DealMakers®

LISTINGS FEATURE

2018

C O N T E N T S

SA's capital markets on a path of evolution 50

The evolving exchange landscape 51

Restoring stock exchanges to their original purpose 52

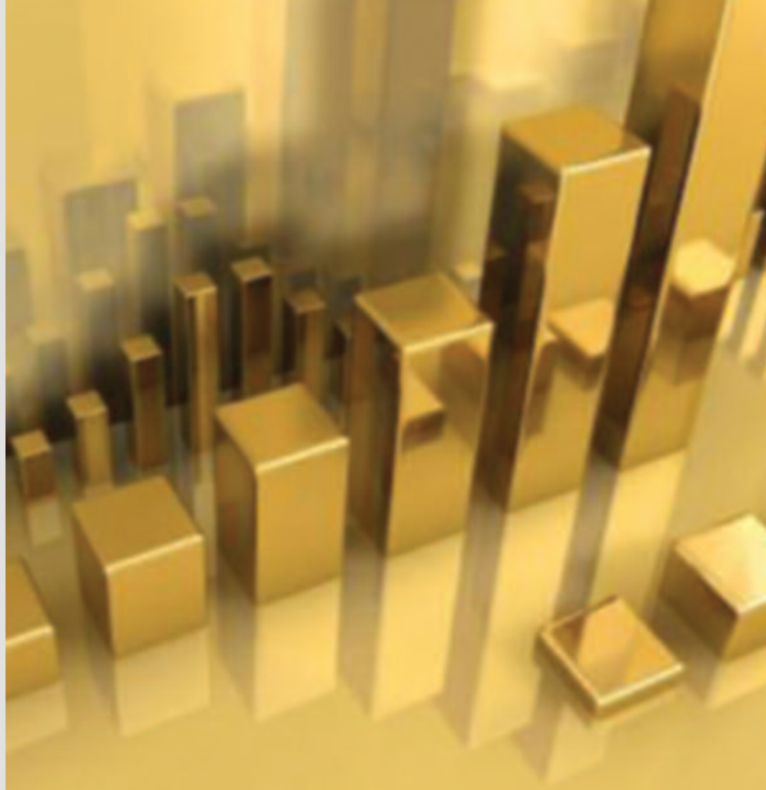
The need for specialist advisory services 54

SA's IPO market set to deliver 54

The role of the bookrunner 56

Material completion of OM's Managed Separation 58

Listing as an exit mechanism for PE firms 60



Introduction

The listing landscape of South African companies has metamorphosised over the past 18 months making way for four alternative bourses, each with differing offerings, and ringing the bell on the JSE's 130 year monopoly as the only local exchange.

This change was to some degree propelled by the decision in 2014 of the Financial Services Board (FSB), now known as the Financial Sector Conduct Authority (FSCA), to declare that in terms of the Financial Markets Act, over-the-counter (OTC) market operators were trading illegally. The concern for the FSB was investor protection and systemic risk. The decision dealt a blow to companies which had been operating OTC facilities as the ruling forced them to regularise their affairs by either listing on the JSE or by obtaining an exchange licence.

The new listings landscape includes the following exchanges:

- **4 Africa Exchange (4AX)**, with five companies listed on its exchange, is focused on attracting companies with a market capitalisation of up to R8bn for primary listings. In time it will include the listing of exchange-traded funds and various debt instruments and structured notes.

- **A2X** competes directly with the JSE in the secondary share market and currently has 10 companies listed on its exchange. A2X has applied to FSCA to amend its licence to enable it to offer secondary listings to exchange-traded funds and exchange-traded notes.

- **Equities Express Securities Exchange (EESE)** had its beginnings in the OTC platform, Equity Express. The first independent black owned equity exchange was granted a licence in September 2017. It currently has one company listed on its exchange and is authorised to do primary listings of restricted share schemes of domestic companies only.

- **JSE** is ranked the 19th largest stock exchange in the world by market capitalisation and is the largest exchange on the African continent. The exchange offers five financial markets namely equites and bonds, as well as financial, commodity and interest rate derivatives.

- **ZAR X** caters for a comprehensive range of company sizes with a special emphasis on SMEs. Like 4Ax, ZAR X can attract primary listings of domestic companies and inward (secondary) listings of foreign companies. Currently the exchange has brought three companies to the market.

South African Stock Exchanges

		Listed Companies	Website
4AX		5	www.4ax.co.za
A2X		10	www.a2x.co.za
EESE		1	www.eesa.co.za
JSE	Main Board	315	www.jse.co.za
	AltX	48	
	BEE	3	
	DCM	1	
	VCM	1	
Zar X		3	www.zarx.co.za

Largest listings by value since 2008 (as per DealMakers GCF tables)

Year	Exchange	Company	Estimated Value	Announcement Date
2016	JSE Listing (Secondary)	Anheuser-Busch InBev	R3,12tn	Jan 15 2016
2013	JSE Listing (Secondary)	Glencore Xstrata	R714,5bn	Nov 13 2013
2008	JSE Listing (Secondary)	British American Tobacco	R555,36bn	Oct 28 2008
2018	JSE Listing	Old Mutual	R145,02bn	Jun 26 2018
2008	JSE Listing	Reinet Investments	R109,1bn	Oct 21 2008
2015	JSE Listing (Secondary)	South32	R107,75bn	May 18 2015
2016	JSE Listing	Bid Corporation	R101,96bn	May 30 2016
2017	JSE Listing	NEPI Rockcastle	R95,26bn	Jul 12 2017
2016	JSE Listing (Secondary)	Hammerson	R91,6bn	Sep 1 2016
2009	JSE Listing	Vodacom	R87,5bn	May 18 2009

Looking back at the JSE listings over the past 10 years (as recorded by the DealMakers online database) makes for interesting reading. Prior to the effects of the financial crisis being felt, 22 companies listed in 2008. This dropped to just 11 the following year. In 2017, there was once again a surge in the number of companies seeking to go public – the JSE listed 24 companies, and the fledgling exchanges between them a further 12 (see table).

The largest listings by value (since DealMakers first started tracking the activities of the M&A industry in 2000) is the 2016 inward secondary listing of Anheuser-Busch InBev valued at the time at R3,12trn. The largest domestic listing is the recent listing of Old Mutual Ltd at R145bn (see table).

The pervasive economic and political noise currently being experienced can clearly be reflected in the listings data for 2018. For the period to end-July, 16 companies listed but there were four companies involved in about-turns, cancelling their listing at the last moment. These were Consol, Sagarmatha, Inkunzi Student Accommodation Fund, Helios Towers while Bayhill Transformational Investment Portfolio and Eaton Towers have postponed their listings.

The introduction of the new exchanges will create greater competition in the local financial and capital markets and will allow a broader number of investors access to alternative investment options. This in turn will create wealth and facilitating its redistribution; economic growth however remains key in driving this forward. ■

Marylou Greig

Listings snapshot

JSE*									
Main Board	AltX	BEE Board	Africa Board	Total	Year	4AX	A2X	EESE	ZAR X
17	5			22	2008				
6	4		1	11	2009				
13	1		1	15	2010				
16	3	1		20	2011				
13	5			18	2012				
9	6			15	2013				
17	7			24	2014				
16	8	1		25	2015				
9	7	1		17	2016				
16	8			24	2017	3	5	1	3
8	1			9	2018 end July	2	5		

* equity stocks only.

South Africa's capital markets on a path of evolution

Fay Mukaddam

An optimistic view of the South African economy in recent years would note its 'subdued' growth. More realistically, however, we've experienced a recession amidst political wrangling, state and corporate corruption scandals, and a leadership vacuum at best. But, I'm heartened that our nation's future economic growth can rely on traditional and global opportunities for wealth-creating prospects: equities, many of which are listed on stock exchanges, and which are now, for the first time in our local context, available for all citizens to access – not just the privileged, sophisticated and educated elites.

Unbundling local capital markets

The local market has always had a very competent stock exchange in the JSE. But our unique local socio-economic realities demand alternative investment options that both allow access to financial and capital markets, and promote broader economic inclusivity. It is now possible to do so while maintaining pace with growing economies around the world and, in the case of 4 Africa Exchange (4AX), setting that pace.

The 2012 changes to the Financial Markets Act (FMA) marked a watershed point for the unbundling of local capital markets. It has become patently obvious that murmurings about enhanced market competition and its presently untested benefits cannot be ignored.

Mukaddam

Fortunately, there is a strong appetite in the country for alternative listing and trading options, coupled with elasticity in the market and the economy to absorb the new entrants. The space to optimise these opportunities is opening after the approval by the Financial Services Board (FSB) of new exchanges and alternative trading platforms, which includes 4AX, and the unbundled expanse of growth prospects are already being realised.

Competition brings new service models

Today, with growing, pervasive internet access and the consumerisation of mobile and smart technology solutions, stock markets can be accessed from anywhere, at any time. Investors are no longer limited to trading on markets within the countries or regions in which they reside. This has led to unprecedented increases in global competition across equity markets, in which South Africa's participation is crucial.

Fair competition (in any industry) stimulates innovation, new product development and services new target markets. In the context of our local capital markets, this opens significant opportunities for broader economic inclusion, which is essential if our economy is to grow at any meaningful level. In our industry, it also lends itself to a heightened competitive drive to leverage the latest technological advances to offer trading platforms that are sleek, simple, streamlined and cost-effective to access, while still adhering to strong governance and ethical principles. The aim now is to see how we can encourage the inclusion and participation of as many people as possible within financial markets – and make things simpler for the client or end-user – using available technology.

Technology is certainly enabling more efficient ways of doing things, however, it is vitally important to ensure that these are also safe for the customer and that the required checks and balances have been built into the systems. At its core, this means offering a safe, well-regulated and effective marketplace for issuers to raise capital, to meet the unique needs of retail investors and to attract institutional trading in securities.

> We have never been in a better place to capitalise on the promise that expanded market access offers to our economy. My prediction is that in less than ten years, if these developments are properly harnessed, the financial and capital markets, and the South African economy, can be in a fundamentally different place.

Innovative, new asset classes

We're all familiar with Uber as the classic example of disruptive technology reframing the paradigm in which businesses operate today. Uber is hailed as one of the largest and most successful transport businesses in the world, yet it doesn't own any of the ride-sharing vehicles offered by its platform. In the traditionally staid and conventional infrastructure of financial and capital markets, the rise of digital technology and fintech are driving – and delivering – rapid changes.

The advent of blockchain technology, for instance, offers enormous potential to financial and capital markets. There is significant potential for cryptocurrencies to effect real change, particularly in our local context, and listing technology developments can offer the

ideal environment in which to trade in crypto. This must, however, take place in a safe, structured and transparent manner if we are to fully realise its potential to effect real change and drive participatory financial inclusion.

If we consider just the opportunities this opens for cross-border trading in Africa, the benefits are obvious. There are certainly challenges that come with this, not least of which are sovereignty issues relating to the taxes and customs fees that would be applicable, were we talking about a physical entity. However, with the right regulatory oversight to ensure that there is full transparency and disclosure, to eliminate the possibility of fraud or malicious circumvention of due process, cryptocurrencies offer great opportunities to support inclusive economic growth and development.

We have never been in a better place to capitalise on the promise that expanded market access offers to our economy. My prediction is that in less than ten years, if these developments are properly harnessed, the financial and capital markets, and the South African economy, can be in a fundamentally different place. ■

Mukaddam is CEO of 4 Africa Exchange.

SA's evolving exchange landscape:
the challenges and the benefits of competition

Kevin Brady

In the past 18 months, four new stock exchanges have opened their doors for business. This is a significant development for South Africa as, for almost 130 years, the JSE has been a monopoly.

Monopolies don't encourage the economic growth that South Africa needs. To quote Johan van der Merwe, African Rainbow Capital joint CEO, "For the country to go forward, economic growth must remain the holy grail for all South Africans. The importance of job creation, wealth creation and wealth redistribution cannot be overstated. Of the many tools SA has at its disposal, the workings of its capital markets, and in particular the country's stock exchanges, should feature strongly."

This dilution of the JSE's status as a sole service provider is a positive move, which has been broadly welcomed by the industry. It lays the foundation for the creation of a much more competitive, efficient and responsive exchange environment.

The benefits that competition brings have been well researched, and are compelling. This is why multiple exchanges are so common internationally. In short, competition creates material savings for the broader industry and boosts market efficiencies and, ultimately, the economy.

If one takes a look at the four new competitors, three have adopted a stand-alone exchange model and largely target a previously untapped issuer market, with a particular emphasis on restricted shares. This will help grow the breadth of investment options as new listings come to market.

A2X, however, has styled itself as an alternative trading platform and competes directly with the JSE in the secondary share market. Most of the successful first competitors to long-standing monopolies have adopted this model.

In Europe, these platforms are well established and are referred to as multi-lateral trading facilities or MTFs. They account for between 35% and 45% of market activity.

Based on a typical day's trading activity of R20bn in equities in South Africa, and using international experience as a benchmark, we conservatively estimate efficiency savings available to the market are upward of R4m per day, or a massive R1bn per year.

These savings can be achieved as new exchanges, such as A2X, can pass on many of the efficiency gains created through the use of the latest technology and other savings, in the form of large fee reductions. This lower friction cost has a positive impact on improving market quality (price formation and liquidity) which, in turn, leads to substantial savings for a company's shareholders. It also lowers the hurdle for new potential investors and, in time, as capital markets deepen, it will also reduce the cost of raising capital for corporate South Africa.

The development of competition in South Africa is not without its challenges. A2X and the other

Brady

competitors still have a mammoth task ahead of them. Breaking a monopoly is an incredibly hard thing to do. To put it in perspective, it took 23 attempts in the UK before a successful competitor to the London Stock Exchange, Chi-X Europe, was eventually launched in 2007.

In our experience, the key challenges facing the new exchanges are: regulatory, behavioural/ educational and infrastructural.

South Africa's regulatory environment started its evolution with the introduction of the Financial Markets Act (FMA) in 2013. It is, however, still somewhat behind international best practice and remains heavily weighted in favour of the long-

standing incumbent. Encouragingly, the regulatory landscape is under review and we anticipate a more competitor-friendly environment, which is more in line with international trends, to emerge in the next three to five years.

An example of where South Africa differs from many other jurisdictions is the secondary listing model. In much of the western world and in many developing countries, authorities separate the function of primary regulation from that of the secondary market. This allows exchanges to unilaterally list for trading the shares of companies that have a primary listing in the same jurisdiction. They refer to this as an 'admit to trade' model.

In South Africa, new exchanges competing in the secondary market are required to obtain the permission of the company prior to listing its shares. This is an onerous task when compared with our counterparts in Europe and elsewhere.

The second area, proving to be a sticking point, is educating issuers and effecting behavioural change. In a market where most listed companies have only ever known one exchange, there is a huge learning process for corporate South Africa to fully appreciate the concept of multiple listings and the benefits they bring.

One of the common issuer misconceptions is that adding a secondary listing will in some way compromise its primary listing, or come at a cost. A secondary listing has no impact on a company's primary listing, nor is there any cost, risk or additional regulatory compliance.

A secondary listing actually complements a company's primary listing as it provides investors with a choice of venue on which to transact, and in A2X's case, a much cheaper venue. In Europe, the shares of all large listed companies are available for trade across many venues. In the UK for instance, there is the choice to execute a company's shares across five different platforms.

The final challenges facing new exchanges are legacy systems and infrastructural issues. With only ever one exchange to worry about, the infrastructure of brokers is horribly inadequate for a multi-venue environment. Most brokers' front-end trading systems, as well as their post-trade systems (which are often heavily integrated into the JSE Broker Dealer Accounting system), are not set up to execute and settle across multiple venues. They need to be re-engineered and, in some cases, totally replaced. This takes time and resources.

The A2X team is hugely encouraged by the support received from the industry and the willingness of the market to embrace change.

In the nine months that A2X has been open for business, we have attracted ten secondary listings with a combined market cap of almost R300bn. This includes companies like Peregrine, Coronation Fund Managers and Afrimat, as well as top-40 stocks, Sanlam and Growthpoint Properties.

In addition, South Africa's leading brokers accounting for close on 50% of all market activity, are approved members of A2X. These include Absa Capital, Investec, Peregrine, RMB Morgan Stanley and SBG Securities.

We believe that the move towards greater competition in South Africa's capital markets is irreversible. However, the new exchanges are merely catalysts for change and can't progress the industry in isolation. If, as a financial community, we want to capture the many benefits, efficiencies and innovation that competition enables, it's important to support these initiatives. Reverting to a single service provider won't be in anyone's best interests. ■

Brady is CEO of A2X.

Restoring stock exchanges to their original purpose

Geoff Cook

Unbundling

Everyone knows that South Africa has one of the most concentrated equity stock markets in the world and also that the situation worsens every year. Yet very little is being done to address the risk that this poses to our capital markets.

The main contributing factor to the concentration is the size of the average fund versus the number of shares of sufficient market capitalisation in which to invest. In this regard, the investment management industry has been an unwitting victim of its own success in minimising the barriers to entry to investing and, as a result, steadily growing the quantum of funds under management. The end result is that most funds are too big to invest in shares other than those with a significant market capitalisation. Conversely, the high barriers to entry into the capital markets, and a lack of alternative accessible capital, have steadily eroded the number of smaller growth companies coming to market. As at March 2018, no more than 10 of the 1,584 registered unit trusts were involved in small cap stocks.

Clearly, this is an unsustainable landscape.

While it is easy to blame regulation and exchange controls, fixing the landscape isn't necessarily about regulation. It's about mindset. We need to devise ways in which the commercial titans of the future can access the capital markets. In order to tear down the barriers to entry and remove the existing impediments to capital, we have to change stock exchanges' traditional operating models and start empowering both issuers and investors.

The point

We have to go back to the original purpose of stock exchanges.

Stock exchanges were originally conceived for the public interest and had a clear public purpose: to allow companies to raise equity from a large pool of investors and to provide a market for investors to later sell their shares in those companies. The promise of a liquid market lowered the cost of that equity to enterprise,

thereby increasing economic growth and, theoretically at least, shared prosperity.

Instead, self-interest and misdirected regulation have created a market infrastructure in which only very wealthy private individuals are able to invest directly in shares. Due to their size and their reluctance to deviate too far from benchmarks, institutional investors are effectively limited to investing only in the largest companies. Similarly, only large and already successful companies can afford to list.

Theoretically, the establishment in the past two years of four new stock exchanges should be introducing competition and broadening access. Listings should be easier and more affordable. However, more exchanges doing things in the conventional way changes nothing.

What's needed is innovation.

The vehicles

South Africa's five exchanges all have different listing offerings because they prioritise different outcomes.

ZAR X, the JSE, and 4AX can do primary listings of domestic companies and inward (secondary) listings of foreign companies. However, because of its extremely onerous listing requirements, only very large companies can afford to list on the JSE. 4AX has an emphasis on SMEs.

A2X is restricted to secondary listings of companies primarily listed on other SA exchanges. It does not bring new companies into the market.

EESE is authorised to do primary listings of restricted share schemes of domestic companies only.

ZAR X is the only exchange that caters for a comprehensive range of company sizes – small, medium, and large, restricted or otherwise – to list side by side.

The much-needed change

Intractable as they may seem, ridding the market of its log jams comes down to answering one short question: 'Why not?' For instance, ZAR X asked why access to institutional and retail capital should be mutually exclusive and set about making both possible within one exchange. It has made direct share investing accessible to retail investors. The first step in the process was to make small transactions profitable for brokers. Accordingly, the ZAR X model significantly reduces costs for brokers. They do not have to carry settlement risk capital. They have minimal settlement administration requirements, limited market access fees, and free access to market data.

In addition, execution-only investors face no monthly administration fees on their portfolios and are charged only when they transact. Clearing and settlement fees are percentage-based on the value of the order, up to a maximum. ZAR X levies no minimum fee.

And, investors can access the ZAR X market anywhere, any time through the ZAR X Mobi App – a world-leading innovation.

By being able to efficiently distribute to both institutional and retail markets, ZAR X has given companies access to a larger pool of capital. This facilitates listings of small and medium cap companies.

Because ZAR X welcomes innovation that grows the economy, its model broadens the market by facilitating the listing of new asset classes such as Section 12J entities, dynamic black economic empowerment (BEE) structures, and dynamic ETF structures as well as new product suites that are aligned with a digitally-driven world.

Cook

As the cherry on top, in line with international trends, ZAR X uses a principles-based listing regime, which is more flexible and makes listing simpler and more efficient than rules-based regimes. Governance and oversight are built in.

Advisors

The traditional requirement for companies to have exchange-approved advisors is unnecessarily restrictive and expensive. It is not an exchange's role to assess whether an advisor has the necessary competence. The responsibility for compliance with listing requirements and other relevant legislation will always be that of the board of the issuer. It can never be delegated. Similarly, ZAR X does not prescribe a list of auditors as it is not a regulator of auditors. It simply requires that an issuer's auditors be IRBA regulated and IFRS competent.

The ability to undertake direct retail distribution provides a further alternative option for issuers. Spotify's listing, in which the company did its own retail distribution, proves that the traditional cost and complexity associated with engaging a plethora of advisors is unnecessary.

Opening the throttle

Stock exchanges should be about facilitating, not throttling, the economy. They should enable more companies to reach more capital and give investors as broad a spectrum of opportunities as possible.

Innovation focused on integrating clearing, settlement, and distribution with the specific objective of simplifying access cuts costs, enabling inclusion, which is why models like ZAR X define the listing landscape of the future. ■

Cook is Co-founder and Director of ZAR X.

ZAR X LISTINGS

These are all tightly-held companies with limited free float. All have seen liquidity increase: As at 31 March 2018:

ISSUER	MKT CAP	PE	DY	LIQUIDITY
Senwes Ltd	+ 9%	7.6	4.1%	2.2%
SenwesBel Ltd	- 5.5%	4.4	6.5%	3.5%
TWK	+ 22.5%	4.0	4.0%	2.4%

NEW LISTINGS next quarter: TIP Ltd (innovative dynamic BEE structure) - to list in September 2018. Dynamic ETF structures - to list circa October 2018

Rise of new securities exchanges increases need for specialist advisory services

Johan Green

For South African companies looking to embark on an initial public offering (IPO), the rising costs and added complexities being introduced to the Johannesburg Stock Exchange (JSE) listings process is resulting in an increased interest in the alternative exchanges which have recently become available.

As each of these exchanges understandably prescribe varying requirements, the effective navigation of listing is expected to raise the need for more specialised advisory services.

The ongoing shifts in the JSE listing process can be attributed to a number of recent corporate scandals, which have resulted in increased scrutiny from regulators and intensified pressure from asset managers on issuers to adopt international best practices when bringing their securities to listing.

Institutional investors appear to be placing increasing pressure on new issuers, and their advisors from the JSE, to improve their standards of diligence, verification, disclosure and financial reporting in bringing securities to listing. This added regulatory scrutiny has a significant implication on the costs, resources and timelines involved in a company's listing process.

With the Financial Sector Conduct Authority (FSCA), previously known as the Financial Services Board (FSB), having issued four new exchange licences in the past 18 months, bringing the total number of stock exchanges currently operating in South Africa up to five, costs associated with listing are expected to become more competitive over time.

The costs associated with listing on one of the newly introduced exchanges are understandably lower than those encountered when listing on the more established JSE. Generally speaking, the rules of the new exchanges are also less onerous compared with the listings requirements of the JSE.

Major capital raises on these exchanges, however, may not be feasible until they establish themselves further and can offer more liquidity. For now, they are more suitable for issuers seeking a technical listing, or wanting to offer a cost-effective dealing platform to their investors.

In the interim, Cliffe Dekker Hofmeyr (CDH) has developed a suite of templates for use in listings on the new exchanges, as their listings requirements differ in many respects from those of the JSE.

As South African companies are internationalising, an understanding of the securities regulatory environment in which they operate is becoming vital for local capital markets lawyers. An example of this was the NEPI Rockcastle listing – the largest listing that CDH was involved with in 2017 – which was a multi-jurisdictional project, covering at least four jurisdictions and their respective securities laws.

Green

These new exchanges, and the requirements they pose, will require a shift in the legal skills and expertise offered to companies wanting to list. Naturally, capital markets lawyers will need to familiarise themselves with the rules applicable to these exchanges, including the criteria and requirements for listing, continuing obligations, and requirements for transactions by companies listed on these exchanges. ■

Green is a Director in the Corporate and Commercial practice at Cliffe Dekker Hofmeyr.

South Africa's IPO market set to continue to deliver

Richard Stout

Against a highly challenged political and economic backdrop, it is perhaps something of a surprise that the last 24 months have been the most active, and most successful, period of IPO issuance activity ever seen in the South African equity capital markets. According to data from Dealogic, there have been 15 IPOs of varying sizes on the JSE since July 2016, raising a total of almost R50bn of capital for issuers and their shareholders. Not only has issuance volume impressed (the ca. R50bn raised equates to just over one third of total IPO

issuance volumes identified by Dealogic since the early 1990s), but the profile of dealflow has also been striking, with 6 of the 10 largest IPOs ever seen on the JSE having listed in the last two years, and average deal sizes over the period more than tripling from R1.0bn (for the prior two-year period of July 2014-June 2016) to R3,5bn.

Standard Bank has led 7 of the 9 IPOs that have raised more than R1bn on the JSE during this period and, amidst this heavy dealflow, a number of noteworthy themes have emerged:

- **Growth is key**: against a background of turgid economic growth, IPO candidates' ability to offer the market exposure to high growth companies that can deliver outsized returns, relative to the wider market, has been more than enough to offset the perceived risks associated with investing in new listings. Where these growth stories have been seen as de-risked, as was the case for Dis-Chem for example, the response has been overwhelming, with deals attracting demand that has outstripped supply multiple times over.

- **The consumer growth story is alive and kicking**: consumer growth stories, particularly those offering defensive characteristics and the promise of double digit growth, still excite. Almost 75% of IPO proceeds raised in the last two years have been from direct consumer-facing businesses, Libstar and Vivo Energy being two most recent examples. Further, a number of other recent listings, such as Long4Life and Liberty Two Degrees, have been stories very much geared to the consumer

Stout

- **A ZAR hedge story is not panacea:** as much as investors hunt for exposure to companies with operations outside South Africa, and as much as the hunt for companies offering a hedge against a weak rand has been a key theme in portfolio allocation over the last few years, investors have shown strong appetite for stories that offer pure play exposure to the local market, suggesting that there remains healthy belief in the prospects of the South African market. Dis-Chem, Liberty Two Degrees, STAR, Balwin and the PCV listings of Long4Life, Ethos and ARC have all focused their stories on domestic growth and the market has backed their strategies wholeheartedly

- **Size matters**: for local and international investors alike, liquidity is crucial. For local investors, deals sizes below R1,5bn may no longer enjoy unfettered access to the South African institutional investor base, whilst international investors require a free float of at least US$300m equivalent to fully engage. Further, for offerings that are perceived to be 'hot' or where post-IPO overhangs will exist, investors will set the bar even higher in the hope of ensuring there is enough stock to satisfy demand, and trading will be normalized from the outset. In many respects, the bigger deals have proven the easier to execute.

- **Investors value diversification**: the emergence of a number of 'new' sectors in the listed space is another key theme, be it Vivo Energy's pan-African retail and marketing assets, the emergence of new asset classes within the REIT sector (c.f. Stor-Age Property REIT and Balwin Properties) or, perhaps most notable of all, the wave of Permanent Capital Vehicle ('PCV') or Special Purpose Acquisition Company ('SPAC') listings, such as Long4Life, EPE Capital Partners, African Rainbow Capital Investments ('ARC') and RH Bophelo. For a market where investment outside South Africa remains capped, there is a natural inclination, among the domestic investor base in particular, to support the emergence of new sectors in the listed space. The signs are that the IPO pipeline will continue to throw up exciting new investment opportunities in the coming years.

- **Inward listings are gaining traction**: since the relaxation of treatment of inward listings in late 2011, relatively few foreign companies have sought to take advantage of the ability to freely tap the local investor base via a listing on the JSE. With the likes of Vivo Energy deciding to supplement primary listings in London with secondary listings on the JSE, evidence suggests that this could emerge as a key driver of sustained IPO activity in the near term, enhancing the diversity of opportunities that are likely to be presented to the South African market going forward.

Notwithstanding the many recent success stories, 2018 has provided a healthy reminder to all that the IPO market is far from infallible, with two IPOs planned for the JSE having failed to close out their IPOs post launch.

These experiences have provided healthy remind-ers that each IPO needs to be structured, marketed and priced appropriately if the desired response from the institutional market is to be elicited.

To that end, the earlier companies can start to prepare for their listing and commence the pre-launch investor engagement process, the better prepared the market will be to fully understand and appreciate the story. Equally, issuers will benefit from higher quality feedback on matters of diligence and valuation, resulting in an IPO that prices at a level that meets both sellers' and buyers' objectives and trades positively in the aftermarket.

Looking into 2019 and beyond, a key question is whether the momentum of recent times can be maintained, or whether we have hit the peak in this most recent IPO cycle. Anecdotally, there appears to be no shortage of corporates actively considering a listing on the JSE in the near term and as much as the IPO class of 2018 has found conditions tougher than many in the recent past, the market remains wide open, and appetite for new IPO opportunities remains strong.

If the South African economy starts to show sustained signs of growth into 2019 and beyond, the environment for issuers seeking to list should become all the more supportive, opening the door for many more interesting listings. ■

Stout is Head of Equity Capital Markets, South Africa & Sub-Saharan Africa at Standard Bank.

The role of the bookrunner in a successful placement

Carlyle Whittaker

The support and expertise of a quality bookrunner is crucial to the success of an initial public offering (IPO) or placement. We discuss how a bookrunner adds value for companies and investors.

The bookrunner, normally an investment bank, is defined as the lead manager, or global coordinator, and primary underwriter in control of equity issuances. These include IPOs and follow-on offerings, as well as block trades. In some listings, there may be more than one bank acting as the bookrunner. For example, Investec acted as joint global coordinator and bookrunner on the Dis-Chem Pharmacies and Steinhoff Africa Retail ("STAR") listings.

Whittaker

So how does a bookrunner go about its business and how does it ensure the success of an IPO?

Before an IPO goes public and is announced to the market, the firm will have engaged a bookrunner (or bookrunners). The bookrunner will complete several work streams and processes to enable a successful listing.

The bookrunner will develop the equity marketing story and an internal valuation of the company to be listed, as well as begin a due diligence process. The bookrunner, legal counsels (banks and issuer), and reporting accountants conduct due diligence on the business to identify any investor concerns, understand historical financial performance, tax and capital management, and the legal and regulatory requirements.

The overall objective of these due diligence processes is to ensure the factual accuracy and completeness of the pre-listing statement (PLS), and verify information in management presentations to investors. The bookrunner, with the assistance of their legal counsel, needs to ensure regulatory compliance in all jurisdictions in which the offer will be made, including all the listing requirements of the JSE.

Early look

The IPO marketing strategy of the bookrunner is critical for a successful public issue. This commences with developing an "early look" presentation for company management and setting up meetings that allow management to begin positioning the equity story of the business with potential key anchor investors. This provides an important outline of the business overview and strategy of the company.

Early look meetings are typically held approximately four or five months ahead of the IPO, with targeted investors that have shown a strong interest in the sector that the company will be listed in. The aim is to create initial momentum for the listing. Initial feedback, including attractions, concerns and preliminary valuation of the deal, is received from a range of international investors. This can be very helpful for the company and bookrunner in developing a successful IPO strategy, as found in the Dis-Chem Pharmacies listing.

Analyst support

Next, the bookrunner will assist management in preparing a presentation on the equity story, financial overview, outlook and strategy to be given to the analyst/s of the investment bank/s as input to the analysts' research report. Prior to this analyst briefing, all parties must be confident that there are no issues that could prevent the deal from being announced. Access to a highly regarded analyst, with expertise in the sector, can be a key differentiator for a bookrunner.

Going public

The IPO then goes public on the day when the analyst research report is published and an intention to float (ITF) announcement is released to the market through the JSE. This is typically four weeks prior to listing.

With the assistance of the international equity sales team of the bank (Investec has equity sales teams in SA, the US and UK) the bookrunner analyst/s meet potential investors based in SA, and internationally (US, Europe and UK) to develop interest and explore price sensitivity. Feedback received from the investor education process via equity sales is then used to establish a valuation and price range for the sale of the company's shares, which must be acceptable to the bookrunners and management of the company. This is included in the PLS.

Two weeks prior to listing, the PLS is published and distributed by the bookrunner to qualifying investors, the management roadshow commences and the bookbuild is launched for investors to place orders for shares. We explain the bookbuild process below.

The bookrunner assists management with the preparation of the roadshow presentation, which highlights the main drivers of the business, key financials and the growth outlook. The bookrunner then coordinates one-on-one and group meetings with investors across regions, including investors identified on the analyst roadshow. This is the final opportunity for management to meet investors, to demonstrate the strength of the business and maximise interest in the company.

The bookbuild process

The bookrunner's role is key here: the bookrunner is responsible for coordinating the

placement of orders from institutional investors in the IPO (i.e., the book of demand) to help determine the demand and price of the offering. This is what is referred to when describing the bookbuilding phase of the process.

The bookbuild process, coordinated by the bookrunner, is there to establish a price for the shares based on input from the management roadshow. The goal is to maximise value for the company, and selling shareholders, but also to include a discount to attract the right mix of new investors and ensure good aftermarket trading. The bookrunner's international sales team assists in converting investor interest into orders. At Investec, the bookbuild is managed on a system that records all order data including when orders are entered, as well as the size and price of the order. Such a system provides transparency of process and a record for compliance.

The bookbuild process, coordinated by the bookrunner, is there to establish a price for the shares based on input from the management roadshow. The goal is to maximise value for the company, and selling shareholders, but also to include a discount to attract the right mix of new investors and ensure good aftermarket trading.

The final closing price of the IPO must be agreed with the company or selling shareholders before allocations can commence.

After the issue

After the public issue, the bookrunner ensures that the securities are listed and that the refunds from the IPO are completed successfully. The bookrunner may provide soft underwriting for the settlement period of the IPO. This involves the bookrunner taking up shares which any of the investors do not pay for or cannot commit to.

Finally, to ensure orderly trading in the aftermarket, the bookrunner may provide price stabilisation for the offer by buying shares when the price falls below the IPO price. This is normally in place for up to 30 days after the listing.

Beyond IPOs

In addition to IPOs, bookrunners can also execute bookbuilds for follow-on offerings or new issues of shares, as well as block trades.

For example, in the past year, Investec has conducted bookbuilds for new issues of shares for Super Group, Stor-Age Property REIT, Investec Australia Property Fund and Blue Label Telecoms; and block trades for Steinhoff International (KAP Industrial Holdings and STAR), Clicks Group (BEE share scheme) and Dis-Chem Pharmacies management. ■

Whittaker is Head of Equity Capital Markets at Investec Bank.

4 AFRICA EXCHANGE: MAKING FINANCIAL MARKETS **INCLUSIVE**

We make financial markets more inclusive by providing a safe and licensed platform that provides easier access, and more product variety. This is our promise.

As one of only two exchanges in South Africa, with a full license to trade across asset classes, we are committed to be the Exchange of choice for Africa's best companies, leaders, innovators and entrepreneurs.

Our aim is to increase liquidity and financial inflows within different segments of not only the South African economy, but those of foreign companies seeking inward listings as well. With the functionality to list restricted share schemes as well as shares that are open to the general public, the 4AX environment is tailored for the diversity of investors and companies wishing to raise capital in the South African market.

Offering no minimum trading fees and internet based technology, our Exchange is accessible to investors from all walks of life – and the 4AX product offering enables a seamless transition for unlisted companies into a regulated trading space.

We seek to change market perceptions of stock exchanges – and our mission is to enable, develop and deepen capital markets through innovative products in South Africa, and Africa, in a fair, cost effective, efficient and transparent manner – that promotes real and tangible economic change.

For more information contact us on:

Tel: +27 (0) 11 100 8352
Email: info@4ax.co.za
Website: www.4ax.co.za

Material completion of Old Mutual's Managed Separation

Angela Teeling-Smith and Christoff Hamman

June 2018 signified the material completion of Old Mutual plc's (OM plc) 'Managed Separation', a strategic initiative that was announced in March 2016 after a comprehensive strategic review, initiated by Bruce Hemphill following his appointment as CEO in late 2015. The review concluded that there was a lack of strategic logic for holding four, largely independent businesses in one group:

1. **BrightSphere**: the listed US-based asset management business;
2. **Quilter**: the UK-based wealth and asset management business;
3. **Old Mutual Limited (OML)**: the SA-based emerging markets financial services business with a focus on Africa; and
4. **Nedbank**: SA's fourth largest bank with a significant presence in Africa.

Teeling-Smith

The review found that the group structure prevented shareholders from benefiting from the full value of the underlying businesses as it:

- prevented the natural shareholders from directly accessing the underlying businesses, contributing towards a conglomerate discount;
- inhibited the efficient funding of growth plans for the businesses, restricting realisation of their full potential;
- imposed additional complexity and constraints, due to the evolving regulatory environment in Europe and South Africa; and
- added incremental head office costs which exceeded the limited tangible synergies between the businesses.

Delivering the complex Managed Separation entailed four steps, each requiring broad stakeholder support, with many challenges along the way. In view of the complexity of the separation, Rob Leith was appointed to oversee the transaction and Rex Tomlinson joined the group as chief of staff, to oversee the wind down of the London office and the capacitation of the individual businesses. *"There have been unexpected obstacles. The sale of the US asset management business had to be structured so that it did not trigger change of control … an IT overhaul at the UK business also went wrong … and US insurer Travelers took legal action against Old Mutual over legacy assets"*, said Mr Hemphill.

The first step involved the phased reduction of OM plc's 66% shareholding in BrightSphere, achieved through market sell-downs, repurchases and a placement of 24,95% with HNA Capital. The aggregate net proceeds amounted to £894m.

The second step comprised the IPO and listing of Quilter on the LSE and JSE, including a placement of a 9,6% shareholding with institutional investors and a demerger of 86,6% to existing shareholders. Quilter provides advice-led investment solutions and investment platforms to over 900,000 customers in the UK and selected offshore markets, principally in the affluent market segment. The Quilter Group, operating through two segments, Advice and Wealth Management and Wealth Platforms, had £114.4bn of assets under management as at December 2017. Priced at 145p, in the top half of the original 125p-155p price range, OM plc raised proceeds of £263m. The shares closed c.5% higher on the first day of trade vs. the FTSE 250 which was down c.1%. At a share price of 150p*, Quilter currently has a market capitalisation of £2,87bn*.

Hamman

The third step involved the listing of OML on the JSE and LSE, with secondary listings in Namibia, Malawi and Zimbabwe. This step was implemented pursuant to a share for share exchange, whereby all OM plc shareholders became shareholders of OML. With a market capitalisation of c.R149bn*, OML is the second largest Life Insurer on the JSE by market capitalisation. Implementation of this step resulted in OML becoming the holding company of the group and thereby bringing an end to OM plc's almost two decades as a London-based financial services group, giving effect to the much heralded return of OML to its African roots. *"Our congratulations to Old Mutual on this historic homecoming … the strategic move is an added boost to restoring the much-needed confidence the country needs to attract investment"*, President Ramaphosa said at OML's Gala dinner.

The Managed Separation process involved preparing the individual businesses for independence by strengthening their respective

SO MUCH TO CHOOSE FROM. ONLY ONE CHOICE.

Conveniently situated in the heart of Johannesburg's economic capital, Sandton is home to four Tsogo Sun properties. The luxurious **Sandton Sun** and **InterContinental Johannesburg Sandton Towers**; and select service **Garden Court Sandton City** hotels flank the world-class **Sandton Convention Centre** which has over 22 000m² of meeting, exhibition and event space.

Escape to a world of experiences offering fine restaurants, endless cheers, stylish accommodation, multiple event spaces, and an abundance of relaxing activities.

To find out more about our hotels visit **tsogosun.com**

SANDTON
CONVENTION CENTRE

Johannesburg | South Africa

boards and management teams, putting appropriate governance structures in place, fit for listing and winding down OM plc's London head office, so as to create additional value for shareholders. It also involved a material reduction in debt and a number of smaller transactions, to create focused companies with compelling investment cases, including:

- £210 million sale of Old Mutual Wealth Italy to Cinven (2016);
- £138 million sale of its 26% stake in its Indian JV, KLI, to the majority shareholder, Kotak Mahindra Bank (2017);
- £600 million sale of Quilter Group's Single Strategy Business to TA Associates, payable to Quilter (expected to complete in H2 2018); and
- $307.5 million sale of Old Mutual LatAm to China Minsheng International Group (expected to complete in H2 2018).

The final step, being the unbundling by OML of the majority of its 52% shareholding in Nedbank, is expected to take place within c.6 months of OML's listing. Post the unbundling, OML is expected to retain a minority stake of 19.9% in Nedbank.

The primary listing of OML on the JSE illustrates OML's commitment to, and is a significant vote of confidence in, South Africa and the SA financial market. As an SA-regulated group, OML will be governed by regulations designed for local financial services groups, while eliminating the additional costs that the evolving regulatory landscape would have imposed on the OM Group as previously constructed. *"The company has made a significant contribution to South Africa over many years and it will remain a priority that Old Mutual contributes to the prosperity of all South African citizens."* Trevor Manuel, Chairman of OML said.

Custodianship and decision-making of the emerging markets business has shifted from the UK to SA, creating the opportunity for local governance and management structures to oversee and implement OML's strategy, as well as the deployment of capital and other resources, unconstrained by the historic group construct. *"Our business remains highly cash-generative and is well positioned in the right markets to drive added value from our franchises. We are privileged to have a business with a robust capital and liquidity position, which will provide the right springboard to become a leading pan-African financial services business"*, Peter Moyo, CEO of OML said. ■

Teeling-Smith and Hamman are Directors with Rothschild

* As at 1 August 2018.

Listing as an exit mechanism for Private Equity firms

Zeyn Bhyat

Private equity (PE) can be said to be an asset class that consists of debt and equity capital in operating companies that are not publically traded on a public securities market or a stock exchange. Participants in the PE sector (PE funds) tend to focus on high potential growth via direct investments in small to medium sized companies, with a view to deriving exponential growth in returns. The nature of the underlying investment, the manner in which the growth is promoted and the exponential returns derived vary from PE fund to PE fund – this being the "secret source" to each of their respective operations.

What is, however, fairly standard in each PE fund's activities, is the stages of evolution of a PE fund's interests in a venture. These evolutionary stages can loosely be said to be:

(i) "seeding";
(ii) "pollination" or growth stages; and finally
(iii) "harvesting", or the exit stage.

In the first stage of "seeding", the relevant target entity is in its establishment phase, where commercial operations could be in their infancy, and the target entity requires funding for market research and product development etc.

During the "pollination" or growth stage, the target entity may have been in operation for a short period but is not yet a significant "player" in its market. At this juncture, the enterprise would require assistance and funding from a PE fund in developing its products, initiating and/or finalising commercial processes and generally seeking to "do things better". Here, the key role of the PE fund is to "add value" to the target enterprise. "Adding value" can take various forms, including by way of increasing the revenue of a target entity (either organically or inorganically via additional acquisitions), improving or replacing management, creating and/or enhancing operational incentives and governance, and reducing costs.

Once the target entity has reached sufficient maturation, the PE fund then seeks to recover its cost of investment and derive its return via "harvesting" by facilitating a high-value exit or sale. The "harvesting" stage can take a number of forms, including:

- trade sales i.e., a sale of the target entity to (usually) a larger entity engaged in the same line of business as that of the target;
- sale by one PE fund to another PE fund; and
- the initial public offering (IPO) of the securities in a particular target.

Academic literature in relation to the driving dynamics of PE funds and their exit methodology opine that an IPO is the normally preferred route of realising an exit by a PE participant when good economic conditions prevail[1]. In our experience, a PE fund usually runs a "multi-track" process whereby PE funds pursue several exit channels in parallel, continuing to ready IPOs even as they negotiate terms for a direct sale to a corporate buyer or for a secondary sale to another PE fund.

With an IPO, a firm issues equity (and/or investors sell their existing equity) and lists its stock on a public stock exchange. Alternatively, companies might gain access to public markets

through a reverse takeover by a public firm. In the latter case, ownership in the private target transfers to the acquirer (who is already listed on a particular securities exchange), so the target firm gains access to public markets through its new parent company.

Bhyat

Academic research has indicated that IPOs have traditionally played a major role as an exit route in the United Kingdom, as they have accounted for about one third of all divestitures by PE funds, although their choice as exit mechanic has reduced more recently.[2] Nevertheless, an IPO remains an exit route that is generally perceived as dominant, particularly for target companies with above-average performance. It is also commonly argued that IPO divestitures generate the highest returns, as the most efficient asset price can be realised from the market[3]. Recent studies have however indicated that entities in the listed environment tend, from a growth-valuation perspective, to outperform that of similar entities in the private environment[4].

From a South African perspective, the listing of a target entity is regulated by both the Companies Act, 2008 and the listings requirements of a particular securities exchange. An IPO from a South African perspective is considered to be an "offer to the public" and as such, is regulated under the provisions of chapter 4 of the Companies Act. Section 95 (1) (g) of the Companies Act broadly states that an "offer", in relation to securities, means an offer made in any way by any person with respect to the acquisition, for consideration, of any securities in a company.

Generally, there are three types of offers under the Companies Act: an initial public offering, a primary offering and a secondary offering. These offers may be made in respect of listed or unlisted securities. The Companies Act prescribes the requirements in each instance. It is to be noted that section 99 of the Companies Act places restrictions on offers to the public of the securities of a company and also prescribes certain requirements, most notably the issue of a prospect.

Initial Public Offerings: Section 95(1)(e) of the Companies Act states that an IPO is an offer to the public of any securities of that company, if: (i) no securities of that company have previously been the subject of an offer to the public; or (ii) all of the securities of that company that had previously been the subject of an offer to the public have subsequently been reacquired by that company. For these forms of offers, it is mandatory that a prospectus (satisfying the requirements of the Companies Act) must be prepared and issued.

Primary offers: are divided into offers of listed securities and offers of unlisted securities. A primary offering of listed securities requires compliance with the rules of the relevant exchange. Similarly to an IPO, a primary offering of unlisted securities requires a prospectus that satisfies the requirements of section 100 of the Companies Act.

Secondary Offers: Section 95(1)(*m*) of the Companies Act states that a secondary offering means an offer for sale to the public of any securities of a company or its subsidiary, made by or on behalf of a person other than that company or its subsidiary. Secondary offers are, by implication, divided into offers for the sale of listed securities and offers for the sale of unlisted securities. A secondary offer for the sale of listed securities is regulated by the definition of "offer to the public" which stipulates that a secondary offer effected through an exchange is not an offer to the public. The Companies Act also requires a secondary offer of unlisted securities to be accompanied by the prospectus (similar to that accompanying a primary offering).

Notwithstanding the complexity of exiting a particular investment via an IPO process, academic research has indicated that[5]:

- investors prefer an IPO, followed by a trade sale;
- IPOs outperform both trade sales and secondary buyouts;
- PE funds are more likely to exit through secondary buyouts when: (i) the equity market condition is "cold", measured by industry IPO volume, (ii) when the debt market condition is favourable, suggesting buyers' greater ability to borrow, and (iii) when PE funds need to raise new funds to demonstrate their ability to achieve returns; and
- on average, in the short term, PE fund sponsored IPOs outperform both the market and non-PE fund sponsored IPOs.

From the above, it is clear that a listing of target entities for PE funds is a desirable outcome to pursue, particularly in robust market conditions. According to the *EY: Global IPO trends: Q1 2018*, the outlook for the rest of 2018 looks positive for the greater European, Middle-Eastern, Indian and African regions, as economic growth remains robust, and consumption and investments gain healthy momentum across the region. The increase in IPO activity and growth in the IPO pipeline is being driven by most countries and sectors, with businesses continuing to profit from the low interest rates and positive global environment. However, for Africa specifically, due to forecast economic and political instability, IPO activity is expected to be subdued. Given the relative stability of South Africa, its sophisticated market and legal environment, strong regulatory framework and relative abundance of securities exchange from the JSE Limited to ZAR X, South Africa may well be an outlier. ■

Bhyat is a Director in Corporate Commercial at ENSafrica.

[1] Chemmanur, Thomas J & Signori, Andrea, Chemmanur, Thomas J. and Signori, Andrea and Vismara, Silvio, *The Exit Choices of Private Firms: A Dynamic Empirical Analysis* (April 12, 2015)

[2] Madhu Iyengar, Dimple Pandey and Ninad Jadhav, *Different exit modes for PE/VC – A comparative analysis*, International Journal of Applied Research 2016; 2(12): 82-85

[3] *Loc Cit.*

[4] Abbate, Cosimo; Sapio, Alessandro (2016) : *Gazelles and muppets in the city: Stock market listing, risk sharing, and firm growth quantiles*, LEM Working Paper Series, No. 2016/33, Scuola Superiore Sant'Anna, Laboratory of Economics and Management (LEM), Pisa

[5] Perrotta, Antonio (A.A. 2015/2016) *IPOs as a private equity exit route: empirical evidence of legends, pitfalls and drawbacks*. Tesi di Laurea in Equity markets and alternative investments, Libera Università Internazionale degli Studi Sociali "Guido Carli" *(Free International University for Social Studies "Guido Carli")*, relatore Marco Morelli, pp. 74, Unpublished Master's Thesis

February 19 2019

Sandton Convention Centre

BRUNSWICK

CLASSIC FM 102.7