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Strategic Practice During a Hostile Takeover Process: The Bid for Blue Circle PLC

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Abstract. This Blue Circle case gives a rare inside view into the strategic practice of target top management responding to a hostile bid. It allows for informed discussion around the strategic reasons for such a bid, the choice of defence strategies open to the target firm and the issues and tensions facing the target firm's top manager as the bid evolves. The case traces the manoeuvrings of the target firm top management and illustrates how their actions and practices, across a wide range of issues and contexts, can influence strategic outcome. As such this case illustrates that strategic manoeuvrings can materially affect outcome. The focus of the case upon the target top manager also raises questions around whether he was acting in i) his own self-interest, ii) the interests of Blue Circle's shareholders iii) the best interests of the firm. These questions are core to agency and stewardship perspectives on top management motivation. As the hostile bid process unfolds, and the activities and actions of the target CEO are revealed, answering these questions allows debate on whether the target CEO is agent, agency problem or steward.

Keywords: Mergers and Acquisitions, hostile takeover, agency, stewardship, defence strategies, strategy and practice, globalization, institutionalism.

1. Introduction

Early summer 1999, Rick Haythornthwaite, the recently appointed CEO of Blue Circle PLC ('Blue Circle'), the 6th largest cement producer in the world, became aware that one of its largest rivals was considering a takeover bid. The French giant buildings materials group, Lafarge, the second largest cement producer in the world, had engaged an investment bank to help them prepare a bid. Unbeknownst to Haythornthwaite, Bertrand Collomb, Chairman and CEO of Lafarge, had been planning this bid since June 1997, some two years earlier.

On 31st January 2000, Lafarge launched an all cash hostile bid for Blue Circle, valuing the target at Eur5.6bn. If the takeover bid succeeded, Lafarge would become the largest cement company in the world.

1. This case is intended to be used as the basis of classroom discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

The bid triggered Haythornthwaite and Blue Circle's advisers into action. They knew a formal offer document would arrive within 28 days and they would need to respond rapidly (see appendix 1 for a bid timetable). Haythornthwaite immediately denounced the offer as derisory and the team started work on updating their defence plan. They knew their choice of tactics would be vital for a successful rebuttal of Lafarge's bid. Blue Circle needed to wage a sustained campaign of formal documentary responses to Lafarge's attacks which would portray Blue Circle's previous actions in the most positive light as well as promise a far more rosy future as an independent company rather than under Lafarge's ownership. Haythornthwaite knew he had an uphill struggle as all hostile cash bids in the UK over the last 15 years had succeeded. He knew he would have to fight for continuous positive coverage in the media and that he faced up to 60 gruelling days of 'pounding the pavements' of the City of London, attempting to persuade key stakeholders to back his management team rather than accept the cash. He needed to have responses to all of Lafarge's criticisms and take actions at Blue Circle which would show investors that the current management was capable of reinvigorating the firm. However, what actions could be taken in the short term at Blue Circle to make a difference? Which defence options were possible and would be most effective in repulsing Lafarge?

Whilst defending Blue Circle was a natural reaction to an unanticipated bid, Haythornthwaite recognised that this struck at the very heart of what it meant to manage Blue Circle well. It raised questions about who the firm was run for; the shareholders, the management, the employees, the customers? What outcomes would be in the best interests of each of them? How would the inevitable tensions be managed? Haythornthwaite knew his views on these key issues would shape the actions of Blue Circle in mounting a defence of the firm from Lafarge. They would also indicate where his priorities lay in relation to these stakeholders.

2. Industry Background

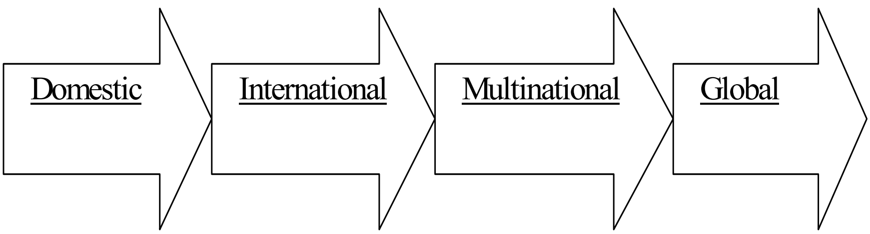
World demand for cement is approximately 1.5 billion tonnes per annum, and between 1990 and 1997 demand grew at a compound rate of 5.5% compared with population growth of 1.5% over the same period. Production and consumption data for the global cement market is shown in Appendix 2. Regional differences can be significant and consumption is increasing in the developing world much more than in the developed world. Since 1990, per capita consumption grew by 7.1% in Asia, whereas in Europe it fell by 1.4%, although this latter figure partly reflects the fall in consumption in former Eastern Bloc countries. Regional cement trends are shown in Appendix 3.

Per capita cement consumption varies between regions, with the North American and European markets consuming approximately four times as much cement per person as Africa (see Appendix 4). Regional averages can however mask country differences. Within Europe for instance, Portugal consumes nearly 1000kg per person while in the UK, only 210kg is used per person. This is largely because of different construction methods for residential and infrastructure work.

2.1. Industry Consolidation

The main players in the cement industry can be divided into four strategic categories.

Figure 1: Cement firm evolution



Domestic	International	Multinational	Global
Southdown (US)	CRH	Holderbank	none
Siam Cement (Thailand)	RMC	Lafarge	
Votorantim (Brazil)	Dyckerhoff	Cemex	
	Cimpor	Italcementi	

Source: European Cement Review January 2000, HSBC

International producers have a strong home base, which has supported limited investment overseas. The businesses remain largely independent and there is limited sharing of skills and expertise. Multinational producers are larger groups that have been investing internationally for some years. Production decisions remain largely domestic although some trading of cement takes place. Trading and operational synergies increase as the groups expand and returns are therefore generally higher than those for international producers. Global producers are currently a theoretical category where production and capacity decisions are taken on a global basis. The advantage would be the erosion of price discrepancies and the rising of average prices as a result of less competition.[2]

In the four years immediately prior to the bid for Blue Circle, there was large-scale consolidation of the cement industry with nearly 80 million tonnes capacity acquired by leading producers (see Appendix 5). This represented over 8% of

2. *European Cement Review*, January 2000, HSBC.

global cement capacity, excluding China. In fact the protagonists in this case were both interested in the same target, Halla Cement in Korea; *"Blue Circle Industries is competing with Lafarge, the world's second-largest cement maker, to buy Halla Cement Manufacturing Corp of Korea for at least $345m (pounds 215m)"* The Guardian June 3rd 1999).

The major deals entered into in the last three years are shown in Appendix 6. By the end of 1999, the top six multi-national producers had 30% of global capacity compared with 11% in 1988.

Table 1: Cement kiln capacity by largest companies and by region

	Total kiln capacity *(millions tonnes)*							
	Western Europe	Eastern Europe	Africa	Asia	Oceania	North America	C & S America	Total
Holderbank	16.4	6.6	5.7	17.4	1.2	15.3	21.3	83.9
Lafarge	24.7	12.0	12.0	6.0		13.2	8.2	76.1
Cemex	10.4		4.0	10.2		1.1	41.1	66.8
Heidelberger	33.8	12.5	1.2	3.0		10.5		61.0
Italcementi	30.2	2.6	3.6	3.9		5.4	0.7	46.3
Blue Circle	16.7		4.1	12.3		6.7	0.9	40.6
RMC	8.9	6.5			3.1	1.0		19.5
Dyckerhoff	10.7	2.6				4.7		18.1
Cimpor	7.1		2.4				2.8	12.3
CRH	5.8							5.8

Source: *European Cement Review*, January 2000, HSBC

At this time, further key expansion opportunities lay in the regions where national players still dominated. The percentage of regional markets controlled by international and domestic producers is shown in Table 2.

Table 2: Regional markets controlled by international and domestic producers

Region	**National players market share (%)**	**International majors market share (%)**
Asia - (excluding China)	90	10
Middle East	84	16
Eastern Europe	73	27
Africa	71	29
Latin America	70	30
Western Europe	37	63
North America	37	63
Total (excluding China)	70	30

Source: *European Cement Review*, January 2000, HSBC

Despite these opportunities, many of the largest cement companies were constrained in making large acquisitions as they were family controlled i.e. Holderbank, Cemex, Heidelburger and Italcement. For these firms to expand through acquisition, the families would have to find cash or see their holdings diluted. These family holdings were also an effective defence against takeover. There were also significant anti-trust issues for acquirers to consider. For instance, in the UK, RMC, with a strong domestic position had just completed a bid for Rugby Cement and so any further domestic acquisitions in the UK would probably be blocked by the UK competition commission. However analysts reported that further consolidation was likely in the sector for two reasons; 1) in order to reduce the risk of 'disruptive pricing' – being able to retaliate with pricing action in a competitor's important regions if that competitor pressures you in your own principal markets (JP Morgan 31st January 2000); 2) the disenchantment amongst investors in the cement sector. As one City analyst put it "*The UK institutions have given up on the sector. The fund managers are driving the stocks down to invite bidders so they can recycle the proceeds into high-technology stocks*" (FT 2nd February 2000).

3. The Protagonists

3.1. Blue Circle

In 1999, Blue Circle was the 6th largest cement producer in the world capitalised at €4.7bn (£2.752bn[3]), with a total kiln capacity of 40.6 million tonnes. Blue Circle was the parent company of an international group of companies whose core businesses were cement, aggregates and ready-mix concrete. Cement contributed the majority of group sales and operating profit. Selected financial information is shown in Appendix 7. Blue Circle was quoted on the London stock exchange and its market capitalisation at 31 December 1999 was €4.7bn. Appendix 7a shows Blue Circle's share price behaviour and its performance relative to the FTSE 100 index in the years immediately prior to the bid. Blue Circle's main shareholders are listed in Appendix 8.

Blue Circle had market leader positions in the UK, Malaysia, Greece, Nigeria, Denmark, and Kenya and was number five in the US. The Group's market share and major competitors by country are shown in Appendix 9. Although some way behind Holderbank and Lafarge in size, Blue Circle had made numerous acquisitions during the late 1980s and early 1990s. During the late 1990s, Blue Circle managed to double its cement capacity with acquisitions in Asia and Greece. In addition, during 1999, the non-core Heating and

3. 1999 estimate.

Bathrooms divisions were disposed of. Table 3 shows Blue Circle's acquisition history.

Table 3: Blue Circle's acquisition history 1979-2000

Company acquired	Acquisition year	Comments
Cemento Melon	1979	Chilean cement manufacturer
Armitage Shanks	1980	UK sanitaryware manufacturer Sold at a profit 1999
Tulsa cement works	1984	Oklahoma, USA
Ravena limestone quarry	1988	New York, USA
Birmid Qualcast	1988	Included Potterton heating boilers, Qualcast, Atzo and Webb lawnmowers, New World cookers, foundries, Qualitas bathroom products, Wrighton and Elizabeth Ann kitchen furniture, Foundries and kitchen furniture businesses sold 1990 Garden products sold at a loss in 1992 New World cookers sold at a loss in 1994
Blue Circle Aggregates	1989	US aggregates operations
Ockley Brick Company	1990	UK based brick manufacturer Sold at a loss in 1997
Myson	1989	Radiators, heating pumps
Georgia Marble	1989	US aggregates company
Ceramica Dolomite, Italy	1990	Italian sanitaryware manufacturer Sold at a profit 1999
Aalborg	1990	50% share in Danish cement producer Sold at a loss in 2000
Harleyville cement works	1991	South Carolina, USA
Basic Energy	1991	Small clinical incineration business Sold at a loss 1998
Thermopanel	1991	Swedish heating group – radiators, valves, towel warmers
Celsius, France	1992	Heating equipment manufacturer and suppliers in France and Germany Sold at a loss in 1999
Total losses on acquisitions for period		Estimated at £235m
	1992	Keith Orrell-Jones takes over as Chief Executive Autumn 1992
St Marys Canada	1997	Canadian cement company
Needler Group Ltd	1998	Canadian aggregates and concrete block manufacturer
Philippines	1998-9	Various cement manufacturers in Philippines
APMC	1998	50% of Malaysian cement group
Kedah Cement	1999	Malaysian cement manufacturer
	1999	Rick Haythornthwaite takes over as Chief Executive July 1999
Alexandria Portland Cement	2000	Egyptian cement manufacturer
Heracles Cement Company	2000	Greek cement manufacturer
West African Portland Cement Company and Ashaka Cement	2000	Controlling interests in Nigerian cement manufacturers

3.2. Lafarge

In 1999, Lafarge, the French heavy building materials group, was the second largest cement producer in the world, with total kiln capacity of 76.1 million tonnes (see Table 1), behind Holderbank of Switzerland. Lafarge was also the world's largest producer of roof tiles and the third largest ready mix concrete producer. Lafarge was quoted in Paris and London and its market capitalisation at 31 December 1999 was €12.1 billion. Lafarge's other building materials activities include aggregates, plasterboard and speciality materials.

Lafarge was market leader in France, Poland, Morocco and Canada, number two in Venezuela and Turkey, and number three in the US, Brazil and Spain. Lafarge's market share and major competitors by country are shown in Appendix 10. Cement contributed approximately one third of sales but more than half of operating profit. Appendix 11 shows selected financial data.

3.3. Blue Circle's New CEO

Rick Haythornthwaite, CEO of Blue Circle at the time of the hostile takeover, had previously held a number of positions at BP and had been a director of Premier Oil plc. He joined Blue Circle in October 1997 and had initial responsibility for Heavy Building Materials in Asia where he was the architect of Blue Circle's strategy for investing in Malaysia. He later took responsibility for Europe. He became Chief Executive designate in December 1998 and finally CEO in July 1999 on a salary of Eur 590,000; a discount of 20% of the median level to reflect his lack of experience in such a role.

The first public rumours that Blue Circle might be a potential bid target occurred in October 1999, after the Group issued a profits warning. Analyst comparisons of Blue Circle's historic and forecasted cashflow show the extent of the decline (see Table 4). The profits warning came only six weeks after the announcement of the half-year results and severely undermined the credibility of the new Chief Executive. The following month the newspapers stated that Lafarge had engaged an investment bank to assist in preparing a bid. Little further was heard until 30 January 2000 when the Sunday Telegraph reported that a bid was imminent.

Table 4: Analysts forecasts of Blue Circle's cashflow

Year	**Cashflow (£m)**
1998 (actual)	-196
1999 (actual)	+ 539
2000 (estimated)	-344
2001 (estimated)	-36
2002 (estimated)	+95

Source: Credit Suisse First Boston report on Blue Circle Industries, August 22nd 2000

Bertrand Collomb, the Chairman and Chief Executive of Lafarge telephoned Rick Haythornthwaite that weekend to discuss a possible take-over. The price of £4.30 per share (Eur 6.8) was mentioned, but this was dismissed by Haythornthwaite.

4. The Hostile Bid

On 1 February 2000 Lafarge announced a pre-conditional offer for Blue Circle of £4.20 per share (Eur 6.98). The offer represented a premium of only 1.4% over Blue Circle's closing middle market price of £4.14 on 31st January.[4] At this time the dot.com bubble was in full swing, and *"fund managers were desperate to release money tied up in unfashionable 'old economy' stocks to transfer it into technology, media and telecommunications (TMT) companies"* (FT 12th April 2000). Recent major transactions, such as the floatation of lastminute.com as well as Vodafone's acquisition of Mannesmann put pressure on institutions to raise cash to rebalance their portfolios. Old economy stocks appeared over valued and, as such, Blue Circle's share price was likely to decline further. Lafarge was the only real bidder for Blue Circle, and was confident after having recently purchased Redland *"which had not put up much of a fight"* (Board Member). The slim premium offered seemed a shrewd move, and analysts agreed there was a good strategic fit between the two companies. However investors felt the price needed to be closer to £5.00 for success.

Lafarge attacked Blue Circle for mistakes made in the past, including the diversification strategy of the 1980s and early 1990s, with acquisitions such as Birmid Qualcast and Myson. By diversifying Blue Circle had fallen behind its international competitors and was now heavily dependent on *"too few countries"*. Lafarge asserted *"this 'over-dependence' on a small number of operating territories means Blue Circle's profitability is inherently volatile"*.

5. Blue Circle's Defence

As soon as the rumours of a potential bid began to circulate, Haythornthwaite had been in close touch with the firm's financial advisors, merchant bank Lazards. They had been heavily involved in producing the defence plan in 1999 and now steered the conduct of the defence itself. With the telephone call from Collomb and the formal announcement of a bid, Blue Circle was galvanised into action. "Power breakfasts" were held each morning at Blue Circle's headquarters for all key advisors to coordinate and control actions. For Blue Circle's top management defending the company became the number one priority.

5.1. Valuation

The first critical issue for the financial advisors was what value to put on Blue Circle? The valuations prepared by City analysts were all based on information in

4. This was a premium of 33.6% over the closing middle market price on Thursday 27 January, the day before significant speculation.

the public domain and on the analysts' expectations of future growth in the various markets.

Table 5: Analysts valuations of Blue Circle

Date	**Source**	**Nature of valuation**	**Pence per share**
March 1999	Lazard Brothers for BCI	DCF	433
September 1999	Warburg Dillon Read	Target price	500
January 2000	HSBC	Target price	430
13 January 2000	Lazard Brothers for BCI	DCF mid-point	486
25 January 2000	Oddo Equities	Stand alone value Discounted free cash flow	390
31 January 2000	Warburg Dillon Read	Target price	500
22 February 2000	Goldman Sachs HSBC Warburg Dillon Read	Target price Target price Target price	471 500 500
24 February 2000	Credit Suisse First Boston	Stand alone value Discounted free cash flow	390
24 February 2000	Teather & Greenwood	Exit price	500
3 March 2000	Commerzbank	Break up value, before premium for control	446
7 March 2000	Robert Fleming & Co	Target price	500
12 April 2000	Oddo Equities	Take out price	519
20 April 2000	Robert Fleming & Co	Target price (post Asia and OIP announcements)	550
1 December 2000	Schroder Salomon Smith Barney	Take out price	490-495

Note: BCI is Blue Circle Industries Data taken from analyst reports

The analysts' valuations were generally around 500 pence, with some exceptions namely Oddo Equities[5] (25 January 2000) and Credit Suisse First Boston (24 February 2000). Lazards had access to Blue Circle financial information including management accounts, forecasts and budgets. Their valuation presented to the board in January 2000 was prepared based on the 2000-2002 Business Plan. This valuation seemed a reasonable estimate provided the profit forecasts in the Business Plan were considered achievable. Blue Circle

5. Oddo Equities later increased their valuation to in excess of 500 pence towards the end on the bid process and after the release of the operational improvement programme (OIP) and Asia documents.

however tended to achieve actual results lower than plan, and profit projections were sometimes wildly optimistic.

Table 6: Changing top management perceptions of Blue Circle forecasts for 2001

Date prepared	**Source**	**Operating profits 2001 forecast £m**
November 1999	2000-2002 Business Plan	560
November 2000	2001-2003 Business Plan	519
June 2001	Full year forecast	491
September 2001	Full year forecast *	385

*£33 million of the reduction between the June and September 2001 forecasts is due to the sale of Blue Circle's Canadian cement business

Lazards were instructed to reduce the profit forecasts in the 2000-2002 plan to bring them down to more achievable levels. Their discounted cash flow analysis prepared for the board of Blue Circle, valued the business at 486 pence, which was seen as relatively conservative. This valuation provided support for the claims of management that the Lafarge bid of 430 pence, undervalued the group.

5.2. Blue Circles' Formal Response

The initial response of Blue Circle to the Lafarge approach was to dismiss the bid as significantly undervaluing the company. Lafarge issued its offer document on 10 February 2000 and Haythornthwaite embarked upon a media campaign to get Blue Circle's message out to the investment community, appearing in person on radio and television and commenting frequently upon the bid in newspapers. His statement regarding the offer document was that *"We are not rejecting the bid out of stubbornness. We genuinely believe the offer undervalues the company. If Lafarge want our assets, they have to be prepared to pay a good price for them"* (Haythornthwaite in the Telegraph 22nd Feb. 2000). Blue Circle believed that the offer undervalued the company and claimed that the Lafarge bid was a *"quest for our Asian assets"* which *"validates the investment strategy"* of the group (see Exhibit 1).

The first significant document issued by Blue Circle was the early release of the group's 1999 results on 21 February 2000. The publication date was brought forward by five weeks, partly because the original date would have been after day 39, the latest date on which Blue Circle could issue new information, and partly to provide a solid base from which to launch the defence in which management attempted to justify their current strategy. The document stated that: *"Lafarge's chairman has congratulated our management for 'doing all the right things.' He is right to.*

- *We have a business that is fundamentally changed, refocused on our strengths in cement, aggregates and concrete.*
- *We have invested carefully, building leading positions in our chosen markets.*
- *We have exciting growth prospects.*
- *We will deliver substantial performance improvement and cost savings in the near term."*

The document also showed that the final dividend for 1999 would be 10.95 pence per share (see Table 7), which was an increase compared with internal plans.

Table 7: Dividends declared and paid for the years 1994 to 1999

	Interim dividend (pence per share)	**Final dividend (pence per share)**
1994	3.75	8.0
1995	4.0	8.5
1996	4.25	9.0
1997	4.65	9.85
1998	4.85	10.35
1999	5.05	10.95

Despite the robust platform which this document provided for Blue Circle, the financial media clearly expected more. *"[Blue Circle] should explain why it was a better parent of the assets and give details of the prospects for releasing cash from non-performing assets"* (FT March 3rd 2000). A succession of documents addressing these points followed.

On 23 March 2000 Blue Circle issued a document setting out the open market value and development value of the group's land holdings in Kent and elsewhere. The open market value was estimated at £227m (Eur 372m) and the development value at £546m (Eur 895m) (see Exhibit 2).

On 28 March 2000 Blue Circle issued a profit forecast for its Asian businesses where it had been investing heavily. Indeed this heavy investment had been at a time when profits in Asia were falling and these difficult trading conditions had been responsible for the profits warning. The document set out forecasts for profits for Asia for 2000-2002 to convince shareholders that the investments in Asia would pay off in the short term (see Exhibit 3[6]). In defending management's strategy the document stated that: *"Blue Circle has followed a deliberate strategy of increasing investment in Asia in anticipation of what is now a strong and sustainable recovery."*

On the 6th April, Blue Circle announced its operational improvements programme (OIP). The document announced details of the projected benefits arising from such cost savings and included forecasts of the benefits to be achieved to be of the order of £116m (Eur 193m) per annum by 2002. The document also reiterated that the Lafarge bid undervalued the company.

The final salvo in Blue Circle's defence was on 11th April 2000. Blue Circle was so confident it would deliver on the promises in the Property, Asia and OIP documents that it would return £800 million (Eur 1333m) to shareholders in advance. The first tranche of £400 (Eur 667m) million was to take place by way of a tender offer for Blue Circle's shares, although the form of the second tranche was left open (see Exhibit 4).

The return of capital was in effect a down payment to shareholders, demonstrating the confidence of management in delivering the promises they had made. It had the consequence of increasing Blue Circle's gearing significantly from 39.30% (end of 1999) to 107.7% (end of 2000), and of dramatically reducing the free cash flow available for future projects.

The return of capital document issued on 11 April summarised the main defence themes of property, performance improvement, Asia, and strong market positions, under the headline *"Blue Circle is a business with renewed momentum."*

5.3. Other Options

At the same time as these actions were being taken, Blue Circle considered a number of other options and as Haythornthwaite commented, *"We reviewed what made sense to shareholders. Many options were dismissed because they did not give cash to shareholders, and because of the reluctance of other parties to get involved."* The pressure from shareholders for cash was palpable "*The only consideration of shareholders was cash. They were not interested in any wider responsibilities to the company and there was a total lack of engagement"* (Executive Committee Member).

6. The rules surrounding the use of profit forecasts are stringent. Any profit forecast must be verified independently and is the sole responsibility of the directors of the firm. It must also be set out in transparent form for shareholders to understand. The forecast must also be continually reviewed in subsequent documents.

5.3.1. Management Buy-Out

An MBO team was put together, headed up by Operations Director, David Lovett, and staffed by the Finance Director and other managers from Blue Circle's North American operations. The MBO would have been the eighth largest ever and work needed to start early if it was to have any chance of success. One executive committee member at Blue Circle stated in interview that he believed Lazards had effectively sabotaged any chance of success with an MBO as they had advised Haythornthwaite that the financing could not be arranged in a short period of time. It was rumoured that Lazards stood to benefit more advising on a defence than an MBO. This opinion was not voiced by the Strategy Director, although he agreed that work on the MBO started too late in the defence process to have any chance of success.

The Blue Circle Strategy Director stated that he believed that the process of preparing the MBO case was very divisive within the organisation and that it distracted attention from the main fight. Within the organisation the MBO was unpopular as it would have been a North America take-over of the group and would have required significant disposals of operations to be feasible. Externally the Strategy Director believed that it did create noise in the markets and therefore may have unsettled Lafarge. The MBO option was examined but not pursued.

5.3.2 Acquisitions by Target

Prior to Lafarge's bid, Blue Circle had started talks with Southdown, a US cement manufacturer, in 1999 with a view to agreeing a take-over. The two parties were close to agreeing a deal in early 2000 when the bid by Lafarge was launched, and indeed the bid may have been precipitated by leaks of the talks. If Blue Circle had acquired Southdown the combined group would have been too large for Lafarge to afford.

Blue Circle remained in contact with Southdown during the defence process, although Southdown was not prepared to contemplate a deal until such time as Blue Circle had defeated Lafarge.

5.3.3. White Squire Defence

Votorantim was approached to invest in new equity to enable Blue Circle to acquire Southdown. This is a white squire defence, where the target company seeks a firm which will purchase a large block of target firm shares. Generally the white squire is not interested in acquiring the target company. Although Blue Circle had some discussions with Votorantim, this option was not pursued further.

5.3.4. White Knights

Blue Circle management examined the possibility of a merger with a number of parties including Italcementi, Cemex, Holderbank, Hanson, RMC and Aggregate Industries. This white knight defence, where a potential acquirer is sought who is a more acceptable suitor than the current bidder, turned out to be a non-starter as all discussions failed for several reasons. Haythornthwaite commented that the potential white knight deals failed to provide the cash that the shareholders seemed to want and the potential white knights were also reluctant to become involved. An executive committee member said he believed that Collomb had spoken to the other majors and effectively warned them against becoming involved in the bid.

6. Dawn Raid

On 19th April, day 46 under the City Takeover Code, Lafarge launched a dawn raid and picked up 19.9% of Blue Circle directly and a further 9.6% through its bankers. *"Word quickly spread through the Blue Circle offices about the dawn raid. I remember looking at the screens and thinking, "My God – we're dead." Lafarge and their bankers had easily picked up almost 30% of Blue Circle, and I couldn't see how they could fail to pick up another 20%"* (Senior Executive). Lafarge then increased its offer to £4.50 (Eur 7.53) per share and was confident of victory.

There were very few legal or regulatory defences available to Blue Circle at this point. Competition clearance from the European Commission was a formality, and the only areas where there were competition issues were the United States and Canada. Blue Circle did appeal to the Canadian regulatory authorities where Lafarge was only permitted to acquire up to 20 per cent of Blue Circle before receiving clearance. The stake held by Lafarge's bankers meant that Lafarge effectively controlled nearly 30 per cent of Blue Circle. Lafarge claimed it had agreed to make divestitures as required by the relevant authorities and that it had received prior approval from the Canadians. However, the Canadian authorities denied this. Even so, the authorities declined to take action against Lafarge.

7. The Hostile Bid Fails

Early on in the defence process shareholders did not want to talk to Blue Circle. Investors were not prepared to sit down and talk to management until the final offer had been made by Lafarge and no further information could be released. *"We wanted to talk to shareholders early in the bid process, but they didn't want* *to see us until near the end"* (Senior Executive). During the last ten days of the offer period Haythornthwaite and James Loudon, Blue Circle's Finance Director, were at last able to hold a number of meetings with institutional investors in an attempt to persuade them to back management and their promises to refocus Blue Circle and reject the bid. This exhausting round of presentations, arguing why investors should remain loyal to Blue Circle and its management and fielding tough questions, was the main focus of their actions in the few remaining days of the contest.

As day 60 approached, the lobbying of shareholders paid off when Shroder's Bank publicly backed the incumbent management on 26th April and other shareholders followed. As the Wall Street Journal reported, *"The deciding factor seems to have been a blitz of shareholders visits by Blue Circle CEO Rick Haythornthwaite during the two weeks before the offer deadline"* (Wall Street Journal May 4th 2000).

On 3rd May the bid lapsed as the total acceptances for the bid totalled 44.5% of Blue Circle shares. In the words of a senior Blue Circle executive, *"We didn't know what the outcome would be – it was too close to call." "Lafarge waited until the Paris Bourse had shut before announcing they had insufficient shares for control."* At Blue Circle HQ, *"we had the champagne ready and toasted our success, in stunned silence at first, as the news sank in."* This was the first all cash bid for a FTSE 100 company to fail for fifteen years.

The media interpreted this success as in part due to the 'spirited defence' put up by Haythornthwaite himself (BBC online 19th April 2000) and the meanness of the Lafarge offer. The support from institutional shareholders showed they had confidence that Haythornthwaite could deliver on his promises of returning funds to investors and refocusing the company (BBC online 4th May 2000). In the words of analysts at Schroder's, *"To the group's credit it defended its position well against Lafarge, and the management team discharged their responsibility in an exemplary fashion. They highlighted the group's value and outlined a sizeable cost saving programme within the existing businesses"* (Schroder Salamon Smith Barney, September 14th 2000). Lafarge's offer on the other hand was perceived to be just too low. *"Another 10p or 20p on the final offer of 450p and the institutions would have taken the cash. Losing the deal for the sake of Pounds 80m-160m looks foolish" (*FT May 4th 2000). The institutions had *"sent a clear message: cash offers for battered Old Economy stocks are welcome – but not at any price"* (FT May 4th 2000).

Reflecting upon Blue Circle's successful defense and its immediate subsequent actions, analysts were impressed to see it *"has been transparent over its planned savings programme. Unlike others within the sector, it has set out a clear series of cost saving milestones, helping investors track the performance of management. Whilst the management team is motivated to meet the cost saving targets, we believe that it is also pragmatic and would therefore not stand in the way of a fuller offer. BCI based its (successful) defence on value and not on the right to independence"* (Schroder Salamon Smith Barney, September 14th 2000).

The media also were assessing Blue Circle's ability to deliver on it promises and suggested that *"If Blue Circle stumbles, Mr Collomb may come knocking once again"* (FT May 4th 2000).

8. Lafarge's Reaction

Collomb and Lafarge had been severely shaken when the 2000 bid failed, particularly as they already controlled nearly 30% of Blue Circle following the dawn raid in April 2000. Collomb was very heavily involved with the hostile bid and the defeat was seen by many as a personal failure, particularly as it was rumoured Lafarge's advisers recommended a revised offer in the range 460-470 pence in April 2000, and Collomb had ignored this advice by only increasing the bid to 450 pence. It is highly unlikely that Collomb would have launched another hostile bid for Blue Circle in 2001 as he would not have been prepared to risk failure again.

9. Blue Circle's Reaction

Haythornthwaite was widely fêted by commentators for his successful defence of Blue Circle. *"The smile on Rick Haythornthwaite's face says it all.... His success in beating off a cash bid in a market where cash was clearly king has propelled a little known executive – "totally unknown", he insists – into prominence. The victory has raised Mr Haythornthwaite's profile in the City." "With the target having seemed doomed at the outset, the escape was seen to be a considerable personal victory for Rick Haythornthwaite. If you win against the odds, people take you more seriously," says Lord Tugendhat* (Chairman of Blue Circle, FT 6th May 2000).

The Remuneration Committee of the Board met immediately after the successful defence and agreed that Haythornthwaite's package should be reviewed. An advisor to the committee stated, *"During the defence the Remuneration Committee wanted to lock Rick in with a combination of options, pay review and bonuses. They couldn't do it during the bid because of [Takeover] Panel disclosure. The motivation of the committee was retention. Rick's profile had been built up during the defence and he suddenly became more marketable. If he had walked he would have lost his share options and it would have been expensive [for another company] to buy him out if anyone had tried to poach him."* Haythornthwaite's base salary was increased to £490,000 (Eur 790,000) per annum, being the median for a Chief Executive in the industrial sector. In addition, Haythornthwaite was granted a large number of executive share options and stock appreciation rights to take his entitlement up to the maximum four times salary that was permitted. It would normally have taken four years to build up to the full holding. It should be noted that Haythornthwaite's options were granted outside the normal timetable for such options, and that other directors were not granted additional options at this time. The options were at an exercise price of 414p[7] and not exercisable until 2004, unless there was a change in company ownership.

At the time of the first bid in 2000 Haythornthwaite held options and SARs over a total of 431,166 shares. This would have realised a profit of approximately £340,000 at the original offer price of £4.20 and £469,000 at the revised price of £4.50 (between Eur 550,000 and Eur 750,000). The recommended bid in 2001 gave rise to a potential profit on Haythornthwaite's share options and SARs of approximately £1.1 million (Eur 1.8m).

10. Post-Deal Options for Blue Circle

Blue Circle was left with a major competitor effectively owning 29.5% of its shares, and this increased to 32.2% after the first tranche of the return of capital, by way of tender offer, was completed. It was clear that both Blue Circle and Lafarge had the problem of a successful defence. *"The attacker has something of a pyrrhic victory because they are left with a significant minority shareholding and the defender is left looking over its shoulder" (Financial Times 19 December 2000).* The problem for Lafarge was that its shareholding was too large to be able to dispose of easily in the market. It was also prevented by takeover regulations from making another bid for Blue Circle for a year and a day. For Blue Circle the problem was how to remain independent whilst having a major competitor holding 30% of the group. One option could be to undertake a major acquisition or merger, but potential partners were unwilling to participate whilst Lafarge held a substantial minority share. Blue Circle also had to deliver on defence promises.

In the summer of 2000 analysts began to question the ability of Blue Circle to meet its 2001 forecasts. *"Expectations were formed during the hostile takeover and we believe it is likely divisional managers will have been pushed to create budgets that would normally be considered a stretch as achievable targets. The market has been fed with very specific and detailed information and the outcome is almost certainly a narrowing of the market's expectations. In our view, there is a heightened risk of future profit warning if targets cannot be met"* (CSFB, "Blue Circle Industries", August 2000).

Late in June 2000 a two-day board meeting at Blue Circle was held to review strategy. It was acknowledged that Lafarge had few strategic growth options as attractive to it as Blue Circle, and it was considered that a price of £5.00 to £5.50 (Eur 7.9-8.7) could be justified. Delivery on the defence promises was vital, but

7. The prevailing share price.

the directors also considered that step-change acquisitions should also be pursued.

At the time of the announcement of the group's interim 2000 results in September, Haythornthwaite wrote to Collomb offering to brief him, in his capacity of major shareholder, on the results. The two Chief Executives met and agreed that they would not allow pride to get in the way of achieving the best deal for the shareholders of both groups. Haythornthwaite said that he was not ready to sell yet, but that if a deal were to be done the price would have to be *"a long way north*" of what was previously offered. This was followed by a meeting in a London hotel where Haythornthwaite and Collomb discussed a possible link up.

At the October board meeting Haythornthwaite explained to the board the difficulties facing the group in the current operating environment and also reported that the first draft of the 2001-2003 Business Plan was forecasting operating profits for 2001 of £511m (Eur867m), significantly below brokers' consensus of £539m (Eur 914m). Haythornthwaite presented three strategy options to the board, which dealt with the relative short-term strength but medium term weakness of the group. These included i) achieving an early deal with Lafarge; ii) an acquisition to move out of Lafarge's reach; iii) a merger with another party. Considerable time and resources had been devoted to evaluating acquisitions of or mergers with various parties following the strategy meeting in June. The board decided that negotiations should begin with Lafarge, but that the other options should remain open to avoid undermining the current position of strength.

Haythornthwaite's approach to Lafarge was timed to maximise his negotiating position. The OIP was expected to achieve results in 2000 in excess of those promised during the defence. In Haythornthwaite's words. *"we had motivated people driven by a siege mentality"*. Total operating profits for 2000 were forecast to meet market consensus, although the quality of earnings was relatively poor with higher than consensus profits from property disposals and a number of one-off accounting adjustments. Profits for Asia were forecast marginally below market consensus but in line with defence promises. However the forecasts for 2001 and 2002 showed operating profit below market consensus, and it was considered that these forecasts were challenging with more potential for downside than upside.

At Lafarge, Collomb's confidence was dented and he may not have been prepared to risk failure again. Even so under takeover regulations he would not have been able to bid again until May 2001. Haythornthwaite took advantage of this by initiating negotiations well before that time.

Haythornthwaite met Collomb again to start the negotiations. By early December 2000 it was clear that a deal could be done with Lafarge or else a dignified exit. It was in the interests of both groups to resolve the position and it was known that Collomb was unwilling to risk another hostile take-over. Both sides were extremely anxious that there should be no leaks, and had there been any Haythornthwaite would have walked away.

Lafarge started at £4.70 with no dividend but Haythornthwaite had been adamant that he needed to be able to present the deal as being worth over £5.00 per share in order to recommend it to shareholders. The advisers to both sides worked in the period up to and over Christmas, finally agreeing a deal at £4.95 per share plus a final dividend. Together this totalled £5.09p which satisfied Haythornthwaite's goal, but would also cost Lafarge Eur 7.75 per share following an appreciation in the value of the Euro against Sterling. While the increased offer was 10% in sterling the exchange rate movement meant the increase was under 3% in Euros: *"Blue Circle shareholders are getting a better price (than before) worth £2.4bn and Lafarge is not paying any more for a better performing business"* insiders said (Guardian, 8 January 2001).

A board meeting was held at Blue Circle on Sunday 7th January 2001 to decide whether to recommend the Lafarge offer to shareholders. A revised discounted cash flow valuation had been prepared by Lazards based on the 2001-2003 Business Plan forecasts, and by coincidence this gave a value for the group of £4.95 per share. The directors therefore had no hesitation in recommending the offer to shareholders (see Exhibit 5).

The vast majority of Blue Circle's shareholders were institutions and they readily agreed to the bid. However many individual shareholders, who were mainly ex-employees with an emotional attachment, voted against the takeover, as they saw Blue Circle as a 'British Institution'.

The agreed take-over at £4.95 per share was described in February 2001 as "*a sensibly priced deal"* by analysts at HSBC (appendix 12 gives valuations for comparable companies). Lafarge's shares responded favourably, rising over 20% immediately after announcement and remained relatively stable at this higher level (see Appendix 13).

11. After the Completion of the Takeover

Haythornthwaite's reputation was further enhanced following the announcement of the recommended bid. *"Mr Haythornthwaite's [reputation] has been boosted both by the original defence and yesterday's deal"* (FT 9th January 2001). *"Rick Haythornthwaite has just promoted himself to the top of head-hunters' lists of potential chief executives. Although his unwieldy surname has deprived him of many headlines, his work at Blue Circle has ensured him a raft of job offers. He fought valiantly last year to ward off the French attack. But he made clear then that his motive was not the preservation of Blue Circle's independence, and thus his job, but to win a fair price for the company. If management had tried to prevent investors taking Mr Collomb's cash, they would not have been forgiven. Now Haythornthwaite should be given another chance to prove his worth" (*The Times 9th January 2001). Haythornthwaite also claims that *"The first time that I* *actually looked at my contract to work out what this deal meant to me was the day after we completed."*[8]

Haythornthwaite left Blue Circle on 11th July, 2001 following completion and was appointed to the Lafarge Board in a non-executive capacity in September 2001 with a period of tenure up to the adoption of the 2004 annual accounts (Lafarge annual report 2001: 123). However by the time of the publication of the 2003 accounts he was no longer with the company. On 24th July 2001, it was announced that he would be appointed CEO of Invensys PLC with effect from 1st October.

Following the sale of Blue Circle, US economic conditions worsened, and the Asian trading situation became much more difficult than anticipated. Some of Blue Circle's under-performance in 2001 can be attributed to post-deal disruption, but it is probable that the group's 2001 results would have fallen significantly short of market expectations had it remained independent. A takeover bid following the announcement of poor 2001 half or full year results would almost certainly have been successful at less than the price actually achieved.

From Lafarge's perspective,[9] the Blue Circle businesses, which cost EUR8.1bn, have under-performed against expectations for 2001. This is supported by Schroeder SSB whose analyst report (12th March 2003), commenting on the Lafarge results for 2002: *"We do not expect the Blue Circle businesses to cover its cost of capital until at the very earliest 2008"* and *"Strategically, the acquisition of Blue Circle is without dispute: the only criticism has been the lack of return on invested capital and timing of a suitable return."* If Lafarge had waited rather than agreeing to the second bid, many of the problems which they had identified earlier, would have emerged. Lafarge may have overpaid for Blue Circle and this can be interpreted as the latter taking advantage of its short term position of strength and perhaps in Lafarge, the great concentration of power in Bertrand Collomb. However, Lafarge's share price, was higher at the end of 2001 (and indeed through 2002) than before both bids. This could be due to other factors, but the acquisition of Blue Circle was by far the most significant event for Lafarge in 2001.

Questions

1. *Why was Blue Circle a target? What events were taking place within the industry and within the company that made Blue Circle attractive to Lafarge but not to others?*
2. *Which defence strategies did Blue Circle consider? Which ones did they adopt? What reasons can you give for this selection of strategies? Were they prejudicial towards Blue Circle shareholders?*

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8. Personal communication with Haythornthwaite, 2003.
9. Based on conversations with Lafarge's cement division management.

3. *Lafarge's all cash hostile bid for Blue Circle was the first hostile bid to fail in 15 years. How do you account for this failure?*
4. *Critically evaluate the actions which Haythornthwaite took throughout the case. Which ones might be construed as a) beneficial to him personally; b) beneficial to his shareholders; c) could be construed as damaging to him? What do you conclude about the alignment of Haythornthwaite's motives, as judged by his actions, and those of his shareholders?*
5. *Who are the winners and losers following the successful completion of the purchase of Blue Circle by Lafarge?*

Appendices

Appendix 1: UK Bid timetable

Announcement day	**Bidder announces offer with terms and conditions**
Posting day (Day 0)	Offer document must be posted within 28 days of announcement
Day 14	Last day for target to recommend to shareholders and to respond to offer document
Day 21	First offer closing day. Offer may be extended. Offeror may buy target shares in market above 30%
Day 35	End of period for acceptance when offer went unconditional on day 21
Day 39	Last day for target to release new information e.g. profit forecast
Day 42	If offer had become unconditional on day 21 then last date for fulfilling all other conditions Target shareholders can withdraw acceptance if offer not declared unconditional on Day 21
Day 46	Last day for bidder to revise and post offer terms e.g. raise offer price, release new information e.g. dividend forecasts
Day 60	Final closing date e.g. last day of offer period. Bid either fails or is declared unconditional

Appendix 2: Global cement market (including China)

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998e**	**1999e**	**Av. growth rate 1990-99e**	**Av. growth rate 1990-97**
Production (millions tonnes)	1008	1042	1130	1206	1308	1388	1440	1473	1449	1494	4.5%	5.6%
% change		3.4%	8.4%	6.6%	8.5%	6.1%	3.7%	2.3%	-1.7%	3.1%		
Imports (millions tonnes)	71	72	76	78	90	100	102	102	101	102	4.1%	5.3%
% change		0.8%	6.6%	2.7%	15.5%	10.8%	1.9%	-0.4%	-0.6%	0.5%		
Exports (millions tonnes)	70	72	75	81	93	101	105	105	105	110	5.1%	6.0%
% change		2.0%	4.9%	7.2%	15.0%	9.3%	3.9%	0.2%	-0.1%	4.1%		
Consumption (millions tonnes)	1006	1037	1127	1197	1296	1376	1427	1458	1440	1483	4.4%	5.5%
% change		3.1%	8.7%	6.2%	8.3%	6.2%	3.7%	2.1%	-1.2%	3.0%		
Population (millions)	4972	5075	5179	5226	5276	5360	5443	5518	5589	5663	1.5%	1.5%
Kg per capital	202	204	218	229	246	257	262	264	258	262	2.9%	3.9%
% change		1.0%	6.5%	5.2%	7.3%	4.5%	2.1%	0.8%	-2.5%	1.6%		

Source: *European Cement Review*, January 2000, HSBC

A*ppendix 3*: Regional cement trends

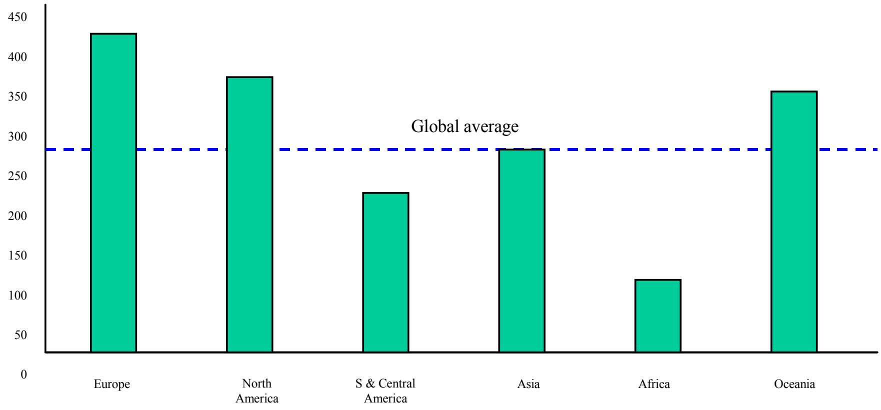
1990-97 growth	Consumption	Production	Population growth	Per capita growth
Europe	-0.9%	-0.4%	0.5%	-1.4%
N. America	2.1%	2.7%	1.1%	1.0%
Asia	8.9%	8.9%	1.6%	7.1%
S & C America	3.3%	3.2%	0.3%	3.0%
Africa	2.6%	2.6%	2.6%	-
Oceania	2.9%	2.1%	2.0%	0.9%
Total	5.5%	5.6%	1.5%	3.9%

Source: *European Cement Review*, January 2000, HSBC

Appendix 4: Cement consumption per capita by region

Regional consumption variations

Cement consumption per capita - Kg per annum



Appendix 5: Acquisitions by large cement producers 1996-1999

Area	Tonnage (m)
Eastern Europe	22.3
Asia (excluding China)	20.3
Western Europe	11.5
Latin and South America	8.8
Africa	7.1
North America	6.6
Middle East	3.1
Total	79.7

Source: *European Cement Review*, January 2000, HSBC

Appendix 6: Major cement deals between 1998 and 2000

Acquirer	Date	Target/Country	Price $m	Price per tonne
Lafarge	Q1 2001	Blue Circle/various	7050	179
Cemex	Q4 2000	Southdown/USA	2850	225
Hanson	Q4 1999	Pioneer/various	2600	na
Heidelberger	Q2 1999	Scancem/various	2400	200
Anglo American	Q4 1999	Tarmac/UK, USA	2000	na
RMC	Q4 1999	Rugby/various	1400	176
Dyckerhoff	Q4 1999	Lonestar/USA	1200	294
Heidelberger	Q4 1999	CBR minorities/various	1100	175
Blue Circle	Q4 1999	Heracles & Halkis/Greece	680	124
Cimpor	Q3 1999	Brennand/Brazil	594	212
Cimpor	Q2 2000	Ameriyah/Egypt	550	187
Suez Cement	Q1 2000	Tourah/Egypt	523	108
Blue Circle	Q2 1999	Kedah/Malaysia	499	130
CRH	Q2 1999	Finnsementti/Finland	440	210
Blue Circle	Q4 1998	APMC/Malaysia	421	125
CRH	Q3 1999	Thompson McCulley/USA	420	na
Cemex	Q1 1999	Apo/Philippines	400	166
Italcementi	Q1 1998	24% Ciments Français/various	400	125
Cemex	Q4 1999	Assiut/Egypt	373	104
CRH	Q1 2000	Shelly/USA	362	na
Lafarge	Q1 1999	Beni Suef/Egypt	358	265
Valderrivas	Q4 1999	Giant/USA	343	202
RMC	Q2 1998	Wulfrather/Germany	280	90
CRH	Q4 2000	Jura/Switzerland	265	na
Valderrivas	Q4 1998	Atlantico/Spain	260	190
Semapa	Q1 2000	Gabes/Tunisia	250	220
Lafarge	Q3 1998	BC South Africa/South Africa	248	92
Cimpor	Q4 1998	Ciments de jebl Oust/Tunisia	243	200
Holderbank	Q4 1999	Siam City Cement/Thailand	228	100
Holderbank	Q3 1998	Phinma/Philippines	287	105
Blue Circle	Q4 1999	Alexandria/Egypt	200	130
Uniland	Q4 1998	Cements d'enfidha/Tunisia	168	159
Holderbank	Q3 1998	Siam City Cement/Thailand	153	100
Total			**$29.5bn**	

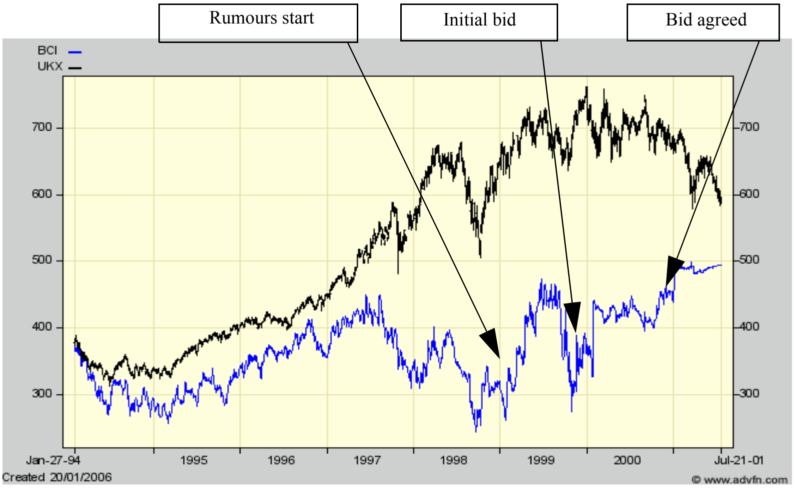
Source: *European Cement Review*, February 2001, HSBC

Appendix 7: Selected financial information on Blue Circle

	1995	1996	1997	1998	1999E
Sales (Eur m)	2,148	2,232	2,812	2,971	3,452
Operating profit (Eur m)	351	380	522	513	495
Operating margin	16.30%	17.00%	18.60%	17.30%	14.30%
Profit before tax (Eur m)	330	367	496	467	401
Earnings per share (Eur)	0.26	0.29	0.41	0.41	0.35
Dividend per share (Eur)	0.15	0.16	0.21	0.22	0.24
Net assets (Eur m)	1,494	1,568	1,875	2,142	2,280
Net debt (Eur m)	43.56	1.23	355.25	830.55	894
Gearing	2.90%	0.10%	18.90%	38.80%	39.20%
Market Cap (Eur m)	3,040	3,583	3,869	3,418	4,403

Source: 1995-1998 actuals – Blue Circle Industries PLC 1995-1998 annual accounts
1999 estimates – *European Cement Review*, January 2000, HSBC
http://www.x-rates.com/cgi-bin/hlookup.cgi

Appendix 7a: Blue Circle Share Price Performance



- The bottom line shows the Blue Circle share price in pence on the London Stock Exchange.
- The top line is the FTSE Index of the top 100 shares rebased.
- The chart shows the consistent underperformance of Blue Circle from 1994.
- Had the company tracked the index closely, one would have expected to see a bid at least 20% higher and probably more once a bid premium was taken into account.

This demonstrates performance with an agency rationale for acquisition.

Appendix 7b: Gearing and Dividend Policy of Blue Circle

	1991	1992	1993	1994	1995	1996	1997	1998
Gearing (%)	80	50	30	24	3	0	19	38
Dividend (p)	11.25	11.25	11.25	11.75	12.5	13.25	14.5	15.2

From 1991- 1996, the gearing and dividend policies provide evidence for underperformance and conservation of cash as the unrelated diversification was reversed.

A more progressive dividend and gearing policy from 1997 relates to acquisitions made in the core business areas.

Appendix 8: Blue Circle's main shareholders [1997 – 2001]

Date	Disclosable Interests	Concentration
21 March 1997	Axa 3.09% Prudential 3.52%	243 shareholders = 76%
27 March 1998	Axa 3.07% Prudential 3.52%	241 = 77%
26 March 1999	Axa 3.07% Prudential 3.52%	215 = 81%
20 Feb 2000	Axa 4.49%	195 = 80%
23 Feb 2001	Deutche Bank 6.3% Dresdner Bank 9.7% Lafarge 22.5%	137 =82%

Appendix 9: Blue Circle's market share and competitors by country

Country	Market share	Competitors
UK	47%	Heidelberger (24%), RMC (20%)
USA	6%	Holderbank (12%), Southdown (10%), Heidelberger (7%), Lafarge (9%), Ash Grove (6%), Dyckerhoff (5%), Ciments Français (5%)
Malaysia	47%	CIMA (9%), Perak Hanjoong (6%), Pahang (6%), CMS (8%), Tasek (7%), Holderbank (5%)
Chile	40%	Holderbank (34%), Cemex (22%)
Philippines	20%	Holderbank (34%), Cemex (20%), Lafarge (15%), Northern (5%)
Denmark	90%	Imports
Greece	53%	Titan (40%), Ciments Français (6%)
Canada	13%	Lafarge (42%), Holderbank (17%), Heidelberger (18%), Ciments Français (7%)
Singapore	24%	Jurong (14%), National (14%), Ssangyong (13%), Sin Heng Chang (11%), Singapore Cement (8%), Asia Cement (6%)
Egypt	c2%	Holderbank (7%), Lafarge/Titan (5%), Cemex (12%), other domestics (10% each)
Nigeria	c30%	3 state owned companies
Kenya	c90%	1 domestic company

Source: *European Cement Review*, January 2000, HSBC

Appendix 10: Lafarge's market share and competitors by country

Country	Market share	Competitors
France	33%	Ciments Français (30%), Holderbank (14%), Vicat (Heidelberger) (14%)
Germany	7%	RMC (16%), Dyckerhoff (23%), Schwenk (15%), Heidelberger (14%), Holderbank (7%)
Italy	3%	Italcementi (32%), Unicem (20%), Cementir (10%), Holderbank (7%)
Poland	20%	Heidelberger (20%), CRH (20%), RMC (15%), Dyckerhoff (8%)
Czech Republic	15%	Heidelberger (47%), Dyckerhoff (19%), Holderbank (19%)
Turkey	12%	Heidelberger (15%), Ciments Français (7%), locals (66%)
Morocco	30%	Ciments Français (30%), Cimpor (9%)
Philippines	15%	Holderbank (34%), Cemex (20%), Blue Circle (20%), Northern (5%)
Indonesia	4%	Cemex (35%)
Egypt	4%	Suez (12%), Tourah (12%), Cemex (12%), Helwan (11%), National (11%), Amreyah (8%), Holderbank (7%), Blue Circle (2%)
Canada	33%	Holderbank (18%), Heidelberger (12%), Blue Circle (16%), Ciments Français (7%)
Spain	14%	Cemex (23%), Valderrivas (17%), Ciments Français (6%), Holderbank (8%), Cimpor (5%),
Venezuela	30%	Cemex (50%), Holderbank (20%)
Brazil	10%	Votorantim (40%), Jao Santos (11%), Holderbank (9%), Cimpor (9%)
USA	9%	Holderbank (12%), Southdown (10%), Heidelberger (7%), Blue Circle (6%), Ash Grove (6%), Dyckerhoff (5%), Ciments Français (5%)

Source: *European Cement Review,* January 2000, HSBC

Appendix 11: Selected financial information on Lafarge

	1996	1997	1998	1999	2000
Sales (Eur m)	4,376	6,413	9,802	10,528	12,216
Net Income (Eur m)	281	371	466	614	726
Earnings per share (Eur m)	3.1	4.1	4.9	6.2	6.8
Dividend per share (Eur m)	1.52	1.68	1.83	2.05	2.2
Total Aassets (Eur m)	8,313	14,565	15,958	18,236	19,618
Equity (Eur m)	3,827	4,153	4,689	5,851	5,673

Sourcse: Lafarge Financial Statements

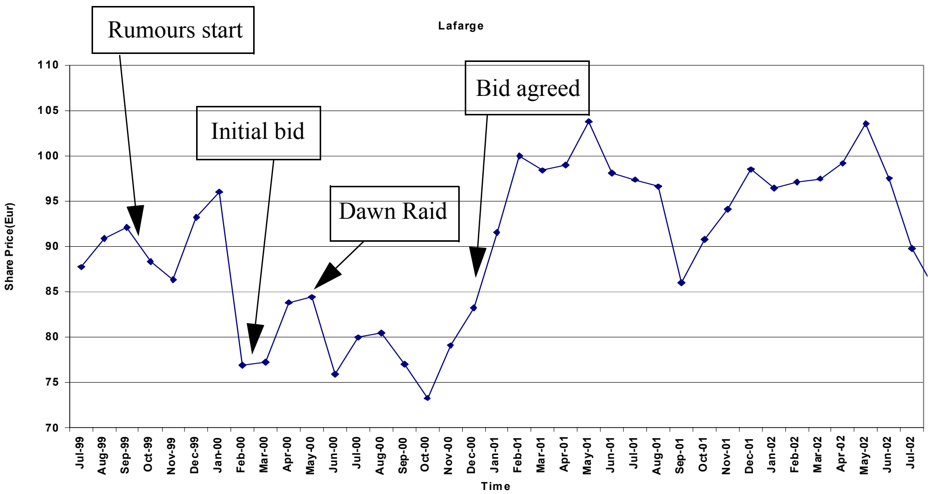
Appendix 12: Valuations of comparable cement companies

Discount/Premium of share price based on a valuation of the sum of the parts of the business

Company	**Premium/Discount (%)**
Italcementi	-52
Ciments Francais	-44
Buzzi-Unichem	-45
Cementos Portland	-25
Dykerhoff	-20
Heidelberger	-14
Lafarge	-10
RMC	-7
CRH	+18

HSBC analysis (2001) *European Cement and Aggregates Review*, February.

Appendix 13: Lafarge share price in Euros before and after the bid



Post acquisition Lafarge Share Price traded at 20% above the pre-bid price and subsequently maintained this performance.

Exhibits

Exhibit 1: Defence Document Excerpt

Defence document 1: 'You own a company with… valuable assets in attractive markets ad the team to deliver now' [21 February 2000]

Blue Circle
INDUSTRIES PLC

21 February 2000

To the holders of ordinary shares and, for information only, the holders of options under the Share Option Schemes.

Dear Shareholder

Why you should say no to Lafarge
You will have received a letter from Lafarge making an offer for your shares in Blue Circle. Make no mistake, Lafarge is trying to get your shares on the cheap. This document sets out why. This document also includes our 1999 preliminary results which were announced today and highlight the Group's strong outlook for 2000.

We have great prospects as an independent company
Talking to the press, Lafarge's chairman has congratulated our management for doing 'all the right things'. He is right to.

- We have a business that is fundamentally changed, refocused on our strengths in cement, aggregates and concrete.
- We have invested carefully, building leading positions in our chosen markets.
- We have exciting growth prospects.
- We will deliver substantial performance improvement and cost savings in the near term.

Lafarge has attacked us for being tightly focused in key regions. We refute this criticism totally – focus on our key markets gives us a depth of understanding and the ability for our top quality management team to make a real difference. Looking forward, it offers us competitive advantage and exciting growth opportunities.

Lafarge wants what we have
Specifically they want our Asian businesses. Lafarge's cheap bid is an attempt to take advantage of the short term trading conditions we faced in Asia last Autumn. But in truth their bid validates the strategy we have pursued in Asia – we have built exciting businesses that they are trying to get at low-ball prices.

Lafarge's bid fails to reward shareholders who have backed us while we restructured the company, making long term investments in Asia which are starting to pay off – and will pay off handsomely in the future. It also fails to recognise the achievements of recent years which have made your company so strong in key markets around the world.

Recommendation – reject the bid
Your Board, which has been so advised by Lazard, firmly believes that Lafarge's bid significantly undervalues your company and that you should reject it and not return any Form of Acceptance or sell in the market. In providing advice to the Directors, Lazard has taken into account the Directors' commercial assessments. The Directors will not be accepting the bid in respect of their own shareholdings.

Christopher Tugendhat

Lord Tugendhat
Blue Circle Chairman

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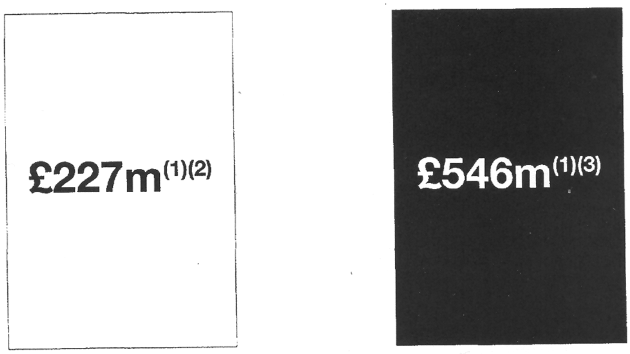
Exhibit 2: Defence Document Excerpt

Defence Document 2: 'Realising Value' [23 March 2000]

... don't be short changed



OMV

Market value if sold today

Calculation of Worth

The net monetary worth to Blue Circle shareholders today including development potential

Analysis by type of land

	OMV	Calculation of Worth
Development land	£133m	£439m
Bluewater	£36m*	£36m*
Pre-development land	£32m	£45m
Agricultural and other land	£26m	£26m
Total	**£227m[(1)(2)]**	**£546m[(1)(3)]**

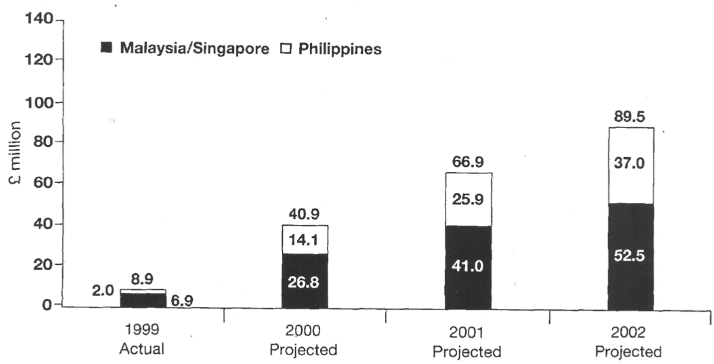
*The £36 million attributable to Bluewater represents the present value of future payments of £15 million expected in 2005 and £50 million expected in 2009. This value has been calculated by Blue Circle and not by the external valuers.

Exhibit 3: Defence Document Excerpt
Defence Document 3: 'ASIA Strong growth… Now' [28 March 2000]

Strong growth

Profits[1] set to grow to £89.5 million in 2002, before taking into account our operational improvement programme[2]

Asia projected operating profit[1] (£ million)



This is way above the £49.1 million for 2002 asserted by Lafarge in its first offer document

Don't let Lafarge buy this growth on the cheap

(1) Operating profit before amortisation of goodwill
(2) Details of our operational improvement programme will be made available shortly

Exhibit 4: Acquisition Document Excerpts
Defence document 4: ‘Don’t sell yourself short’ [11 April 2000]

O Blue Circle

INDUSTRIES PLC

11 April 2000

To the holders of Ordinary Shares and, for information only, the holders of options under the Share Option Schemes

Dear Shareholder

Why you should say no to Lafarge

Lafarge has made an unwelcome and opportunistic bid. We are convinced that independence will give our shareholders far more value. We have laid out our projections and objectives for the future. We are confident we will deliver them - and we are happy to be judged on them.

- We have great prospects as an independent company
- We have a business that is fundamentally changed, refocused on our strengths in cement.
- We have invested carefully, building leading positions in our chosen markets.
- We have exciting growth prospects. In Asia alone, we project our operating profit including operational improvement benefits will increase to £118 million in 2002.
- We are confident we will deliver substantial operational improvement benefits in the near term,rising from £88 million in 2001 to £116 million per annum by 2003 including Asia.

We have strong positions in fast growing economies, with cement markets growing even faster. Blue Circle has spent the last three years rebuilding your business - and focusing on an industry where our technical expertise and management skill can add real value.

Return of capital

In its continued pursuit of shareholder value, your Board has announced today that it will be returning £800 million capital to shareholders. This amount can be financed while preserving the Group's ability to pursue its core cement strategy. The beneficial effect of buying in shares, the exciting prospects of the Group PLUS the opportunity to realise cash equivalent to £1 per share offers significantly greater value to shareholders now than Lafarge's bid.

This initiative demonstrates our confidence in delivering the projections and objectives already set - out and underlines the strong cash flow generation of the Group.

Recommendation - reject the bid

Your Board, which has been so advised by Lazard, firmly believes that Lafarge's bid significantly undervalues your company and that you should reject it and not return any Form of Acceptance or sell your shares in the market. In providing advice to the Directors, Lazard has taken into account the Directors' commercial assessments. The Directors will not be accepting the bid in respect of their own shareholdings.

Yours sincerely
Lord Tugendhat
Chairman

An information line has been set up for Shareholders' enquiries. Please telephone 08000 183053.

Exhibit 5: Acquisition Document Excerpts
Recommended Acquisition Document: 25 January 2001

2. Summary of terms of the Aquisition

It is intended that the Acquisition will be effected by way of a scheme of arrangement of Blue Circle under section 425 of the Act. Under the Scheme, Blue Circle shareholders will receive:

for each Blue Circle share 495p in cash

Under the terms of the Acquisition, the illustrative value to be delivered to a Blue Circle shareholder with 100 Blue Circle shares is as follows:

	Per 100 Blue Circle shares
Value of cash consideration	£495.00
Value of First Interim Dividend of 11.65p[2]	£11.65
Illustrative value per 100 Blue Circle shares	£506.65

(1) Lafarge was offering:

(i) for shares which carried the right to receive the 1999 dividend, 450p on the basis that the right to this dividend was waived;

(ii) for shares which did not carry the right to the 1999 dividend (except as mentioned below), 439.05p;

(iii) for shares which were issued after 17 March 2000, 450p.

(2) To be received by Blue Circle shareholders if, as expected, the Scheme is not effective by 31 March 2001

7. Recommendation

The Board of Blue Circle, which has been so advised by Lazard, considers the terms of the Acquisition to be fair and reasonable. The Board of Blue Circle has also been advised by Morgan Stanley Dean Witter, which has an unrelated corporate advisory relationship with Lafarge. Morgan Stanley Dean Witter also considers the terms of the Acquisition to be fair and reasonable. In providing advice to the Board of Blue Circle, Lazard and Morgan Stanley Dean Witter have taken account of the Blue Circle Directors' commercial assessments of the Acquisition. Accordingly, the Board of Blue Circle recommends Blue Circle shareholders to vote in favour of the Scheme.

The Blue Circle Directors believe that the terms of the Acquisition are in the best interests of Blue Circle shareholders as a whole and unanimously recommend Blue Circle shareholders to vote in favour of the resolutions to be proposed at the Court Meeting and the Extraordinary General Meeting. The Blue Circle Directors intend to vote in favour of those resolutions in respect of their own beneficial holdings amounting to 38,166 Blue Circle Shares, representing approximately 0.01 per cent. of the issued share capital of Blue Circle.

Yours sincerely,

Lord Tugendhat
Chairman