

Regulatory Story

[Go to market news section](#)



Phaunos Timber Fund Limited - PTF Stafford Offer Rejection & Publication of Circular
Released 07:00 26-Sep-2018

RNS Number : 9300B
Phaunos Timber Fund Limited
26 September 2018

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, DIRECTLY OR INDIRECTLY (IN WHOLE OR IN PART), IN, INTO OR FROM ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OF THAT JURISDICTION. THIS ANNOUNCEMENT DOES NOT CONSTITUTE A TAKEOVER OFFER OR AN OFFER OF SECURITIES.

26 September 2018

Phaunos Timber Fund Limited ("Phaunos" or the "Company")

Rejection of Stafford's Final Offer and Publication of Circular

Further to the Company's announcement on 24 September 2018, the board of Phaunos (the "**Board**") announces that it is today publishing its circular (the "**Circular**") in connection with the final revised cash offer made by Stafford Capital Partners Limited ("**Stafford**") to acquire the entire issued and to be issued share capital of the Company (the "**Final Offer**").

A letter from the Chairman of Phaunos to Phaunos Shareholders, as set out in the circular, has been extracted below.

LETTER FROM THE CHAIRMAN PHAUNOS TIMBER FUND LIMITED

(A closed-ended investment company incorporated in Guernsey with registered number 45564)

Directors
Richard Boléat (Chairman)
Jon Bridel
Brendan Hawthorne

Registered office
Ground Floor, Dorey Court
Admiral Park, St Peter Port
Guernsey, GY1 2HT

info@phaunostimber.com
www.phaunostimber.com

26 September 2018

Dear Shareholders,

Thank you for taking the time to read this document. It contains important information with regards to your shareholding in Phaunos.

As you are aware, following Stafford's unsolicited cash offer for Phaunos (valuing the Company at US\$0.49 per Share) on 31 July 2018 (the "**Offer**"), the Company published its response circular on 14 August 2018 ("**Response Circular**"), setting out the Board's belief that the Offer was inadequate and not in the best interests of Shareholders. On 14 September 2018, Stafford made a final revised cash offer for the entire issued and to be issued share capital of the Company (the "**Final Offer**"), which values the Company at US\$0.52 per Share.

For the reasons set out in the Response Circular and reiterated below, it is the Board's belief that the Final Offer remains inadequate and not in the best interests of Shareholders.

Stafford's Final Offer is not Shareholder friendly and was made without any prior consultation with the Board as to the level of that Final Offer

As indicated in the Response Circular, Stafford's approach has not been made with the best interests of Shareholders in mind. As you are aware, Stafford was given the opportunity to participate in the Asset Realisation Process but declined to do so, opting instead to pre-empt that process with an Offer (and now the Final Offer) that undervalue Phaunos and would, were Stafford to succeed, deprive Shareholders of the benefits of a competitive process designed to maximise value.

Phaunos notes that the increased offer from Stafford was made without any prior consultation with the Board as to the level of that Final Offer. The Board notes that the Final Offer is not capable of any further revision.

Stafford's Final Offer undervalues Phaunos: there is material upside from the Asset Realisation Process compared to Stafford's Final Offer

The Board has reviewed and considered the Final Offer in conjunction with a review of the status of the ongoing disposal of the Company's asset portfolio under a formal sale process (the "**Asset Realisation Process**") and taking into account the guidance received from its legal advisers with respect to the Rayonier Canterbury LLC ("**Rayonier**") dispute (as further discussed below).

As set out in the chairman's statement for the unaudited interim results of Phaunos published on 7 September 2018, the Asset Realisation Process has now moved into a new phase where bidders are preparing to commence, and in some cases have already commenced, due diligence including site visits, with a view to receive binding offers during Q4 of 2018.

Regarding the assets which are not part of the Asset Realisation Process, negotiations on the possible disposal of the interest in Aurora Forestal are progressing well and various options are being explored to effect an exit. GTFP is currently in the process of realising its portfolio and expressions of interest and / or non-binding bids have been received for all assets in the portfolio.

The Board reiterates that all bidders for Matariki Forestry Group ("**Matariki**") have indicated to the Board that they are expecting the OIO process to take between 3 and 6 months. These bidders are experienced in dealing with the OIO and have a detailed understanding of what is required to effectively navigate the consent process.

As mentioned in an announcement on 21 August 2018, new overseas investment rules applying to forestry transactions were passed by the New Zealand Parliament and will come into effect by around mid to late October 2018. The Board has been advised by its New Zealand legal counsel that the new rules should result in an easier and quicker OIO consent pathway for prospective bidders who meet the new criteria.

Taking these factors into account, the Board:

- reiterates its asset realisation range of US\$0.54-0.60 per Share as set out in the Response Circular (the "**Asset Realisation Range**"); and

- continues to believe that the disposal of all the assets which are subject to a sale process under the Asset Realisation Process will complete between Q1 and Q3 2019, which would cover the sale of assets comprising approximately 92% of the Portfolio Value.

The Board notes Catchmark Timber Trust, Inc.'s possible offer of US\$0.57 per Share made on 6 September 2018 as a validation of the Asset Realisation Range.

The Board notes the letter from Stafford sent to Shareholders on 25 September 2018 ("Stafford's Letter") which contains no new information on Stafford's inadequate proposal and includes a number of misleading and self-serving statements

The Board therefore seeks in this letter to clarify certain matters to Shareholders.

1) "FX Adjusted NAV"

Stafford is misleading Shareholders by comparing its Final Offer to an "FX Adjusted NAV"; the relevant comparable metric is the Asset Realisation Range.

The FX Adjusted NAV, as described in Stafford's Letter, is based on values derived from third party appraisers, adjusted downward for recent foreign exchange movements. Shareholders will appreciate that the sale values of portfolio assets being sold in the Asset Realisation Process may vary from those values derived from third party appraisers.

Accordingly, the Asset Realisation Range of US\$0.54-0.60 per Share is the relevant comparable metric as it takes into account the values that are being offered for its assets by bidders that, in the view of the Board and its advisers, are well-capitalised and highly credible international investors in timber assets.

The Board believes that Stafford's comparison of its Final Offer to the "FX Adjusted NAV" is unhelpful to shareholders, as it is comparing its Final Offer to an accounting measure, when it should be comparing its Final Offer to the Asset Realisation Range.

2) Foreign exchange risks

The Board considers that Stafford has no basis to make the comment that the outcome of the Asset Realisation Process will be impacted by foreign exchange movements.

The Asset Realisation Process is a competitive process, in which Stafford has declined to participate, and the Asset Realisation Range is based on Indicative Bids that were received and will be paid for in US dollars.

3) The Asset Realisation Process

The Board notes the comment made by Stafford on timing and potential complexity associated with the Asset Realisation Process and reminds Shareholders that Stafford has no access to any information relating to any of the bidders in the Asset Realisation Process nor the current status of any of the Indicative Bids. The main challenges in this process have been as a direct result of Stafford's hostile approach.

Stafford has always declined to be part of the Asset Realisation Process despite being invited and instead chose to introduce uncertainty to that process through the timing of its approach. The cost cover agreed for due diligence costs is only payable in certain circumstances where the assets to which it relates are sold outside the Asset Realisation Process and will be subject to a cap.

4) Rayonier dispute

The Board has already publicly stated its position on the Rayonier dispute.

The Board believes that Rayonier's claims are entirely without merit and that the acquisition notice is invalid, as supported by Phaunos' UK and New Zealand legal advisors, and designed, like Stafford's Final Offer, to seek to acquire Phaunos assets at an undervaluation.

5) Phaunos fees and expenses

The Asset Realisation Range takes into account an assessment by the Board of the estimated revenue and general operating costs of Phaunos as well as costs associated

with the Asset Realisation Process (including the fees and expenses associated with advisory and legal costs in responding to Stafford's offer) through to the full liquidation of Phaunos (as per the estimated timing described in the Response Circular).

Shareholders will continue to benefit from distributions received from Matariki up until completion of the sale of the Company's stake in Matariki. For reference, the Matariki distributions for the year ended 31 December 2017 represented US\$0.03 per Share. In light of Matariki's current trading, cash generation and dividend policy, the Board expects Matariki to remain a strong contributor to Phaunos's revenue whilst Matariki remains in the asset portfolio. The Board expects Phaunos's 2018 revenue contribution from Matariki to remain broadly in line with that of 2017.

The Board of Phaunos has been paid per their contractual arrangements. There are no additional or incentive payments in place despite the significant additional workload associated with defending Phaunos against Stafford's opportunistic approach.

Furthermore, the Board notes that Stafford resigned of its own volition in August 2017, with its tenure practically ceasing in February 2018. Since then, Phaunos has not had to pay management fees to Stafford, which in 2017, 2016 and 2015 totalled US\$5.9m, US\$1.4m and US\$1.4m, respectively.

THE BOARD'S RECOMMENDATION: TAKE NO ACTION

As announced by the Company on 24 September 2018, taking into account the Asset Realisation Range and the latest estimated timeline for the completion of the Asset Realisation Process, the Board believes that the Final Offer does not provide an attractive exit opportunity for Shareholders.

Accordingly, and subject to the matters set out above, the Board, which has been so advised by Evercore, has unanimously decided to reject the Final Offer from Stafford as it strongly believes that the Final Offer undervalues Phaunos and recommends that you should take no action in relation to the Final Offer and that you should not sign any document which Stafford or its advisers send to you. In providing advice to the Board, Evercore has taken into account the Board's commercial assessments. Evercore is providing independent financial advice to the Phaunos Directors for the purposes of Rule 3 of the UK Takeover Code.

We will write to you again as may be required to keep you informed of any further developments.

Yours sincerely,

Richard Boléat
Chairman

Notes:

All capitalised terms shall have the meaning ascribed to them in the Circular.

- 1. The US\$5.9m comprises US\$1.5m of portfolio management fees and US\$4.4m pertaining to Stafford's rights under the warrant instrument*

In accordance with Rule 25.1(c)(ii) of the UK Takeover Code, a copy of the Circular will shortly be made available on Phaunos's website at <http://www.phaunostimber.com/offer-from-stafford/>. A copy of the Circular has been submitted to the National Storage Mechanism and will shortly be made available for inspection at www.morningstar.co.uk/uk/NSM/.

Enquiries:

Phaunos Timber Fund Limited
Richard Boléat (Chairman)

+44 (0)1534 625522

Evercore Partners International LLP (Financial

Adviser)

+44 (0)20 7653 6000

Julian Oakley

Julien Baril

Winterflood Investment Trusts (Corporate Broker)

+44 (0)20 3100 0000

Joe Winkley

Neil Langford

Rule 26.1 Disclosures

In accordance with Rule 26.1 of the UK Takeover Code, a copy of this announcement will, subject to certain restrictions relating to persons resident in restricted jurisdictions, be available on Phaunos's website at <http://www.phaunostimber.com/offer-from-stafford/> by no later than 12 noon (London time) on the business day following the release of this announcement. The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement. The person responsible for arranging for the release of this announcement on behalf of Phaunos is JTC Fund Solutions (Guernsey) Limited (acting as Company Secretary).

Important Notices

This announcement is not intended to, and does not, constitute or form part of any offer, invitation or solicitation of any offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of any securities or the solicitation of any vote or approval in any jurisdiction. Any offer (if made) will be made solely by certain offer documentation which will contain the full terms and conditions of any offer (if made), including details of how such offer may be accepted. This announcement has been prepared in accordance with English law and the UK Takeover Code, and information disclosed may not be the same as that which would have been prepared in accordance with laws outside of the United Kingdom. The release, distribution or publication of this announcement in jurisdictions outside of the United Kingdom may be restricted by laws of the relevant jurisdictions, and therefore persons into whose possession this announcement comes should inform themselves about, and observe, any such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities law of any such jurisdiction.

Evercore Partners International LLP ("Evercore"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting as financial adviser for Phaunos Timber Fund and no one else in connection with the Offer, the Final Offer and other matters set out in this announcement and will not regard any other person as its client in relation to the Offer, the Final Offer and other matters in this announcement and will not be responsible to anyone other than Phaunos Timber Fund for providing the protections afforded to clients of Evercore, nor for providing advice in relation to the Offer, the Final Offer or any other matter referred to herein. Neither Evercore nor any of its subsidiaries, branches or affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract or in tort, under statute or otherwise) to any person who is not a client of Evercore in connection with the Offer, the Final Offer, this announcement or any statement contained herein or otherwise. Apart from the responsibilities and liabilities, if any, which may be imposed on Evercore by FSMA, or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, neither Evercore nor any of its affiliates accepts any responsibility or liability whatsoever for the contents of this announcement, and no representation, express or implied, is made by it, or purported to be made on its

behalf, in relation to the contents of this announcement, including its accuracy, completeness or verification of any other statement made or purported to be made by it, or on its behalf, in connection with Phaunos Timber Fund or the matters described in this announcement. To the fullest extent permitted by applicable law, Evercore and its affiliates accordingly disclaim all and any responsibility or liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of this announcement or any statement contained therein.

Winterflood Securities Limited ("Winterflood"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting as corporate broker to Phaunos Timber Fund and no one else in connection with the matters set out in this announcement and will not regard any other person as its client in relation to the matters in this announcement and will not be responsible to anyone other than Phaunos Timber Fund for providing the protections afforded to clients of Winterflood, nor for providing advice in relation to any matter referred to herein.

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

END

ORELAMMTMBITTLP

CLOSE

London Stock Exchange plc is not responsible for and does not check content on this Website. Website users are responsible for checking content. Any news item (including any prospectus) which is addressed solely to the persons and countries specified therein should not be relied upon other than by such persons and/or outside the specified countries. Terms and conditions, including restrictions on use and distribution apply.

©2014 London Stock Exchange plc. All rights reserved

Stafford Offer Rejection & Publication of Circular - RNS