

Now Isosceles has secured control of Gateway, the battle may be over but the war's only just begun. Andrew Don looks back at probably the most exciting takeover battle in food retailing to date.

Battle for Gateway — the complete story

ON Thursday July 13 David Smith, chief executive of Isosceles got the news he'd waited nearly three months to hear.

Gateway was his. He'd fought off the mighty A&P/Wasserstein Perella Newgateway team on the strength of a stub — a share in Isosceles units that created almost as much controversy as Edwina Currie's fateful remarks on salmonella in eggs.

It was touch and go. Even the City analysts, usually partial to a spot of gambling, were reluctant to place their bets on a possible winner as the battle approached its close.

When the announcement was made that Isosceles had acquired a 50.09 per cent majority, the relief and jubilation were too intense to worry about Newgateway's 34 per cent stake and threat to bring Isosceles to its knees.

Mr Smith, the man who describes himself as "just a Presbyterian Scotsman that keeps in the background", said that by the Wednesday before victory day, he knew he was on to a winner.

The most significant development had been the decision of Prudential Assurance with its four per cent stake to sell to Isosceles at the 11th hour.

"We'd been talking very hard to institutions," said Mr Smith, and he was confident

towards the end that they would put Isosceles in the driving seat.

But perhaps the men to whom victory was sweetest were former Foodmarkets' director Iain Wolsey and the rebel four directors sacked by Corporation chairman Alec Monk because of their support for Isosceles.

Mr Wolsey, the man who put the rebel four — Bob Willett, Peter Fisher, Richard Quinton and Roger Reeson — in touch with Mr Smith was completely stunned on Friday morning.

"I never believed anything until the end. But when we got the Pru, the writing was on the wall. We were in a state of stunned shell-shock," he said.

Tribute

He paid tribute to Mr Smith, the man who also master-minded Barker & Dobson's abortive bid at the end of 1987. He was "a man of enormous tenacity and great skill", said Mr Wolsey.

Certainly, throughout the battle, Mr Smith was the man who kept his cool.

The Gateway Corporation was continuous food for speculation ever since B&D chairman and chief executive John Fletcher failed in his own bid for the UK's third largest food retailer.

Hardly a month passed without one rumour or another circulating, so much so that when the final rumour did the rounds, it was like the boy who

cried wolf, and the City sighed with boredom.

As far back as January, Super Marketing discovered that executives from leveraged buy-out specialist Kohlberg, Kravis, Roberts were in the UK and closely scrutinising Gateway stores (Super Marketing, January 20).

It was KKR that subsequently entered talks with Alec Monk and A&P in a white knight attempt that collapsed because A&P wanted autonomy, and KKR's style is to be the one to crack the whip.

As far back as the Easter Bank Holiday, Super Marketing suspected that four directors — the ones who eventually came out in support of Isosceles — were putting together a management buyout.

We had a tip-off that a bid would come that weekend and we also thought that Foodmarkets chairman and chief executive Louis Sherwood might be involved.

Although a bid did not transpire, by this stage we were convinced one was imminent and the day before Isosceles launched its 195p a share bid we had the names of the parties involved confirmed.

We were also told about the subsidiary deal to sell Asda 62 superstores and the Huntingdon distribution centre in the event of an Isosceles win.

The next day, April 18, the bid was launched.

The City was on Isosceles' side from the outset. It thought 195p was all Mr Monk was going to be able to achieve for Gateway shareholders.

But Mr Monk, by now an expert fighter, was not going to bow out that easily.

Isosceles realised that to make an impact it was going to have to raise its offer to 210p a share which it duly did and introduced a stub equity alternative which it valued at not less than 15p along with 195p a share cash.

Mr Monk repeated his opinion that the offer was derisory but he predicted that at the end of the day the battle for the supermarket chain would depend on the value placed on the stub.

Just when it looked as if Mr Monk and his team were yesterday's men, in came Wasserstein Perella, which took up where KKR and A&P had left off.

The American team, which called itself Newgateway, laun-



The winners: David Smith (left) and Iain Wolsey



The losers: Alec Monk (left) and James Wood

ched a 225p per share bid on June 19.

Isosceles then raised its offer to 230p cash or 215p plus the stub. That same day — June 22 — it persuaded AB Foods' Garry Weston to part with his 15.1 per cent stake.

But Newgateway came back with an increased 235p a share offer. This was subsequently raised to 237p and finally 242p.

But even though in cash terms its offer was worth 12p a share more than Isosceles', a valuation of the stub equity by Saloman Brothers at 30p to 35p gave Mr Smith and his team the edge.

Problem

The problem was convincing the shareholders that the stub had a value. Newgateway tried to argue it constituted an increased offer which was against the rules of the Takeover Panel when an offer had already been declared final.

But Mr Smith convinced the institutions that the stub was more than just a clever trick.

It represented a more desirable alternative to Newgateway's cash, he argued.

But while Isosceles has won the battle, the war has only just begun.

Newgateway's retail element A&P is desperate to break into the UK. If it can't get Gateway, there is still Asda as well as

many small regional chains which could be an attraction.

If Newgateway wants to be difficult, it could try to bring Isosceles to its knees.

You could argue that would be against its own interests because the effect on the share price would be catastrophic.

But you could counter that with the argument that the lower the share price fell and the more desperate things became for Isosceles, the cheaper Newgateway could buy Isosceles' stake.

However, if Isosceles was forced into a sell-out situation by Newgateway, ill-feeling in the company would be so severe that Newgateway would have an almost impossible task turning it around.

Whatever happens, one thing's for sure — Alec Monk, the man who, love him or hate him, turned a disparate hotchpot of companies into one of the biggest chains around, will not be taking a part in Gateway's future.

In the short term his reputation has suffered. Once the City's favourite, he's now not much loved.

But he will recover. Long term the City will remember that he was a man who secured the highest possible price for shareholders.

And he will be back. Perhaps not in the UK. But he will become a force again.

GATEWAY BID TIMETABLE

- April 18: Isosceles launches 195p a share cash offer for The Gateway Corporation.
- April 19: Gateway Foodmarkets' board re-shuffle to make up for posts left vacant by the suspension of the rebel four.
- April 20: Gateway gains injunction against rebel four.
- May 3: Malcolm Baldwin, service director for non-food distribution and Paul Fox, superstores operation director resign.
- May 8: Bejam casualty John Galloway replaces Paul Fox.
- May 30: Isosceles raises its bid to 210p a share or 195p cash alternative plus equity stub.
- June 2: Isosceles achieves acceptances of 10.7 per cent.
- June 4: KKR and A&P fail to reach agreement on a friendly merger with Gateway.
- June 7: DTI clears Isosceles bid.
- June 19: Newgateway launches 225p cash bid.
- June 19: Gateway recommends Newgateway offer.
- June 22: Isosceles raises its bid to 230p a share or 215p cash plus equity stub alternative and secures AB Foods' 15.1 per cent stake. Newgateway then raises its stake to 235p.
- June 23: Newgateway increases its offer to 237p.
- June 26: Gateway sacks rebel four. County NatWest WoodMac values Isosceles stub conservatively at 21p to 32p.
- June 27: Takeover Panel stops Newgateway from buying in the market. Isosceles appoints Saloman Brothers International to value equity stub.
- June 29: Isosceles publishes the methodology behind stub valuation following Saloman's estimate of a complete offer value including the stub of 245p to 250p. Newgateway raises bid to 242p cash and makes it final.
- July 4: Gateway issues financial results — profits up 16 per cent.
- July 7: Newgateway launches £420 million dawn raid and increases stake to 30 per cent.
- July 8: Newgateway vows to keep its stake in Gateway even if it loses and Takeover Panel makes this binding. Prudential Assurance sells to Isosceles raising its stake to 48 per cent. Scottish Amicable and Legal and General follow suit bringing Isosceles to the verge of victory.
- July 13: Isosceles declares victory.

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