

Cool on school: Navitas bid fails to excite investors

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Andy Forster from Argo Investments said on Navitas: "That whole pathway program is important. Unis have seen that it's pretty attractive. And there's a growing Asian middle class who are looking for good quality education."
Louise Kennerley

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by **Robert Bolton**

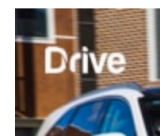
The Navitas board should hold out for an improved offer or alternative bidder, according to investors who have rejected a \$2 billion bid from a consortium led by private equity firm BGH Capital as undervaluing the education company.

On Wednesday [BGH](#), [AustralianSuper](#) and former Navitas chief executive [Rodney Jones](#) revealed a \$5.50 a share offer for the Perth-based company, which was a 25 per cent premium on the share price over the past three months.

After surging 22 per cent after the bid to \$5.30 on Wednesday, Navitas shares held off a horror day in the market to fall back just 0.2 per cent to \$5.29 on Thursday.

Tim Kelley the head of research at Navitas investor Montgomery Investment Management, said he thought the bid would need to be increased before it would get the support of the board.

"I think the offer should be viewed as starting a discussion with the board. It would be difficult for the board to accept anything less than a compelling offer price." he said.



The offer, which is preliminary and non-binding, includes an exclusivity agreement which prevents either of AustralianSuper or Mr Jones considering an alternative offer from another bidder. Between them, AustralianSuper and Mr Jones account for 17.8 per cent of Navitas stock.

A similar exclusivity condition formed part of a BGH and AustralianSuper bid for private hospitals provider Healthscope in April, but it was seen by some as a reason why that bid has so far been unsuccessful.

Mr Kelley said since the exclusivity clause would prevent the opportunity of a counter offer, the board might not admit the takeover partners into due diligence. He said Navitas had faced challenges in respect of loss of contracts in recent years and this had shaken market confidence in the stock and had dragged down earnings.

'Tough period'

Navitas provides bridging, or "pathway" courses for domestic and foreign students to get into university and offers English language courses for commercial and study purposes. In its latest annual results [it took a charge of \\$125 million](#) on the rationalisation of its Careers and Industry division.

Senior investment officer at Argo Investments Andy Forster said he thought it was unlikely any other bidders would appear. "It's been through a tough period with not much earnings growth in the last few years," he said.

"The equity market gets a bit impatient. Private equity takes a longer view. Navitas has a long history but the last three years have been challenging for that industry."

"That whole pathway program is important. Unis have seen that it's pretty attractive. And there's a growing Asian middle class who are looking for good quality education."



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Mr Forster said Argo had held Navitas for a long time – it has just over 1 per cent of the stock – and it might become more attractive.

"It's had a tough few years. Something else has always come along. In this case the market got impatient and that's created an opportunity," he said.

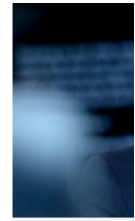
In a note to investors Macquarie Wealth Management said the bid looked reasonable value given historical valuations of the company and comparable transactions among overseas peers. "The likelihood of further bids emerging appears relatively low, particularly given the deal structure," it said.

One of the keys to the future of the bid are a large group of individual shareholders who came on board when the company went public in 2004, including friends and colleagues of the founder, Mr Jones. It's estimated about 40 per cent of the stock is held by this group, including Mr Jones, who has a 12.6 per cent stake.

A spokesman for Navitas said the board had extensive work to do on the BGH Capital valuation and at this stage the putative offer was "far from a done deal".

"We need to get an assessment of value and shareholders will want to hear from us," he said.

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