Stevens is on leave

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