MYOB offer 'far too low'

SUPRATIM ADHIKARI
DEALS

US hedge fund wants better deal from suitor

ACCOUNTING software maker MYOB's $2 billion buyout has run into turbulence as a prominent shareholder pushes the company to seek out a better deal.

US hedge fund Manikay Partners said it was not convinced the $3.40-a-share bid for MYOB pitched by private equity giant Kohlberg Kravis Roberts offered full value.

Manikay has increased its stake in MYOB to 9.99 per cent. The hedge fund, run by former Australian Securities Exchange director Shane Finemore, has called on the MYOB board to reconsider its recommendation to accept KKR's offer.

"We were disappointed when KKR made its original offer and expected the board would be able to negotiate a higher price that would reflect the true value of the company," Manikay said in a letter to MYOB's management.

"KKR took advantage of the temporary adverse market conditions in late 2018 to pressure the board to accept a deal at $3.40 per share, a material reduction from the original $3.77 per share offer.

"Our valuation of the company, which we are happy to discuss with the board and with our fellow shareholders, is well in excess $4 a share."

Manikay's intervention throws a last-minute spanner in the works for MYOB's management, which approved KKR's reduced $3.40 a share offer in December.

Last month, MYOB, chaired by former ABC chair Justin Milne, said it had been unable to find a superior offer.

MYOB yesterday said it was sticking with its recommendation and that it had done everything it could to secure a better offer.

"The MYOB board continues to unanimously recommend the proposal subject to no superior proposal being forthcoming," the company said.

An independent expert's report and scheme booklet is expected to be sent to shareholders in the coming weeks. MYOB shareholders will vote on the merger on April 17.

KKR first offered to buy MYOB for $3.70 a share in October. It upped that to $3.77 a share in November in order to gain due diligence, but cut the offer to $3.40 in December after looking at the books.

MYOB has lost ground to cloud-based accounting software firm Xero in the past couple of years.

MYOB shares fell 0.3 per cent yesterday to $3.39.

THE AUSTRALIAN

FACEBOOK RETORT FOR ACCC

REGULATION

FACEBOOK has disputed calls to regulate its news rankings, describing the proposals put forward by the Australian Competition and Consumer Commission as "unprecedented".

In a response to the ACCC's preliminary report into digital platforms, the technology giant said it did not believe regulation would solve the issue of supporting sustainable journalism.

Facebook's submission follows the ACCC's draft report into the market power of digital platforms, released in December.

The report said Facebook and Google's lack of transparency around prioritisation of content raised concerns. The ACCC proposed a regulator.

Facebook Australia and New Zealand public policy director Mia Garlick said: Algorithm transparency isn't going to help with those monetisation challenges that we are trying to work towards."

The final report is due in June.

Bubs founder Kristy Carr and daughter Chloe, whose infant allergies inspired the products.

China opens doors for Bubs

EXPORT

GOAT milk formula maker Bubs Australia hopes to expand its reach in China thanks to a new marketing and distribution partnership with Chinese dairy producer Beingmate.

The companies intend to form a joint venture that will market and distribute Bubs' infant formula and baby food products in 30,000 mother-and-baby shops across China.

Bubs founder and chief executive officer Kristy Carr hailed the Chinese company's "extensive infrastructure, local knowledge, regulatory expertise and extensive domestic distribution footprint" that had the potential to transform her business.

"Beingmate is particularly strong in driving distribution via China's lower-tier cities which are benefiting from China's new multi-child family policy, and so there are higher expectations for addressable market growth than in the tier-1 cities where the costs to entry are high," Ms Carr said.

Beingmate, which is listed on the Shenzhen Stock Exchange and owns 280 infant nutrition products, said Australian products had a good reputation in China.

New Zealand dairy giant Fonterra ended its joint venture with Beingmate last year.

Shares in Bubs gained 24.1 per cent yesterday to 74.5c.

MARKET WRAP

THE share market closed higher yesterday as investors bet that weaker than expected economic figures means that the Reserve Bank of Australia will likely cut interest rates this year.

The benchmark ASX 200 index closed up 46.3 points, or 0.8 per cent, yesterday at 6245.6 points, while the broader All Ordinaries was up 45.4 points, or 0.7 per cent, at 6326.8.

"The fact that (GDP) was weaker than expected gave a bit more credence to those who are expecting a rate cut," said CommSec market analyst James Tao, which boosted Australian equities while driving the local currency down.. The Aussie hit a two-month low, buying US70.33c by 5pm yesterday.

Among the movers on the ASX yesterday was **Bubs Australia**, which rocketed up 24.2 per cent, to 74.5c, after announcing a marketing and distribution partnership with Chinese dairy producer Beingmate.

Myer was up 11 per cent, to 45.5c, after reporting it had cut its debt by more than a third and posted a $38.4 million first-half profit.

Every sector was up, led by mining, which gained 1.11 per cent. **BHP** gained 0.9 per cent, **Rio Tinto** was up 1.1 per cent and Fortescue Metals gained 1.7 per cent.

All four of the big banks were up, with the **Commonwealth Bank** leading the way, gaining 0.9 per cent.

Coles was flat at $11.38 after it said it would start selling goods through eBay.

Telstra was up 0.6 per cent, pharma giant **CSL** was up 0.1 per cent and ex-dividend **Brambles** was flat at $11.86.

DOLLARS & SENSE by MACCA

Sector where capturing eyeballs is value for money

THE SHORT CUT

ROGER MONTGOMERY

HERE at the shortcut column we like to write about what is going poorly. With that in mind, the just completed reporting season not only demonstrated the economy is definitely "post peak', it also provided a litany of companies doing it tough.

More than half of all reporting companies - announced flat or declining profits, fewer companies declared a dividend than previously and more companies missed earnings expectations than beat them.

Perhaps more importantly, while average profit growth clocked in at more than 15 per cent, the underlying number was less than 5.5 per cent when BHP and Wesfarmers' results are removed.

Finally, despite all of the negative news, the market rallied to such an extent that company valuations now look stretched again at more than 15 times forecast earnings.

This compares to 12-month forward earnings-per-share growth of less than 5 per cent.

One sector doing it particularly tough is television advertising. Year on year, in the second half TV advertising went backwards by almost 5 per cent, our numbers show.

With a brief respite in the first half of 2018, this negative trend has been in place since at least late 2015.

And given the deterioration in consumer sentiment, retail sales and foot traffic, this trend is unlikely to reverse soon.

While it is true online is capturing a larger slice of the advertising pie, there are other venues for advertisers to spend their money.

The world's biggest advertiser, Procter & Gamble, discovered that despite the world spending US$200 billion ($282 billion) on digital advertising in 2017, the average time spent viewing a digital ad was just 1.7 seconds.

And this is where some good news speaks out from the gloom. The Outdoor Media Association has just released the data for Australian outdoor media advertising revenue by type for the three months to December.

The transport category, which incorporates airports and train stations, grew revenues by more than 18 per cent, while the large-format category (billboards) grew by more than 13 per cent.

The large-format category has produced the most consistent growth over the longer term, growing by 22.4 per cent, 12.2 per cent and 13.1 per cent in 2016, 2017 and 2018 respectively.

Outdoor advertising company QMS Media is almost entirely exposed to the large-format segment in Australia. Not only is QMS in a growing subsector but it is growing faster than the subsector it is in.

In the six months to December 31, QMS reported its Australian outdoor assets grew their revenue by 13 per cent. This compares to 10.9 per cent for the overall large format billboard market.

While the outlook for advertising revenue growth appears to be challenging in 2019, the outdoor industry is more resilient.

Within the segment, billboards continue to be the best and most consistent performer.

And within the billboard segment, QMS has consistently outperformed the large-format billboard category.

If the Australian economy deteriorates further or we get a recession — something I attribute a 20 per cent chance of occurring — investors should expect advertisers to pull back on all spending.

In that case investors could look for short selling opportunities by casting the net widely over the advertising sector from TV to small-format avenues such as street furniture, train stations and bus stops.

Large-format billboards are already being looked at by consumers and now perhaps investors should too.

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