

M&As take a back seat but value of the few deals rises

■ Tough bank requirements stunt activity

Mzwandile Jacks

GLOBAL financial markets have been volatile in the first half of this year, severely depressing the number of mergers and acquisitions (M&As) taking place in South Africa.

This has dampened ambitions of companies whose strategy is to grow profits through M&A activity.

According to the latest Zephyr M&A Report, the value of M&A activity targeting South Africa-based companies was at its highest level since the second half of 2007, reaching \$13.881 billion (R104.9bn).

It said while the volume of deals was the lowest since before the start of the financial crises in early 2007, the deals struck in the first half of this year had a higher value.

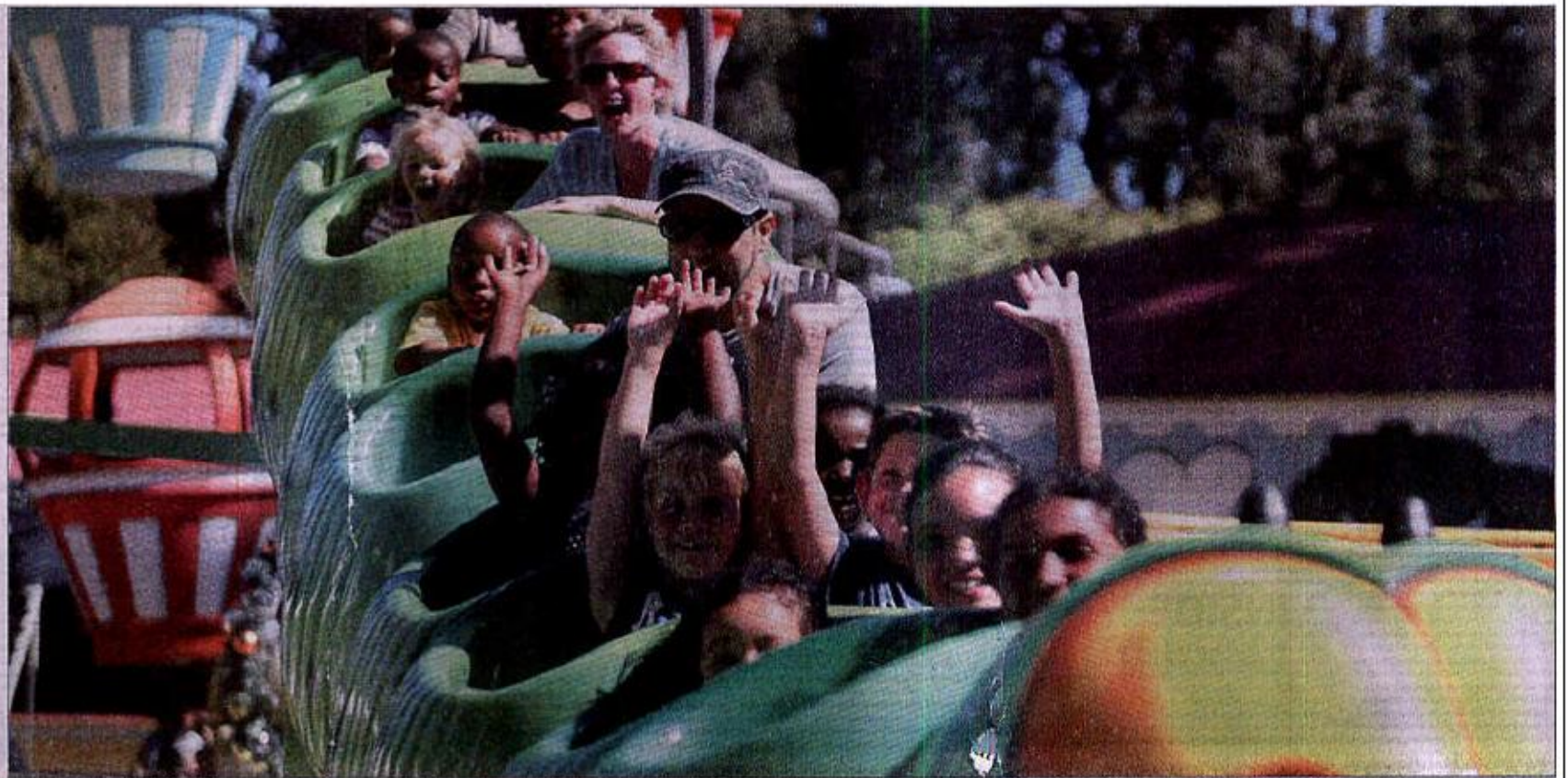
There were only four transactions in the first six months of this year and they included retail group Wooltru acquiring 100 percent of PBT Group and industrial giant, Imperial, buying a 25 percent stake in MiX Telematics.

There were also deals which saw the leisure company, Gold Reef Resorts, acquiring 100 percent of hotel group Tsogo Sun, and Anglo Platinum's rights offer to investors.

The four deals were worth more than \$1 billion (R7.56bn). Wooltru and PBT was the biggest deal, at \$4.6 billion.

Sifiso Shongwe, a director at Ernst & Young, the auditing firm, said the drop in the volume of deals was due to the lack of easy access to funding as banks have introduced stringent lending policies because of the global economic crisis.

"Companies with cash are now more concerned about preserving cash. They prefer cutting costs than making acquisitions. That is why we have seen a mixed agenda between the chief executives and the boards," Shongwe said. "We have also seen targeted firms



One of the biggest takeover deals this year saw Gold Reef Resorts acquire 100 percent of hotel group Tsogo Sun. Gold Reef City, south of Johannesburg, is one of the leisure company's flagship developments. The Tsogo Sun deal was one of only four mergers and acquisitions in the first six months of 2010. PHOTO: SZWE NDINGANE

Top 5 deals by value with South Africa targets

Deal value \$m	Deal type	Target	Acquirer	Acquirer country code	Announced date
1 4 649	Acquisition 100%	PBT Group (SA)	Wooltru	ZA	09/06/2010
2 2 522	Minority stake 25%	MiX Telematics	Imperial Holdings	ZA	17/03/2010
3 2 417	Acquisition 100%	Tsogo Sun Holdings	Gold Reef Resorts	ZA	18/02/2010
4 1 670	Minority stake 9%	Anglo Platinum			17/03/2010
5 296	Minority stake 12%	Northam Platinum	Eurasian Natural Resources Corporation	GB	26/04/2010

Source: Zephyr M&A Report

and their suitors disagreeing on valuations. Distressed companies are also not happy with the manner in which they are being valued."

Rob Wessels, the joint head of corporate finance at Nedbank Capital, said the general increase in the value of deal activity during the period was attributed to fewer deals with a bigger financial value.

The report said private equity investment in South Africa weakened significantly

by volume as did the value of deals, with just two leveraged transactions during the period with a combined value of \$19m.

The value was down 96 percent from \$429m in the second half of last year.

According to the Thomson Reuters Capital Markets Review for the second quarter of this year, worldwide M&As totalled \$1.1 trillion.

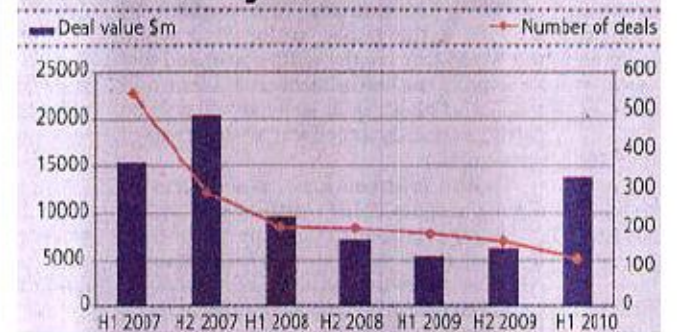
Emerging markets accounted for 32 percent of M&As, with energy, power and

financials leading the activity.

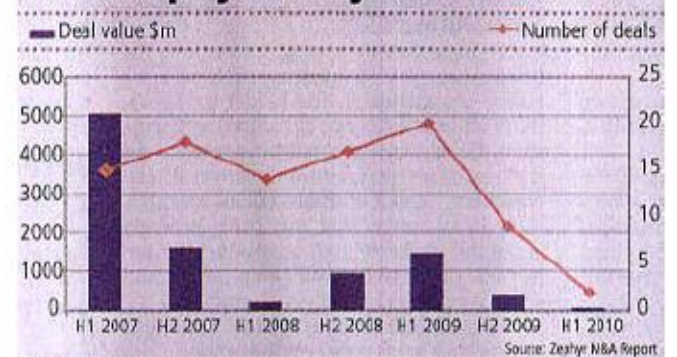
Statistics released by DealMakers Magazine this week show that there had been a noticeable decline in black economic empowerment (BEE) deals, with only four deals "brought to fruition" in the second quarter of this year.

Over the first half of the year only seven deals valued at R2.2bn were transacted compared with 14 deals in the first half of last year. These had a combined value of R3.5 billion.

Overall deals by volume and value



Private equity deals by volume and value



Source: Zephyr M&A Report

