

Benefits for buyers and sellers

FINDING ways to structure deals in the bustling mid-cap market — that suit both buyer and seller in a volatile economic climate — is the niche business mission of private equity player RMB Corvest.

Says RMB Corvest director Mike Donaldson: "Despite the cyclical nature of the economy, we continue to put deals on the books and that's important for our business model — we try to find a way of doing deals, even in the most difficult of climates."

Established in 1989, RMB Corvest is a private equity company and a subsidiary of the FirstRand Group, a division of FirstRand Bank. The company participates predominantly in management buy-outs and buy-ins, leveraged buy-outs and black economic empowerment transactions involving businesses with a value of between R50m and R1bn. The portfolio of investments covers a spectrum of industries including media, pharmaceuticals, manufacturing and services. Some 90% of the company's business is presently based in SA.

Says RMB Corvest fellow director Stephen Brown: "We've undertaken 170 transactions in the past 20 years, with a portfolio now comprising about 70 companies."

The company specialises in smaller deals, dealing with

smaller management teams and typically positions itself in the SME sector. However, Donaldson points out: "We have also played in the R1bn-plus space, and we find it competitive to be competing with international players. But in the small mid-cap segment of the market which is our speciality, we tend to experience a lot more activity and deal flow than in the larger space."

A key advantage for RMB Corvest is that through its status as an on-balance sheet private equity company, it uses organisational funds for investment rather than third-party funds, so there are no exit timing anxieties and investing occurs over the longer term.

From a financial point of view, RMB Corvest advises the company involved on strategic issues — such as optimal funding structures and future funding requirements — and aims to become more of a strategic partner to the management team involved.

Donaldson points out that because of volatile economic cycles, during which entrepreneurs have to deal with the squeeze on liquidity among other issues, some companies have been inclined to cash up part of their equity.

"We've done a number of deals where we've bought in

30% or 40% from players that otherwise would probably not have sold if they had not been going through difficult times." Difficult times also create opportunities for liquidity.

Says Brown: "We've bought companies from distressed controlling shareholders, some of them being offshore controlling multinational companies which have either had to repay bonds or have had to contend with other financial difficulties in Europe, and have sold either non-core assets or assets in another geographic location. We've done a number of transactions in which we have bought out such businesses to enable them to return funds to their bondholders."

Donaldson says there is huge growth potential in the rest of Africa to be tapped into, despite the challenges involved. "We believe in the continent, although deals in Africa can take


considerably longer to close and obtaining liquidity in these jurisdictions is not always easy.

"In difficult economic times we also look to our portfolio of about 70 different businesses to extract value and we also do acquisitions to the portfolio — some of them low risk transactions, rather than new direct investments for RMB Corvest. We fund these through our investing companies."

Alternatively, the company will look at putting an innovative structure together to mitigate some of the risks, given that the earnings of many South African companies are under pressure.

Sellers' expectations on prices are high, notes Brown — even in the private equity market — notwithstanding the fact that earnings are effectively flat. This tends to create an expectation gap between buyer and seller, he says.

"But we do deals whatever the challenges and we are eager to look at new deals. Regardless of the economic climate, there is always a way to structure deals that benefit both seller and buyer. Our task is to find ways to meet the seller's objectives — whether now or over a period of time — and to mitigate any possible risks to ourselves as the buyer. Given the portfolio we have, much of the risk can be mitigated through this means."

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