Enterprise

Earning his bread and butter

Michael Sherlock says he didn't take RFG's dough because he has a job to finish at Brumby's Bakeries, writes **Damien Lynch**.

Michael Sherlock used his loaf to come up with a successful plan. Photo: KEN IRWIN

Michael Sherlock could have set himself up nicely for retirement if he had backed the pre-Christmas takeover offer from Retail Food Group for Brumby's Bakeries.

"I could have taken a fair bit of money from the table, almost enough to retire on," the 55-year-old Brumby's chief executive told *The Australian Financial Review.* "But I said to the board 'I haven't finished this' and I didn't want to give it to someone else."

Instead, he and two other members of the Brumby's management team decided to form a syndicate, cancel their Christmas holidays and work on cobbling together the finance to counterattack with a management buy-out bid.

The $40 million offer (including $10 million in equity already held by the management team) they were finally able to put together trumped that of RFG and has been recommended to shareholders by the board of Brumby's, which is listed on the Bendigo Stock Exchange.

RFG on Friday terminated its merger implementation agreement with Brumby's. Although the termination didn't preclude RFG from making another offer, for the moment at least Sherlock and his colleagues look set to take the listed small cap into private hands.

The management team reserves the right to increase its offer if the need arises.

Sherlock has been with Brumby's for 28 years. By the time he took over the top job about eight years ago, he had seen enough to know that the company wasn't reaching anywhere near its true potential.

He sat down with Steve Brown, fellow syndicate member and general manager and company secretary at Brumby's, and together they came up with a growth strategy for the company.

Brumby's had four stores when Sherlock joined the company. Today it has about 320 and has plans to open its first franchised store in the Middle East this financial year.

Sherlock feels the company was about 30 per cent of the way to achieving its goals when RFG launched its takeover offer for the bakery chain in mid-December.

The offer didn't come as a surprise to him as RFG had been making overtures over a period of time.

He and Brown looked at the offer details and came to the conclusion that the price on the table didn't reflect what Brumby's was capable of achieving, or what it might be worth in the future. So together with director Marcus Barlow, Sherlock and Brown teased out their management buy-out plan for more than two months. "I don't think anyone really believed that we could come up with the money, but we did," Sherlock says.

However, with bankers, accountants and auditors all involved, putting together the management buy-out offer has cost the trio a lot of money, and will leave them with debt of about $30 million should the management team win out in the end.

"That is part of the problem when you do it by means of a scheme of arrangement," Sherlock says. "You need to do due diligence and the legal fees are frightening. It will take a lot of work to service and pay back the debt over the next five years. But after that it will be rewarding."

Sherlock says the management team, if successful in taking Brumby's private, would have many options open to it over the next five years. These include growth by acquisition, entering into a merger or preparing it for a trade sale.

The three senior Brumby's executives, who own 21 per cent of the company, offered to pay $2.80 cash for each of the Brumby's shares they did not own and pay shareholders a dividend of 10.9¢ a share.

Their proposal was 11.5¢ a share higher than a takeover offer by RFG of $2.685 cash a share and the 10.9¢ dividend.

RFG had already received the recommendation of the Brumby's board for its bid and was conducting due diligence into the company when the management team launched its counter offer.