Catalyst

SA's quarterly Private Equity & Venture Capital magazine

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Our writers tuck into Burger King

Will EPE revive Virgin Active?

Business rescue deals abound

FROM THE EDITOR'S DESK

Sitting down to write about the events of the last few months in South Africa, and trying to find a silver lining, feels a bit like picking up pennies in front a steamroller. The pennies, glimmering in the form of the president raising the cap on license exemptions for self-generation from 1MW to 100MW, the introduction of private shareholders to give grounded SAA wings, and some positive moves against those inside the party implicated in corruption, started rattling on the ground under the weight of tens of thousands of rioting feet, hellbent on destruction, coaxed or otherwise, that have shaken confidence in the country to the core.

At the time of writing, estimates of the economic cost of the civil unrest that rocked the country in mid-July stood at roughly R50bn in terms of theft, damage to property and lost production. But the truth is that the cost will be far greater and harder to measure in investment decisions withheld and businesses started elsewhere.

And while the announcement by President Ramaphosa regarding the decision to amend Schedule 2 of the Electricity Regulation Act and increase the licence-exemption cap on self- or distributed-generation plants from 1 MW to 100 MW is to be lauded, it remains unclear how this decision is aligned to the Integrated Resource Plan.

Equally unclear is Public Enterprises Minister Pravin Gordhan's announcement that Takatso, a consortium consisting of Harith General Partners, which manages two private equity infrastructure funds, and Global Aviation, an airline leasing company, is to acquire 51% of SAA, while the government will retain 49%. The due diligence is still being undertaken. While Takatso has undertaken to invest R3bn in SAA over three years, political infighting has already turned up a few notches, with heat being applied to Harith co-founder and Takatso chair Tshepo Mahloele, who is also chair and founder of Lebashe.

What the events of July have reminded us is that time is a luxury South Africa does not have in reserve. And this brings me to my point about a decision made by the Competition Commission to block the acquisition of Burger King from Grand Parade Investments by US private equity firm, Emerging Capital Partners through its ECP Africa Funds, on public interest grounds relating to transformation. The decision in both legal substance as well as ideological form has been widely and resoundingly rebuked by businesspeople who have a vested interest in seeing growth in South Africa. The same growth that is the only sustainable way to truly transform the country. The same growth that will ensure the country's dreams aren't steamrolled into dust. ◆

Michael Avery

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Gleason Publications

An unbalanced approach to assessing public interest

Unlocking shareholder value often requires hard decisions and decisive action.

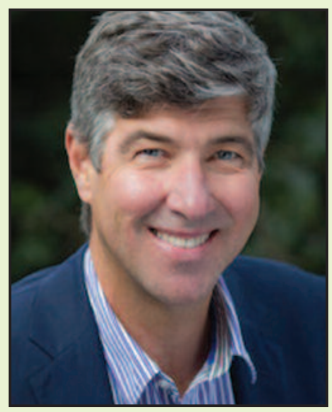
David Holland and Cesaire Tobias

Grand Parade Investments (GPI), a Cape Town-based empowerment investment holding company, is diligently trying to restore shareholder value by reducing debt and closing the discount at which it trades. The South African Competition Commission has made matters worse for GPI.

GPI acquired the master franchise rights for the Burger King South Africa (BKSA) brand in 2012 and has grown BKSA annual turnover to over R1bn. Profitability has been slow to materialise and cash flow negative to fund the expansion. GPI's debt grew to a dangerous level, dividends were cut, and its share price underperformed due to disappointing results. As part of a value-based strategy to reduce the discount at which GPI's share price trades, relative to its intrinsic net asset value (iNAV), GPI made the strategic decision to sell BKSA. GPI accepted an attractive bid of R670m (revised down to R570m post COVID-19) from the US private equity firm Emerging Capital Partners (ECP) Africa to acquire BKSA. The proposed acquisition was unexpectedly blocked by the Competition Commission on "substantial public interest grounds".

"The Commission is concerned that the proposed merger will have a substantial negative effect on the promotion of greater spread of ownership, in particular to increase the levels of ownership by historically disadvantaged persons in firms in the market as contemplated in section 12A(3)(e) of the Competition Act. Thus, the proposed merger cannot be justified on substantial public interest grounds."

On 18 February 2020, GPI announced that it had entered a binding offer with ECP Africa for the sale of BKSA as a major step in unlocking shareholder value. The market reacted favourably, with GPI's share price jumping from R3.25 (Feb 17, 2020) to R3.70 (Feb 20, 2020), a 14% improvement. Shareholders were rewarded as a direct result of a sound strategic decision on GPI's part. The COVID-19 pandemic slowed the deal, but both parties pressed ahead after agreeing to a lower price.



Holland

Tobias

In a decision that has baffled all but

itself, the Competition Commission reversed the momentum of GPI's strategy by slamming the brakes on the deal. On 1 June 2021, the Commission released a media statement prohibiting the proposed acquisition of BKSA by ECP Africa, causing GPI's share price to drop 17% overnight, from R3.10 to R2.57. Shareholders were markedly poorer after this unexpected announcement. To most, the Competition Commission is mandated to assess the equity, efficiency, and fairness of M&A activity in South Africa. The Commission, however, has a dual mandate, the second part of which includes the protection of public interests. It is this second part of their mandate which was the deciding factor in prohibiting the acquisition.

> "This dogmatic interpretation of the law can be argued to have a net negative public interest effect rather than a positive one which the Commission aims to promote."

"The Commission found that the proposed transaction is unlikely to result in a substantial prevention or lessening of competition in any relevant markets. With respect to public interest considerations, the Commission found that the Target Firms are ultimately controlled by an empowerment entity wherein historically disadvantaged persons (HDPs) hold an ownership stake of more than 68%. The Acquiring Firms have no ownership by HDPs. Thus, as a direct result of the proposed merger, the merged entity will have no ownership by HDPs and workers."

This dogmatic interpretation of the law can be argued to have a net negative public interest effect, rather than a positive one which the Commission aims to promote. To assess the public interest impact, a scorecard can be used. The table below, illustrates such an approach.

Quite simply, the economic pie grows for South Africa if the deal is approved. Our high-level scorecard demonstrates that the deal is positive for the public interest. Although the Commission made mention of a scorecard, it did not release one. We can only surmise that the Commission used an unbalanced scorecard weighted exclusively on a single factor.

SCORECARD ITEM	CHANGE IF ACQUISITION APPROVED
Shareholders	Better off with the increased share price. Have more wealth with which to invest or consume. Lower probability of financial distress at GPI. Restoration of dividends.
Burger King SA	Better off with more seasoned stewardship under ECP, and capital to expand. More restaurants and better management benefits SA suppliers and customers.
Employment	Improves as a result of BKSA expansion under ECP. More employee training programs and increased opportunities for suppliers. Aids in decreasing South Africa's unemployment rate.
Competition	Better managed and more restaurants improves competition in South Africa and benefits consumers.
Investment	Benefits as a positive signal is sent to the market that South Africa is open for business. This aids in lowering the South African cost of capital. It improves the attraction of empowerment firms and helps decrease their discount to NAV.
Taxes	Tax revenues improve due to greater profits being generated as a result of improved management and expansion.

The Commission placed an emphasis on HDP shareholding to support their public interest claim. While B-BBEE is indeed a matter of great importance in South Africa, black shareholders have not been aided by the Commission's decision. The Southern African Venture Capital and Private Equity Association (SAVCA) has said that "blocking the deal hurts the ability of black investors to optimise returns on their investments." GPI's historically disadvantaged shareholders have been hurt by their shares losing value, and black-owned businesses in general because of more onerous requirements for M&A activity to be successful. One need only look at the immense discount that publicly listed black-owned holding companies trade at to quantify the penalty.

"At some point any investor wants to realise value and by limiting black shareholders' options on who they can sell to, you're effectively blocking them from optimising their returns and restricting them to only local sources of capital. Inasmuch as greater ownership by black shareholders is important, it is also equally important that viable exit options are available for these shareholders and therefore a balanced approach is required." - Sthembile Nkabinde, SAVCA director and CEO of Khulasande Capital.

The dual mandate of the Commission is understandable. The myopic interpretation of the public interest matter is not. The decision benefits a narrow interest, not the public interest, and is based on an unbalanced approach. The implications of this decision set a disconcerting precedent.

- Foreign investors will be more reluctant to invest or simply unable to invest.
- Those who are willing and able to invest will require a higher return proportional to the increased policy risk, thereby raising the cost of capital and decreasing valuations.
- Optimal deals will be forfeited for suboptimal ones (or none) because of a lack of options available to shareholders.
- Inefficiency of capital markets is a natural result of (artificial) suboptimal decisions. This invariably leads to a concentration of power in the hands of the politically connected.
- Loss in tax revenue due to lower M&A activity, higher unemployment, and decreased competitiveness.
- Economic growth is impeded and, as a result, so are employment opportunities. These are government's top two priorities.

One of South Africa's best attributes is the strength and resilience of its capital markets. The historical decision to block the Burger King acquisition threatens this. While it is imperative that business activity is aligned with the broader social good, businesses need to have the freedom to express how that social good is realised. Narrow interpretations of rules and regulations cause frictions in markets, which limits opportunities and stifles enterprise. In a country so desperate for jobs, investment and economic progress, the Commission's decision is a harmful one, not only to Grand Parade and its shareholders, but to South Africa. ◆

The dual mandate of the Commission is understandable. The myopic interpretation of the public interest matter is not. The decision benefits a narrow interest, not the public interest, and is based on an unbalanced approach.

Holland and Tobias are directors of Fractal Value Advisors www.fractalva.com

The deal that could have been, should have been, would have been

It is apt, when describing South Africa, to borrow from Charles Dickens' greatest works of literature, a Tale of Two Cities.

Langa Madonko

In this version, the book opens with Dickens assuming the role of a prophet. He looks into South Africa's future and sees Sandton, a beautiful and sprawling commercial and residential centre, and right next to it, he sees the township of Alex. Dickens goes on to pen what he must have believed are two separate cities, "It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair..."

It is always important when speaking to any story of South Africa, to accept the present reality that the country exists in various conflicting states. While we have the richest square mile, tall vineyards, lush wine farms, beautiful game farms and thriving economic hubs, we also have townships that are plagued with inefficient services and lack of access to opportunities. We have written numerous stories on our past, and the path to reparations.

> "The President's goal of bringing $100bn (approx. R14.8 bn) in investment from offshore appears to become seemingly more idealistic in a country where the effective unemployment rate amongst those under the age of 40 is above 50%, with a slow growing economy not creating enough new opportunities for employment, and constantly seeing increasing retrenchment levels."

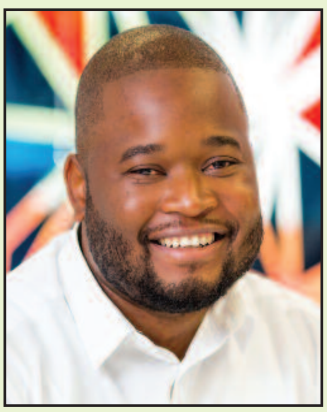
Economically, one of those tools is the B-BBEE legislation meant to power the redistribution of wealth, to foster a much more equal state where a broader base of the population own the means of production for the attainment of a better life. And this is the backdrop against which the Competition Commission set out to make a determination which may, regrettably, with a good notion, have had undesired consequences.

Transformation in South Africa is a non-negotiable, and by the act of legislation, is built into the tenets of corporate and investment banking in South Africa. In considering any transaction, one must consider the commercial terms and the implications for economic and social agendas, but it is expected that transactions should also consider the "Public Interest Issues". This has led Parliament to instruct, the Competition Commission by legislation. This means that for a transaction to be approved, one must have taken into account the impact of a transaction on the well-being, economic position and the overall benefit of the nation.

However, what has become clear in the latest transaction is that we are not fully aware of the extent to which Public Interest issues weigh on the scale of prudence when enacting a transaction.

The Competition Commission prohibited the transaction in which two private equity funds, ECP Africa, ECP Africa Fund IV LLC and ECP Africa Fund IV A LLC (ECP) proposed to acquire Burger King (South Africa) and Grand Foods Meat Plant (Pty) Ltd from empowered investment holding company Grand Parade Investments.

In its proposal to the Competition Commission, Emerging Capital Partners, the acquirer, planned to double the number of stores within the franchise group within 5 years, through an investment of over R500m. Further, the transaction would have led to an increase of no less than 1,250 new, permanent jobs, with an annual payroll and benefits of at least R120m. In addition, there were also undertakings to increase procurement from Black Owned Businesses, and to grow the B-BBEE shareholding to an effective 5% over time.



Madonko

The President's goal to bring in $100bn (approx. R14,8bn) in offshore investment appears to become seemingly more idealistic in a country where the effective unemployment rate amongst those under the age of 40 is above 50%, with a slow growing economy not creating enough new opportunities for employment, and constantly increasing retrenchment levels.

In my view, the determination by the Competition Commission poses the following challenges whilst producing a brilliant opportunity, assuming the costs are not prohibitive.

In assessing this transaction, the following unintended consequences seem to emanate from the barring of the transaction, from an investor's perspective, both local and international.

First, it appears that the loss around transformation and the transformation imperatives in South Africa are unclear. It also appears as though the element of public interest is undefined. This casts the same aspersions that have been made in SA around the issue of policy certainty. It has always been my assertion that businesses will operate from anywhere, as long as the rules of engagement are clear. The rules in SA are difficult to interpret, with very fluid policy. This insinuates the framework one invests under might not be the same framework from which one exits, no matter how slow the wheels of policy creation are formed under it.

Second, this propagates a new tenet to B-BBEE legislation which I have coined, the "no worse off" clause. By implication, in exiting a transaction, one can now only exit to a buyer who leaves the business no worse off from a B-BBEE perspective. This shrinks the pool of potential investors and may inadvertently disqualify international investors from doing transactions, especially with private equity funds, who in the main are becoming quite transformed with almost every new manager entering the market at 51% Black Ownership. This will definitely put pressure on pricing and slow the rate of exits if the investor/buyer pool is further reduced.

Traditionally, buyers have had clauses inserted in their agreements to allow them to meet certain thresholds over a particular time period, and to achieve other transformation imperatives alongside ownership. In the case of certain industries, this has gone so far as to require them to enter equity equivalent programmes where letting go of equity was not the international parent company's modus operandi. This alternative could have been applied here.

It is always right to consider transformation in the context of South Africa and the investment landscape because, ultimately, we must not only be good business but also be good citizens who, in their pursuits, uplift communities by creating opportunities for growth and the empowerment of others.

Third, as an impact that has already been seen on Grand Parade Investments, which had a 17% share price drop on the day it was announced that the deal had been declined, B-BBEE Investment companies could potentially be perceived as illiquid and an exit risk, which may impact their funding pools and potential to attract investor capital in various markets, at a time when a new wave of transactions in the transformation space are being mooted. It may also inadvertently widen the discounts shared and held by black shareholders, as they must prove the transaction in order to achieve exits to parties in fear of the cost of remediation should transactions not be approved in the first round, which will then require an appeal, which isn't a cheap exercise. Never mind pricing in the potential sunk cost of putting the transaction together, should it ultimately not be concluded.

The opportunity now exists for the robust South African processes of law to come into play and provide clarity on the expectations around Public Interest Consideration in the Competition Commission Act. It is fair to say that the Competition Commissioner has said on numerous platforms that he too would welcome an appeal to the Competition Tribunal and, if needs be, the courts of South Africa, to which applications they would respond with their considerations and views. This process would, as is necessary with all laws, ventilate the thinking and allow for greater clarity for all on what to consider as we deal with issues of public interest. It would also be interesting to see if the Commission would consider hosting town hall events and opening the floor to stakeholders to contribute to a discussion about the concerns around the public interest issues, and to come up with what is the norm in SA – a broadly consulted and consensus view on how to weigh these interests.

It is always right to consider transformation in the context of South Africa and the investment landscape because, ultimately, we must not only be good business but also be good citizens who, in their pursuits, uplift communities by creating opportunities for growth and the empowerment of others. Through our activities, we must build a better society that meets the requirements of our collective dreams. ◆

Madonko is an Investment Principal at Summit Capital.

Takeaways from Burger King

The recent decision of the Competition Commission to prohibit the proposed sale of Burger King (South Africa) has left lingering doubts about whether it will be possible to gain clearance for mergers in South Africa which lead to a reduction in shareholding by historically disadvantaged persons or workers.

Heather Irvine

The Commission prohibited the transaction in which two private equity funds, ECP Africa Fund IV LLC and ECP Africa Fund IV A LLC (ECP), proposed to acquire Burger King (South Africa) and Grand Foods Meat Plant (Pty) Ltd from empowered investment holding company, Grand Parade Investments, because the shareholding by black individuals in the target companies would reduce from more than 68% to 0%. The Commission relied on a fairly recent amendment to section 12A(3) of the Competition Act, which requires that when determining whether a merger "can or cannot" be justified on substantial public interest grounds, the competition authorities must consider, along with various other public interest factors, the effect that a merger will have on "the promotion of a greater spread of ownership, in particular to include the level of ownership by historically disadvantaged persons by firms in the market" (s12A(3)(e) of the Act).

Unfortunately, the Commission has not published its full written reasons for this decision, and the Commission's press release does not provide a full explanation of the Commission's reasoning or whether the Commission considered any conditions, including, for example, a condition requiring the parties to use reasonable efforts to introduce a level of black shareholding within a reasonable period of time. A condition along these lines has featured in a number of other recent mergers.

A blanket rule against any merger which leads to a reduction in ownership by historically disadvantaged persons or workers would be open to challenge on a number of grounds.

Irvine

First, the amended section does not create a positive obligation on all merging parties to retain (or indeed to introduce) black shareholders. It simply requires the Commission to consider whether a proposed transaction "promotes" a greater spread of ownership, or not. There is nothing in the amended legislation which suggests that this particular factor has been elevated to be the most important consideration: it, therefore, has to be weighed against the other public interest factors, which include, for example, the impact of a merger on employment and the ability of firms owned or controlled by historically disadvantaged persons to effectively enter into, participate in, or expand within the market. If a proposed merger preserves or creates employment, or enables black investors to realise their investment and shift their capital into areas of the economy with higher returns, these positive public interest effects have to be balanced against the reduction in black ownership in the target firm.

Second, the amendments to s12A(3) have not fundamentally changed the analysis that the Commission is required to undertake in terms of s12A(1), which is to evaluate whether a merger can or cannot be justified on "substantial" public interest grounds. To warrant a prohibition, a reduction of black shareholding in a particular target firm must have a "substantial" negative effect on the public interest. There might conceivably be cases where this is so - for example, in markets in which the target accounts for a substantial proportion of the overall empowerment in a whole industry or sector, or is a very large firm. In most cases, however, it is hard to see how a reduction in black ownership in a single target firm would have a "substantial" effect on "levels of ownership" by historically disadvantaged persons in South Africa. Lastly, this particular public interest consideration is only one of several factors listed in s12A(3) of the Act. There are other factors, which also need to be taken into account. For example, subsection (c) requires the authorities to consider whether a proposed merger will impact on the ability of firms owned and controlled by historically disadvantaged persons to enter and participate in markets. Accordingly, the Commission also has to consider the broader negative public interest consequences of making it more difficult or expensive for black shareholders to sell their shares.

One need look no further than this transaction to see the potential impact of a blanket prohibition on any reduction in empowerment ownership. Immediately following the Commission's announcement, the shares in Grand Parade plunged in their largest one-day fall since April 2020, significantly reducing the value of the investment by its predominantly black shareholders (and making it almost impossible for them to sell their shares). Analysts and the business press were quick to point out that a sweeping prohibition of deals on this basis would deter investors from acquiring companies with a significant existing black shareholding and have a negative effect on South Africa's attractiveness as an emerging market investment destination, particularly for foreign investors. At such a critical time in the South African economy, this seems like a much more significant public interest concern than the loss of black shareholding in a single target firm.

The Commission clearly has to do what the legislation requires, which is to evaluate whether a particular transaction promotes a greater spread of ownership and, in particular, increases ownership of firms by historically disadvantaged persons and workers. However, it must make this assessment as part of a broader examination of the "public interest". This is a challenging task. As the Competition Appeal Court noted in the Walmart/Massmart merger, public interest concerns dwell at the intersection of competition law and industrial policy, and there is thus a need to exercise "caution in respect of competition law being employed as a surrogate for a coherent industrial policy which by its very nature involves a series of polycentric decisions ill-suited to judicial interventions". The amendment to s12A(1), which now requires that the Commission assess whether a merger "can or cannot" be justified on substantial public interest grounds, combined with the addition of the "greater spread of ownership" criteria in s12A(3)(e) of the Act, does not fundamentally change the nature of the assessment which the Commission must make in terms of this section of the Act, or indeed eliminate the need for caution when it does so. As the Appeal Court observed, when attempting to formulate suitable conditions to address concerns arising from the entry of Walmart into South Africa, "s 12 A (3) should not be seen as a substitute for or even a significant component of a comprehensive policy designed by the State."

South Africa has such a policy framework, in the form of its broad-based black economic empowerment legislation. This incentivises black economic empowerment, but does not make it mandatory for all firms trading in South Africa to be partly black-owned. The legislation recognises the value of black-ownership, but weighs and balances this alongside other criteria, like enterprise development, management control, skills and socio-economic development. Against this backdrop, it would be inappropriate for the Commission to focus solely on black ownership. Moreover, if the "policy makers", including the Minister of Trade, Industry and Competition, take the view that the existing B-BBEE legislation isn't working or isn't achieving its objectives quickly enough, then this legislation ought to be amended, following the usual Parliamentary process. Enforcing different (more costly and burdensome) obligations only on parties who try to acquire firms, or to sell their interests as part of merger control, is a fundamentally inappropriate way to enforce industrial policy.

However, this doesn't mean that merging parties can simply ignore the objectives of the legislation, as expressed in the Preamble to the Act, which makes specific reference to the "transfer of economic ownership in keeping with the public interest". Once the Commission has identified prima facie concerns, including about a reduction in black ownership, it is up to the merging parties to satisfactorily address these concerns. This might involve presenting additional evidence about the nature and circumstances of their proposed sale – for example, a proposed transaction may allow existing historically disadvantaged shareholders in the target firm to exit and realise value; or it may salvage a distressed firm in a sector of the economy which is not currently attractive to local investors. Alternatively, it might require that merging parties present a package of conditions which positively address different factors within the public interest assessment, in a way that offsets the negative impact on the spread of ownership.

Merging parties should engage proactively with the Commission and other stakeholders like trade unions and the Department of Trade, Industry and Competition at an early stage of planning their transactions. Proactive and creative commitments are required to achieve public interest outcomes which foster the effective participation of historically disadvantaged persons, as well as small and medium businesses. ◆

"Unfortunately, the Commission hasn't published its full written reasons for this decision and the Commission's press release does not provide a full explanation of the Commission's reasoning, or whether the Commission considered any conditions, including, for example, a condition requiring the parties to use reasonable efforts to introduce a level of black shareholding within a reasonable period of time".

Irvine is a partner in Bowmans' Competition practice.

BOWMANS
THE VALUE OF KNOWING

EPE relies on more than feathers and wax to save Virgin Active

The story of Brait is a private equity Icarus and Daedalus cautionary tale, with the folks at Ethos Capital brought in to try and reassemble burnt wings and wax to get the underlying assets to fly again.

Investment holding company, Brait, which owns South Africa's largest gym chain, Virgin Active, says it managed to turn a profit in its year to end-March, boosted by a profitable sale of its Iceland Foods business.

The investment holding company, in which billionaire Christo Wiese still holds a substantial stake, reported that its net asset value fell 4.47% to R7.90 year on year to end-March, but was up 2.5% from the end of September.

Total investment proceeds almost tripled to R3bn, with the group reporting headline earnings of R446m — from a loss of R15.96bn previously.

The Iceland Foods sale completed in June 2020 for £115m (R2.3bn), at an 83% premium to its carrying value at the end of the group's 2020 financial year.

"If Brait consolidated its investments, it would have R3bn EBITDA (normalised for 2023) and R17bn debt, for leverage of almost 6 times. This assumes that Virgin Active recovers to the levels that management is predicting by 2023. Because VA is currently trading at depressed levels, the actual leverage is several orders of magnitude greater than this."

Virgin Active now makes up 48% of Brait's R16.45bn portfolio, while Premier Foods makes up 45%.

The Brait share price is essentially only the value of Premier Foods at the moment, so the worst possible outcome for Virgin Active looks priced in.

Peter Hayward-Butt, CEO of Ethos Capital, told Catalyst that he is pleased with the progress that the team has made so far, in turning the various underperforming assets around.

Peter Hayward-Butt

Hayward-Butt points to the rump still being in relatively good shape.

"You've got Premier Foods, which has performed very, very strongly through COVID, and is looking to continue that performance. You've got Console, which is going well since the alcohol ban was lifted, and is almost back to full capacity; in fact, is extending its capacity. You've got New Look, which is a UK fashion retailer, which isn't big in our lives from a value perspective. But I do think it's decent optionality to shareholders, and I think that's had a good comeback from a difficult time during COVID. And then, obviously, the biggest asset, which is Virgin Active (VA)."

Hayward-Butt credits Virgin Active management for "knuckling down" and taking costs out of the business.

"They did everything they could," says Hayward-Butt, "but when we got to the back end of last year, we realised that, particularly around the UK business, we needed to restructure that business, which we did. We did a wholesale restructuring. We've got concessions from all the stakeholders, including the landlords and the banks, and that's put the business in a much, much better position than it was, certainly going into COVID. We're starting to see the UK open up and we've been very positively surprised by how quickly people have come back, how quickly sales have come back in those markets."

Despite some sceptics questioning whether a return to pre-COVID gym routines will be forthcoming within the next 24 months, or at all, Hayward-Butt is resolute that it's a great business that will withstand the current COVID storm.

"It's on most high streets and in most people's suburbs. It's a well-known name, and I think we've got a relatively loyal customer base," says Hayward-Butt. "So, we haven't seen the fall off there, in terms of memberships, that we've probably seen elsewhere in the world."

That said, he points to the government's continuous game of whack-a-mole as a key point of frustration.

"That [the government] is going from level one to three, back to level one and maybe potentially level five does definitely impact the psyche of members, for one. But secondly, the ability to sell memberships is quite difficult in an environment where people don't really know if it's going to be open and where they're going to have to go. From a health and safety perspective, we focused on that. It's about human psyche. So… so far, so good. But we are hopeful that we can manage through it, particularly if it's a short-term phenomenon."

The other concern is the level of debt that still sits throughout the structure.

If Brait consolidated its investments, it would have R3bn EBITDA (normalised for 2023) and R17bn debt, for leverage of almost six times. This assumes that Virgin Active recovers to the levels that management is predicting by 2023. Because Virgin Active is currently trading at depressed levels, the actual leverage is several orders of magnitude greater than this.

When pushed on the debt, Hayward-Butt acknowledges the markets' concern.

"You know, it's a good question. And, obviously, you've got debt at two levels. At the portfolio company level, New Look has got just about no debt; Premier has paid down most of its debt and is only at 1,5x leverage which, for that business, is more than adequate; and Consol, while it is highly leveraged, it's a massively cash generative business, so the analysis goes to the heart of Virgin Active, which has been very significantly impacted. It's gone from an EBITDA of about £140m to a negative £13m this year, so that impacts the 17 divided by 3 that you referred to. As a group, we are myopically focused on trying to pay down the debt, and there are options to do that. We just need to ensure that, from a shareholders perspective, we are doing it in a value accretive manner."

As the Greek myth goes, Daedalus flew to safety; Icarus flew to the Sun. He was so impressed by the power and strength of his wings that he flew ever higher in the sky, out into space, and even to the Sun itself. The wings, being made of feathers and wax, melted in the Sun's heat, and Icarus plummeted to his death.

Shareholders will be hoping that Hayward-Butt and the EPE team will be the Daedalus to the Icarus of Brait's former management. ◆

Business rescue provides shelter during pandemic storm

There are stories of businesses looted and burned down in the wake of the recent South African riots, and forced to close due to the economic hardships of the COVID-19 pandemic. Business success stories are hard to come by now, but the story of Global Roofing Solutions (GRS), one of the largest and oldest metal roofing and roofing accessory manufacturers in South Africa, saved via business rescue, is just such a story. It was purchased out of the business rescue of Consolidated Steel Industries by private equity fund manager, Rockwood Private Equity.

"We bought this business because of the firm footing which GRS was put on during the business rescue process. The business is already showing strong performance and the management team and employees are clearly highly motivated," says Andrew Dewar, CEO of Rockwood Private Equity.

"A fundamental tenet of Rockwood's investment philosophy is to identify and support management teams without attempting to change winning formulae or cultures. Our focus is on the alignment of all stakeholder interests to drive growth with sustainable cashflows. We will implement a broad based black economic empowerment transaction and will ensure that all staff and management of GRS are appropriately incentivised. The steel industry is core to the South African economy, and we are delighted to be able to save employment and become actively involved in this key sector," Dewar added.

Ian Flemming

This time last year, the company was facing liquidation and mass retrenchments as it was rapidly running out of money to pay wages, and credit lines were being stopped by suppliers. Business rescue doesn't work for all companies, why did it work in this instance?

It was partly due to good fortune and some lucky timing, and partly due to the business rescue allowing the business rescue practitioners to pay down some debt, explains Ian Fleming, joint business rescue practitioner (BRP) and CEO of Engaged Business Turnaround.

In the process, 310 jobs have been saved and over R1bn in debt renegotiated with creditors.

"Through rapid strategic cost cutting, margin improvement and re-negotiation of debt, we have created a new, leaner business that is cash flow positive and which can grow sustainably. Rockwood Private Equity's acquisition of the business is an endorsement of the approach we took to turn the business around," says Fleming.

GRS grew rapidly in the years prior to 2020, but a slowing South African economy, the COVID-19 pandemic and the resulting shutdown of the construction and steel fabrication industries created a significant liquidity issue. In June 2020, the company was facing the depletion of its cash resources.

"We implemented some very robust turnaround interventions from the outset, which enabled the company to turn cash flow positive in less than three weeks from commencement of business rescue," explains Fleming. "This level of operational effectiveness enabled us to formally commence the rebuilding of the company as soon as the business rescue plan was approved by creditors."

"This time last year the company was facing liquidation and mass retrenchments as it was rapidly running out of money to pay wages, and credit lines were being stopped by suppliers. Business rescue doesn't work for all companies, why did it work in this instance?"

"The proceeds of the sale of the Stalcor assets just two months after the business rescue plan was approved enabled the BRPs to fund the losses incurred by the other primary division in GRS between October 2020 and January 2021, as a result of national steel supply shortages," says Fleming. "When the major steel supplier, Arcelor Mittal, resumed operations again in February 2021, GRS emerged profitable and cash flow positive, which was sustained until the effective date of takeover by Rockwood Private Equity on 1 July 2021".

Deloitte Capital and Deloitte Restructuring were instrumental in managing the sale process of the divisions and providing turnaround support to the BRPs throughout the business rescue.

According to Statistics South Africa, 216 businesses were liquidated in March 2021, 50% higher than the number recorded just a year ago, and with the current unemployment rate at 32.6% in the first quarter of 2021. Business rescue has garnered a bad reputation since its inception in South Africa, but the GRS story goes to show that it can create real socio-economic value if used properly and effectively. ◆

Innovation, timing and a bit of luck lead to successful exit

Amid the adjusted level lockdown blues, we need some good news stories. The founders of local visitor and workplace management system startup, WizzPass, did just that, delivering a shot in the arm when they executed on a massive double feel-good story, delivering a COVID-driven business success, plus that rarest of feats, a South African born startup exit. And while South African tech startup exits are rare, they are less so when they are part of the Knife Capital stable.

WizzPass was founded by Ulrich Stark and Bradley Hornby in Johannesburg, in 2015, and exited to FM:systems, a US-based provider of digital workplace solutions, backed by technology-focused private equity firm, Accel-KKR in the second quarter.

> "Fast forward to 2019 and at that stage of the business, we're scaling, we're growing, but as a founder that's also a difficult stage to handle. Fast growth is not always the easiest thing to manage." – Ulrich Stark

WizzPass provides a variety of visitor management, parcel management, COVID-19 screening and workspace reservation solutions for corporate offices, industrial and manufacturing facilities, and multi-tenant office buildings and office parks.

Catalyst caught up with Stark to find out more about the phenomenal growth of a company that was born only six years ago, with an idea that he and his partner set out to build into reality: that paper was very 20th century.

"Back in 2015, we had a vision, if you want to call it that, or a gap that we saw, where the paper systems employed in office parks or corporate buildings or industrial facilities, you name it, any type of building, required some kind of manual or paper process, and we thought that was just not good enough," says Stark.

"We set about digitising the flow of people and things in and out of a building. It has so many benefits around compliance and security, and is a great experience and convenience for everyone involved," explains Stark. "And so the product quickly evolved from there over the years. And we had a first mover advantage, especially in South Africa. We started to scale around 2019, beginning of 2020, and then COVID hit and the business was the right size to adjust quickly.

While Stark points to his success being influenced partly by luck, the team has worked tirelessly to place itself in the luckiest positions it can find.

In 2016, the startup, then predominantly focused on corporate parking solutions, was selected for Techstars Cape Town. In 2019, WizzPass joined Grindstone – a structured entrepreneurship development programme by leading venture capital firm, Knife Capital and market access specialist, Thinkroom Consulting. WizzPass was one of the top-performing businesses in its cohort. Grindstone is also backed by the SA SME Fund.

Ulrich Stark

"We are fortunate to have had great mentors along our journey," says Stark. "Fast forward to 2019 and at that stage of the business, we're scaling, we're growing, but as a founder that's also a difficult stage to handle. Fast growth is not always the easiest thing to manage. That's where Grindstone is a great programme, because Keet [van Zyl] and his team have real world experience in fast growth scale. It's very hands on and practical. It's not just theoretical stuff."

When COVID struck, Stark and his team quickly jumped onto the crisis as an opportunity.

WizzPass was one of the first companies to provide efficient COVID-19 screening solutions for both staff and visitors in one complete system.

This increased their client base exponentially over 2020, and potential partners and acquirers started showing inbound interest.

"And not to say we wanted to make money, but we thought we needed to do something, as we never knew where this industry was going to go. Luckily we did; we expanded our system very quickly to involve private screening for employees and contractors and so on. Suddenly, you could use one system to track all people and all things coming in and out of a facility. In 2020, we were noticed by an amazing company called FM:Systems. They saw our product scaling across multiple continents and they were very interested in chatting to us."

What's next?

"We have been welcomed into the FM:Systems team. They're a fantastic company with clients in over 80 countries – 1,500 plus blue chip clients. As a founder, sometimes you've got to take it in and, at this stage, I am very excited to take in knowledge, to learn from these guys and how they manage a company of this size. They themselves are very fast growing, so I'm excited to learn. And you never know in future, maybe that knowledge can be transferred into something new again. But for now, I'm very happy to help grow the system globally and stick it out for now."

Knife Capital's founding partner, Keet van Zyl believes its another important milestone for South Africa's startup ecosystem.

"Earlier this year, we decided to take the business to market. Knife Capital has been leading the process alongside the Founders. FM:Systems is an excellent fit for WizzPass – both from a business culture and ethics perspective, but also their complimentary product suite in the digital workplace, strengthening the client offering. We could not be happier about the outcome for Ulrich, Brad and team! And it is another significant data point for the momentum in the local startup ecosystem." ◆

PRIVATE EQUITY DEALS Q2 2021

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Investment by	J Sassoon Group	in Bluedrop		R300m	Apr 7
Investment by	Kalon Venture Partners	in Sendmarc (follow-on investment)		undisclosed	Apr 13
Investment by	Crossfin Ventures	in Troygold		undisclosed	Apr 13
Investment by	Enza Capital and Mohau Equity Partners	in Quro Medical		$1,1m	Apr 14
Acquisition by	TRT Investments	a 49% stake in KAS Africa		$10m	Apr 14
Investment by	Umkhathi Wethu Ventures in partnership with Allan Gray, Launch Africa Ventures and other existing investors	in Peach Payments		undisclosed	Apr 16
Investment by	Imvelo Ventures	in Legal Lens (Cycad Group)		undisclosed	Apr 29
Investment by	Imvelo Ventures	in BriefCo (Cycad Group)		undisclosed	Apr 29
Investment by	Konvoy Ventures, Riot Games, Raine Ventures, AET Fund / Akasuki and TTV Capital	in Carry1st [Series A]		$6m	May 5
Investment by	The Vumela Fund	in Kombo King		undisclosed	May 5
Investment by	Kalon Venture Partners and Caleo Private Equity	in iXperience		$2,5m	May 10
Acquisition by	Kasada Capital Management	Safari Hotels and Conference Centre in Windhoek, Namibia		undisclosed	May 12
Investment by	Enygma Ventures	in Startup Circles		R2,1m	May 20
Investment by	Consortium led by Babtunde "Tunde" Folawiyo and Helios Fairfax Partners	in NBA Africa		undisclosed	May 24
Acquisition by	OMPE GP V (Old Mutual) from Actis	34,34% stake in ACTOM Investment	Webber Wentzel	not publicly disclosed	May 25
Investment by	AfricInvest Private Credit	in Vida e Caffé		$2,9m	May 25
Disposal by	Surgical Innovations (Ascendis Health) to Ata Fund III Partnership and the current management	Respiratory Care Africa	Rothschild & Co; Sapila Capital; Questco; ENSafrica; Falcon & Hume	R450m	May 26
Investment by	The Vumela Fund	in Rand Pharmaceutical Distributors		undisclosed	May 27
Investment by	Silverleaf Investments	in Druids Garden		undisclosed	May 27
Acquisition by	Ata Fund I	a 33.3% stake in Acrux Sorting Technology	Bowmans	undisclosed	Jun 1
Investment by	Kalon Venture Partners and Harvest Venture Capital II (Endeavour South Africa)	in Sendmarc		undisclosed	Jun 4
Acquisition by	Naspers Foundry (Naspers)	investment in WhereIsMyTransport		R42m	Jun 7
Disposal by	EOH Mthombo (EOH) to K2020893770 South Africa consortium (IK1V and Crossfin Technology and BEE partners)	100% stake in Sybrin (Guernsey) and Sybrin Systems	Rothschild & Co; Deal Leaders International; Java Capital; Webber Wentzel; Bowmans	R334,35m	Jun 8
Investment by	AgVentures	in Matrix Software	Merchantec Capital; Pinard Corporate Finance; Boy Louw Attorneys	undisclosed	Jun 10
Disposal by	Sanlam Private Equity (Sanlam) and African Rainbow Capital to African Infrastructure Investment Managers (Old Mutual), South Africa Housing and Infrstructure Fund and STOA	25,8% interest in MetroFibre Networx	Webber Wentzel; Bowmans	not publicly disclosed	Jun 11
Disposal by	Agri-Vie Fund II (EXEO Capital) to Imibala	its entire 62.7% stake in Cape Olive		undisclosed	Jun 15
Acquisition by	Imperial Capital (Imperial Logistics) from Salt Capital Ventures, DEG - Deutsche Investitions - und Entwicklungsgesellschaft, C Kubirske, J-D Geyser and L Geyser	Deep Catch Namibia	Investec Bank; Rand Merchant Bank; Tugendhaft Wapnick Banchetti; Webber Wentzel	N$633m	Jun 17
Acquisition by	Adenia Partners	a majority stake in Herholdt's	Deal Leaders International	undisclosed	Jun 21
Investment by	CrowdCube and other investors	in HyperionDev		R50m	Jun 23
Investment by	Tana Africa Capital II	in Kensington Distillers & Vintners		undisclosed	Jun 29
Investment by	Newtown Partners	in MDaas Global		undisclosed	Jun 30
Investment by	Enygma Ventures	in Brown and Ayo		R4m	Jun 30