

**Greg Canavan (GC):** Senior equities analyst, Fat Prophets:  
 "Takeover bids/mergers and acquisitions tend to push the price of the target company significantly higher while the buyer may be pushed lower at times. Price movements during takeover bids are usually short-term. Once the deal is done the share price usually moves back to a reasonable level."

**Damian Isbister (DI):** Investment manager, Cube Financial:  
 "Generally the company that is being taken over has a substantial increase in its share price, even a rumour can drive the stock up. On the other hand unless there are some very clear synergies to be created by the merger the company mounting the takeover will generally remain constant or even fall in value."

#### **TR: Are there trading opportunities around mergers and acquisitions/takeovers?**

**HM:** "Usually people trade the target company's shares but not the buyer company. In many cases there are a lot of uncertainties around the buyer, for example, if there is another bidder that will come into the picture that may push the price even higher and may cause the bid to fail."

**GC:** "In some cases there may be trading opportunities around takeover bids. However, we advocate long-term investing instead of short-term opportunistic trading."

**DI:** "There are trading opportunities around mergers and takeover bids. However, a lot depends on how the deal is structured and the type of strategies deployed. If there are two companies bidding for a company this could be the start of a 'bidding war' the best case for a target company's shareholders at this point you would be purchasing shares in the target company."

The other opportunity that would exist is if the buyer was to offer stock to the target in this case you maybe able to identify an opportunity to go long and actually short the acquirer. This strategy really pays off when the acquirer has to offer additional cash incentive to sweeten the deal for the target company's shareholders to encourage them to accept the deal."

#### **TR: What do traders and investors have to look out for if they want to get a piece of the action during**

#### **takeover or mergers and acquisitions?**

**GC:** "You have to do your homework and make sure there will be no opposition to the takeover. An example of this was the takeover bid for Adsteam from a Danish shipping company. At some stage the bidder was confident that the deal would be approved, but then the competition regulators turned around and this has affected the Adsteam share price. You have to do your research and study the sectors or companies involved to find out if there will be potential oppositions or hurdles."

**DI:** "Investors should lookout for a potential "bidding war" where two buyers have the same target as this could lead to a higher price being paid, or alternatively if there is one buyer try and determine what they can afford to pay and what the acceptance of the current shareholders is, if low buy in."

#### **SOME RECENT TAKEOVER / MERGER & ACQUISITIONS IN AUSTRALIA**

BUYER	TARGET	RESULT
Toll Holdings	Patrick Corporation	Deal completed in May 2006 after more than 9 months of protracted negotiations and regulatory hurdles
OneSteel	Smorgon Steel	Deal completed in June 2006
Allco Equity	Baycorp	Failed bid
Allco Equity	Wattyll	Failed bid. Another bidder with a higher price won the deal
TabCorp	UniTab	Failed bid. Another bidder came with a higher offer.
Private equity consortium	Coles Myer	Ongoing as of this writing