

Press Release

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The Fashion for “Privatisation” – Is It Out of Hand?

No the above headline does not refer to the denationalisation of public utilities but to the prevalence of offers backed by private equity for listed companies. Often these are “management buy-outs” engineered by insiders where they apparently see undiscovered value in the business which might be realised in a different financial structure. As UKSA Director Peter Wilson recently said *“Yet another letter lands on my doormat saying the executive directors are considering making a formal offer for the company in which I have shares. Maybe I am missing something but the executive directors are appointed to run the company for the benefit of all shareholders but in bidding for it they are in effect saying we know it can be run better and so we want to buy it and make the money for ourselves and not those we were appointed to serve. Alternatively they know something about the company, which they are not sharing with their shareholders, and which adds value.”*

And another UKSA Director, Roger Lawson, said: *“I currently have three holdings that are subject to offers from vehicles backed by the management – Retail Decisions, Windsor and Planit Holdings. I always look at these offers very carefully because from past experience they often appear to be at a low price – for example I was taken out of both DFS Furniture and Peacock when I would have preferred to remain a shareholder. UKSA commented adversely on the events at DFS at the time (see our web site at www.uksa.org.uk/DFS_Article.pdf). Retail Decisions looks a very full price and it appears the directors spent some time considering alternative offers for the business, but Planit looks like another low offer that favours the insiders at the expense of smaller shareholders.”*

Planit Holdings – is it a fair price?

Planit is a well established software company operating in the CAD/CAM sector and listed on AIM. It has recently received an offer based on 29 pence per share in cash from a newly created vehicle (Velocity Acquisitions Ltd) formed by August Equity Fund, but in which the existing management will have an interest. This offer has been recommended to shareholders by the sole independent non-executive director, primarily it seems on the basis that this is a higher price than the level at which the shares have recently traded (as low as 23 pence before rumours of the offer got around).

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But the relevant ratios are as follows:

- This equates to a historic p/e of 10.4 on the "adjusted" eps of 2.8p recently announced.
- It equates to a prospective p/e of 8.3 on brokers forecasts for 2007 of 3.5p.
- The total offer value equates to 0.9 times the revenue of £29 million.

Bearing in mind that this is a growing, profitable business in a sector that has many positive characteristics, this seems somewhat low and not comparable to the typical ratios paid for software companies.

One has to ask whether the directors really explored the alternative offers that might have been available for this business (it seems they had received other "approaches")? Or did the executives prefer to take the offer that best suited them rather than the interests of shareholders as a whole? One interesting statement in the offer document that might shed some light on this issue is that both the Chairman (a substantial shareholder), and the Management Team, who in total hold 35.6% of the shares have given irrevocable undertakings to accept the offer, which will "*continue to be binding if an Independent Competing Offer is made for Planit*". In other words they will not be able to consider any competing offer however financially advantageous it may be.

There seems to be a conflict of interest here. The directors have a duty to pursue the best interests of the shareholders, but if they are seeking a management buy-out then clearly it is in their interests to achieve a buy-out at as low a price as possible - which is directly against the interests of the shareholders.

UKSA advises shareholders in Planit to consider this offer very carefully. Because it is a "Scheme of Arrangement", it requires approval by 75% of shareholders and is not therefore a foregone conclusion. Shareholders should contact UKSA if they wish to support opposition to the bid. The EGM and Court Meeting is on the 2nd November and shareholders might like to go along and ask the questions given above.

About The UK Shareholders Association (UKSA)

UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect the rights of shareholders in public companies, and to promote improved standards of corporate governance. Our educational activities, regular regional meetings, company "analyst" meetings and the resources of our web site, help to inform the public on investment management. UKSA is a "not for profit" organisation which is financially supported primarily by its individual members.

Disclaimer re Investment Advice

UKSA is not authorised to give investment advice and nothing in this document should be construed as such. Any comments on value in the cases mentioned here represent no more than personal opinions. Shareholders should consult their professional advisers before taking action on the offers mentioned.

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