

# THE TAKEOVER PANEL

## **RACAL ELECTRONICS PLC ("RACAL") / CHUBB & SON PLC ("CHUBB")**

On 22 August 1984 Hill Samuel, on behalf of Racal, posted a document containing an offer to acquire the issued share capital of Chubb. This document included the following statement regarding Racal's sales and profits for the year to 31 March 1985:-

"Racal is aiming for sales in the current year of £1 billion and sales in the first half will be fully consistent with that aim. Because the greater part of the sales of tactical radio will be in the second half, profits in the first half will not be commensurate with the sales performance. However, although Racal will have to absorb in 1984/85 costs of some £12 million in launching cellular radio, our forecasts show that for the year as a whole there will be a good improvement in pre-tax profits."

The profit forecast contained in this statement was confirmed in subsequent documents issued in connection with the offer.

Racal's interim statement for the six month period to 12 October 1984, which was published on 23 January, included the following statements:-

".... it is now apparent that the second half year will be substantially below our expectations.

The major reason for this is under-performance by Racal-Vadic. This reflects delays in new product development and a general weakening in the demand for a new range of modems addressed to the personal computer market. In consequence Racal-Vadic sales for 1984/85 are now expected to be some \$35,000,000 less than planned and profit will be considerably less than half that for the previous year.

.....

All other activities continue to perform well.

Subject to circumstances beyond our control therefore, the Group profit for the year (ex Chubb) after charging some £12,000,000 on the launch of Racal-Vodafone, will be a record, although the results will be much lower than we had previously forecast."

In view of the anticipated shortfall against the original forecast the Panel executive, advised by a firm of Chartered Accountants, has had discussions with Racal and with its auditors (Temple Gothard) and its financial advisers (Hill Samuel), both of whom reported on the forecast in the document of 22 August and in subsequent documents.

The Panel is satisfied that the forecast by Racal and the reports thereon by Temple Gothard and Hill Samuel were prepared with due care and consideration.

12 February 1985