

THE TAKEOVER PANEL

PRESS RELEASE

The following statement is issued by the Panel on Takeovers and Mergers in connection with the offer made by Rodo International Limited on behalf of Dufay Bitumastic Limited to acquire the issued share capital of International Paints (Holdings) Limited.

13th June 1968.

1. On the 4th April 1968 Rodo International Limited announced that an offer would be made on behalf of Dufay Bitumastic Limited to acquire the issued share capital of International Paints (Holdings) Limited. The Chairman of Dufay Bitumastic is Mr. J.G. Gommès, who is also Chairman of Rodo International, and the other directors are Mr. C. Attwood (Deputy Chairman and Managing Director), Mr. C.S. Chadwick, Mr. J.P. Erskine and Mr. I.H.C. Walton. Dufay Bitumastic is a holding company whose principal operating subsidiaries are organised in two groups, the Paints Division and the Bitumastic Division. The Offer Document was dated the 6th May.

2. In the Offer Document (page 6) the Board of Dufay Bitumastic considered it likely that in the absence of unforeseen circumstances, the profits before tax for the full year to the 30th September 1968 would be of the order of £500,000 against a figure of £327,123 for the previous year. For the Paints Division this forecast was based (Appendix A) on the expectation that profits for the current year would not be materially different from those for the previous year. The Board stated (page 6) that "No unaudited profit figures are so far available for the current year to date".

3. Page 9 of the Offer Document stated that "The Board of Dufay Bitumastic have considered all statements of fact and opinion contained herein relating to Dufay Bitumastic and accept, individually and collectively, responsibility therefor and consider that no material factors or considerations have been omitted".

4. The offer was contested: and in a circular to shareholders dated the 16th May Lazard Brothers & Co. Limited, as advisers to International Paints (Holdings), drew their attention to the unavailability of profit figures for the current year "in spite of the fact that seven months of Dufay's trading year are past".

In a circular dated the 28th May Rodo International replied to this point as follows:-

"We make no apologies for this situation which arises as a result of the progressive transfer to our new factory at Shildon of the entire production of all our other paint factories and the establishment of a single sales force, an immense task of reorganisation which is bound to cause delay in the preparation of interim figures. Dufay Bitumastic in fact makes a regular practice of issuing Interim Statements of the first six months' profits during the course of each year".

Figures for the first six months of the year ending the 30th September 1967 had in fact been published in August 1967.

5. On the 30th May the offer was increased and extended to the 7th June.
6. On the 4th June the Press published the resignation of Mr. G. L. Mortimer, Chief Accountant of the Paints Division of Dufay Bitumastic and a director of Dufay Paints Limited, the principal subsidiary in that Division.
7. On the same day Mr. Mortimer called on the Secretary of the Panel. He stated that he had in fact prepared a provisional profits statement for the Paints Division for the 3 months ended 31st December 1967. In this, seasonally bad, quarter there had been a loss of some £9,000. The statement had been circulated to the Board and discussed at a meeting of the Directors of Dufay Paints on the 25th March. Mr. Attwood, Deputy Chairman of Dufay Bitumastic, is Chairman of the Board of Dufay Paints which includes two other directors of the holding company, Mr. Chadwick and Mr. Walton.
8. Mr. Mortimer stated that he had not been asked to prepare any figures in connection with the offer until asked at 24 hours' notice to produce a profit forecast for the Paints Division for 1967/8 and 1968/9, in preparation for a visit by a representative of the auditors of the holding company. The representative had found this profit forecast for the Paints Division in 1967/8 too

optimistic. It had in fact been halved in the report made by the auditors to the Board of Dufay Bitumastic, the revised figure showing a reduction of 21% on the corresponding figure for the previous year. The profit forecast included in the Offer Document (para.2 above) had been based, so far as the Paints Division was concerned, on this revised figure.

9. Mr. Mortimer also stated that he had completed a provisional profit statement for the six months ended the 31st March 1968 on the 28th May and circulated it to the Board of Dufay Paints. It showed a provisional loss for the six months of about £30,000 against a comparable profit of about £49,000 in the corresponding six months of the previous year. These provisional statements would have been subject to some further adjustment. In particular they did not allow for the extent to which the Board might decide to capitalise expenditure which in their judgement arose from reorganisation, to be written off out of future profits This practice had been followed in the previous years of reorganisation and is clearly shown in the published accounts for the year ended the 30th September 1967.
10. Later on the 4th June the Secretary of the Panel advised Rodo International that their circular of the 28th May (para 4 above) and the circular of the 30th May (para 5 above) conveying the increase in the offer had contained no statement reiterating the acceptance of responsibility by the Board of Dufay Bitumastic (cf. para 3 above). He also pointed out that the statement regarding the absence of any unaudited profit figures for any part of the current year was dated as long ago as the 6th May (para 2 above) and suggested that it might be brought up to date at the same time.
11. In response Rodo International issued a Press statement on the 5th June which contained the followings:-

"The Directors of Dufay Bitumastic reconfirm that the profit for the year ending 30th September 1968 will be of the order of £500,000 and will be not less than £800,000 for the

following year, although interim figures are not available due to the removal and concentration of all Dufay paint factories at Shildon.

The Directors of Dufay Bitumastic have again considered all the statements of fact and opinion contained in their various letters to Shareholders and they accept, individually and collectively, responsibility therefor and consider that no material factors or considerations have been omitted."

12. On the 6th June the Chairman of the Panel interviewed Mr. Mortimer who exhibited copies of the profit statements referred to in paras 7, 8 & 9 and of supporting working papers. In view of the statement by Rodo International, quoted in para 4, regarding the difficulties caused by the progressive transfer of production to Shildon, it is proper to record that Mr. Mortimer's exhibits were drawn up in two parts, the outcome of the work already transferred to Shildon being clearly distinguished from that of work at the existing factories and the calculations being made accordingly.
13. On the 7th June, the offer was further extended for another twelve days. The Chairman asked Mr. Gomme for an early discussion which took place on the 11th June. The following paragraphs contain a summary of what he and his advisers said.
14. Mr. Gomme volunteered at the outset that he accepted personal responsibility for everything that had been done on behalf of Dufay Bitumastic. With regard to interim figures, the half-yearly published figures required by the Stock Exchange were always prepared with the greatest care. He would have preferred to delay the offer for International Paints (Holdings) until these figures were available for the current year: but for tactical reasons arising from the possibility of alternative offers he judged that this could not be done. He had however pressed for their preparation and publication at the earliest possible moment. The first move for the early preparation of half yearly figures had in fact been made at the end of March.

15. Mr. Gommaes regarded Mr. Mortimer's figures for the quarter ended the 31st December as taken out for management purposes only. They were not submitted to the Board of the holding company, and he had not seen them. He had been told of the six monthly figures on their completion, but they had to be checked before they could be used. When they were examined by the auditors of the holding company (who are also auditors of the Bitumastic Division but not of the Paints Division) they were found to contain errors, as well as to require adjustments, which took time, particularly after the resignation of the Chief Accountant. It was already possible to see that when these corrections and adjustments had been made the outcome would look very different.
16. Turning to the Bitumastic Division, Mr. Gommaes accepted that the reason given for the absence of interim figures for the current year (see para.10 above) applied primarily to the Paints Division, which in the previous year had contributed only about one-third of total profits. There had been some complications on the Bitumastic side also, arising from extension and modernisation of plant: but the rapidity with which Dufay Bitumastic had developed had so far precluded the organisation of monthly figures budgets, etc. up to the standard which he would normally require, and which would have enabled results to be produced more quickly.
17. However, he had just received the half-yearly figures for the Bitumastic Division from the auditors; and subject to the complications in the Paints Division referred to above, he hoped to be able to publish half-yearly figures for the two combined before the offer expired. This was subsequently welcomed by the Panel who indicated on 12th June that the half yearly figures should state the amount of reorganisation expenses capitalised during the half year and that the basis on which this had been done was the same as that used in previous years.

18. The Panel express no opinion on the likely outcome of the current year in relation to the published forecast of total profits nor is it their function to examine the detailed figures of particular companies. Information had however been laid before them relating to the Paints Division of Dufay Bitumastic which, although this was the smaller division in terms of profit, might be particularly relevant to a bid for another paint company. Without seeking to make an exhaustive investigation, the Panel judge that, in fairness both to Mr. Mortimer and to Mr. Gommès, they should make available to interested parties without delay the above record of the results of the enquiries which they have made.

13th June 1968.