

# FINANCIAL REVIEW

SE Companies and Markets  
HD **Baking firm offer needs sweetening**  
BY Sue Mitchell and Max Mason  
WC 948 words  
PD 29 April 2014  
SN The Australian Financial Review  
SC AFNR  
ED First  
PG 15  
LA English  
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Iconic brands White Wings, Wonder White and Meadow Lea could become consumer staples in Asia if Goodman Fielder and its shareholders convince \$18 **billion** Singapore-based oils trader Wilmar International and **Hong Kong** investor First Pacific to sweeten a \$1.8 **billion** takeover proposal.

Goodman Fielder has denounced as "opportunistic" an initial 65¢ a share offer from Wilmar, which owns CSR's former sugar assets, and First Pacific, which controls 50 per cent of Indonesia's largest food **group**, IndoFoods.

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However, Australia's largest baker, which has seen underlying earnings halve over the past six years, says it is willing to discuss any proposal that maximises value for shareholders.

"The **board** of Goodman Fielder remains focused on maximising shareholder value and will be constrictive in relation to proposals [that] are consistent with this objective," Goodman Fielder said on Monday after meeting with First Pacific and Wilmar principals over the weekend.

Many of Goodman's shareholders paid \$2 a share in its \$2.1 **billion** initial public offer in 2005 and have become frustrated with the **company** after years of restructuring, asset write-downs and profit downgrades. The latest downgrade on April 2 wiped more than 20 per cent off the shares and appears to have been the trigger for the offer.

Analysts believe Wilmar and First Pacific could afford to pay as much as 75¢ or 80¢ a share, based on multiples paid in recent consumer food transactions such as Manassen Foods and Warrnambool **Cheese & Butter**, and taking into account estimated synergies between \$10 **million** and \$20 **million**. Makes a lot of sense

"The bid makes a lot of sense and it looks like it has been very well considered – that makes me think they'll come back for another go," said one analyst, who declined to be named.

Goodman's future now lies with Perpetual Investments, which owns 12.23 per cent, and Ellerston Capital, which paid about 65¢ for much of its 13 per cent **stake**.

Together, the two are in prime position to negotiate a higher offer with Wilmar and First Pacific and force the Goodman Fielder **board** to engage.

"We think the Wilmar bid appears opportunistic, especially given the recent profit downgrades have been driven largely by one-off factors we think are going to reverse," Perpetual Investments fund manager Paul Skamvougeras told The Australian Financial Review after details of the 65¢-a-share offer were disclosed on Monday.

"However, we would still encourage the **company** to continue to have dialogue with Wilmar to try to extract a higher value for shareholders," Mr Skamvougeras said.

Goodman's current earnings were depressed because of one-off factors including delays in recovering a record surge in farmgate **milk** prices in New Zealand, rising wheat costs in Australia and supply chain problems in the Australian bakery **business** stemming from recent factory closures, he said. 'We feel they'll reverse'

"We feel they'll reverse and when we take those into account that's why the bid is opportunistic and that's why we encourage the **company** to engage," Mr Skamvougeras said.

Ellerston Capital declined to comment on the offer, but sources claimed Ellerston also believed the Goodman **board** should engage and allow Wilmar and First Pacific to conduct due diligence. Investors said the **board** refused to engage when Wilmar made an informal 60¢-a-share proposal in mid-2012, shortly after snapping up a 10.1 per cent **stake** for about 58¢ a share.

Goodman denies an offer was made.

Wilmar and First Pacific would prefer a friendly deal through a **board**-backed scheme of arrangement, but analysts said they may have to go hostile at some stage.

"I don't think these guys are willing to pay the price they [Goodman] would want," one analyst said.

Goodman shares rose 10.5¢, or 19 per cent, to as high as 65.5¢, slightly exceeding the mooted offer. The shares were trading around 68¢ in February but dropped as low as 47.5¢ earlier this month after the **company** downgraded 2014 profits by 15 per cent and foreshadowed further asset write downs. Shares jumped two days prior

Last Thursday, two days before the offer was made, Goodman shares jumped 2.5¢ to 55¢ on abnormally high volumes, suggesting that some traders had become aware of the proposal.

Goodman, which makes Wonder White and Helga's **bread**, MeadowLea margarine and Praise salad dressings, said the highly conditional offer "materially undervalues" the **company**.

However, Wilmar and First Pacific described the offer as "compelling" and represented a 27 per cent premium to Goodman's share price since the profit downgrade on April 2 "reset" future earnings.

"The proposal represents a unique and compelling opportunity for Goodman Fielder to maximise value for its shareholders and create a leading Asia-Pacific agricultural and consumer staples joint venture with strong financial resources and Asian understanding," Wilmar and First Capital said in a joint statement.

Wilmar and First Pacific plan to take Goodman's market-leading consumer brands and intellectual property into Asia, taking advantage of Wilmar's upstream sourcing and procurement capabilities and First Pacific's downstream distribution capabilities through IndoFoods.

Analysts said First Pacific was also keen to take advantage of Goodman's New Zealand **dairy business** by exporting **milk** to Indonesia and Malaysia. Goodman has received offers for the **dairy business** and this may have been another trigger for the bid.

"This is all about the future," said Citigroup analyst Gino Rossi. "They want to get this for a fair price and get upside in Indonesia by tying the two together more closely."

<b>CO</b>	fdgl : Goodman Fielder Ltd
<b>IN</b>	i41 : Food/Beverages/Tobacco   icnp : Consumer Goods
<b>NS</b>	ccat : Corporate/Industrial News
<b>RE</b>	austr : Australia   apacz : Asia Pacific   ausnz : Australia/Oceania
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